

# BSL LEASING CO., LTD.

No. 15/2019  
6 February 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB  
**Outlook:** Stable

**Last Review Date:** 23/03/18

### Company Rating History:

Date	Rating	Outlook/Alert
04/02/09	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on BSL Leasing Co., Ltd. (BSL) at “BBB”. The rating reflects the company’s strong capital base, low leverage, and the financial support from its major shareholders. However, these supporting factors are offset by BSL’s vulnerable asset quality, high borrower concentration, and an asset-liability mismatch. In addition, intense competition will limit the company’s interest income and profits.

## KEY RATING CONSIDERATIONS

### Capital base remains strong

We believe that BSL’s current capital base is adequate to support the company’s business plan for the next three years. The strong capital base is due in part to a low dividend payout ratio. Shareholders’ equity has increased to Bt2,078 million in 2018 from Bt1,858 million in 2017.

### Low leverage

BSL’s debt to equity ratio has stayed low over the past five years, the lowest among its peers in TRIS Rating’s database. The ratio stood at 3.2 times as at December 2018, compared with peers’ average of about 10 times.

### Shareholder’s support ensures sufficient liquidity

BSL has ample financial support from its major shareholders. As at December 2018, BSL had available credit lines of Bt1,280 million and Bt1,650 million from Bangkok Bank PLC (BBL) and Sumitomo Mitsui Banking Corporation (SMBC), respectively. Nevertheless, BSL does not rely heavily on borrowings from BBL. In 2018, borrowings from BBL amounted to only 1.2% of BSL’s total liabilities. BSL has diversified its funding sources by borrowing from other financial institutions as well as raising funds through the capital market. For instance, BSL issued bills of exchange (B/E) in 2010, senior unsecured debentures in 2011, and seven tranches of Shogun bonds valued at US\$120 million during 2012-2018. In our view, the financial support from the major shareholders as well as a range of funding sources will let BSL maintain its operations and meet its debt repayment obligations.

### Competition limits profitability

BSL’s profitability is likely to weaken during the next couple of years. The high provision expenses caused by significant decline in asset quality resulted in plunging profits in 2016-2017. However, BSL’s net profit rebounded to Bt270 million in 2018 (unaudited). The ratio of return on average assets (ROAA) increased to 3.2% in 2018 from 0.5% in 2017. Nonetheless, we believe that intense competition will limit any further improvement in BSL’s profitability. BSL may need to cut the yields in order to stay competitive.

### Asset quality remains vulnerable

In our opinion, BSL’s weak asset quality in the last few years has been caused by high customer concentration, with top 10 clients accounting for 31% of the loan portfolio as of September 2018. With a major customer facing financial difficulties in 2016, non-performing loan (NPL) ratio surged to 8.7% at the end of 2016. After the debt restructuring of the major account, NPL ratio fell to 4.3% at the end of 2017 but rose back to 8.6% at the end of September 2018 as the account became an NPL again. BSL made full provisions for this major account in 2017. As a result, the company’s performance will not be affected

further even if the loan of this major customer becomes an NPL.

Going forward, we believe BSL's asset quality will maintain vulnerable as long as the major customer's NPLs remain unresolved. In the past, the NPL ratio of the company had been consistently below 1% from 2013 to 2015. Excluding the effect from the major customer, BSL's overall asset quality remains at a satisfactory level. For example, the NPL ratio was 1.5% in September 2018.

#### **Asset-liability mismatch**

BSL has a maturity mismatch in its asset-liability structures. The average loan duration is between 42 to 48 months, while BSL relies on short-term borrowing for funding needs. Nevertheless, we believe that the mismatch should not be a big constraint as the short-term borrowing can be rolled over. Also, BSL has sufficient credit lines from major shareholders to finance the short-term liquidity gap.

#### **BASECASE ASSUMPTIONS**

- We expect BSL will have a 5% growth in new hire-purchase and financial lease while its operating lease portfolio will be stable in 2019-2021.
- BSL's credit cost will stay at approximately 0.3% per annum during 2019-2021.
- The average yield will be about 6.0%, while the funding cost will range from 3.2% to 3.8%.

#### **RATING OUTLOOK**

The "stable" outlook is based on TRIS Rating's expectation that BSL will keep receiving financial support from its major shareholders and keep diversifying its funding sources. The outlook also includes the expectation that the capital base will remain strong enough to cushion against any deterioration in asset quality, and BSL's financial performance will be in line with TRIS Rating's expectations.

#### **RATING SENSITIVITIES**

The rating and/or outlook could be revised downward if there is a significant deterioration in the company's capital base, leverage, or risk position. A downgrade could happen if, for instance, BSL's debt to equity ratio rises substantially or asset quality deteriorates considerably.

The rating and/or outlook could be revised upward provided that the company's market position and/or financial performance improve significantly. We could also upgrade the rating should there be any changes in BSL's shareholder structure. For example, if BSL could become part of BBL's financial conglomerates under the consolidated supervision platform of the Bank of Thailand (BOT). In that case, BSL's rating could be enhanced by additional support from the BBL Group.

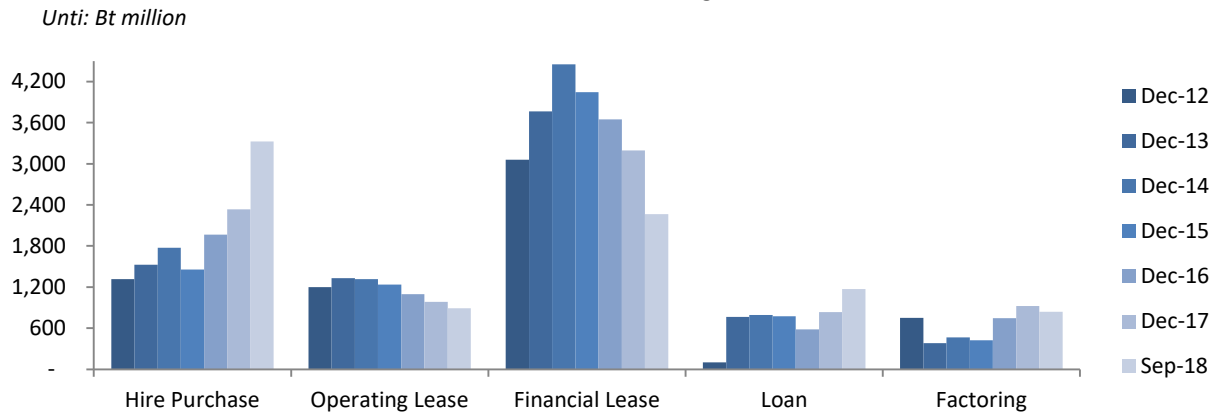
#### **COMPANY OVERVIEW**

BSL was established in 1985 as Bangkok Commercial Leasing Co., Ltd. through a 50:50 joint venture between BBL and SMBC, a Japanese bank, and related companies. BSL was established to provide industrial equipment financing services and vehicle financing services under lease and hire purchase contracts. BSL entered the factoring business in 2004. Currently, BSL's major shareholders are BBL, holding a 35.9% stake, the SMBC Group (40%), and JA Mitsui Leasing, Ltd. (10%). Both BBL and the SMBC Group provide supports to BSL in terms of credit facilities and business referrals. The BOT has given BBL formal approval to maintain its shareholding stake (35.9%) in BSL. Despite the approval, BSL and BBL must still comply with a regulation that limits the amount of money a commercial bank may lend to a related company.

As of September 2018, the largest portion (39%) of BSL's loan portfolio comprised hire purchase. Financial lease loans comprised 27% of the portfolio, while operating leases, factoring, and other loans were 11%, 10%, and 14%, respectively. In terms of assets for lease, industrial equipment constituted 32% of the total, followed by automobiles at 22% and others at 46%.

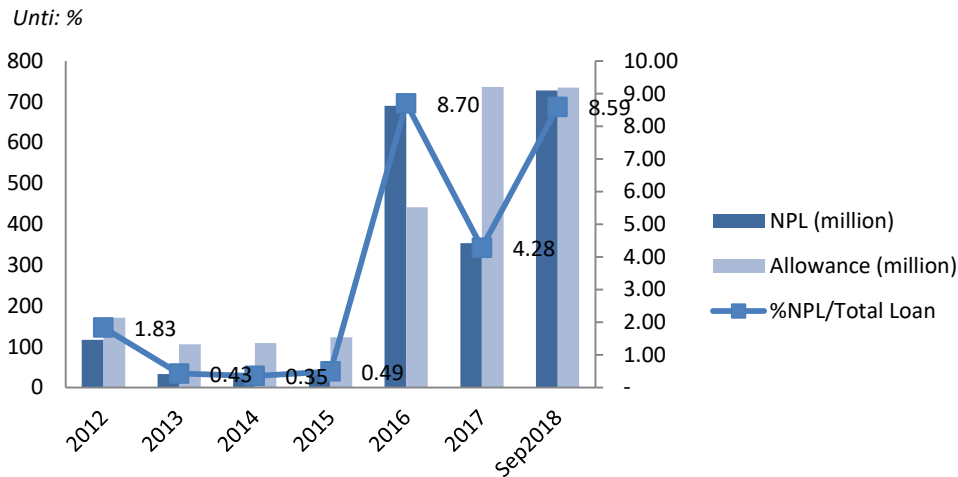
**KEY OPERATING PERFORMANCE**

**Chart 1: BSL's Outstanding Loans**



Source: BSL

**Chart 2: BSL's NPL Ratio**



Source: BSL

**Table 1: Shareholders of BSL**

Shareholders	%
<b>Bangkok Bank PLC and affiliates</b>	<b>50.00</b>
Bangkok Bank PLC	35.88
Jatubhut Holding Co., Ltd.	11.30
Others	2.82
<b>Sumitomo Mitsui Banking Corporation Group</b>	<b>40.00</b>
Sumitomo Mitsui Banking Corporation	10.00
SBCS Co., Ltd.	25.00
Others	5.00
<b>JA Mitsui Leasing, Ltd.</b>	<b>10.00</b>
<b>Total</b>	<b>100.00</b>

Source: BSL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	----- Year Ended 31 December -----				
	2018 *	2017	2016	2015	2014
Total assets	8,814	8,160	7,988	8,106	9,008
Total loans (including net operating lease assets)	8,683	8,260	7,991	7,826	8,724
Allowance for doubtful accounts	731	736	441	123	109
Short-term borrowings	4,050	4,200	4,953	4,039	5,609
Long-term borrowings	2,319	1,656	699	1,718	1,141
Shareholders' equity	2,078	1,858	1,876	1,841	1,584
Total revenues	895	892	968	1,028	1,019
Net revenues **	577	544	592	633	606
Gain from sales of assets for lease	32	30	28	19	13
Operating expenses	112	107	102	96	93
Net income	270	37	40	264	242

\* Unaudited financial statement

\*\* Net revenue = Net operating lease revenue + interest income from hire purchase, financial lease, factoring and other loans + gain from sales of assets for lease

*Unit: %*

	----- Year Ended 31 December -----				
	2018 *	2017	2016	2015	2014
<b>Profitability</b>					
Net interest income/average assets	7.89	8.27	9.23	9.16	8.78
Net interest income/total income	74.88	74.87	76.78	76.28	73.99
Operating expenses/total income**	18.71	18.85	16.68	14.82	14.97
Operating profit/average assets	3.71	(0.01)	0.16	3.85	3.52
Return on average assets	3.18	0.45	0.50	3.08	2.81
Return on average equity	13.73	1.97	2.18	15.40	16.49
<b>Asset Quality</b>					
Non-performing loans/total loans	8.59 ***	4.28	8.70	0.71	0.40
Bad debts and doubtful accounts/total loans	0.06	3.56	4.02	0.19	(0.05)
Allowance for doubtful accounts/total loans	8.42	8.91	5.56	1.57	1.25
<b>Capitalization</b>					
Debt/equity (times)	3.24	3.39	3.26	3.40	4.69
Shareholders' equity/total assets	23.57	22.76	23.48	22.72	17.58
Shareholders' equity/total loans	23.93	22.49	23.65	23.53	18.15
<b>Liquidity</b>					
Short-term borrowings/total liabilities	60.18	66.63	81.04	64.48	75.55
Total loans/total assets	98.52	101.22	99.28	96.54	88.63
Total loans/short-term borrowings	214.38	196.67	160.11	193.74	142.34

\* Unaudited financial statement

\*\* Total income nets cost of operating

\*\*\* As of September 2018

**RELATED CRITERIA**

- Nonbank Lending Company, 7 May 2018

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**BSL Leasing Co., Ltd. (BSL)**

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**Company Rating:**

**BBB**

**Rating Outlook:**

**Stable**

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**TRIS Rating Co., Ltd.**

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