

# MIDA LEASING PLC

No. 174/2023  
13 September 2023

## FINANCIAL INSTITUTIONS

**Company Rating:** BB  
**Outlook:** Stable

**Last Review Date:** 31/08/22

### Company Rating History:

Date	Rating	Outlook/Alert
31/08/22	BB	Stable
31/08/21	BB	Negative
11/08/20	BB+	Negative
10/04/20	BB+	Alert Negative
21/04/16	BBB-	Stable
27/05/15	BBB-	Developing
11/03/15	BBB-	Alert Developing
05/09/14	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating of Mida Leasing PLC (ML) at “BB/stable”. The company’s rating is capped by the rating on Mida Asset PLC (MIDA, rated “BB/stable”), which represents the group credit profile (GCP) of the MIDA Group. We view ML as a “strategically important” subsidiary of MIDA. We expect MIDA’s core business to continue to recover in line with the gradual recovery of the tourism industry.

Our assessment of ML’s standalone credit profile (SACP) remains at “bbb-”, reflecting its strong capital position and stable profitability. However, the rating is constrained by the company’s relatively weak market position, moderate funding and liquidity as well as deteriorated earnings capacity and asset quality.

## KEY RATING CONSIDERATIONS

### Strategically important subsidiary of MIDA

TRIS Rating assesses MIDA group’s GCP at “bb”. The rating on ML is therefore capped at “BB” according to TRIS Rating’s “Group Rating Methodology”. We view ML as a strategically important subsidiary of MIDA. This is mainly supported by MIDA’s position as the largest shareholder of ML with ownership of 46.98%.

MIDA also has direct control of ML’s operations through board representatives, part of which is composed of MIDA’s senior executives. In addition, various back-office operations are shared between the two entities. ML also shares the same brand name with MIDA, suggesting a strong linkage and potential group support due to reputational risk.

From the group perspective, ML fulfills the group’s diversification effort. In terms of funding management, there has been evidence of reciprocal financial support over the past few years, as exemplified by intercompany lending from ML to MIDA and the use of MIDA’s fixed assets to secure ML’s bank loans. As of June 2023, the company’s loans to MIDA amounted to THB541 million.

### Strong capital position

TRIS Rating expects capitalization to remain a key rating strength, indicated by ML’s very strong risk-adjusted capital (RAC) ratio, which we believe will stay above 55% in 2023-2025. The high capitalization level is a result of the management’s conservative growth strategy and consistent accumulation of profits.

At the end of June 2023, the RAC ratio stood at 53%, the ratio stood in a higher range of rated non-banks financial institutions. Its solid capital should help absorb potential losses that could arise due to the weak asset quality. We expect the company to continue to strengthen its capital through earnings retention and conservative growth strategy amid weak economic conditions. In addition, company’s decision to omit the dividend payment for fiscal year 2022 should help support capital accretion.

### Weak market position

The rating on ML is constrained by the company’s weak market position. As of June 2023, the company’s outstanding hire purchase (HP) loans stood at THB2.7 billion, up slightly from THB2.6 billion at the end of 2022. ML’s outstanding loan size is considered to be one of the smallest in TRIS rating’s

rated non-banks. We expect the company's outstanding loans to remain flat in 2023 given the rising credit risk of its target customers before expanding by 5%-10% annually in 2024-2025.

#### **Expect earnings capability to recover**

ML's stable net profit has been one of the key supporting factors for its business stability assessment. ML has maintained a stable net profit of around THB100 million per annum over the past 12 years. In 2022, the company's performance remained in line with our expectations, with reported net profit of THB105 million. However, given the economic uncertainty, net profit in the first half of 2023 (1H23) dropped to THB 16 million, down by 76% year-on-year (y-o-y) due to rising provision expenses for expected credit loss (ECL) and higher funding costs.

Earnings capability, as measured by earnings before tax to average risk-weighted assets (EBT/ARWA) dropped to 1% in 1H23 from around 3% in 2018-2022. Its earnings in 2H23 are likely to be similar to 1H23 given high provisions. Nonetheless, we project a gradual improvement in EBT/ARWA thereafter as we expect asset quality to improve. We anticipate EBT/ARWA to improve to the 2%-3% range in 2024-2025. However, should asset quality remain weak causing EBT/ARWA to fall below 1.5% for a sustained basis, there could be downward pressure on ML's SACP.

#### **Declining asset quality**

ML's asset quality has deteriorated in 2022 and 1H23, in line with other rated non-bank financial institutions (NBFIs). TRIS Rating believes that the company's asset quality will remain weak in 2023 and gradually improve in 2024-2025. At the end of June 2023, the non-performing loan (NPL) ratio rose to 5.6%, from 3.9% at the end of 2022. Loans overdue by one to three months also increased to 39.4% at the end of June 2023 from 38.0% and 37.1% at the end of March 2023 and December 2022, respectively. This was the result of weakening debt serviceability among the company's target customers.

Its provisions for expected credit loss (ECL) to average loans (credit cost) rose to 2.6% (annualized) in 1H23 compared to 1.6% in 2022. Despite the higher provisions, allowance for ECL to NPLs (NPL coverage) dropped to 72% at the end of June 2023 from 84% at the end of 2022 as NPLs rose at a faster rate. This is comparatively lower than most rated peers.

Apart from credit risk, the company is also exposed to losses on repossessed vehicles due to declining prices as the supply of used vehicles in the market continues to grow. The average loss per vehicle increased substantially in 1H23, and we expect this trend to persist over the next six months.

#### **Liquidity risk is manageable**

ML should have sufficient liquidity to meet its debt obligations over the next 12 months, in our view. As of June 2023, its debt obligations comprised of 57% debentures and 43% bank borrowings. By maturity, 35% were short-term and 65% long-term. Outstanding debentures of THB325 million are due in December 2023, and a further THB725 million are due in January 2025. The company plans to repay the THB325 million debenture by using proceeds received from MIDA's loan repayment and cash collection from its core HP loan business. Based on ML's estimate, cash inflows from customer repayments are expected to accumulate to about THB1.4 billion from July 2023 to June 2024.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for the period 2023-2025 are:

- Outstanding hire purchase loans to remain flat in 2023 and expand by 5%-10% annually in 2024-2025.
- Loan spread to be around 7.0%-7.5%.
- Credit cost to be around 4% in 2023, normalizing to 2% by 2025.
- RAC ratio to be around 55%.
- Operating expense to total income ratio to be in the range of 51%-54%.

#### **RATING OUTLOOK**

The "stable" outlook mirrors the rating outlook on ML's parent, MIDA.

#### **RATING SENSITIVITIES**

ML's rating/outlook could be revised upward/downward following a rating action on MIDA.

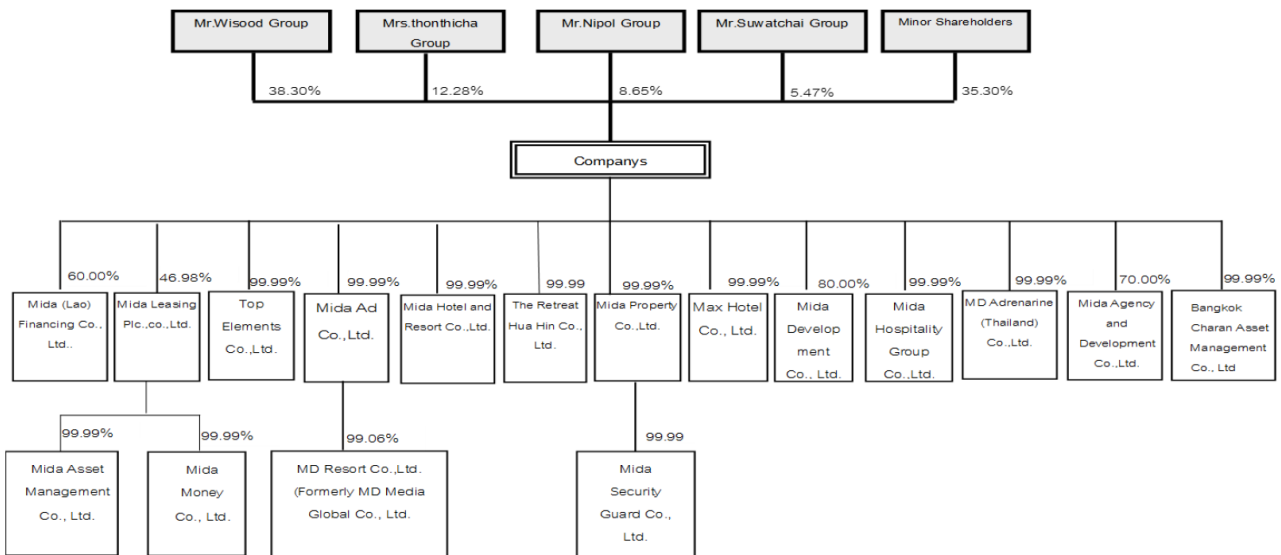
**COMPANY OVERVIEW**

ML was founded on 4 October 2000 under the name Star Ranium Auto Leasing Co., Ltd. The company was renamed Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 11 June 2023, ML’s major shareholders were MIDA with a 46.98% stake, members of the Ieosivikul family with 8%, and the Panyajirawut family with 7.8%. These two families are also the founders and major shareholders of MIDA. In addition, half of ML’s board members also sit on the board of MIDA or are top executives of MIDA. This close relationship between ML and MIDA reflects the harmonization of the business policies of the two firms.

ML was listed on the Stock Exchange of Thailand (SET) and became a public company in 2004. Registered capital was THB90 million when the company was founded. Currently, ML’s paid-up capital is THB532 million.

ML’s main line of business has always been hire purchase loans for used automobiles. ML finances used automobiles, especially pick-up trucks, focusing its marketing efforts in provincial areas. Most of ML’s target customers, such as farmers, have incomes at or below the national average. The company has a headquarters office in Bangkok and 16 branches in key provinces in every region of the country. The locations of the branches are consistent with ML’s policy to penetrate markets in rural areas where its target customers live.

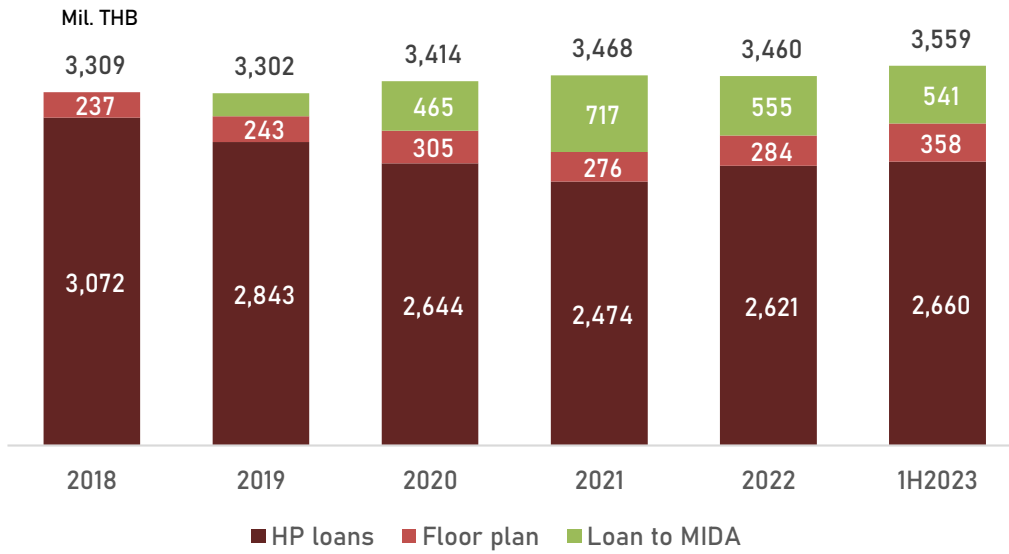
**Table 1: MIDA Group Structure**



Source: ML

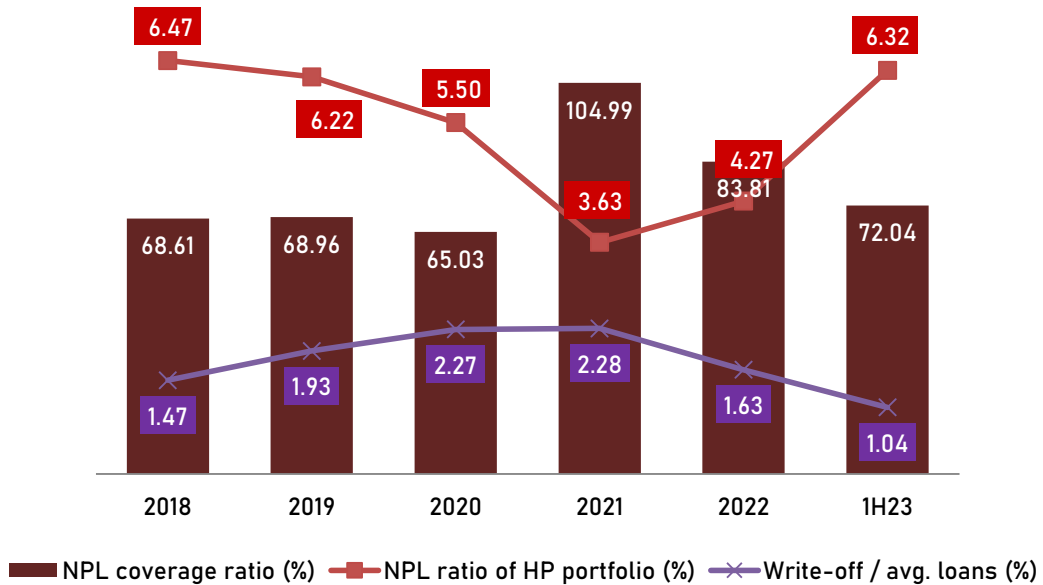
KEY OPERATING PERFORMANCE

Chart 1: ML's Outstanding Loans



Source: ML

Chart 2: ML's NPL Coverage, NPL Ratio, and Write-off Ratio



Source: ML

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	4,094	4,005	4,102	4,127	3,695
Total loans	3,559	3,460	3,468	3,414	3,302
Allowance for expected credit loss	121	94	94	95	122
Short-term debts	1,063	1,656	1,124	1,178	978
Long-term debts	785	121	845	881	728
Shareholders' equity	2,149	2,134	2,029	1,981	1,896
Net interest income	175	359	363	368	402
Expected credit loss	46	56	78	71	49
Non-interest income	43	96	89	97	87
Operating expenses	151	266	244	270	312
Earnings before taxes	21	132	130	125	128
Net income	16	105	103	99	99

\* Consolidated financial statements

Unit: %

	Jan-Jun 2023	Year Ended 31 December			
		2022	2021	2020	2019
<b>Profitability</b>					
Net-interest income/average assets	8.62 **	8.85	8.82	9.42	10.82
Net-interest income/average assets	2.13 **	2.36	2.17	2.49	2.35
Operating expenses/total income	54.89	46.89	43.50	47.18	53.63
Operating profit/average assets	1.02 **	3.26	3.15	3.19	3.44
Earnings before taxes/average risk-weighted assets	1.03 **	3.33	3.35	3.36	3.47
Return on average assets	0.78 **	2.58	2.50	2.52	2.66
Return on average equity	1.48 **	5.03	5.13	5.09	5.36
<b>Asset Quality</b>					
Non-performing loans/total loans***	4.73	3.24	3.63	5.50	6.22
Expected credit loss/average loans	2.60 **	1.62	2.27	2.12	1.49
Allowance for expected credit loss/non-performing loans	72.04	83.81	104.99	65.03	68.96
<b>Capitalization</b>					
Risk-adjusted capital ratio	52.96	53.56	51.32	52.29	51.92
Debt to equity (time)	0.90	0.88	1.02	1.08	0.95
<b>Liquidity</b>					
Stable funding ratio	136.60	106.90	150.03	151.90	135.30
Liquidity coverage measure (times)	0.03	0.01	0.13	0.29	0.04
Short-term debts/total liabilities	54.67	88.46	54.21	54.91	54.35

\* Consolidated financial statements

\*\* Annualized

\*\*\* Only hire purchase loan receivable

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## RELATED CRITERIA

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- Group Rating Methodology, 7 September 2022
- Nonbank Financial Institution Methodology, 17 February 2020

## Mida Leasing PLC (ML)

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<b>Company Rating:</b>	BB
<b>Rating Outlook:</b>	Stable

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