

# MIDA LEASING PLC

No. 162/2024  
19 September 2024

## FINANCIAL INSTITUTIONS

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

**Last Review Date:** 13/09/23

### 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 on Mida Leasing PLC (ML) at “BB” with a “stable” outlook. 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.

At the same time, we lower ML’s stand-alone credit profile (SACP) to “bb+” from “bbb-” to reflect weaker-than-expected operating performance due to a significant deterioration of ML’s asset quality. ML’s SACP continues to reflect its strong capital position. However, the rating is constrained by the company’s weak business position, moderate funding and liquidity as well as weakened 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 status as the largest shareholder of ML with ownership of 46.98%.

ML is directly controlled by MIDA through its board representatives, which include senior executives from MIDA. Additionally, MIDA and ML continue to share back-office operations, and ML operates under the same brand name as MIDA. This indicates a strong connection and the likelihood of 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 2024, the company’s loans to MIDA amounted to THB125 million.

### Deteriorated operating performance

We lower ML’s earnings assessment to ‘weak’ from ‘moderate’, reflecting weakened operating performance, primarily due to impaired asset quality. We anticipate that the company will take time to improve its asset quality, with profitability expected to resume by 2026.

ML incurred a net loss of THB4 million in 2023 and THB30 million in the first half of 2024 (1H24). These losses were driven by higher provisions for expected credit losses (ECL) and losses from repossessed assets. Additionally, the company faced rising funding costs, increasing to around 7.1% in 1H24 from 6% in 2022, and a decline in non-interest income due to market conduct regulations, further affecting profitability.

Earnings capability, as measured by earnings before tax to average risk-weighted assets (EBT/ARWA) declined to -0.04% in 2023 and -1.93% in 1H24 from 3.3%-3.4% in 2020-2022. We expect earnings in the next one year to remain at a similar level to 1H24 given the ongoing pressure from the weak credit environment.

### Asset quality declined further

ML's asset quality has deteriorated significantly since the beginning of 2023. The non-performing loan (NPL) ratio increased to 7.8% by the end of the second quarter of 2024 (2Q24), up from 6.9% at the end of 2023 and 3.2% at the end of 2022. This decline in asset quality aligned with industry trends, reflecting a surge in repossessed pick-up trucks, the core of ML's portfolio. The main factors behind this deterioration were weakened debt serviceability among borrowers, stemming from a slow and uneven economic recovery that has delayed an income rebound, while living costs continue to rise.

The company's annualized provisions for expected credit loss (ECL) to average loans (credit cost) rose to 4.5% in 1H24 compared to 3.2% in 2023 and 1.6% in 2022. We expect credit cost to be around 5% in 2024, declining to around 3% by 2026. NPL coverage declined to 61% at the end of 2Q24 from 84% at the end of 2022 as NPLs rose at a faster rate. The NPL coverage is comparatively lower than most rated peers.

As a result of higher NPLs, the number of repossessed vehicles increased, while used vehicle prices declined due to an elevated market supply. This led to higher impairment and losses on repossessed assets, totaling THB82 million in 2023 compared to THB26 million in 2022. We believe that the price of second-hand vehicles has reached its bottom but do not expect significant pricing improvements over the next 12 months. Therefore, we anticipate that ML's impairment and losses on repossessed assets in 2024-2025 will likely be similar to those in 2023 and continue to pressure operating performance.

### Strong capital position

Capital remains a key credit strength. ML's capital, as measured by the risk-adjusted capital (RAC) ratio, is classified as 'very strong.' As of June 2024, the company's RAC ratio stood at 55%. This high level of capitalization is attributed to the management's conservative growth strategy and consistent profit accumulation.

The solid capital base serves as a crucial buffer to absorb potential losses during the current period of weak asset quality. We expect ML's RAC ratio to remain above 50% in the coming years, as loan growth is projected to stay conservative, despite anticipated losses in 2024-2025. Additionally, we expect the company to continue omitting dividend payments as the company incurs losses.

### Weak market position

The rating on ML is constrained by the company's weak business position. As of June 2024, the company's outstanding hire purchase loans remained relatively stable at THB2.7 billion. ML's outstanding loan size is one of the smallest among TRIS Rating's rated non-banks financial institutions. We expect the company's outstanding loans to decline in 2024. The reduction is primarily due to the expected full repayment of a loan provided to its parent company, MIDA. Looking ahead to 2025-2026, we expect ML to maintain a conservative approach in response to the current high-risk credit environment. As a result, we project the company's loan growth to remain modest, not exceeding 5% annually during this period.

### Rising liquidity risk

TRIS Rating believes ML can manage its liquidity and meet its debt obligations over the next 12 months, despite rising liquidity risks. The main concern is outstanding debentures of THB725 million maturing in January 2025, representing 19% of ML's total assets as of 2Q24. The company plans to refinance the debentures through a combination of new credit facilities from financial institutions and new debenture issuances in late 2024. If this plan faces obstacles, we believe ML's ultimate shareholder would provide financial support as a last resort. ML estimates cash inflows from customer repayments to average around THB100 million per month over the next 12 months.

### BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period 2024-2026 are:

- Outstanding hire purchase loans to remain flat in 2024 and expand by 5% annually in 2025-2026.
- Loan spread to be around 6.0%-7.0%.
- Credit cost to be around 5% in 2024, normalizing to around 3% by 2026.
- RAC ratio to be around 55%.
- Operating expense to total income ratio to be in the range of 55%-60%.

### RATING OUTLOOK

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

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**RATING SENSITIVITIES**

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

On a standalone basis, ML's SACP upside is unlikely in the near term. The downside could arise from a further and prolonged deterioration in asset quality or an increase in liquidity and refinancing risks.

**COMPANY OVERVIEW**

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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 Leosivikul with 8%, and the Panyajirawut 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.

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

Unit: Mil. THB

	Jan-Jun 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	3,785	3,884	4,005	4,102	4,127
Total loans	3,227	3,325	3,460	3,468	3,414
Allowance for expected credit loss	153	142	94	94	95
Short-term debts	1,445	749	1,656	1,124	1,178
Long-term debts	157	915	121	845	881
Shareholders' equity	2,099	2,129	2,134	2,029	1,981
Net interest income	166	333	359	363	368
Expected credit loss	74	109	56	78	71
Non-interest income	29	83	96	89	97
Operating expenses	159	308	266	244	270
Earnings before taxes	(37)	(2)	132	130	125
Net income	(30)	(4)	105	103	99

\* Consolidated financial statements

Unit: %

	Jan-Jun 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
<b>Profitability</b>					
Net-interest income/average assets	8.68 **	8.43	8.85	8.82	9.42
Non-interest income/average assets	1.52 **	2.10	2.36	2.17	2.49
Operating expenses/total income	62.59	56.19	46.89	43.50	47.18
Operating profit/average assets	(1.92)**	(0.04)	3.26	3.15	3.19
Earnings before taxes/average risk-weighted assets	(1.93)**	(0.04)	3.33	3.35	3.36
Return on average assets	(1.56)**	(0.11)	2.58	2.50	2.52
Return on average equity	(2.84)**	(0.20)	5.03	5.13	5.09
<b>Asset Quality</b>					
Non-performing loans/total loans***	7.76	6.90	3.24	3.63	5.50
Expected credit loss/average loans	4.49 **	3.21	1.62	2.27	2.12
Allowance for expected credit loss/non-performing loans	61.22	61.98	83.81	104.99	65.03
<b>Capitalization</b>					
Risk-adjusted capital ratio	55.84	55.30	53.56	51.32	52.29
Debt to equity (time)	0.80	0.82	0.88	1.02	1.08
<b>Liquidity</b>					
Stable funding ratio	106.67	146.47	111.88	156.95	156.55
Liquidity coverage measure (times)	0.02	0.04	0.01	0.13	0.29
Short-term debts/total liabilities	85.71	42.69	88.46	54.21	54.91

\* 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
- Financial Institution Rating Methodology, 24 November 2023

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**Mida Leasing PLC (ML)**

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

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**TRIS Rating Co., Ltd.**

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