

SRISAWAD CORPORATION PLC

No. 98/2018
10 July 2018

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating of Srisawad Corporation PLC (SAWAD), formerly known as Srisawad Power 1979 PLC (SAWAD), at “BBB”. The rating reflects the company’s solid profitability underpinned by the high yields it earns from making secured personal loans. The rating also takes into consideration the company’s nationwide distribution channel and low leverage.

The key rating concerns are SAWAD’s bad debts above the industry average and a below-average loan loss coverage ratio. External factors, such as intense competition and the fact that the target customers are highly sensitive to changes in economic conditions, also constrain the rating. Regulatory changes may limit interest rates and fees, which would squeeze profits of related operators.

KEY RATING CONSIDERATIONS

Strong profitability

SAWAD’s profitability remains strong despite a recent drop due to a group restructuring and lower loan yields. Consolidated net income increased to Bt2,715 million in 2017, up 35.2% from 2016. The return on average assets (ROAA) dropped to 9.8% in 2017 from 11.2% in 2016, but was higher than other non-bank financial institutions. Net income for the first three months of 2018 was Bt640 million, 27.4% lower year-on-year due to extraordinary income reported in the first quarter of 2017.

Extensive branch network drives loan growth

SAWAD’s consolidated loan portfolio has grown significantly. The value surged to Bt25,179 million in 2017 from Bt5,722 million in 2013, a compound annual growth rate of 44.8%. Outstanding loans increased to Bt25,927 million at the end of March 2018, up 3.0% year-to-date. New branches are driving the growth. As of March 2018, SAWAD renders services through 2,532 branches, up from 597 branches in 2013.

Leverage remains moderate

SAWAD’s leverage is lower than peers. The debt to equity (D/E) ratio has stayed around two times over the past four years. At the end of March 2018, the D/E ratio was 1.8 times.

High profits and a low dividend payout has bolstered its retained earnings and cut the D/E ratio. The ratio of shareholders’ equity to total assets has exceeded 30.0% for the past four years. The ratio rose to 35.8% at the end of March 2018, from 33.5% at the end of 2017. TRIS Rating expects the company’s D/E ratio to remain below three times through 2020.

Weak asset quality

The quality of SAWAD’s loan portfolio is lower than its direct peers. Also, SAWAD’s asset quality declined significantly in the first quarter of 2018, mainly due to large-sized loans provided to one customer. The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans jumped to 7.6% at the end of March 2018, from 4.5% at the end of 2017. We expect that SAWAD will resolve the asset quality issue and assume that the surge in the

NPL ratio is temporary.

In addition, SAWAD has a low NPL coverage ratio, the ratio of the allowance for loan losses to NPLs. The low NPL coverage ratio exposes the company's financial performance to great risk when the loans it provides turn bad. SAWAD's NPL coverage ratio had been about 60.0%. At the end of March 2018, NPLs jumped and the NPL coverage ratio dropped to 51.4%. In contrast, the average NPL coverage ratio exceeds 200.0% at peer companies.

RATING OUTLOOK

The "stable" outlook is based on three key expectations. We assume SAWAD will maintain its market position in the secured personal loan segment. We also assume its ROAA will stay above 3.5%, and loan quality will be controlled at an acceptable level.

RATING SENSITIVITIES

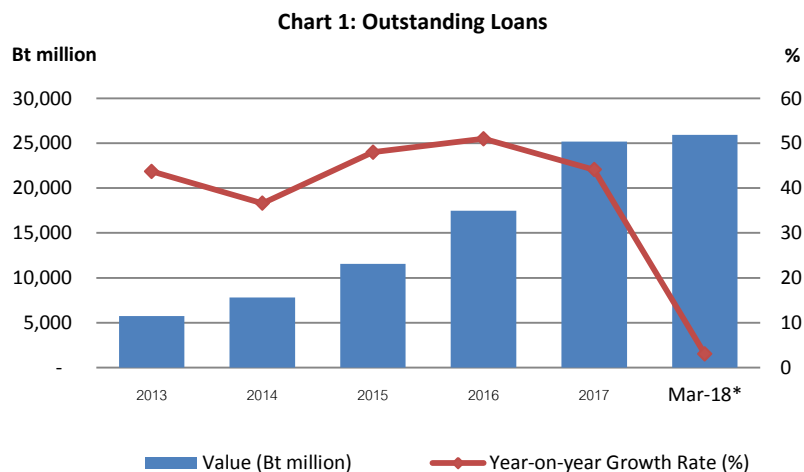
The rating and/or outlook upside case could arise if the loan portfolio continues to expand, profitability and asset quality improve, and the D/E ratio stays below three times. In contrast, the rating and/or outlook could be revised downward if the D/E ratio exceeds 4.5 times and asset quality continues to weaken. Refinancing risk would rise as a result.

COMPANY OVERVIEW

SAWAD, founded in 2008 by the Kaewbootta family, has provided secured personal loans since 1979. The company offers secured personal loans made against vehicles (e.g., used motorcycles, cars, trucks, and more) or land and property. In 2014, SAWAD was listed on the Stock Exchange of Thailand (SET). The Kaewbootta family owns approximately 47.0% of the outstanding shares.

At the end of March 2018, loans secured by passenger cars and pick-up trucks comprised 39.0% of outstanding loans, followed by used motorcycles (12.9%), commercial trucks (8.5%), property (23.6%), raw land (6.6%), and other vehicles (3.1%). Nano finance loans made up 6.3% of outstanding loans.

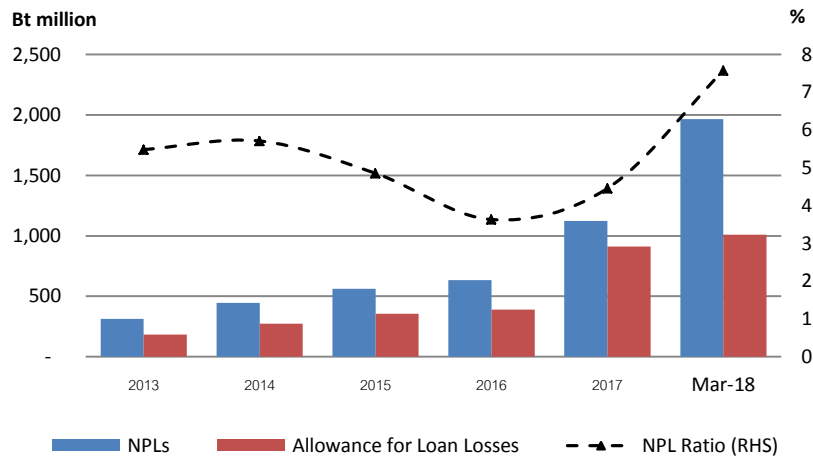
KEY OPERATING PERFORMANCE



Source: SAWAD

* Year-to-date growth for Mar-18

Chart 2: Asset Quality



Source: SAWAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Total assets	32,950	33,377	22,237	13,640	8,592
Total loans	25,927	25,179	17,469	11,568	7,816
Allowance for doubtful accounts	1,010	912	389	355	273
Short-term borrowings	11,424	11,570	8,535	2,544	4,270
Long-term borrowings	8,528	9,559	6,037	5,789	500
Shareholders' equity	11,811	11,175	6,857	4,772	3,432
Net interest income	1,077	4,335	3,639	2,536	1,736
Bad debts and doubtful accounts	76	394	158	168	189
Non-interest income	500	2,055	1,327	960	735
Operating expenses	714	2,666	2,298	1,678	1,220
Net income	640	2,715	2,009	1,336	855

* Consolidated financial statements

Unit: %

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Profitability					
Net-interest income/average assets	12.99 **	15.59	20.29	22.82	23.72
Net-interest income/total income	61.77	61.94	68.21	67.16	64.56
Operating expenses/total income	40.95	38.09	43.07	44.42	45.37
Operating profit/average assets	9.49 **	11.61	14.00	14.85	14.51
Return on average assets	7.72 **	9.76	11.20	12.02	11.68
Return on average equity	22.27 **	30.12	34.55	32.57	37.46
Asset Quality					
Non-performing loans/total loans	7.58	4.46	3.63	4.86	5.71
Bad debts and doubtful accounts/average loans	1.20 **	1.85	1.09	1.73	2.79
Allowance for doubtful accounts/total loans	3.89	3.62	2.23	3.07	3.49
Allowance for doubtful accounts/non-performing loans	51.40	81.26	61.27	63.26	61.18
Capitalization					
Shareholders' equity/total assets	35.84	33.48	30.84	34.98	39.95
Shareholders' equity/total loans	45.55	44.38	39.25	41.25	43.91
Debt to equity (time)	1.79	1.99	2.24	1.86	1.50
Liquidity					
Short-term borrowings/total liabilities	54.04	52.11	55.50	28.69	82.77
Total loans/total assets	78.69	75.44	78.56	84.81	90.97

* Consolidated financial statements

** Annualized

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB
Rating Outlook:	Stable

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