

# SRISAWAD CORPORATION PLC

No. 81/2020  
10 June 2020

## FINANCIAL INSTITUTIONS

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

**Last Review Date:** 28/06/19

### Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
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 on Srisawad Corporation PLC (SAWAD) at “BBB+” with a “stable” outlook. The rating reflects its leading market position in the title loan business; very strong capital, leverage; and earning assessment, and adequate funding and liquidity profile. However, the company’s rating is constrained by its relatively high exposure to risky property-backed loans and its weakened asset quality. The potential adverse impacts from the coronavirus (COVID-19) pandemic, which has induced a severe economic downturn, could put more pressure on its asset quality.

## KEY RATING CONSIDERATIONS

### Leading market position

SAWAD’s solid market position as the second largest lender in the title loan market has helped underpin its business position assessment. We expect the company’s market position to remain relatively strong over the next few years as the company plans to continuously expand its loan portfolios by opening approximately 300 new branches per year. As of 31 March 2020, its number of branches reached 4,309, an increase from 3,086 branches at the end of March 2019. At the end of March 2020, the company’s consolidated loans, including loans booked at Srisawad Power 2014 Co., Ltd. (2014) and Srisawad Finance PLC (BFIT), reached Bt40 billion, a 22% growth from March 2019.

### Strong capital and earnings

We expect the company’s positive rating drivers, which include robust capital structure and conservative dividend payout policies as well as strong earning capabilities, to continue over the next few years. We project its 5-year average (2018-2022) risk-adjusted capital ratio (RAC) to be around 46%, suggesting a very strong capital. In terms of financial leverage, with no aggressive borrowing plans and continuous capital accretion, we expect the company’s debt to equity ratio (D/E) to stay below 2 times over the next few years. This is a healthy level, compared with its 6 times D/E loan covenant. At the end of March 2020, the company’s risk-adjusted capital ratio and D/E ratio was 43.4% and 1.4 times, respectively.

The company’s earning capability is also expected to remain strong over the next few years, with a ratio of earnings before tax to average risk-adjusted assets (EBT/ARWAs) of around 11% on a 5-year average (2018-2022). The earnings forecast is supported by its healthy interest spread of about 18%, driven by stable yield and marginal decline in funding costs. The company should also be able to keep its operating costs under control given its plan to save costs by transitioning to online marketing. These factors should help sustain its profitability over the next few years despite potential adverse impacts from the pandemic.

### Asset quality weakened

We view SAWAD’s risk position as moderate and in the same range as other non-bank lenders without risk management support from parent companies. The company’s asset quality remains weaker, relative to its peers in the same industry, while loan loss coverage continues to be less than robust. At the end of March 2020, its non-performing loan (NPL) ratio increased to 5.2%, from 3.8% at the end of 2019.

Apart from the generally weak economy since 2019, there were a few reasons for the strong NPL increase in the first quarter of (1Q2020). Firstly, the implementation of TFRS 9 requires the company to classify its NPLs based on customer accounts rather than loan accounts as was the practice previously. Thus both performing and non-performing loan accounts of the same customer will all be classified as NPLs. Secondly, NPLs under TFRS9 are written off at a slower pace. Based on the new accounting standard, NPLs can only be written off when the company can prove that loan repayments cannot be made, whereas previously NPLs could be written off once they reached 120 days.

Despite the risk of further decline in asset quality due to the COVID-19 pandemic, we expect the company's NPL ratio to stay below 6% in 2020. The company has already tightened its credit policies and underwriting criteria. For example, it applies a lower loan-to-value ratio for property-backed loans and scales down lending to customers affected by the pandemic, e.g. those in the tourism industry. Also, the debt relief programs, which have been provided selectively, are expected to help delay or lessen the slippage of loan classification. In our view, a moderate deterioration in asset quality is unlikely to impact the company's rating, but a stronger-than-expected increase in NPLs could put pressure on SAWAD's rating if it leads to heightened refinancing risk or an eroding capital position.

As for loan loss coverage, at the end of March 2020, the company's NPL coverage (allowance for impairment loss to NPLs) ratio improved to 70.7% from 56.6% at the end of 2019. This was due to the additional loan loss provisions set aside as management overlays on accounts on first-time adoption of TFRS9. In spite of the improvement, we note that the coverage ratio remains well below peers in the same industry. The company intends to keep its NPL coverage in a range of 50%-70% over the next few years.

#### **Adequate funding and liquidity profile**

The company has a strong funding position, measured by a 2-year average (2019-2020) stable funding ratio (SFR) of 300%. The company's moderate reliance on short-term funding as funding sources also supports its funding assessment. At the end of 31 March 2020, short-term borrowing accounted for 13% of total borrowing and shareholders' equity.

The company's liquidity profile is at an adequate level despite its 2-year average (2019-2020) liquidity coverage metric (LCM) of 0.1 times, which is considered weak based on our benchmark. The company's liquidity profile is enhanced by its access to both equity and debt capital markets for funding. In addition, the company had available credit facilities from various financial institutions totaling Bt9.5 billion as of 31 March 2020. The company is also eligible for soft loans to be provided by the Government Savings Bank (GSB) to help support its debt relief measures. The soft loans should also help alleviate potential stress on its cash flows.

#### **Pressure from property-related lending on risk profile**

The company's exposure to loans backed by properties has exposed the company to asset liquidation risks as foreclosing and liquidating the properties in case of default generally take time. Furthermore, the larger average size of property loans compared with other types of lending could also lead to credit concentration risk. Nonetheless, its tightening of loan-to-value ratio may help mitigate the risk of potential credit losses, provided that the total exposure to properties-backed lending does not increase further. A strong expansion in this segment may put pressure on the company rating or outlook. At the end of March 2020, the proportion of property-backed loans to the total loan portfolio remained at the same level as last year.

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

TRIS Rating's base-case assumptions for SAWAD's operations in 2020-2022 are as follows:

- Outstanding portfolio to grow by 15%-20%.
- Interest spread to maintain at around 18%.
- NPL ratio to remain below 6%.
- NPL coverage ratio to maintain around 50%-70%.

#### **RATING OUTLOOK**

The "stable" outlook reflects an expectation that SAWAD will maintain its market position, financial performance, and asset quality at an acceptable level, while also maintaining capital strength.

#### **RATING SENSITIVITIES**

The likelihood of a rating upgrade is limited in the near- to medium-term. However, a credit upside would materialize if the company's market position and asset quality improve significantly for a sustained period while exposure to property loans are maintained at an acceptable level. On the contrary, the rating and/or outlook could be revised downward if asset

quality weakens significantly or capital, leverage, and earning position deteriorates with an RAC ratio below 25% and an EBT/RWAs below 8%.

## COMPANY OVERVIEW

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In 1979, the Kaewbootta family, the founder and current major shareholder of SAWAD, started providing secured personal loans. In 2007, the family sold the entire business, run by Srisawad International 1991 Co., Ltd. (SI), to a financial institution. The Kaewbootta family kept SI's loan portfolio.

In 2009, the family acquired Power 99 Co., Ltd., and again began offering secured loans. Power 99 also provided debt collection services to SI. The family renamed Power 99 to Srisawad Power Co., Ltd. (SP). In 2011, the entire loan portfolio was transferred from SP to SAWAD, an inactive company established by the Kaewbootta family in 2008, as P.V. and K.K. Service Co., Ltd.

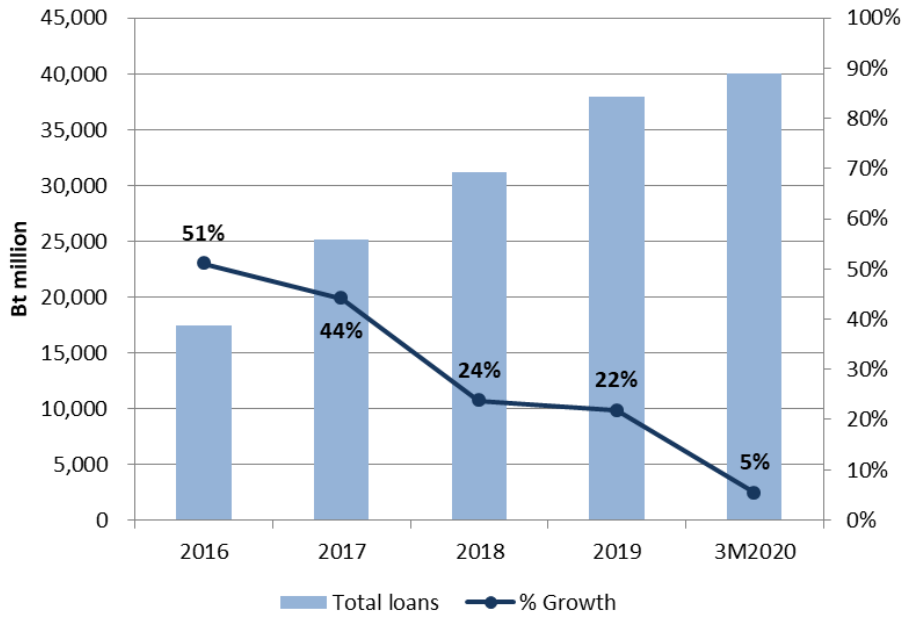
Since 2011, SAWAD's core business has expanded. SAWAD offers asset-backed personal loans secured by motorcycles, automobiles, land, and property. The expansion was fueled by SAWAD's nationwide branch network. In 2014, SAWAD became a public company and was listed on the SET. After an IPO in May 2014, paid-up capital climbed by Bt250 million to Bt1 billion. SAWAD used the IPO proceeds to pay off some debts and expand the loan portfolio.

SAWAD's major shareholder is the Kaewbootta family, holding approximately 50% of the company's shares. In addition, SAWAD has three active affiliates: Fast Money Co., Ltd., which provides unsecured personal loans; SWP Asset Management Co., Ltd., formerly Srisawad Asset Management Co., Ltd., which offers debt collection services, and purchases and manages distressed assets; and Srisawad International Holding Co., Ltd., a new subsidiary, established to invest in other loan providers. SAWAD, as the parent company, offers secured personal loans made against all kinds of vehicles (e.g., used motorcycles, cars, trucks, and other types of vehicles), land, or property.

In 2019, Cathay Financial Holding Co., Ltd injected Bt2.6 billion and became SAWAD's strategic partner, holding 9.5% of the company's shares. SAWAD also increased its shareholding in Srisawad Finance PCL (BFIT) to 82% in 2019, from 45% in 2018.

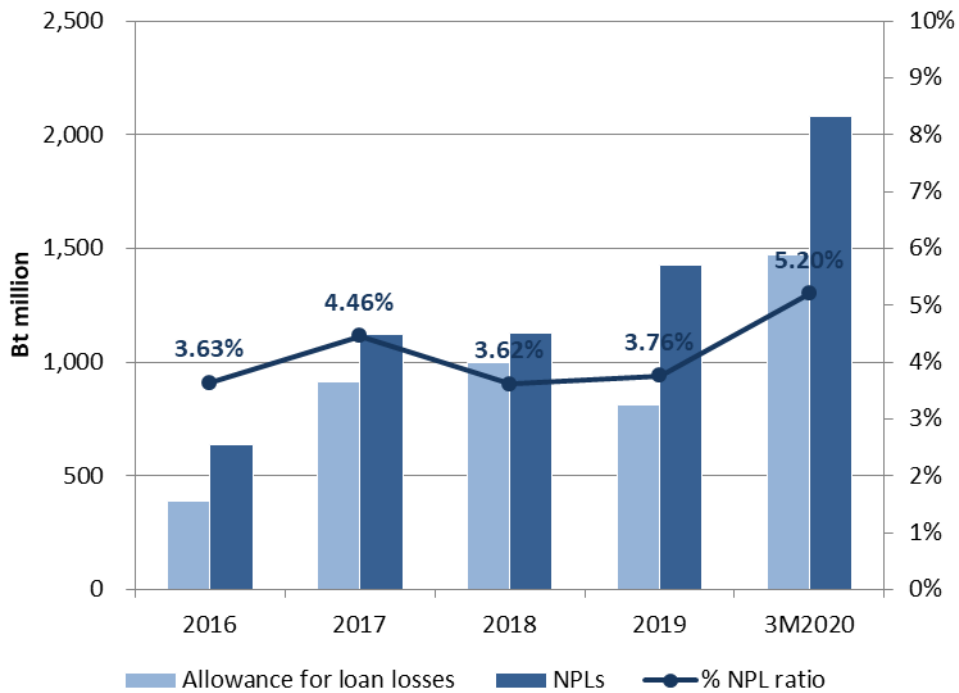
**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**



Source: SAWAD

**Chart 2: Asset Quality**



Source: SAWAD

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

Unit: Bt million

	Jan-Mar 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total assets	48,220	45,462	39,217	33,377	22,237
Total loans (ending gross receivables)	40,025	37,967	31,171	25,179	17,469
Allowance for doubtful accounts**	1,471	809	997	912	389
Short-term borrowings	12,759	12,601	15,660	12,789	8,535
Long-term borrowings	12,740	11,271	8,441	8,340	6,037
Shareholders' equity	20,399	20,192	13,628	11,175	6,857
Net interest income	1,858	6,414	5,078	4,385	3,639
Provision for bad debt and doubtful accounts***	194	552	388	394	158
Non-interest income	701	2,551	2,082	2,005	1,327
Operating expenses	995	3,532	3,046	2,666	2,298
Earnings before taxes	1,370	4,881	3,726	3,331	2,511
Net income	1,101	3,929	3,001	2,715	2,009

\* Consolidated financial statement

\*\* Allowance for impairment losses under TFRS 9

\*\*\* Expected credit losses under TFRS 9

Unit: %

	Jan-Mar 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
<b>Profitability</b>					
Net interest and dividend income/average assets	15.87 **	15.15	13.99	15.77	20.29
Fees and services income/average assets	5.99 **	6.03	5.74	6.85	7.40
Operating expenses/total income	35.71	36.06	38.65	38.09	43.07
Operating profit/average assets	11.70 **	11.53	10.26	11.61	14.00
Earnings before taxes/average risk-weighted assets	11.41 **	11.14	10.54	12.69	14.14
Return on average assets	9.40 **	9.28	8.27	9.76	11.20
Return on average equity	21.69 **	23.23	24.20	30.12	34.55
<b>Asset Quality</b>					
Non-performing loans/total loans	5.20	3.76	3.62	4.46	3.63
Provision for bad debts and doubtful accounts***/average loans	1.99	1.60	1.38	1.85	1.09
Allowance for doubtful accounts****/total loans	3.67	2.13	3.20	3.62	2.23
<b>Capitalization</b>					
Risk-adjusted capital ratio	42.08	42.41	34.03	36.48	31.38
Debt/equity (times)	1.36	1.25	1.88	1.99	2.24
<b>Funding and Liquidity</b>					
Stable funding ratio	275.42	286.76	247.64	253.53	153.67
Liquidity coverage measure (times)	0.16	0.17	0.20	0.35	0.02
Short-term borrowings/total borrowings	45.86	49.87	61.20	52.11	55.50

\* Consolidated financial statement

\*\* Annualized

\*\*\* Expected credit losses under TFRS 9

\*\*\*\* Allowance for impairment losses under TFRS 9

**RELATED CRITERIA**

- Nonbank Financial Institution Methodology, 17 February 2020

**Srisawad Corporation PLC (SAWAD)**

<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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