

AYUDHYA CAPITAL AUTO LEASE PLC

No. 181/2018

12 November 2018

FINANCIAL INSTITUTIONS

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date :

Date	Rating	Outlook/Alert
15/06/18	AA	Stable

Company Rating History:

Date	Rating	Outlook/Alert
07/12/16	AA	Stable
29/12/14	AA-	Stable
26/12/13	A+	Alert Developing
24/04/09	A+	Stable
27/11/08	A	Positive
25/07/00	A+	Stable
03/02/00	A	Stable
18/02/98	A-	Stable
27/08/97	A	Stable
03/07/97	A	Negative
04/04/97	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ayudhya Capital Auto Lease PLC (AYCAL) and the ratings on its senior unsecured debentures at “AA” with a “stable” outlook. The ratings reflect the company’s market position as the leading originator of motorcycle hire purchase loans, strong capital base, and a rigorous risk management system.

In addition, the ratings have taken into consideration the business support and financial support AYCAL receives from Bank of Ayudhya PLC (BAY), rated “AAA” with a “stable” outlook by TRIS Rating. The ratings of AYCAL are enhanced from its stand-alone rating because TRIS Rating holds the view that the company is a strategically important subsidiary of BAY.

However, the strengths are weighed down by concerns over intense competition and potential rise in credit risk. The company’s target customers are especially susceptible to economic downturns. In addition, there remains a significant amount of uncertainty surrounding the effect that the forthcoming regulations will have on interest rates, fees, and market conduct of all non-bank financial institutions.

KEY RATING CONSIDERATIONS

Strategic importance toward the parent bank uplifts the credit profile

TRIS Rating expects the status as a strategic importance subsidiary of AYCAL to BAY will continue. AYCAL receives a significant amount of business support and financial support, bolstering the company’s leading market position in its core businesses and enhancing its financial flexibility.

The company’s high level of financial flexibility stems from its status as one of BAY’s solo consolidated subsidiaries. As a solo consolidated subsidiary, BAY, the parent bank, can provide an ample amount of funding to its subsidiary. The credit facility that BAY is able to provide to AYCAL remains large enough to support the company’s expansion efforts. In return, AYCAL must comply with the consolidated supervisory standards set by the Bank of Thailand (BOT).

AYCAL did not have any mismatch in its asset and liability structure. Short-term borrowing, including the current portion of long-term debt, was approximately 43% of total borrowings as of December 2017. Monthly loan payments from AYCAL’s customers, plus the secured credit lines from BAY, are more than sufficient and have been secured in time to finance the liquidity gap.

In terms of business support, AYCAL has integrated its business platforms with the parent bank to continuously develop its operational efficiency. For example, AYCAL has implemented a number of risk management policies to comply with the standards required by BAY. AYCAL has been closely supervised by its parent bank and is indirectly supervised by the BOT through the parent bank.

Strong capital base

TRIS Rating expects the company’s leverage to remain at an appropriate level, with the debt to equity (D/E) ratio below 1.5 times over the next three years, given the high credit risk of its business and the expected loan growth in the motorcycle loan portfolio of approximately 15% annually.

Under the Foreign Business Act, AYCAL is required to maintain sufficient capital

in order to keep the level of debt equal to or less than 7 times the level of paid-up capital, equaling 1.2 times at the end of 2017. As of December 2017, AYCAL's D/E ratio was one times and the ratio of shareholders' equity to total assets (E/A) was 49.2%. The company has a very strong capital position because it maintains a high level of capital despite a shrinking auto loan portfolio.

Strong market position in motorcycle financing segment

TRIS Rating forecasts AYCAL's motorcycle loan portfolio will grow at a rate of exceeding 15% through 2020. Over the past three years, the company has been the largest of 10 large motorcycle hire purchase lenders in TRIS Rating's database. Outstanding loans reached Bt21,649 million at the end of 2017, a 23.6% growth from Bt17,521 million at the end of 2016. With long track record in the vehicle financing industry, AYCAL has diversified the company's network nationwide with a strong relationship with dealers and an efficient business platform. These factors give it a competitive advantage and help it maintain its market-leading position.

Robust financial performance

We project AYCAL would maintain its profitability with the return on average assets (ROAA) higher than 6.0% over the next three year. AYCAL's financial performance improved markedly, due to the reversed provision expenses and higher non-interest income. Net income rose to Bt4,469 million in 2017, up by 4.2% from 2016. ROAA rose to 6.2% in 2017, from 4.4% in 2016.

Steady recovery in asset quality

We expect AYCAL's asset quality will remain stronger than its direct peers, with the non-performing loan (NPL) ratio, defined as loans more than three months past due divided by total loans, below 3.0% over the next three years. Due to its prudent credit risk management and an efficient collection system, AYCAL's asset quality has been better than peers. The NPL ratio has recovered gradually since 2016 after the deterioration during the ongoing economic slowdown in Thailand between 2014 and 2015. The NPL ratio dropped to 2.31% at the end of 2017, from 2.36% at the end of 2016 and the peak at 2.44% at the end of 2015.

The ratio of loan loss reserve to NPLs (NPL coverage) has been stronger and higher than its direct peers. The coverage ratio was 215.7% at the end of 2017, up from 201.6% at the end of 2016. We expect the coverage ratio to remain at a similar level over the next few years, assuming credit cost holds below 1.5% in average through 2020.

RATING OUTLOOK

The "stable" outlook reflects the expectation that AYCAL's business direction will remain closely aligned with BAY's strategy. The outlook reflects the assumption that AYCAL will continue to receive a high level of support from its parent bank. The outlook also considers the ability of the management team to maintain AYCAL's strong market position as a leading motorcycle hire purchase lessor. With its experienced management team, rigorous risk management system, and strong support from BAY, TRIS Rating expects AYCAL's profitability and capital base will stay strong enough to serve as cushions against any downside risks in the motorcycle hire purchase business.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if the company's market position improves significantly while still maintaining strong financial profile. In contrast, any deterioration in competitive position or asset quality would negatively affect the ratings and/or outlook. Should there be any change in TRIS Rating's view of the strategic importance of AYCAL to the BAY Group, the ratings and/or outlook may change. In addition, there remains a significant amount of uncertainty surrounding the effect that the forthcoming regulations will have on interest rates, fees, and market conduct of all non-bank financial institutions.

COMPANY OVERVIEW

AYCAL was incorporated in 1992 by the General Finance & Securities PLC under the name "General Finance Leasing Co., Ltd. (GFL)". In 1993, GFL formed a joint venture with the Government Savings Bank (GSB) and General Electric Capital Asia Investment (GECAL), a wholly-owned subsidiary of General Electric Capital Corporation (GECC) that is ultimately owned by General Electric Company (GE). GFL was recapitalized and renamed GS Capital Corporation PLC (GSCC) in 1993. In 1998, GSCC became a wholly-owned subsidiary of GECAL, after GECAL bought the shares of GSCC from its parent company. GSCC was renamed GE Capital Auto Lease PLC (GECAL).

In 2002 AYCAL diversified away from new car and used car hire purchase lending into two market segments which promised higher return but higher risks as well: motorcycle hire purchase loans and secured personal loans (Car4Cash). AYCAL intended to capture the opportunities in the new segments by drawing on its experienced management team, the

know-how of its parent company, and its good credit risk management system.

GE Capital Investment Holding (GECIH) took a 34.71% stake in BAY in early 2007. After GECIH's investment, BAY reorganized to enhance its competitiveness and efficiency. As a consequence of the reorganization, AYCAL ceased making new car hire purchase loans. All new car financing loans have been booked by BAY's new subsidiary, Ayudhya Capital Lease Co., Ltd. (AYCL), since January 2007. AYCAL continued to service the existing loan portfolio until the loans matured. In February 2008, BAY bought AYCAL's shares from GECAL. As a result, AYCAL became BAY's wholly-owned subsidiary. In the same month, AYCAL ceased offering secured personal loans, a type of auto sale and leaseback loan, called Car4Cash. AYCAL sold its existing Bt7 billion Car4Cash loan portfolio to BAY's new subsidiary, Ayudhya Hire Purchase Co., Ltd. (AYHP). AYHP took over this business instead from AYCAL.

GECAL was renamed "Ayudhya Capital Auto Lease PLC (AYCAL)" on 10 November 2008. AYCAL has enlarged its customer base and its auto hire purchase loan portfolio and became the market leader in these segments. AYCAL succeeded because of good brand recognition.

In November 2008, BAY reorganized its auto loan businesses one more time. As part of the reorganization, AYHP and AYCL ceased operation and transferred their auto loan portfolios to AYCAL. AYCAL became the sole subsidiary handling BAY's auto loan business. AYCAL provides hire purchase financing for the purchase of new cars, used cars, and motorcycles. AYCAL also renders secured personal loans services through auto sale and leaseback agreements, under the brand "Krungsri Car4Cash".

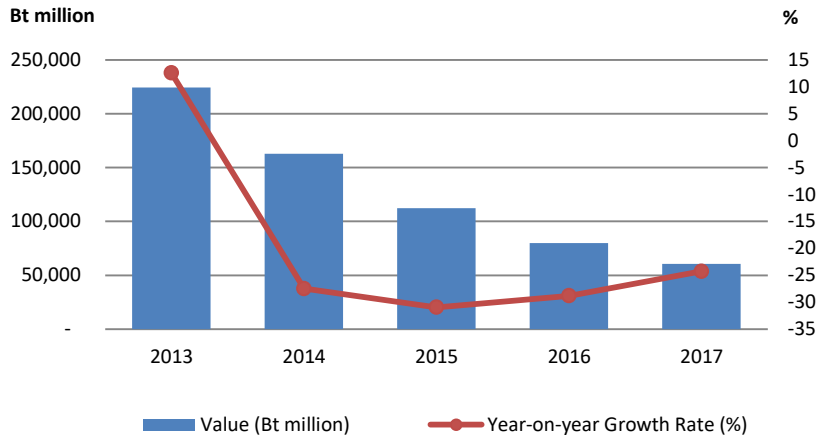
The "OneKrungsri" strategy took effect in 2010. AYCAL has more closely aligned its business with BAY and launched several new and innovative products and services under the name of "Krungsri Auto". AYCAL's brand name has been enhanced significantly.

Until 2014, AYCAL was the only subsidiary of BAY which made auto loans, under the name "Krungsri Auto". The company provided hire purchase financing for the purchase of new cars, used cars, and motorcycles, and offered secured personal loans to consumers through auto sale and lease back agreements.

However, in the beginning of 2014, there were again some major changes in the company's business model after Mitsubishi UFJ Financial Group (MUFG) became the major shareholder of BAY instead of GECIH. According to Krungsri Group's business strategy, all of AYCAL's new auto loans, including auto hire purchase financing and secured personal loans, are booked at BAY. AYCAL now offers motorcycle financing services, inventory financing services, insurance brokerage services, and continues to manage its existing portfolio of auto loans. AYCAL also renders collection services to BAY's auto loans.

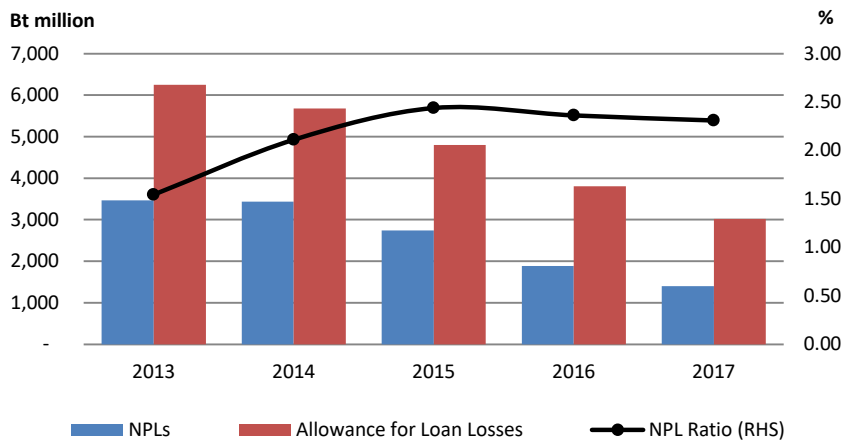
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: AYCAL

Chart 2: Asset Quality



Source: AYCAL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	62,674	81,321	113,302	164,142	226,627
Total loans	60,566	79,973	112,363	162,764	224,398
Allowance for doubtful accounts	3,017	3,808	4,798	5,682	6,252
Short-term borrowings	12,369	23,879	36,495	65,117	96,936
Long-term borrowings	16,894	25,328	43,848	64,625	101,199
Shareholders' equity	30,856	29,159	29,568	30,046	23,323
Net interest income	6,822	7,013	7,586	9,132	9,838
Bad debts and doubtful accounts	(84)	90	922	1,480	2,460
Non-interest income	1,657	1,453	800	(32)	983
Operating expenses	2,979	3,019	2,949	3,706	4,068
Net income	4,469	4,288	3,589	3,123	3,443

** Consolidated financial statements*
Unit: %

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Profitability					
Net-interest income/average assets	9.48	7.21	5.47	4.67	4.58
Net-interest income/total income	68.29	63.79	60.88	59.05	54.18
Operating expenses/total income	29.82	27.46	23.66	23.96	22.40
Operating profit/average assets	7.76	5.51	3.25	2.00	1.99
Return on average assets	6.21	4.41	2.59	1.60	1.60
Return on average equity	14.89	14.60	12.04	11.70	15.94
Asset Quality					
Non-performing loans/total loans	2.31	2.36	2.44	2.11	1.54
Bad debts and doubtful accounts/average loans	(0.12)	0.09	0.67	0.76	1.16
Allowance for doubtful accounts/total loans	4.98	4.76	4.27	3.49	2.79
Allowance for doubtful accounts/non-performing loans	215.65	201.59	175.11	165.37	180.38
Capitalization					
Shareholders' equity/total assets	49.23	35.86	26.10	18.30	10.29
Shareholders' equity/total loans	50.95	36.46	26.31	18.46	10.39
Debt to equity (time)	1.03	1.79	2.83	4.46	8.72
Liquidity					
Short-term borrowings/total liabilities	38.88	45.78	43.58	48.56	47.68
Total loans/total assets	96.64	98.34	99.17	99.16	99.02

** Consolidated financial statements*
RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018

Ayudhya Capital Auto Lease PLC (AYCAL)

Company Rating:	AA
Issue Ratings:	
AYCAL191A: Bt1,000 million senior unsecured debentures due 2019	AA
AYCAL197A: Bt1,700 million senior unsecured debentures due 2019	AA
AYCAL207A: Bt2,500 million senior unsecured debentures due 2020	AA
Rating Outlook:	Stable

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