

AYUDHYA CAPITAL AUTO LEASE PLC

No. 129/2017

11 October 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
07/12/16	AA	Stable
29/12/14	AA-	Stable
26/12/13	A+	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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Rating Rationale

TRIS Rating affirms the company rating of Ayudhya Capital Auto Lease PLC (AYCAL), and also affirms AYCAL's senior unsecured debentures at "AA". AYCAL's stand-alone rating is based on the proven track record of the management team and its market position as the leading originator of motorcycle hire purchase loans. The stand-alone rating reflects three additional factors. Capital base was stronger after AYCAL completed a recent capital restructuring. The company also has a rigorous risk management system. Lastly, AYCAL has a high level of financial flexibility because it can receive an ample amount of funding from its parent bank, Bank of Ayudhya PLC (BAY).

AYCAL's ratings are enhanced from its stand-alone rating as AYCAL is a strategically important subsidiary of BAY, rated "AAA" with a "stable" outlook by TRIS Rating. AYCAL is a motorcycle hire purchase lender and provides collection services for BAY's entire automobile loan portfolio. With AYCAL performing these two roles, BAY's competitive edge in the vehicle financing industry is enhanced.

AYCAL became BAY's wholly-owned subsidiary in February 2008. AYCAL's loans and receivables, as of December 2016, accounted for 5% of BAY's consolidated loans. AYCAL's net income for all of 2016 comprised 20% of BAY's consolidated net income for the same period. AYCAL receives a significant amount of business support and financial support from BAY. The support it receives bolsters AYCAL's leading market position in its core businesses and enhances its financial flexibility.

Before 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 also offered secured personal loans to consumers through auto sale and lease-back agreements. However, since the beginning of 2014, AYCAL has adopted a new business model. All new auto loans, including auto hire purchase financing and secured personal loans, have been booked at BAY. AYCAL now offers motorcycle financing services, inventory financing services, insurance brokerage services, and continues to manage its portfolio of auto loans. This move has been part of BAY's strategy, and the move is expected to increase BAY's competitive advantage in the auto financing segment and deliver long-term sustainable growth. AYCAL also renders collection services for BAY's entire portfolio of auto loans.

In terms of outstanding loans, AYCAL is the largest of 10 large motorcycle hire purchase lenders in TRIS Rating's database. Outstanding loans reached Bt10,735 million at the end of 2014, Bt13,418 million at the end of 2015, and Bt17,521 million at the end of 2016. The motorcycle loan portfolio of AYCAL grew to Bt19,619 million as of June 2017 (unaudited).

With 20 years of experience in the vehicle financing industry, AYCAL has developed a proficient management team and a strong business platform. These two factors give it a competitive advantage and help it maintain its market-leading position. AYCAL follows BAY's risk management model. BAY inherited the model from its previous strategic shareholder, GE Capital International Holding Corporation (GECIH), and its current strategic shareholder, the Bank of Tokyo Mitsubishi UFJ Co., Ltd. (BTMU). In addition, both AYCAL and BAY are regulated under the same criteria set by the Bank of Thailand (BOT). Due to its prudent credit

risk management system and an efficient collection system, AYCAL's asset quality has been better than peers. However, the non-performing loan (NPL) ratio, defined as loans more than three months past due divided by total loans, has increased steadily. The ratio rose to 1.54% at the end of 2013, 2.11% at the end of 2014, and 2.44% at the end of 2015, from 1.11% at the end of 2012. Asset quality has deteriorated during the ongoing economic slowdown in Thailand. The NPL ratio remained unchanged at 2.42% at the end of 2016 and dropped slightly to 2.39% (unaudited) at the end of June 2017.

AYCAL's profitability slightly declined in 2013 and 2014. The prices of used automobiles and motorcycles dropped sharply as a consequence of the tax rebate scheme for first-time buyers of new cars. AYCAL suffered significant losses on the sales of repossessed vehicles, as did many of its peers. AYCAL's net income decreased from Bt4,750 million in 2012 to Bt3,443 million in 2013 and Bt3,123 million in 2014. The return on average assets (ROAA) and the return on average equity (ROAE) also dropped in these two years. ROAA fell to 1.6% in 2013 and 2014, compared with 2.68% in 2012. ROAE slipped to 15.94% in 2013 and 11.7% in 2014, from 27.14% in 2012. However, in 2015, AYCAL's financial performance improved markedly, due to lower borrowing expenses, lower operating expenses, and lower provision expenses from the change in business model. Net income was Bt3,589 million, up by 14.92% from 2014. ROAA and ROAE rose to 2.59% and 12.04%, respectively. In 2016, net income rose to Bt4,285 million mainly because of lower provision expenses and higher non-interest income. ROAA and ROAE increased to 4.45% and 14.6%, respectively.

AYCAL's high level of financial flexibility stems from its status as one of BAY's solo consolidated subsidiaries. As a solo consolidated subsidiary, AYCAL must comply with the consolidated supervisory standards set by the BOT. In return, BAY, the parent bank, can provide an ample amount of funding to its subsidiary.

AYCAL strengthened its capital base through a recent capital restructuring. After BAY, the parent bank, became a foreign-majority owned commercial bank, AYCAL's status changed to a foreign company. 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. In June 2014, AYCAL increased paid-up capital by allocating Bt20,900 million of retained earnings as a stock dividend to the existing shareholders. At the end of June 2014, paid-up capital increased to Bt25,545 million, up from Bt1,045 million, and shareholders' equity rose to Bt28,367 million, up from Bt24,092 million. The ratio of total shareholders' equity to total assets rose from 11.38% as of March 2014 to 14.53% as of June 2014. The trend has continued and the ratio rose to 18.3% at the end of 2014, 26.1% at the end of 2015, and 36.68% at the end of 2016. At the same time, the ratio of debt to equity improved significantly, sliding to 5.88 times in June 2014, from 7.78 times as of March 2014. The ratio has continued to improve, dropping to 4.46 times at the end of 2014, 2.83 times at the end of 2015, and 1.73 times at the end of 2016.

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.

The ratings and/or outlook could be revised upward if the company's market position and financial profile improve significantly. In contrast, any deterioration in competitive position or asset quality would negatively affect the ratings and/or outlook. In addition, 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.

Ayudhya Capital Auto Lease PLC (AYCAL)

Company Rating:	AA
Issue Ratings:	
AYCAL17DA: Bt4,500 million senior unsecured debentures due 2017	AA
AYCAL187A: Bt1,500 million senior unsecured debentures due 2018	AA
AYCAL187B: Bt800 million senior unsecured debentures due 2018	AA
AYCAL188A: Bt600 million senior unsecured debentures due 2018	AA
AYCAL191A: Bt1,000 million senior unsecured debentures due 2019	AA
AYCAL197A: Bt1,700 million senior unsecured debentures due 2019	AA
Rating Outlook:	Stable

Financial Statistics

Unit: Bt million

	Year Ended 31 December				
	2016	2015	2014	2013	2012
Total assets	79,454	113,302	164,142	226,627	202,848
Loans and receivables	78,214	112,363	162,764	224,398	199,284
Allowance for doubtful accounts	3,765	4,798	5,682	6,252	4,869
Short-term borrowings	23,188	36,495	65,117	96,936	88,892
Long-term borrowings	24,269	43,848	64,625	101,199	88,139
Shareholders' equity	29,145	29,568	30,046	23,323	19,881
Net interest and dividend income	6,945	7,586	9,132	9,838	8,830
Bad debts and doubtful accounts	69	922	1,480	2,460	453
Non-interest income	1,431	800	(32)	983	2,068
Operating expenses	2,946	2,949	3,706	4,068	4,312
Net income	4,285	3,589	3,123	3,443	4,750

Key Financial Ratios

Unit: %

	Year Ended 31 December				
	2016	2015	2014	2013	2012
Profitability					
Net interest income/average assets	7.21	5.47	4.67	4.58	4.99
Net-interest income/total income	64.05	60.88	59.05	54.18	52.73
Operating expenses/total income	27.17	23.66	23.96	22.40	25.75
Operating profit/average assets	5.56	3.25	2.00	1.99	3.47
Return on average assets	4.45	2.59	1.60	1.60	2.68
Return on average equity	14.60	12.04	11.70	15.94	27.14
Asset Quality					
Non-performing loans*/total loans	2.42	2.44	2.11	1.54	1.11
Bad debts and doubtful accounts/average loans	0.07	0.67	0.76	1.16	0.26
Allowance for doubtful accounts/total loans	4.81	4.27	3.49	2.79	2.44
Capitalization					
Shareholders' equity/total assets	36.68	26.10	18.30	10.29	9.80
Shareholders' equity/total loans	37.26	26.31	18.46	10.39	9.98
Liquidity					
Total loans/total assets	98.44	99.17	99.16	99.02	98.24
Liquid assets**/total assets	46.17	42.51	36.08	29.98	30.13

* Delinquent loans with more than three months overdue

** Cash and account receivables due within one year

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