

# AYUDHYA CAPITAL AUTO LEASE PLC

No. 217/2023  
31 October 2023

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	AA+
<b>Issue Ratings:</b>	
Senior unsecured	AA+
<b>Outlook:</b>	Stable

**Last Review Date:** 18/11/22

### Company Rating History:

Date	Rating	Outlook/Alert
25/10/19	AA+	Stable
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 AYCAL’s outstanding senior unsecured debentures at “AA+” with a “stable” rating outlook.

The ratings reflect AYCAL’s status as a highly strategic subsidiary of Bank of Ayudhya PLC (BAY), rated “AAA” with a “stable” outlook. The ratings factor in the business support and financial support AYCAL receives from BAY. According to TRIS Rating’s “Group Rating Methodology”, the company rating on AYCAL is one notch below the company rating on BAY.

## KEY RATING CONSIDERATIONS

### Highly strategic subsidiary of BAY

TRIS Rating views AYCAL as a highly strategic subsidiary of BAY. The company is a wholly owned subsidiary of BAY under the solo consolidated supervision of the Bank of Thailand (BOT). The company remains one of BAY’s core subsidiaries that helps support the bank’s current midterm plan to maintain a leading position in the consumer and auto finance segments.

Linkages between the management teams and board members of AYCAL and BAY are very strong. Its business direction and financial targets are influenced by BAY through the board of directors. AYCAL’s brand reputation and recognition are closely associated with BAY as illustrated by the shared brand name and services.

### Financial support expect to continue

We expect AYCAL to receive on-going financial support from the BAY Group, if required. As of June 2023, AYCAL received financial support in the form of a THB25.5 billion capital injection and credit facilities of THB12 billion from BAY. This has helped strengthen AYCAL’s funding and liquidity profile and supported its long-term business growth.

### Strategic and operational integration with BAY supports growth

AYCAL is an important part of BAY’s business strategy. AYCAL’s and BAY’s auto lending businesses collectively represent “Krungsri Auto”, which together with the “Krungsri Consumer” business, form part of BAY’s “One Krungsri” strategic integration.

AYCAL provides motorcycle hire-purchase (HP), inventory finance solutions to auto dealers, and insurance brokerage services to the BAY group’s auto insurance customers. As for inventory financing, the business complements auto lending at BAY as the company receives business referrals from the BAY Group which helps support its motor insurance brokerage business. Moreover, AYCAL also serves a key business function by providing loan collection services for Krungsri Auto.

The company also utilizes the branch network of the BAY Group and benefits from Mitsubishi UFJ Financial Group’s (MUFG) connection with multinational companies particularly Japanese automakers that help strengthen its dealership network.

Also, the relationship with BAY and its diversified product offerings have positioned the company favorably, especially when providing services to large corporate clients. An example is AYCAL’s substantial growth in inventory

finance provided to electric vehicle (EV) manufacturers. This development has significantly contributed to the expansion of EV auto lending at BAY.

### **Leading market position in motorcycle financing**

In our view, AYCAL will likely maintain its strong market position among the motorcycle HP operators by assets and loans. Its satisfactory business and geographic diversification will also likely stay intact, thanks to the business and financial support the company continuously receives from BAY. The company ranked top in the motorcycle HP industry with outstanding motorcycle loans of THB35.1 billion at the end of June 2023.

### **Strong capital base**

TRIS Rating continues to assess AYCAL's capital position as 'very strong'. In our view, BAY's capital allocation to AYCAL indicates AYCAL's importance to BAY. The company's equity base remains one of the strongest among our rated non-bank lenders. The company's risk adjusted capital (RAC) ratio was 40.1% at the end of 2022. We expect AYCAL to maintain an RAC ratio above 35% over the next three years with a 100% dividend payout assumption. The company's high level of capital should sustain the company's growth plan and absorb the potential increase in credit losses from rising non-performing loans (NPLs).

### **Declining operating performance**

We believe that in the longer term AYCAL's financial performance should remain resilient despite the temporary setback in 2023. AYCAL's strengths are in strong risk management and lower-than-peers funding costs, which should help its performance recover faster than peers.

We expect the company's net income in 2023 to drop substantially. This will be driven by pressure on loan yield due to the 23% interest rate cap on motorcycle HP loans, rising credit cost resulting from deterioration of asset quality, and rising funding cost. That said, we expect the impact of the yield cap on AYCAL will be less than peers because half of the loan portfolio is already charged below 23%, particularly for the high-engine capacity motorcycle (big bike) segment. Credit costs, however, could pose downside risks as we foresee a substantial increase in write-off accounts in 2023 due to overall weak credit environment.

### **Ample funding and liquidity**

In addition to capital allocation, credit facilities from BAY remain unchanged at THB12 billion as of June 2023, of which THB10.6 billion remained unused. Also, AYCAL held around THB3 billion in cash at the end of June 2023. This is more than sufficient to refinance the outstanding debentures of THB8.3 billion under a stress scenario. Furthermore, the company projects expected cash inflows from customer loan repayments for the next 12 months (August 2023 to Jul 2024) to be around THB22-23 billion. This is well above the expected cash outflows for payments of debt obligations totaling around THB4.5 billion. The company plans to repay the THB1.3 billion debenture expiring in December 2023 by using the company's cash on hand and BAY's credit facilities.

### **Regulatory oversight reshaping motorcycle HP industry**

The introduction of interest rate ceilings at 23% for motorcycle HP in January 2023 has resulted in an acceleration of lending activities ahead of the enforcement for some of the lenders. As a result, motorcycle sales grew by 12% in 2022 and 8% in the first eight months of 2023. The outstanding motorcycle loans of the four listed operators in TRIS Rating's database increased by 59% year-on-year (y-o-y) in 2022 and 29% yield-to date (y-t-d) in the first half of 2023 (1H23).

With the aggressive lending practices together with intense competition, the asset quality of motorcycle HP lenders has deteriorated notably and become a key rating constraint for most rated companies. We expect that in 2H23 and 2024, operators will likely slow down new lending to prioritize asset quality control and profitability.

Apart from the interest rate ceiling, the forthcoming regulatory oversight by the BOT, which is expected to address market conduct and potentially introduce loan-to-value (LTV) guidelines for motorcycle lending, may dampen the growth of motorcycle financing for at least the next one to two years. We view that the BOT's setting of new standards and rules should be positive for auto manufacturers, lenders, and consumers in the long run. However, striking a balance to ensure fair share of benefits for all stakeholders could be challenging.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that AYCAL's business direction will remain closely aligned with BAY's strategy. The outlook also assumes that AYCAL's status as a highly strategic subsidiary of BAY will be maintained and that it will continue to receive strong support from its parent bank.

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## RATING SENSITIVITIES

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The ratings and/or outlook could be upgraded if AYCAL's status to the group is elevated to a higher level, although this is unlikely in the foreseeable future in our view. In contrast, the ratings/outlook could be revised downward should BAY's ratings/outlook be downgraded, or TRIS Rating takes the view that AYCAL's status to the BAY Group has weakened materially.

## COMPANY OVERVIEW

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AYCAL was incorporated in 1992 by 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 Inc. (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 and used car hire purchase lending into two market segments which promised higher returns 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 Holdings Corporation (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 THB7 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 built its success upon good brand recognition.

In November 2008, BAY reorganized its auto loan businesses one more time. As part of the reorganization, AYHP and AYCL ceased operations 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 provides secured personal loans services through auto sale and leaseback agreements, under the brand "Krungsri Car4Cash".

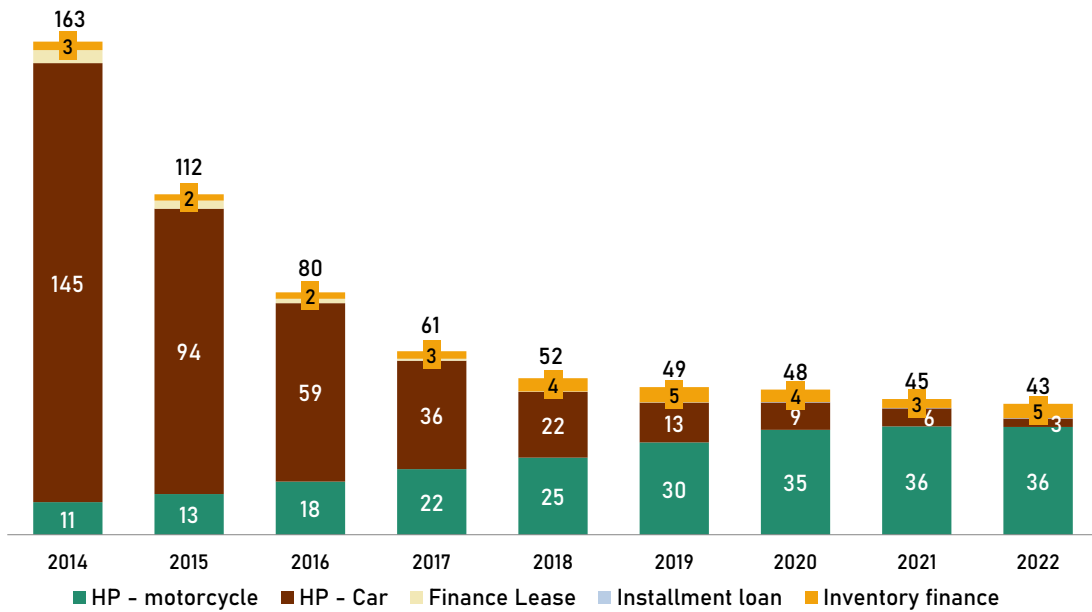
The "OneKrungsri" strategy took effect in 2010. AYCAL has more closely aligned its business with BAY and launched several new and innovative products and services under the name "Krungsri Auto". AYCAL's brand name has been enhanced significantly.

Until 2014, AYCAL was the only subsidiary of BAY to offer 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, at the beginning of 2014, more major changes were made to the company's business model after Mitsubishi UFJ Financial Group (MUFG) became the major shareholder of BAY, instead of GECIH. Under the 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 which include new, used, and Car4Cash motorcycles, inventory financing services, insurance brokerage services, and continues to manage its existing portfolio of auto loans. AYCAL also provides collection services for BAY's auto loans.

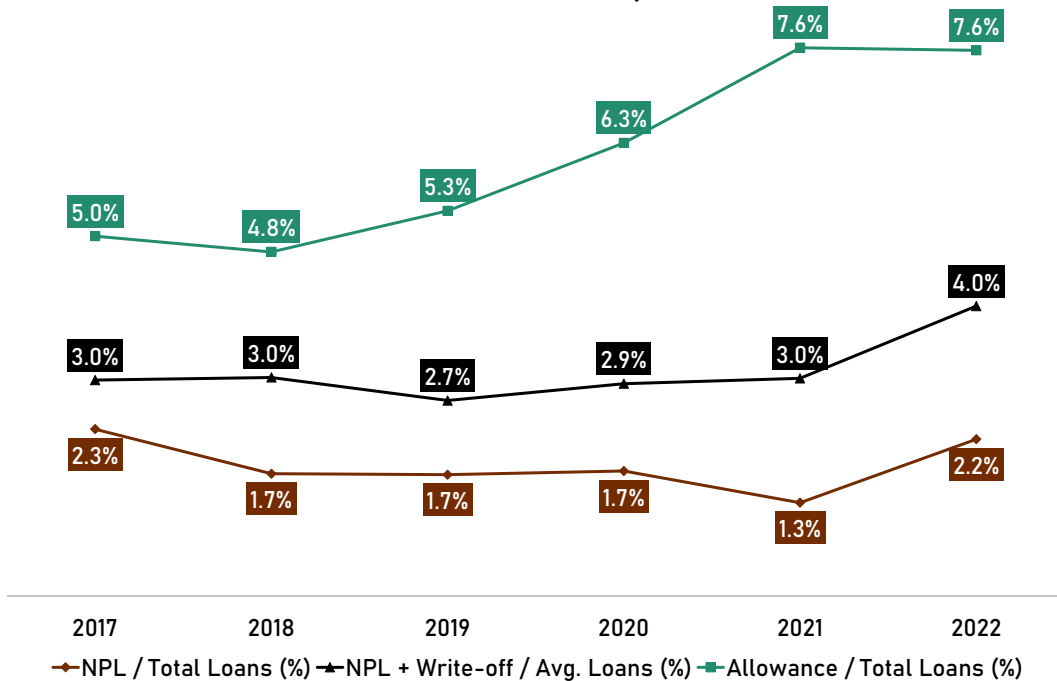
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: AYCAL

Chart 2: Asset Quality



Source: AYCAL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	45,905	48,575	50,111	52,794	54,863
Total loans	43,309	44,846	47,883	48,728	51,667
Allowance for expected credit loss	3,272	3,404	3,003	2,598	2,461
Short-term debts	5,701	4,337	2,242	9,448	10,516
Long-term debts	5,984	9,890	11,872	9,888	12,115
Shareholders' equity	31,826	31,826	33,233	30,617	29,828
Net interest income	5,502	5,846	6,326	6,247	6,595
Expected credit loss	1,100	1,237	982	682	273
Non-interest income	2,497	2,243	2,208	2,681	2,301
Operating expenses	3,362	3,495	3,430	3,161	2,922
Earnings before taxes	3,048	2,809	3,363	4,311	4,936
Net income	2,433	2,236	2,627	3,434	3,935

\* Consolidated financial statements

*Unit: %*

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
<b>Profitability</b>					
Net interest income/average assets	11.65	11.85	12.29	11.61	11.22
Non-interest income/average assets	5.29	4.55	4.29	4.98	3.92
Operating expenses/total income	40.31	40.97	37.46	32.64	29.55
Operating profit/average assets	6.43	5.83	6.92	8.06	8.40
Earnings before taxes/average risk-weighted assets	3.84	3.46	4.11	5.36	6.04
Return on average assets	5.15	4.53	5.11	6.38	6.70
Return on average equity	7.65	6.87	8.23	11.36	12.97
<b>Asset Quality</b>					
Non-performing loans/total loans	2.17	1.29	1.73	1.68	1.69
Expected credit loss/average loans	2.50	2.67	2.03	1.36	0.49
Allowance for expected credit loss/non-performing loans	348.09	587.91	362.68	317.60	281.58
<b>Capitalization</b>					
Risk-adjusted capital ratio	40.14	40.08	40.00	37.98	37.17
Debt/equity (times)	0.44	0.53	0.51	0.72	0.84
<b>Liquidity</b>					
Stable funding ratio	187.16	192.46	195.09	169.23	167.01
Liquidity coverage measure (times)	0.40	0.87	0.72	0.26	0.15
Short-term debts/total liabilities	40.49	25.89	13.28	42.60	42.01

\* Consolidated financial statements

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

**Ayudhya Capital Auto Lease PLC (AYCAL)**

<b>Company Rating:</b>	AA+
<b>Issue Ratings:</b>	
AYCAL23DA: THB1,300 million senior unsecured debentures due 2023	AA+
AYCAL245A: THB3,000 million senior unsecured debentures due 2024	AA+
AYCAL251A: THB2,000 million senior unsecured debentures due 2025	AA+
AYCAL265A: THB1,000 million senior unsecured debentures due 2026	AA+
AYCAL271A: THB1,000 million senior unsecured debentures due 2027	AA+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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