

# AYUDHYA CAPITAL AUTO LEASE PLC

No. 197/2024  
31 October 2024

## FINANCIAL INSTITUTIONS

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

Last Review Date: 02/04/24

### 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" outlook.

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

## KEY RATING CONSIDERATIONS

### Very strong linkage with BAY

AYCAL, in our view, is likely to remain a highly strategic subsidiary of BAY. The company is wholly owned by BAY and forms part of the group's solo consolidated entities managed pursuant to the Bank of Thailand's consolidated supervision guidelines.

AYCAL's board of directors comprise four representatives from BAY and one from Mitsubishi UFJ Financial Group (MUFG). BAY exercises the strategic oversight of AYCAL through its board of directors, directly shaping both business direction and financial objectives.

As a core subsidiary, AYCAL plays a vital role in advancing BAY's midterm plan of maintaining market leadership in consumer and automotive financing. The close relationship between the two entities is further evidenced by their shared branding and service offerings. This has led to the deep integration of AYCAL's brand reputation and market recognition with those of the bank.

### Strategic and operational integration with BAY supports growth

As BAY's primary motorcycle financing arm, AYCAL specializes in hire-purchase lending while diversifying its services through automotive dealer inventory financing and insurance brokerage services for BAY's auto insurance customers. Operating under the "Krungsri Auto" umbrella, the company's operations are strategically aligned with and integral to the bank's comprehensive automotive lending portfolio. Furthermore, the company's presence in Laos fulfills BAY's regional expansion objectives.

The operational relationship between BAY and AYCAL is seen in functional integration and resource sharing. AYCAL manages loan collections for the entire Krungsri Auto group, while leveraging the bank's established infrastructure for human resources management and information technology services.

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

AYCAL also receives financial backing from the BAY Group in the form of capital allocation and credit facilities. We believe this financial support will continue in the longer term.

### Ample funding and liquidity

In addition to the THB25.5 billion capital allocation, the company received credit facilities from BAY totaling THB12 billion as of June 2024, with THB10.6

billion remaining undrawn. In terms of liquidity, we believe AYCAL has ample liquidity to meet its debt obligation of THB2 billion in debentures, due in January 2025. As of the end of June 2024, AYCAL held THB1.9 billion cash. Also, the company expects cash inflows from customer loan repayments over the next 12 months (August 2024 to July 2025) to reach around THB20-THB22 billion. This is significantly higher than the projected cash outflows for debt obligations, which amount to THB2.5 billion over the same period.

### **Largest motorcycle financing in Thailand**

We expect AYCAL to maintain its strong market position in motorcycle financing over the next few years, supported by the business and financial support from BAY. This strong position is evidenced by its status as the largest motorcycle financing operator in Thailand. As of June 2024, the company's outstanding motorcycle loans amounted to THB35.2 billion, ranking first among motorcycle lenders within TRIS Rating's database. In 2024, AYCAL demonstrated resilience by continuing to expand its motorcycle loan portfolio, while other operators reduced their loan books to focus on optimizing asset quality in response to the weakening of credit quality of borrowers.

### **Strong capital base**

TRIS Rating assesses 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 peers. The company's risk-adjusted capital (RAC) ratio was 40.9% at the end of 2023, up from 40.2% at the end of 2022. We expect AYCAL to maintain a RAC ratio above 35% over the next three years even with dividend payout assumption close to 100%. The company's high level of capital should sustain the company's growth plan and provide buffer in case of the potential increase in credit losses.

### **Robust operating performance**

AYCAL's operating performance remained resilient despite the profitability rebased in 2023 due to the 23% interest rate cap. The company's positive performance relative to peers stems from effective risk management, sound asset quality, lower funding costs, and a higher proportion of fee income from its insurance brokerage business. These factors collectively contributed to AYCAL's resilient performance in challenging market conditions.

The company's net income declined to THB1.8 billion in 2023 from THB2.4 billion in 2022, but this still exceeds our expectation. The lower profit was primarily due to the impact of the interest rate cap, increased credit cost, and increased funding costs. The total loan yield dropped to 11.95% in 2023 from 13.26% in 2022, and we anticipate a further decline in yield in 2024. Earnings capacity, as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), fell to 2.9% in 2023 from 3.9% in 2022. We expect EBT/ARWA to stabilize around 3% over the next three years, supported by controlled credit costs and expanding fee income.

### **Expect gradual improvement in asset quality**

Despite moderate deterioration in asset quality in 2023 amid challenging credit and economic conditions, AYCAL performed better than industry peers. At the end of 2023, non-performing loan (NPL) ratio rose to 2.7% from 2.2% year-on-year, while credit costs increased modestly to 2.8% from 2.5%, partially buffered by management overlay provisions. Although the NPL coverage ratio decreased to 248% from 348%, it remains above peer averages.

In the next two years, we expect AYCAL's asset quality to strengthen following the tightening of underwriting policies in 2023. Early indicators from new bookings in 2024 show marked improvement in credit quality. We anticipate this will drive gradual enhancement in both overall asset quality and profitability over the next two years.

### **Motorcycle Hired purchase industry faces reduced profitability and increased risk**

The motorcycle loan industry is facing significant challenges due to interest rate caps introduced in early 2023. Motorcycle sales declined by 3.6% in 2023 and a further 9.8% in the first seven months of 2024. Despite this, outstanding loans from five operators in TRIS Rating's database grew strongly in 2023, driven by high loan-to-value ratios and reduced lending by major operators. In 2024, loan growth slowed as lenders tightened the approval processes due to lower yields and concerns over borrower repayment abilities. The industry's profitability has also sharply decreased, with the average return on asset ratio falling to below 2%, from 5%-6% previously. Moving forward, we expect continued tightening of underwriting criteria, which is likely to further slowdown sales and lending.

### **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. Conversely, 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.

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

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	45,575	45,905	48,575	50,111	52,794
Total loans	42,394	43,309	44,846	47,883	48,728
Allowance for expected credit loss	2,793	3,272	3,404	3,003	2,598
Short-term debts	5,435	5,776	4,416	2,284	9,480
Long-term debts	6,198	6,308	10,291	12,292	10,225
Shareholders' equity	31,993	31,826	31,826	33,233	30,617
Net interest income	4,797	5,502	5,846	6,326	6,247
Expected credit loss	1,202	1,100	1,237	982	682
Non-interest income	2,824	2,497	2,243	2,208	2,681
Operating expenses**	4,114	3,851	4,110	4,384	3,963
Earnings before taxes	2,305	3,048	2,809	3,363	4,311
Net income	1,837	2,433	2,236	2,627	3,434

\* Consolidated financial statements

\*\* Include loss on repossession

Unit: %

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
<b>Profitability</b>					
Net interest income/average assets	10.49	11.65	11.85	12.29	11.61
Non-interest income/average assets	6.17	5.29	4.68	4.67	5.03
Operating expenses**/total income	51.79	46.17	47.80	46.88	40.79
Operating profit/average assets	5.04	6.45	5.69	6.54	8.01
Earnings before taxes/average risk-weighted assets	2.93	3.85	3.47	4.12	5.41
Return on average assets	4.02	5.15	4.53	5.11	6.38
Return on average equity	5.76	7.65	6.87	8.23	11.36
<b>Asset Quality</b>					
Non-performing loans/total loans	2.66	2.17	1.29	1.73	1.68
Expected credit loss/average loans	2.81	2.50	2.67	2.03	1.36
Allowance for expected credit loss/non-performing loans	248.05	348.09	587.91	362.68	317.60
<b>Capitalization</b>					
Risk-adjusted capital ratio	40.86	40.17	39.97	39.72	37.13
Debt/equity (times)	0.42	0.44	0.53	0.51	0.72
<b>Liquidity</b>					
Stable funding ratio	174.08	171.39	179.72	182.83	156.95
Liquidity coverage measure (times)	0.43	0.40	0.87	0.72	0.26
Short-term debts/total liabilities	40.01	41.02	26.37	13.53	42.75

\* Consolidated financial statements

\*\* Include loss on repossession

## RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022

## Ayudhya Capital Auto Lease PLC (AYCAL)

<b>Company Rating:</b>	AA+
<b>Issue Ratings:</b>	
AYCAL251A: THB2,000 million senior unsecured debentures due 2025	AA+
AYCAL265A: THB1,000 million senior unsecured debentures due 2026	AA+
AYCAL265B: THB3,000 million senior unsecured debentures due 2026	AA+
AYCAL271A: THB1,000 million senior unsecured debentures due 2027	AA+
<b>Rating Outlook:</b>	Stable

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