

# MUANGTHAI CAPITAL PLC

No. 97/2024  
10 June 2024

## FINANCIAL INSTITUTIONS

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

Last Review Date: 17/04/24

### Company Rating History:

Date	Rating	Outlook/Alert
30/04/19	BBB+	Stable
19/08/15	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Muangthai Capital PLC (MTC) and the ratings on MTC's outstanding senior unsecured debentures at "BBB+" with a "stable" outlook.

The ratings factor in MTC's superior market position in the title loan business and strong capital base. The ratings also reflect its well diversified and adequate funding sources, as well as sufficient liquidity.

However, the ratings are constrained by asset quality deterioration that caused credit costs to increase and the steady decline in earnings capacity due to higher credit costs and narrower interest spread.

Despite signs of asset quality and earnings are improving, sustained positive development for an extended period would be required for the ratings to be upgraded.

## KEY RATING CONSIDERATIONS

### Leading position in title loans support ratings

MTC has maintained a strong position in its primary business, the title loan sector, boasting the largest market share by asset size and number of branches. At the end of the first quarter of 2024 (1Q24), the company's outstanding loans reached THB147.6 billion, marking a 17% year-on-year (y-o-y) increase and a 3% rise year-to-date (YTD).

The solid market position is backed by MTC's extensive expertise in title loans and a consistently expanding branch network, which has reinforced its market leadership. At the end of 1Q24, MTC operated 7,788 branches, the highest number among title loan providers. The company plans to expand to around 8,200 branches by the end of 2024.

We anticipate MTC's loan portfolio to continue growing, projecting an annual increase of 5%-15% in 2024-2026, driven by branch expansion and improving efficiency. During this period, we assume an additional 200-600 new branches each year and new loans per branch of over THB30 million.

In the long term, loan growth will continue to be propelled by the core title loan business as MTC's management intends to focus on asset quality and hence adopt a conservative growth approach for other products.

At the end of 1Q24, the loan portfolio comprised 82% title loans, 13% unsecured loans (including unsecured personal loans and nano finance), and 5% new motorcycle hire purchase (HP) and "Buy Now Pay Later" (BNPL) products.

### Capital position remains strong

We continue to assess MTC's capital as "strong", with a risk-adjusted capital (RAC) ratio of 19.4% at the end of 1Q24. The company has maintained a strong equity base due to its relatively conservative dividend payout policy (except for 2023 when it paid extra dividend), despite considerable credit growth.

Over the medium term, assuming a 5%-15% growth per annum in outstanding loans and a 15% cash dividend payout, we anticipate the company to maintain its RAC ratio at 21%-22% in the next three years. At the end of 1Q24, its debt to equity (D/E) ratio was 3.6 times, compared to the D/E covenant on its debt obligations of 4 times.

### **Deteriorated asset quality showing improvement**

MTC's asset quality has weakened significantly since 2022. Non-performing loan (NPL) formation ratio has risen to about 3% in 2022 from less than 1% in the past. The NPL ratio also increased to 3.1% at the end of 2022 and 2023 from about 1% in the past. This mainly resulted from the spike in the NPL ratio of motorcycle HP, nano finance, and unsecured personal loans. The asset quality of title loans has also weakened to some extent, in line with industry trends.

Nevertheless, asset quality has shown signs of improvement since 3Q23-1Q24: NPL formation peaked at 3.4% at the end of 2Q23 and gradually declined to 2.5% at the end of 1Q24. The NPL ratio also steadily decreased to 3.0% at the end of 1Q24 from 3.6% at the end of 2Q23, aligning with the company's targets. As a result, credit cost fell to 2.5% (annualized) in 1Q24 from 3.3% in 2023. All these developments were attributed to the company's improved loan collections.

We expect its asset quality metrics to stabilize in 2024-2026. NPL formation will likely be contained as the company aims to emphasize title lending, which has better asset quality than other products. Meanwhile, NPL coverage ratio is likely to stay at a healthy level of over 100%. As of March 2024, NPL coverage ratio stood at 121%. Sustained asset quality improvement would be positive for its ratings.

### **Earnings capability likely to recover**

We still assess MTC's earnings capability as "moderate", despite profit erosion over the past few years. The company has been adversely impacted by higher credit costs and rising funding costs, comparable to other title loan operators. In the longer term, we expect the company's earnings capability to recover gradually and remain within the "moderate" range.

We forecast MTC's earnings before taxes to average risk-weighted assets (EBT/ARWA) to recover to around 4.0%-4.6% in 2024-2026 from the low of 3.9% in 2023. This is based on lower expenses for credit costs, maintenance of interest spread, and operating expenses. We expect credit costs to range between 2.8%-3.2% in 2024-2026. The interest spread is likely to stay around 13%, remaining flat due to intense competition. Operating expenses are also expected to stay under control, at below 40% of total income as future branch openings will focus on small-size shops.

### **More diversified funding**

We continue to assess MTC's funding as "adequate". The company benefits from access to both debt and equity capital markets, as well as credit facilities from financial institutions, providing ample and diversified funding sources to support its growth. At the end of 1Q24, the company's debt structure consisted of 45% short-term obligations, including the current portion of long-term debts, and 55% long-term obligations. As of May 2024, MTC had THB83 billion outstanding long-term debentures. Of this amount, THB14.4 billion will expire in 2024. The company has already had a refinancing plan in place.

In recent years, MTC has strengthened its relationships with various foreign financial institutions to tap foreign-currency funding, including foreign banks as well as multilateral institutions. We view this as a positive development. At the end of 1Q24, the company had available credit facilities totaling THB40 billion, of which 7% are readily available for drawdown.

### **Adequate liquidity**

We assess MTC's liquidity position as adequate. Based on MTC's forecast, monthly loan repayments from customers are estimated at around THB4-THB5 billion. Over the next 12 months, the company estimates expected cash inflow to total about THB60 billion and expected cash outflow of about THB55 billion. We view that the expected cash inflow combined with credit lines from financial institutions should be sufficient to meet the company's liquidity needs.

### **Challenges and risks remain for title loan operators**

In 2023, the aggregate outstanding loans of title loan operators under supervision of the Bank of Thailand (BOT) continued to grow strongly by 36% y-o-y. However, the growth rate has clearly slowed down since 2024. As of the end of 1Q24, aggregate loans of title loan operators reported by the BOT expanded by 6% YTD, resulting from the stricter underwriting of lenders.

With the uneven economic recovery, weakened debt serviceability of borrowers, and high interest rates likely to continue, we expect credit expansion in 2024 to decelerate from previous years. At the same time, financial performance of title loan operators has also been pressured by intense competition and weaker asset quality, resulting in higher credit costs and narrower interest spread. These negative factors will likely remain the major challenges for title loan operators in the medium term.

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## BASE-CASE ASSUMPTIONS

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TRIS Rating's base-case assumptions for MTC's operations in 2024-2026 are as follows:

- Outstanding loans to grow in the 5%-15% range.
- Interest spread to be around 13.5%.
- Credit cost to be in the 2.8%-3.2% range.

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## RATING OUTLOOK

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The "stable" outlook reflects our expectation that MTC should maintain its leading market position in the title loan segment while capital and earnings positions stay at strong levels and its asset quality remains under control.

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## RATING SENSITIVITIES

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A downward revision on the ratings and/or outlook could occur if the company's asset quality deteriorates and/or operating performance weakens materially with EBT/ARWA falling below 3.5%. An upgrade in ratings and/or outlook could be supported by material improvement in capital position, measured by an RAC ratio that rises well above 25%, while earnings capabilities and market position remain strong.

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## COMPANY OVERVIEW

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MTC was initially named D.S. Leasing Co., Ltd., and later Muangthai Leasing PLC. The company was founded by Mr. Chuchat Petaumpai and Mrs. Daonapa Petumpai on 22 May 1992 and registered on the Stock Exchange of Thailand (SET) in 2014. With initial registered capital of THB2 million, the company mainly offered HP loans for both new and used motorcycles through dealers in Phitsanulok and other provinces in the lower northern region, such as Sukhothai, Kamphaeng Phet, and Pichit. Target customers comprised people with regular incomes, farmers, and self-employed individuals. The company subsequently expanded its product line and started offering vehicle title loans, automobile title loans, and agricultural vehicle title loans to serve different customer groups.

In August 2001, the company was renamed Muangthai Leasing Co., Ltd. The company discontinued its HP business due to the intense market competition, as many motorcycle manufacturers and dealers began offering HP loans to their customers.

In 2006, the company submitted an application to launch a microfinance business under the supervision of the BOT. On 31 August 2006, the company received a license from the Ministry of Finance (MOF) and has since provided microfinance services through its own branches.

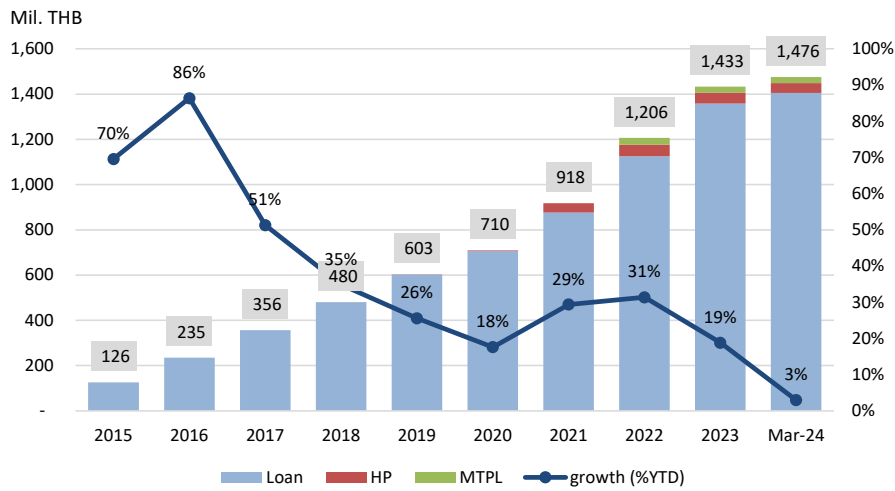
After receiving approval from the MOF on 26 May 2015, the company extended its product line once again to meet the differing needs of its customers for products such as nano-finance loans (retail loans for microenterprises under the BOT's supervision) and land title loans.

In 2016, the company began offering different loan payment channels via counter service or automatic payment machines as well as via Big C, Tesco Lotus, and AirPay in the following year. On 26 April 2018, the company changed its name from Muangthai Leasing PLC (MTLS, now its subsidiary) to Muangthai Capital PLC (MTC). The company also launched a mobile application, "Muangthai Capital 4.0" for the iOS and Android smartphone systems in 2018.

In 2019, MTC launched a new credit product called "new motorcycle hire purchase" via its subsidiary, MTLS. In late 2021, the company set up Muangthai Pay Later Co., Ltd. (MTPL) and started a new business, BNPL loans for electric appliances and agricultural machinery in early 2022. These two new businesses were established to expand and strengthen the company's customer base.

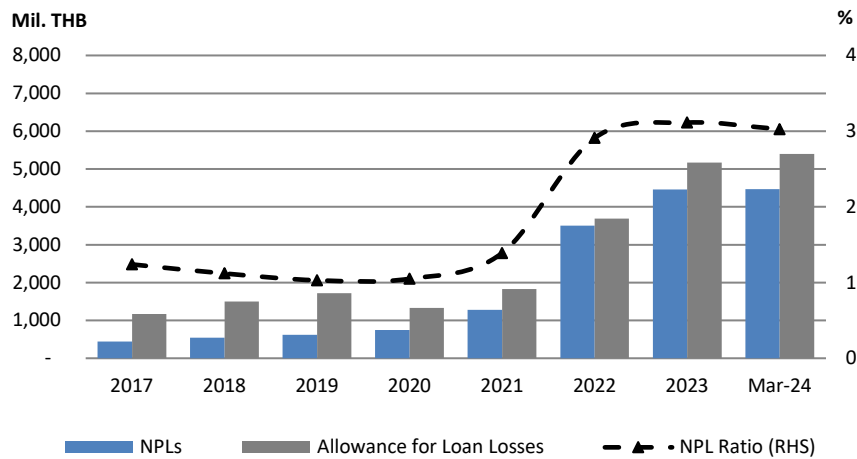
**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**



Source: MTC

**Chart 2: MTC's NPLs and NPL Ratio**



Sources: MTC's financial statements

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

	Jan-Mar 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	153,163	150,156	128,066	98,390	77,222
Total loans	147,587	143,318	120,613	91,812	70,968
Allowance for expected credit loss	5,399	5,169	3,686	1,832	1,328
Short-term debts	52,155	47,822	32,718	29,661	20,081
Long-term debts	64,884	67,158	63,586	41,820	34,590
Shareholders' equity	33,291	31,917	29,091	24,869	20,682
Net interest income	5,223	19,644	16,386	13,068	12,145
Expected credit loss	1,134	4,841	2,827	728	255
Non-interest income	278	1,026	869	824	771
Operating expenses	2,630	9,702	8,069	6,961	6,144
Earnings before taxes	1,736	6,126	6,360	6,201	6,516
Net income	1,389	4,906	5,093	4,945	5,214

*\* Consolidated financial statements*
*Unit: %*

	Jan-Mar 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
<b>Profitability</b>					
Net interest income/average assets	13.77 **	14.12	14.47	14.88	17.45
Non-interest income/average assets	0.73 **	0.74	0.77	0.94	1.11
Operating expenses/total income	39.67	39.56	40.21	43.46	41.70
Operating profit/average assets	4.58 **	4.40	5.62	7.06	9.36
Earnings before taxes/average risk-weighted assets	4.10 **	3.91	4.92	6.30	8.55
Return on average assets	3.66 **	3.53	4.50	5.63	7.49
Return on average equity	17.05 **	16.08	18.88	21.71	28.35
<b>Asset Quality</b>					
Receivable in stage 3/total loans	3.03	3.11	2.91	1.39	1.05
Expected credit loss/average loans	3.12 **	3.67	2.66	0.90	0.39
Allowance for expected credit loss/receivable in stage 3	120.86	115.86	105.11	143.57	177.74
<b>Capitalization</b>					
Risk-adjusted capital ratio	19.42	19.04	19.94	22.11	24.46
Debt/equity (times)	3.60	3.70	3.40	2.96	2.73
<b>Funding and Liquidity</b>					
Stable funding ratio	120.67	127.14	148.33	144.87	152.92
Liquidity coverage measure (times)	0.03	0.06	0.10	0.04	0.07
Short-term debts/total liabilities	43.51	40.44	33.06	40.34	35.52

*\* Consolidated financial statements*
*\*\* Annualized*
**RELATED CRITERIA**

- Financial Institution Rating Methodology, 24 November 2023
- Issue Rating Criteria, 15 June 2021

**Muangthai Capital PLC (MTC)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
MTC248A: THB1,641.80 million senior unsecured debentures due 2024	BBB+
MTC248C: THB2,728.20 million senior unsecured debentures due 2024	BBB+
MTC248D: THB1,328.40 million senior unsecured debentures due 2024	BBB+
MTC240A: THB2,367 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC24NB: THB1,147.40 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 million senior unsecured debentures due 2025	BBB+
MTC253A: THB1,969.50 million senior unsecured debentures due 2025	BBB+
MTC254A: THB3,630 million senior unsecured debentures due 2025	BBB+
MTC256A: THB2,200 million senior unsecured debentures due 2025	BBB+
MTC256B: THB1,443.20 million senior unsecured debentures due 2025	BBB+
MTC256C: THB1,235.10 million senior unsecured debentures due 2025	BBB+
MTC258A: THB1,361.80 million senior unsecured debentures due 2025	BBB+
MTC258B: THB2,124.50 million senior unsecured debentures due 2025	BBB+
MTC258C: THB1,767.90 million senior unsecured debentures due 2025	BBB+
MTC25NA: THB1,598 million senior unsecured debentures due 2025	BBB+
MTC25NB: THB1,158.3 million senior unsecured debentures due 2025	BBB+
MTC262A: THB1,391 million senior unsecured debentures due 2026	BBB+
MTC263A: THB1,995.20 million senior unsecured debentures due 2026	BBB+
MTC263B: THB1,042.30 million senior unsecured debentures due 2026	BBB+
MTC264A: THB1,634.60 million senior unsecured debentures due 2026	BBB+
MTC264B: THB2,620 million senior unsecured debentures due 2026	BBB+
MTC266A: THB1,831.1 million senior unsecured debentures due 2026	BBB+
MTC266B: THB1,980.20 million senior unsecured debentures due 2026	BBB+
MTC266C: THB592.2 million senior unsecured debentures due 2026	BBB+
MTC266D: THB2,107.70 million senior unsecured debentures due 2026	BBB+
MTC268A: THB996.40 million senior unsecured debentures due 2026	BBB+
MTC268B: THB1,399.70 million senior unsecured debentures due 2026	BBB+
MTC26NA: THB1,000 million senior unsecured debentures due 2026	BBB+
MTC26NB: THB1,064.4 million senior unsecured debentures due 2026	BBB+
MTC272A: THB1,000 million senior unsecured debentures due 2027	BBB+
MTC273A: THB927.70 million senior unsecured debentures due 2027	BBB+
MTC273B: THB1,999.70 million senior unsecured debentures due 2027	BBB+
MTC273C: THB250 million senior unsecured debentures due 2027	BBB+
MTC274A: THB250 million senior unsecured debentures due 2027	BBB+
MTC276A: THB933.20 million senior unsecured debentures due 2027	BBB+
MTC276B: THB1,519.20 million senior unsecured debentures due 2027	BBB+
MTC276C: THB2,842.80 million senior unsecured debentures due 2027	BBB+
MTC278A: THB1,332.40 million senior unsecured debentures due 2027	BBB+
MTC27NA: THB812.7 million senior unsecured debentures due 2027	BBB+
MTC283A: THB1,121.10 million senior unsecured debentures due 2028	BBB+
MTC283B: THB958 million senior unsecured debentures due 2028	BBB+
MTC283C: THB250 million senior unsecured debentures due 2028	BBB+
MTC286A: THB2,170.5 million senior unsecured debentures due 2028	BBB+
<b>Rating Outlook:</b>	Stable

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