

# RATCHTHANI LEASING PLC

No. 154/2018  
10 October 2018

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b> Senior unsecured	A-
<b>Outlook:</b>	Stable

### Company Rating History:

Date	Rating	Outlook/Alert
19/10/16	A-	Stable
25/01/12	BBB+	Stable

### Contacts:

Saowanit Woradit  
saowanit@trisrating.com

Siriwan Weeramethachai  
siriwan@trisrating.com

Taweechok Jiamsakunthum  
taweechok@trisrating.com

Raithiwa Naruemol  
raithiwa@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Ratchthani Leasing PLC (THANI) and the ratings on its senior unsecured debentures at “A-”, with a “stable” outlook. The ratings reflect sustained improvements in its market position and financial performance. The ratings also reflect the steady recovery in THANI’s asset quality as a result of continuous developments in operating processes and risk management systems.

The ratings take into consideration the business support and financial support THANI receives from its major shareholder, Thanachart Bank PLC (TBANK). The ratings of THANI are enhanced from its stand-alone rating because TRIS Rating holds the view that the company is a strategically important subsidiary of TBANK.

However, the strengths are weighted down by concerns over intense competition and a heavy reliance on commercial truck loans. These factors might constrain the company’s profitability.

## KEY RATING CONSIDERATIONS

### Parent company support is a key for growth sustainability

As a strategically important subsidiary of TBANK, TRIS Rating has less concern over the company’s liquidity and financial flexibility. The credit facility that TBANK is able to provide to THANI remains large enough to support THANI’s expansion efforts.

In terms of business support, TBANK has helped THANI develop its underwriting and collection processes to improve operational efficiency. THANI has implemented a number of risk management policies to comply with the standards required by TBANK. THANI has been closely supervised by its parent bank and is indirectly supervised by the Bank of Thailand (BOT) through the parent bank.

On the funding side, the ratio of shareholders’ equity to total assets is above 14%, and the debt to equity (D/E) ratio is below 6 times. Both values are adequate, given that the loan portfolio will grow by approximately 15% annually during the next three years. If growth exceeds the forecast, an increase in capital may be needed to shore up the capital base. TRIS Rating believes that TBANK will continue to support the company’s capital need.

### Continuous improvements in market position and financial performance

TRIS Rating projects THANI’s loan portfolio will grow by approximately 15% annually during the next three years. The company has been able to improve its market position continuously, as shown by the continued growth in the loan portfolio. In 2017, outstanding loans increased by 18.4% year-on-year to Bt40,441 million. At the end of June 2018, outstanding loans increased to Bt45,141 million, a 11.6% year-to-date rise.

We expect THANI would maintain its profitability with the return on average asset (ROAA) ratio in a range between 2.9%-3.0% over the next three year. The forecast is based on the assumptions that THANI’s credit cost will gradually decrease to 1.1%-1.2% and the interest rate spread will stay above 4.0% throughout 2020. In 2017, net profit was Bt1,126 million, up 27.8% from 2016. ROAAs improved to 3.1% in 2017 from 2.8% in 2016.

---

### Steady recovery in asset quality

The ratio of non-performing loans (NPLs) to total loans has decreased since 2015. The ratio dropped to 4.6% at the end of 2017 and 3.9% at the end of June 2018 due to loan write-offs, the sale of bad loans, the restructuring of some loans, and a more stringent collection process. We expect the NPL ratio to remain below 5% during 2018 and 2020.

The ratio of loan loss reserves to NPLs (NPL coverage) is comparable to peers. The coverage ratio was 114.1% at the end of June 2018. We expect the coverage ratio to remain at a similar level over the next few years, assuming credit cost holds at 1.1%-1.2% through 2020.

### Heavy reliance on commercial truck loans

THANI is a market leader in the truck financing segment. The company has been focusing its efforts on this segment since 2006. Loans for commercial trucks comprised nearly 70% of the entire hire-purchase loan portfolio at the end of June 2018.

Despite the good profits, the heavy emphasis on commercial truck loans increases business concentration risk. In addition, the commercial truck hire-purchase lending segment is quite sensitive to adverse changes in the economy. THANI compensates for the increased risk in this segment by charging higher interest rates, requiring high down payments, and calling for post-dated payment cheques. Intense competition could reduce the interest rates on truck loans, and might affect THANI's profitability.

---

### RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that THANI will expand the loan portfolio and maintain its market position in the target market segments. Loan quality is expected to be controlled and maintained at an acceptable level. In addition, profitability is expected to hold steady. The support THANI receives from its parent bank is expected to continue, especially the provision of credit facilities.

---

### RATING SENSITIVITIES

The possible credit upside case is contingent on significant improvements in THANI's business and financial profiles. In contrast, THANI's ratings or outlook could be revised downward if its business position weakens steadily or if asset quality or capitalization deteriorates substantially, affecting profitability. Any material change in the degree of strategic importance of THANI to TBANK, which would alter the support TBANK provides to THANI, would also affect the ratings and/or outlook.

---

### COMPANY OVERVIEW

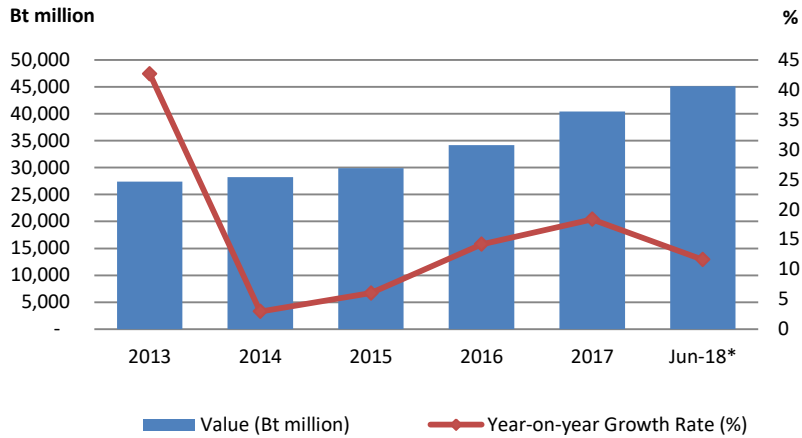
THANI was established in 1988 by two groups of co-founders, the Mitthaphap Songserm Kanlongthun Group and the Bua Luang Group, each holding a 50% stake. The Mitthaphap Songserm Kanlongthun Group represented a cooperative of Chinese businessmen in the Bang Kae district, while the Bua Luang Group was an experienced used car dealer. In late 2002, the company was listed on the Stock Exchange of Thailand (SET). In September 2006, THANI offered 265 million new common shares to Siam City Bank PLC (SCIB), making SCIB the largest shareholder with a 39.8% stake. SCIB's stake increased to 48.2% after it exercised some warrants in late 2009.

THANI's shareholding structure changed after the merger of SCIB and TBANK. THANI has been a subsidiary of TBANK since 2010, after SCIB and TBANK merged and undertook a recapitalization. TBANK now includes THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with the BOT's consolidated supervision regulations. Although THANI's main line of business overlaps with TBANK's auto loan business, the two companies offer different products and target different market segments. TBANK intends to have THANI focus on the market segments which the bank has not yet penetrated.

THANI provides hire-purchase loans for used vehicles, with an emphasis on major vehicle brands in order to mitigate the liquidation risk which comes from trying to sell repossessed vehicles. In 2005, THANI started providing hire-purchase loans for both new and used commercial trucks. THANI has been focusing its efforts on the commercial truck segment since 2006. Loans made to this segment constituted almost 70% of the company's total hire purchase loan portfolio at the end of June 2018.

**KEY OPERATING PERFORMANCE**

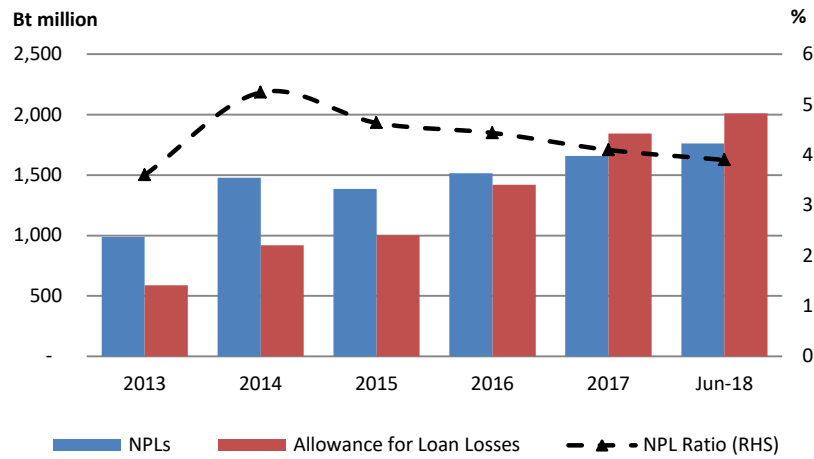
**Chart 1: Outstanding Loans**



Source: THANI

\* Year-to-date growth for Jun-18

**Chart 2: Asset Quality**



Source: THANI

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

Unit: Bt million

	Jan-Jun 2018	Year Ended 31 December			
		2017	2016	2015	2014
Total assets	44,034	39,492	33,365	29,505	27,864
Total loans	45,141	40,441	34,169	29,921	28,224
Allowance for doubtful accounts	2,010	1,843	1,421	1,000	920
Short-term borrowings	18,374	17,205	19,962	12,907	8,560
Long-term borrowings	18,097	15,896	7,722	11,393	14,814
Shareholders' equity	6,310	5,627	5,009	4,564	3,879
Net interest income	1,118	1,878	1,538	1,345	1,325
Bad debts and doubtful accounts	238	523	496	412	432
Non-interest income	311	547	501	420	357
Operating expenses	248	496	440	408	353
Net income	755	1,126	881	749	704

\* Consolidated financial statements

Unit: %

	Jan-Jun 2018	Year Ended 31 December			
		2017	2016	2015	2014
<b>Profitability</b>					
Net-interest income/average assets	5.35 **	5.16	4.89	4.69	4.81
Net-interest income/total income	60.28	56.79	51.50	48.35	48.13
Operating expenses/total income	13.40	14.99	14.73	14.67	12.80
Operating profit/average assets	4.52 **	3.86	3.51	3.30	3.25
Return on average assets	3.62 **	3.09	2.80	2.61	2.55
Return on average equity	25.31 **	21.17	18.41	17.73	19.83
<b>Asset Quality</b>					
Non-performing loans/total loans	3.90	4.10	4.44	4.64	5.24
Bad debts and doubtful accounts/average loans	1.11 **	1.40	1.55	1.42	1.55
Allowance for doubtful accounts/total loans	4.45	4.56	4.16	3.34	3.26
Allowance for doubtful accounts/non-performing loans	114.13	111.15	93.73	72.13	62.20
<b>Capitalization</b>					
Shareholders' equity/total assets	14.33	14.25	15.01	15.47	13.92
Shareholders' equity/total loans	13.98	13.91	14.66	15.25	13.74
Debt to equity (time)	5.98	6.02	5.66	5.46	6.18
<b>Liquidity</b>					
Short-term borrowings/total liabilities	48.71	50.81	70.40	51.75	35.69
Total loans/total assets	102.51	102.40	102.41	101.41	101.29

\* Consolidated financial statements

\*\* Annualized

**Ratchthani Leasing PLC (THANI)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
THANI193A: Bt2,000 million senior unsecured debentures due 2019	A-
THANI201A: Bt1,510 million senior unsecured debentures due 2020	A-
THANI203A: Bt1,450 million senior unsecured debentures due 2020	A-
THANI205A: Bt1,000 million senior unsecured debentures due 2020	A-
THANI206A: Bt2,000 million senior unsecured debentures due 2020	A-
THANI208A: Bt1,500 million senior unsecured debentures due 2020	A-
THANI209B: Bt665 million senior unsecured debentures due 2020	A-
THANI20DA: Bt1,400 million senior unsecured debentures due 2020	A-
THANI20DB: Bt600 million senior unsecured debentures due 2020	A-
THANI20DC: Bt2,500 million senior unsecured debentures due 2020	A-
THANI212A: Bt1,800 million senior unsecured debentures due 2021	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)