

# RATCHTHANI LEASING PLC

No. 172/2022  
10 October 2022

## FINANCIAL INSTITUTIONS

|                  |        |
|------------------|--------|
| Company Rating:  | A-     |
| Issue Ratings:   |        |
| Senior unsecured | A-     |
| Outlook:         | Stable |

Last Review Date: 15/06/22

### Company Rating History:

| Date     | Rating | Outlook/Alert  |
|----------|--------|----------------|
| 10/04/20 | A-     | Stable         |
| 14/03/19 | A-     | Alert Negative |
| 19/10/16 | A-     | Stable         |
| 25/01/12 | BBB+   | Stable         |

### Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Pawin Thachasongtham

pawin@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweekok Jiamsakunthum

taweekok@trisrating.com

Narumol Charnchanavivat

narumol@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 company rating on THANI incorporates a rating enhancement from its stand-alone credit profile (SACP) to reflect the company’s status as a “strategically important” entity of Thanachart Capital PLC (TCAP), rated “A/Stable” by TRIS Rating. The enhancement reflects THANI’s strong revenue and cashflow contributions to TCAP. THANI also receives business and financial support from TCAP.

The SACP on THANI at “bbb+” reflects its strong niche-market position in the hire-purchase loan market, focusing on the commercial truck and luxury car segments. The rating also considers the company’s ability to maintain its market position, strong capital base, and sound financial performance. However, the strengths are pressured by concerns over intense competition in the commercial truck loan market and the uncertain economic environment.

## KEY RATING CONSIDERATIONS

### Steady support from TCAP

TRIS Rating views THANI as a strategically important subsidiary of TCAP. We believe it highly likely that TCAP will maintain its majority shareholding in THANI. As of September 2022, TCAP held 60.6% in THANI, an increase from 57.8% last year. THANI has been a major revenue and cash flow contributor to TCAP. In the first half of 2022, THANI contributed 27% of TCAP’s net profit.

In terms of business support, TCAP oversees THANI’s overall strategy, including risk management, through its representatives on THANI’s board of directors. TCAP also provided financial support through a capital injection in October 2020, which helped strengthen THANI’s capital base for business expansion. In the longer term, we believe THANI will continue to benefit from TCAP’s funding support and can look to TCAP as a lender of last resort in times of need.

### Solid market position with diversification

THANI’s expertise in the truck hire-purchase segment should enable the company to maintain a leading position in the segment in terms of total outstanding loans over the next few years. THANI’s outstanding loans rebounded to THB49.3 billion at the end of 2021, an increase of 3% year-on-year (y-o-y) following some decline over the past two years due to its conservative growth strategy. In 2022, THANI continues to expand business actively in line with industry peers, with new loans of THB14.2 billion extended in the first half of 2022 (1H22) reaching a new high and above its target. At the end of June 2022, outstanding loans increased further by 6% year-to-date (y-t-d) to THB52.3 billion. The growth was backed by its marketing strategy and strong demand for truck loans in the logistics segment and luxury car loans.

We estimate that THANI’s new loans will increase by 20% y-o-y in 2022 and 5% per year in 2023-2024. The growth estimate is backed by strong demand for logistics in the construction, border trade, consumption, and e-commerce segments that are recovering amid a reviving economy. In terms of diversification, the company has also started offering auto title loans to existing customers this year, with THB77 million in outstanding loans at the end of June 2022. We project the title loans to expand to THB0.5-THB3 billion over the next

few years, helping support THANI's overall portfolio expansion and alleviate pressure on loan yields as competition in the hire purchase loan market increasingly intensifies.

### **Improving asset quality and provisions**

THANI's cautious growth strategy over the last two years and efficient collection system resulted in improved asset quality. The ratio of stage-3 loans (non-performing loans -- NPL) fell to 2.4% at the end of the second quarter of 2022 (2Q22) from 3.8% at the end of 2021, within the peer average range of 2%-4%. The company accelerated the debt collection and asset repossession process following the end of the debt relief programs. To mitigate credit risk, the company has recently focused more on fleet HP that are backed by service contracts with large corporate customers. In our view, NPL may rise in the next few years if the company continues to expand business more actively in an environment of intense competition and economic uncertainty. Nonetheless, the rise in NPL should be manageable.

As result of the decline in NPL ratio, expected credit loss (ECL) provisions to average loans (credit cost) fell to 0.8% (annualized) in 1H22 from 1.2% in 2021. As of June 2022, the ratio of allowance for ECL to NPLs (NPL coverage) also increased to 117% from around 80% over the past few years. We estimate provisions for credit cost to be 0.5%-0.7% with NPL coverage ratio around 120% in 2022-2024.

### **Stable spread and lower ECL to support profitability**

We expect THANI to sustain moderate profitability over the next few years. Its profitability as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) was 4.4% in 2021, a slight drop from 4.7% in 2020. This was mainly due to higher provisions for ECL. THANI's EBT/ARWA was 4.6% (annualized) for the first half of 2022. The company reported THB947 million of net profit in the first six months of 2022, a 11% increase y-o-y, thanks to its ability to maintain spread, lower credit cost, and offset higher operating expenses with revenue from debt collection.

We project EBT/ARWA to be above 4.5% during 2022-2024, despite the potential rise in funding costs and NPLs. This is backed mainly by credit expansion as well as our expectation that the company will likely maintain a spread above 4%, and credit costs in the 0.5%-0.7% range, while controlling operating expenses at about 17% of total income.

### **Capital position to remain strong**

We believe THANI's capital will remain robust and support the company's business plans over the next three years. THANI's capital is assessed as strong, with a risk-adjusted capital (RAC) ratio of 22% at the end of 2Q22. The company's healthy profits and conservative dividend payout policy have helped sustain its strong equity base despite robust credit growth. The current capital position is appropriate for supporting the company's growth strategy in the medium term based on our assumption of 7%-12% loan growth. The RAC will likely remain in the strong range. Its debt to equity (D/E) ratio stood at 3.5 times at the end of June 2022 compared with the D/E covenant on its debt obligations of 10 times.

### **Adequate funding and liquidity profile**

We expect the company to have sufficient liquidity backed by THB18.5 billion credit facilities from various financial institutions at the end of August 2022. Of this amount, 24% was undrawn. At the end of August 2022, credit lines provided by TMB Thanachart Bank PLC (TTB) stood at THB3.03 billion, representing 16% of total credit facilities from financial institutions. Its financial flexibility is further enhanced by its ability to access the debt and equity capital markets. The company can also issue bills of exchange (B/E) to manage short-term liquidity from time to time.

In terms of funding structure, THANI has relied on short-term borrowings to keep funding costs low, while its assets have mostly been long-term, implying sizeable asset-liability mismatch. At the end of 2Q22, short-term borrowings to total borrowings were approximately 49%, rising from 30% last year. The management's strategy is to gradually increase long-term funding to 80% of total funding. Meanwhile, we expect THANI's well-established relationships with financial institutions and ample credit facilities to help mitigate liquidity risk.

### **Limited COVID-19 impact on commercial truck loans**

The auto industry in the first seven months of 2022 showed signs of improvement, with car sales rising by 15.4% y-o-y. Commercial vehicles sales expanded by 16.5% and passenger cars by 13.2%. Re-registrations of trucks also rose by 6% in the first eight months of 2022. This growth reflects the still-strong demand for commercial vehicles in the transportation and export sectors, thanks to the relaxation of travel restrictions and economic recovery. Auto leasing companies listed on the Stock Exchange of Thailand (SET) also reported stronger growth momentum in outstanding loans. At the end of 2Q2022, aggregate outstanding loans increased by 2.4% y-t-d in 1H22 from 0.4% in 2021.

## BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the performance of THANI during 2022-2024 are as follows:

- Outstanding portfolio to grow by 7%-12% annually.
- Loan spread to be maintained at 4.1%-4.5%.
- Credit cost to be in the range of 0.5%-0.7%.
- Operating expenses to total income to be around 17%

## RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that THANI will maintain its current market position, capital position, and earnings capability. The outlook also takes into consideration our anticipation that the company's asset quality will remain manageable amid an uncertain economic environment.

## RATING SENSITIVITIES

THANI's SACP could be revised upward if its capital base is materially strengthened, with the RAC ratio hovering at a level above 25% for a sustained period. The issuer credit rating (ICR) could be upgraded if the rating on TCAP is upgraded. The SACP could be revised downward if the company's capital position weakens materially, with the RAC ratio falling below 12% and/or asset quality deteriorates substantially to the extent of EBT/ARWA falling below 1.5%. A rating downgrade on TCAP could also pressure THANI's rating.

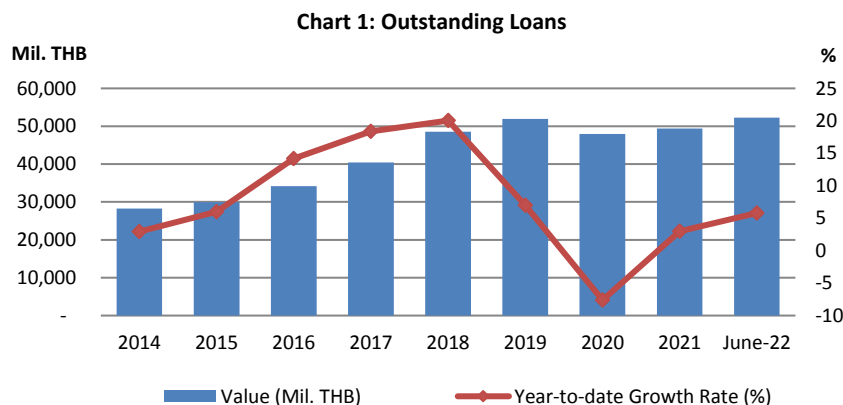
## COMPANY OVERVIEW

THANI was established in 1988 and listed on SET in 2002. THANI provides hire-purchase loans for both new and used commercial trucks.

In 2006, Siam City Bank PLC (SCIB) was the company's largest shareholder with a 39.8% stake. THANI's shareholding structure changed after the merger of SCIB and Thanachart Bank PLC (TBANK) in 2010. TBANK included THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with the Bank of Thailand's (BOT) consolidated supervision regulations. After the merger of TMB and TBANK in 2019, TCAP became a major shareholder of THANI with 59.8% as of June 2022, 56.8% through Thanachart SPV1 Co., Ltd., and 3.8% through TCAP.

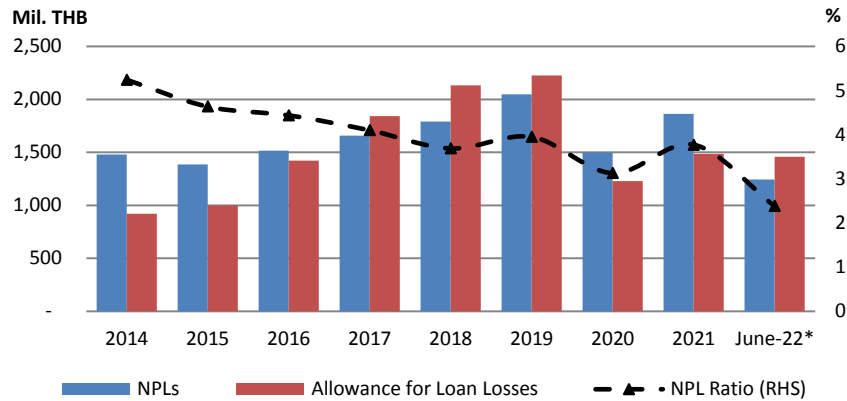
THANI's loan portfolio stood at THB52.3 billion at the end of June 2022, 70% of which comprised commercial truck loans and the remaining 30% of luxury passenger car and high-CC motorcycle loans.

## KEY OPERATING PERFORMANCE



Source: THANI's financial statements  
\* Year-to-date growth for June 2022

Chart 2: Asset Quality



Source: THANI's financial statements

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

Unit: Mil. THB

|                                    | Jan-Jun 2022 | Year Ended 31 December |        |        |        |
|------------------------------------|--------------|------------------------|--------|--------|--------|
|                                    |              | 2021                   | 2020   | 2019   | 2018   |
| Total assets                       | 52,317       | 49,223                 | 48,518 | 50,881 | 47,531 |
| Total loans                        | 52,250       | 49,396                 | 47,976 | 51,933 | 48,545 |
| Allowance for expected credit loss | 1,459        | 1,485                  | 1,228  | 2,225  | 2,134  |
| Short-term debts                   | 16,903       | 17,802                 | 11,000 | 29,089 | 21,986 |
| Long-term debts                    | 22,677       | 18,879                 | 25,742 | 13,151 | 17,339 |
| Shareholders' equity               | 11,551       | 11,567                 | 10,819 | 7,671  | 7,195  |
| Net interest income                | 1,268        | 2,517                  | 2,452  | 2,527  | 2,332  |
| Expected credit loss               | 197          | 586                    | 338    | 194    | 403    |
| Non-interest income                | 471          | 796                    | 747    | 700    | 625    |
| Operating expenses                 | 846          | 754                    | 585    | 538    | 570    |
| Earnings before taxes              | 1,976        | 1,746                  | 1,709  | 1,860  | 1,964  |
| Net income                         | 947          | 1,709                  | 1,860  | 1,964  | 1,641  |

\* Consolidated financial statements

Unit: %

|  | Jan-Jun<br>2022 | ----- Year Ended 31 December ----- |        |        |        |
|--|-----------------|------------------------------------|--------|--------|--------|
|  |                 | 2021                               | 2020   | 2019   | 2018   |
| <b>Profitability</b>                                     |                 |                                    |        |        |        |
| Net interest income/average assets                       | 5.06 **         | 5.01                               | 5.15   | 4.93   | 5.14   |
| Non-interest income/average assets                       | 1.85 **         | 1.64                               | 1.50   | 1.39   | 1.40   |
| Operating expenses/total income                          | 16.61           | 13.83                              | 12.61  | 13.45  | 13.16  |
| Operating profit/average assets                          | 4.65 **         | 4.38                               | 4.68   | 5.01   | 4.71   |
| Earnings before taxes/average risk-weighted assets       | 4.62 **         | 4.37                               | 4.65   | 4.95   | 4.65   |
| Return on average assets                                 | 3.73 **         | 3.50                               | 3.74   | 3.99   | 3.77   |
| Return on average equity                                 | 16.39 **        | 15.27                              | 20.12  | 26.42  | 25.59  |
| <b>Asset Quality</b>                                     |                 |                                    |        |        |        |
| Receivable in stage 3/total loans                        | 2.38            | 3.77                               | 3.13   | 3.95   | 3.69   |
| Expected credit loss/average loans                       | 0.78 **         | 1.20                               | 0.68   | 0.39   | 0.90   |
| Allowance for expected credit loss/Receivable in stage 3 | 117.30          | 79.69                              | 81.86  | 108.57 | 119.16 |
| <b>Capitalization</b>                                    |                 |                                    |        |        |        |
| Risk-adjusted capital ratio                              | 22.01           | 23.34                              | 22.30  | 14.91  | 14.95  |
| Debt/equity (times)                                      | 3.53            | 3.26                               | 3.48   | 5.63   | 5.61   |
| <b>Funding and Liquidity</b>                             |                 |                                    |        |        |        |
| Stable funding ratio                                     | 104.49          | 101.85                             | 126.13 | 64.78  | 80.12  |
| Liquidity coverage measure (times)                       | 0.03            | 0.03                               | 0.09   | 0.01   | 0.01   |
| Short-term debts/total liabilities                       | 41.46           | 47.27                              | 29.18  | 67.32  | 54.51  |

\* Consolidated financial statements

\*\* Annualized

#### RELATED CRITERIA

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

**Ratchthani Leasing PLC (THANI)**

|  |        |
|--|--------|
| <b>Company Rating:</b>   | A-     |
| <b>Issue Ratings:</b>  |        |
| THANI220A: THB1,200 million senior unsecured debentures due 2022 | A-     |
| THANI237A: THB486.3 million senior unsecured debentures due 2023 | A-     |
| THANI23NA: THB3,439 million senior unsecured debentures due 2023 | A-     |
| THANI247A: THB593.7 million senior unsecured debentures due 2024 | A-     |
| THANI254A: THB1,000 million senior unsecured debentures due 2025 | A-     |
| THANI255A: THB593 million senior unsecured debentures due 2025   | A-     |
| THANI25DA: THB2,000 million senior unsecured debentures due 2025 | A-     |
| THANI262A: THB1,000 million senior unsecured debentures due 2026 | A-     |
| THANI264A: THB700 million senior unsecured debentures due 2026   | A-     |
| THANI268A: THB2,000 million senior unsecured debentures due 2026 | A-     |
| THANI274A: THB1,300 million senior unsecured debentures due 2027 | A-     |
| <b>Rating Outlook:</b>   | Stable |

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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