

AYUDHYA CAPITAL AUTO LEASE PLC

No. 42/2018

15 June 2018

FINANCIAL INSTITUTIONS

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

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|------------------|
| 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 |
| 13/06/07 | A- | Stable |
| 03/02/00 | A | Stable |
| 18/02/98 | A- | Stable |
| 27/08/97 | A | Stable |
| 03/07/97 | A | Alert Negative |
| 04/04/97 | A | Stable |

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RATIONALE

TRIS Rating affirms the company rating of Ayudhya Capital Auto Lease PLC (AYCAL) and the ratings of AYCAL's outstanding senior unsecured debentures at "AA". At the same time, TRIS Rating assigns a "AA" rating to AYCAL's proposed issue of up to Bt2,500 million in senior unsecured debentures.

AYCAL's stand-alone rating is based on the proven track record of the management team and its market position as the leading originator of motorcycle hire purchase loans. The stand-alone rating reflects three additional factors. Capital base was stronger after AYCAL completed a recent capital restructuring. The company also has a rigorous risk management system. Lastly, AYCAL has a high level of financial flexibility because it can receive full-funding support from its parent bank, Bank of Ayudhya PLC (BAY).

AYCAL's ratings are enhanced from its stand-alone rating as AYCAL is a strategically important subsidiary of BAY, rated "AAA" with a "stable" outlook by TRIS Rating. AYCAL is a motorcycle hire purchase lender and provides collection services for BAY's entire automobile loan portfolio. With AYCAL performing these two roles, BAY's competitive edge in the vehicle financing industry is enhanced.

AYCAL now offers motorcycle financing services, inventory financing services, insurance brokerage services, and continues to manage its portfolio of auto loans. The company also renders collection services for BAY's entire portfolio of auto loans.

In terms of outstanding loans, AYCAL is the largest of 10 large motorcycle hire purchase lenders in TRIS Rating's database. The company's outstanding motorcycle loans grew continuously to Bt13,418 million at the end of 2015, Bt17,521 million at the end of 2016, and Bt21,649 million at the end of 2017, from Bt10,735 million at the end of 2014.

AYCAL's financial performance improved markedly, due to lower provision expenses and higher non-interest income. Net income rose to Bt3,589 million in 2015, up by 14.93% from 2014, and increased by 19.45% to 4,288 million in 2016. Return on average assets (ROAA) rose to 2.59% in 2015 and 4.41% in 2016, from 1.60% in 2014. In 2017, net income rose to Bt4,469 million, up by 4.24%, and ROAA moved up to 6.21%, when the company reversed provision expenses and earned higher non-interest income.

AYCAL's asset quality has been better than peers. The non-performing loan (NPL) ratio, defined as loans more than three months past due divided by total loans, rose to 1.54% at the end of 2013, 2.11% at the end of 2014, and 2.44% at the end of 2015, from 1.11% at the end of 2012. Asset quality has deteriorated during the ongoing economic slowdown in Thailand. The NPL ratio dropped slightly 2.36% at the end of 2016 and 2.31% at the end of 2017.

AYCAL's high level of financial flexibility stems from its status as one of BAY's solo consolidated subsidiaries. As a solo consolidated subsidiary, AYCAL must comply with the consolidated supervisory standards set by the Bank of Thailand (BOT). In return, BAY, the parent bank, can provide an ample amount of funding to its subsidiary.

RATING OUTLOOK

The “stable” outlook reflects the expectation that AYCAL’s business direction will remain closely aligned with BAY’s strategy. The outlook reflects the assumption that AYCAL will continue to receive a high level of support from its parent bank. The outlook also considers the ability of the management team to maintain AYCAL’s strong market position as a leading motorcycle hire purchase lessor. With its experienced management team, rigorous risk management system, and strong support from BAY, TRIS Rating expects AYCAL’s profitability and capital base will stay strong enough to serve as cushions against any downside risks in the motorcycle hire purchase business.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if the company’s market position and financial profile improve significantly. In contrast, any deterioration in competitive position or asset quality would negatively affect the ratings and/or outlook. In addition, should there be any change in TRIS Rating’s view of the strategic importance of AYCAL to the BAY Group, the ratings and/or outlook may change.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

| | ----- Year Ended 31 December ----- | | | | |
|---------------------------------|------------------------------------|--------|---------|---------|---------|
| | 2017 * | 2016 * | 2015 | 2014 | 2013 |
| Total assets | 62,674 | 81,321 | 113,302 | 164,142 | 226,627 |
| Total loans | 60,566 | 79,973 | 112,363 | 162,764 | 224,398 |
| Allowance for doubtful accounts | 3,017 | 3,808 | 4,798 | 5,682 | 6,252 |
| Short-term borrowings | 12,369 | 23,879 | 36,495 | 65,117 | 96,936 |
| Long-term borrowings | 16,894 | 25,328 | 43,848 | 64,625 | 101,199 |
| Shareholders' equity | 30,856 | 29,159 | 29,568 | 30,046 | 23,323 |
| Net interest income | 6,822 | 7,013 | 7,586 | 9,132 | 9,838 |
| Bad debts and doubtful accounts | (84) | 90 | 922 | 1,480 | 2,460 |
| Non-interest income | 1,657 | 1,453 | 800 | (32) | 983 |
| Operating expenses | 2,979 | 3,019 | 2,949 | 3,706 | 4,068 |
| Net income | 4,469 | 4,288 | 3,589 | 3,123 | 3,443 |

Unit: %

| | ----- Year Ended 31 December ----- | | | | |
|--|------------------------------------|--------|--------|--------|--------|
| | 2017 * | 2016 * | 2015 | 2014 | 2013 |
| Profitability | | | | | |
| Net interest income/average assets | 9.48 | 7.21 | 5.47 | 4.67 | 4.58 |
| Net-interest income/total income | 68.29 | 63.79 | 60.88 | 59.05 | 54.18 |
| Operating expenses/total income | 29.82 | 27.46 | 23.66 | 23.96 | 22.40 |
| Operating profit/average assets | 7.76 | 5.51 | 3.25 | 2.00 | 1.99 |
| Return on average assets | 6.21 | 4.41 | 2.59 | 1.60 | 1.60 |
| Return on average equity | 14.89 | 14.60 | 12.04 | 11.70 | 15.94 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 2.31 | 2.36 | 2.44 | 2.11 | 1.54 |
| Bad debts and doubtful accounts/average loans | (0.12) | 0.09 | 0.67 | 0.76 | 1.16 |
| Allowance for doubtful accounts/total loans | 4.98 | 4.76 | 4.27 | 3.49 | 2.79 |
| Allowance for doubtful accounts/non-performing loans | 215.65 | 201.59 | 175.11 | 165.37 | 180.38 |
| Capitalization | | | | | |
| Shareholders' equity/total assets | 49.23 | 35.86 | 26.10 | 18.30 | 10.29 |
| Shareholders' equity/total loans | 50.95 | 36.46 | 26.31 | 18.46 | 10.39 |
| Debt to equity (time) | 1.03 | 1.79 | 2.83 | 4.46 | 8.72 |
| Liquidity | | | | | |
| Short-term borrowings/total liabilities | 38.88 | 45.78 | 43.58 | 48.56 | 47.68 |
| Total loans/total assets | 96.64 | 98.34 | 99.17 | 99.16 | 99.02 |

* Consolidated financial statements

Ayudhya Capital Auto Lease PLC (AYCAL)

| | |
|--|--------|
| Company Rating: | AA |
| Issue Ratings: | |
| AYCAL187A: Bt1,500 million senior unsecured debentures due 2018 | AA |
| AYCAL187B: Bt800 million senior unsecured debentures due 2018 | AA |
| AYCAL188A: Bt600 million senior unsecured debentures due 2018 | AA |
| AYCAL191A: Bt1,000 million senior unsecured debentures due 2019 | AA |
| AYCAL197A: Bt1,700 million senior unsecured debentures due 2019 | AA |
| Up to Bt2,500 million senior unsecured debentures due within 2 years | AA |
| Rating Outlook: | Stable |

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