

SRISAWAD CORPORATION PLC

No. 90/2023
22 August 2023

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Guaranteed	BBB+
Outlook:	Stable

Last Review Date: 09/06/23

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Srisawad Corporation PLC (SAWAD) and the ratings on its outstanding guaranteed debentures at “BBB+” with a “stable” outlook. At the same time, TRIS Rating assigns the “BBB+” rating to SAWAD’s proposed issue of guaranteed debentures of up to THB10 billion due within five years. The company intends to use the proceeds from the proposed debenture issue for working capital, funding its loan portfolio expansion, and debt repayment.

The ratings reflect SAWAD’s strong market position in the title loan business, well diversified funding source, and sufficient liquidity.

While SAWAD’s strong capital remains its key credit strength, if the recent declining trend in capital and earnings capability continues, this could put pressure on its ratings. The ratings are also constrained by heightened credit risk in the title loan and motorcycle hire purchase (HP) markets, growing competition, and deteriorating asset quality of its loan portfolios.

SAWAD’s overall performance in the first six months of 2023 (6M23) is in line with our expectations. However, loan growth was higher than our base-case assumptions from the strong expansion of new motorcycle HP and title loans, which led to eroding capital position.

At the end of the second quarter of 2023 (2Q23), SAWAD’s outstanding loans increased to THB87.1 billion, a 107% growth year-on-year (y-o-y) and 34.8% quarter-on-quarter (q-o-q). This was partly due to SAWAD’s consolidation of THB15 billion net loans from Fast Money Co., Ltd. (FM) at the end of 2Q23 after the 49% share buyback from Government Savings Bank (GSB, rated “AAA/stable”).

Net income in 6M23 increased to THB2.5 billion, up 12.7% y-o-y from the sharp increase in interest income, in line with our expectation. This is despite the significant increase in provisions expenses, higher operating expenses, and higher interest expenses. Operating expenses in 6M23 increased y-o-y from higher commissions paid to its motorcycle dealers, marketing expenses, and branch expansion.

The increase in provision expenses was due to the normal provisions for new motorcycle HP portfolio expansion at Srisawad Capital 1969 PLC (SCAP), management overlay for Srisawad Power 2014 (S2014) Co.,Ltd. as well as one-time provisions for SWP Asset Management Co.,Ltd and title loans in Vietnam. Even with higher provisions, NPL coverage increased incrementally to 51% at end-June 2023 from 47% at end-2022, still considerably lower than peers, in our view.

In terms of asset quality, SAWAD’s non-performing loans (NPL) have indicated a deteriorating trend, in line with peers. NPL ratio rose to 2.6% at the end of 2Q23 from 2.5% as of December 2022. NPL formation surged to 4.5% in 2Q23 from 2.2% in 1Q23. At the same time, credit cost also rose to 3.0% in 2Q23 from 1.4% in 1Q23.

We estimate SAWAD’s NPL ratio to rise to about 4% in 2025, based on our baseline assumption that NPL formation will remain elevated at the current level over the next few years. This is likely to be driven by the ending of debt relief

programs, strong loan expansion post- Coronavirus Disease 2019 (COVID), and the maturing phase of the new motorcycle HP portfolio. If asset quality were to remain within our base-case scenario, there should be no material impact on the company's risk position.

In terms of capital, SAWAD's capitalization, measured by risk-adjusted capital (RAC) ratio remains strong. However, given the rapid expansion of motorcycle HP and title loans, the company's RAC ratio has fallen considerably to 22.5% in 2Q23 from 32.2% at the end of 2022. Should the company continue pursuing an aggressive growth strategy such that its RAC ratio declines further, this could negatively impact its outlook and/or ratings.

Meanwhile, the company's earnings capability measured by earning before taxes to average risk weighted assets (EBT/ARWA) stood at 6.0% (annualized) in 6M23, in line with our expectation. However, this has declined from 9.6% in 6M22. We expect the company's profitability to continue to be pressured by the lower yields as well as higher operating expenses and funding costs. We also expect credit cost to rise further given the uncertain economic environment and the generally weak credit profile of its customers. Although our estimate of EBT/ARWAs at around 5%-6% over the next few years is still assessed as 'adequate' and support the current ratings, further weakening of the ratio could pressure the ratings.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAWAD's capital position will remain strong. We also expect SAWAD's market position to remain strong and its financial performance and asset quality to be well managed, in line with our base-case scenario.

RATING SENSITIVITIES

An upward rating revision is unlikely in the near term but could occur if the company's market position remains solid, with a well-diversified asset mix, while asset quality and capital position improve materially. Conversely, the ratings and/or outlook could be revised downward if SAWAD's asset quality weakens significantly causing capital, leverage, and earnings capability to deteriorate such that the RAC ratio falls below 25% or EBT/RWA falls below 3.5% for a prolonged period.

RELATED CRITERIA

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

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB+
Issue Ratings:	
SAWAD248B: THB1,998 million guaranteed debentures due 2024	BBB+
SAWAD253A: THB657 million guaranteed debentures due 2025	BBB+
SAWAD254A: THB4,113 million guaranteed debentures due 2025	BBB+
SAWAD258A: THB2,882.6 million guaranteed debentures due 2025	BBB+
SAWAD261A: THB1,999.5 million guaranteed debentures due 2026	BBB+
SAWAD265A: THB5,009.5 million guaranteed debentures due 2026	BBB+
SAWAD266A: THB1,343 million guaranteed debentures due 2026	BBB+
SAWAD271A: THB2,002.5 million guaranteed debentures due 2027	BBB+
SAWAD275A: THB1,314.7 million guaranteed debentures due 2027	BBB+
SAWAD285A: THB2,844 million guaranteed debentures due 2028	BBB+
Up to THB10,000 million guaranteed debentures due within 5 years	BBB+
Rating Outlook:	Stable

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