

SRISAWAD CORPORATION PLC

No. 54/2024
27 June 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 04/06/24

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

Contacts:

Jantana Taveeratanasilp

jantana@trisrating.com

Siriwan Weeramethachai

siriwan@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweekok Jiamsakunthum

taweekok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns a rating of “BBB+” to a proposed issue of up to THB8 billion guaranteed debentures due within six years of Srisawad Corporation PLC (SAWAD). The company intends to use the proceeds from the proposed debentures for working capital, debt repayment, and to fund its loan portfolio expansion.

At the same time, TRIS Rating affirms the company rating on SAWAD and the ratings on its outstanding guaranteed debentures at “BBB+” with a “stable” rating outlook.

The ratings on SAWAD are supported by the company's strengthened market position in the title loan and new motorcycle hire purchase (HP) businesses, well diversified funding sources, and sufficient liquidity. However, the ratings are constrained by the company's eroded capital position due to rapid portfolio expansion and weakened earnings from increased credit costs. Continuous weakening of the capital position, asset quality, and earnings could put pressure on the ratings.

We assess SAWAD's business position as “strong”, which is supported by the company's long-standing expertise in the title loan business as well as its continuous loan and branch expansion. With 5,534 branches at the end of March 2024, its branch network is the second largest among title loan operators. Overall, SAWAD's consolidated outstanding loans reached THB98.7 billion at the end of the first quarter of 2024 (1Q24), up 53% year-on-year (y-o-y). However, we expect loan growth to decelerate in 2024 as the company emphasizes asset quality management evidenced by a slower growth of 2% year-to-date (y-t-d). Looking ahead, we expect title loans to be the company's main growth engine, while strategically slowing down its new motorcycle HP expansion.

We assess SAWAD's capital as “strong”. However, SAWAD's active expansion of new motorcycle HP in the past few years has resulted in a capital erosion. At the end of 1Q24, the risk-adjusted capital ratio (RAC) stood at 22.6%, a significant drop from the past five-year average of about 40%. In 2024-2026 we project SAWAD's RAC ratio to remain relatively stable, hovering around 21%-22%. This is based on our assumption that SAWAD is likely to expand new loans more prudently, particularly for higher-risk new motorcycle HP. We also expect SAWAD to effectively manage its capital by using stock dividends to conserve capital.

SAWAD's earnings capacity, measured by the ratio of earnings before taxes to average risk-weighted assets (EBT/ARWA), is assessed as “moderate”. SAWAD's EBT/ARWA declined to 5.9% in 2023 from 8.7% in 2022 due to rising credit and funding costs. In 1Q24, the ratio fell further to 4.6% due to higher costs, lower non-interest income, and narrower spreads. We expect SAWAD's EBT/ARWA to remain in the 4%-5% range over the next few years. This is premised on our assumptions of lower yield, slower loan expansion, and higher operating and funding costs.

At the end of March 2024, the company's non-performing loan (NPL) ratio increased to 3.23%, from 2.49% at the end of March 2023. The credit cost remains high so far this year, at 2.0% in 1Q24 (annualized). We expect SAWAD's NPL ratio to gradually rise to about 4%-5% by 2026 from about 3% in recent years. This could be driven by weakening asset quality of the new motorcycle HP portfolio acquired during its rapid expansion phase. Nevertheless, we believe overall asset quality

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will remain manageable. We expect its NPL coverage ratio to remain in the 50% range in 2024-2026. A material weakening of asset quality and NPL coverage ratio could have negative implications for the company's ratings.

We assess SAWAD's funding position as "adequate". This is supported by its solid equity base and diversified sources of funds, thanks to the company's ability to access both equity and debt capital markets. As of March 2024, the company's funding structure comprised 51% long-term and 49% short-term borrowings. We view the company's liquidity position as adequate. As of March 2024, the company had THB34.0 billion of credit facilities from several financial institutions, 9% or THB3.2 billion of which are readily available for drawdown if needed.

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 revision is unlikely in the near term but could occur if the company's capital position strengthens materially with the RAC ratio rising well above 25%, while EBT/RWA hovers above 8% and asset quality metrics show notable improvement for a sustained period.

Conversely, the ratings and/or outlook could be revised downward if SAWAD's asset quality weakens significantly causing credit cost to rise to the level that EBT/RWA falls below 3.5% for a prolonged period. A downgrade could also occur if the company expands its consolidated loan portfolio aggressively to the point that the RAC ratio falls below 20% over the next few years.

RELATED CRITERIA

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

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+
SAWAD253B: THB2,200 million guaranteed debentures due 2025	BBB+
SAWAD254A: THB4,113 million guaranteed debentures due 2025	BBB+
SAWAD256A: THB2,840 million guaranteed debentures due 2025	BBB+
SAWAD258A: THB2,882.6 million guaranteed debentures due 2025	BBB+
SAWAD259A: THB1,199.5 million guaranteed debentures due 2025	BBB+
SAWAD25DB: THB839.5 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+
SAWAD269B: THB2,750.5 million guaranteed debentures due 2026	BBB+
SAWAD26NA: THB504.3 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+
SAWAD275B: THB647.2 million guaranteed debentures due 2027	BBB+
SAWAD279A: THB524.1 million guaranteed debentures due 2027	BBB+
SAWAD285A: THB2,844 million guaranteed debentures due 2028	BBB+
SAWAD289A: THB1,890.4 million guaranteed debentures due 2028	BBB+
SAWAD28NA: THB699.9 million guaranteed debentures due 2028	BBB+
Up to THB8,000 million guaranteed debentures due within 6 years	BBB+
Rating Outlook:	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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