

SRISAWAD FINANCE PLC

No. 99/2018
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FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: 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 assigns the company rating to Srisawad Finance PLC (BFIT) at “BBB”. The rating reflects BFIT’s status as a regulated non-bank financial institution. The strong growth prospects and improved profitability underpin the company’s rating. The rating also reflects adequate liquidity and greater financial flexibility. BFIT can accept deposits while many competitors cannot. This gives BFIT a lower cost of funds.

However, the intensifying competition and high credit risk constrain the rating. BFIT’s target customers are highly sensitive to changes in economic conditions. The company needs time to prove it can expand the loan portfolio, maintain the quality of the loans, and deliver satisfactory financial performance.

KEY RATING CONSIDERATIONS

Profitability improves

BFIT’s profitability has improved notably after Srisawad Corporation PLC (SAWAD) bought a major stake in BFIT. The company became part of SAWAD Group as a result. After the acquisition, SAWAD underwrites loans, but certain of them are booked by BFIT.

BFIT’s loan yield and profitability improved significantly after the restructuring. The loan yield climbed to 9.4% in 2017 and 16.4% in the first three months of 2018 (annualized) from 6.8% in 2016. Profits rose as a result. Net income rose to Bt235 million in 2017, 82.5% higher year-on-year. For the first three months of 2018, net income increased to Bt107 million, up 265.2% from the same period of 2017. Return on average assets (ROAA) improved to 2.8% in 2017, up from 2.4% in 2016. ROAA climbed to 3.5% (annualized) in the first three months of 2018.

Leveraging off of SAWAD’s nationwide branch network

BFIT makes secured personal loans originated using SAWAD’s branch network. The extensive network benefits SAWAD and BFIT because it is easier to reach the target customers. SAWAD has experienced loan underwriting staff to support BFIT. BFIT’s loan portfolio soared to Bt9,372 million at the end of 2017 and Bt11,616 million at the end of March 2018, from Bt1,904 million at the end of 2016.

Nearly all of the company’s outstanding loans (87%) are secured personal loans backed by vehicles and property. The rest are loans originally underwritten by BFIT long before the acquisition. Personal loans backed by provident funds held by private employees constitute 10.0% of the portfolio and corporate loans make up the rest (3.0%).

Adequate liquidity and financial flexibility

BFIT has had a greater reliance on long-term funding sources since 2017, such as long-term deposits and borrowings from SAWAD. As of March 2018, the company’s outstanding long-term deposits were Bt1,213 million and long-term borrowings stood at Bt4,506 million.

The mix of funding sources has changed significantly. Short-term deposits used to be BFIT’s sole source of fund three years ago. Short-term deposits decreased to 57.0% of total liabilities at the end of 2017 and stood at 45.0% at the end of March 2018.

BFIT’s financial flexibility is stronger than peers. As a finance company, BFIT can accept deposits. The acquisition gave BFIT additional financial flexibility. Cash flow is increasing as the size of the loan portfolio grows. BFIT can also rely on credit facility from SAWAD if needed.

Unproven improvement in loan quality

A recent improvement in BFIT’s asset quality appears unsustainable. The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans dropped significantly after the company started making more secured personal loans. The ratio decreased to 2.8% at the end of 2017 from 17.8% at the end of 2016. However, the ratio rose to 3.3% at the end of March 2018. BFIT’s NPLs are mostly corporate loans. BFIT has been winding down corporate lending over the last five years. BFIT’s rating is based on our expectation that the company will manage its sizeable loan portfolio and keep loan quality at an acceptable level.

RATING OUTLOOK

The “stable” outlook is based on the expectation that BFIT will expand the loan portfolio, improve profitability, and maintain adequate liquidity. The outlook also assumes BFIT’s loan quality will be controlled at an acceptable level.

RATING SENSITIVITIES

The rating and/or outlook upside case could arise if the loan portfolio continues to expand, profitability and leverage improve, and asset quality remains at acceptable level. In contrast, the downward rating and/or outlook could occur should the company’s asset quality and its competitive position deteriorate significantly.

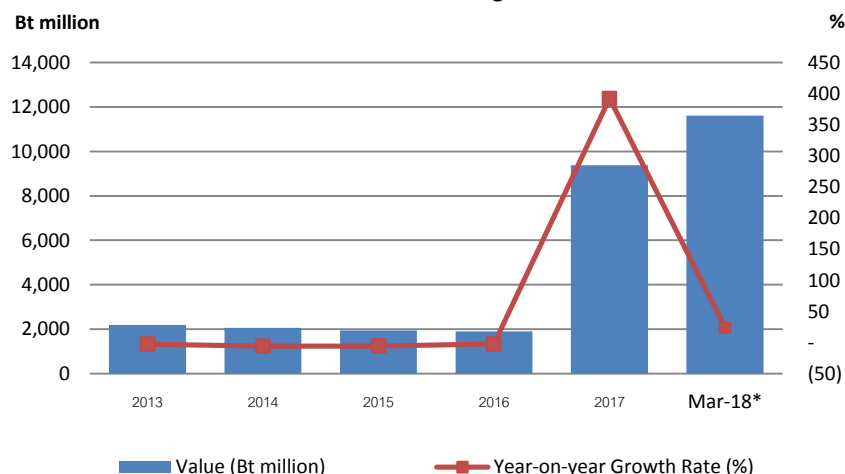
COMPANY OVERVIEW

BFIT was established in 1972 as a finance company initially named Bangkok First Investment & Trust PLC. BFIT holds four finance licenses: finance for commerce, finance for development, finance for deposition and consumption, and finance for housing. The company also serves as a representative and/or trustee for debenture holders.

BFIT offers corporate loans. In 2017, SAWAD became BFIT’s major shareholder, by buying a 36.35% stake. BFIT was renamed Srisawad Finance PLC in June 2017 and entered a new business: offering secured personal loans backed by customers’ vehicles and property under loan agreements. In July 2018, SAWAD’s holding increased to 45.34% of BFIT’s paid-up capital of Bt1,102 million.

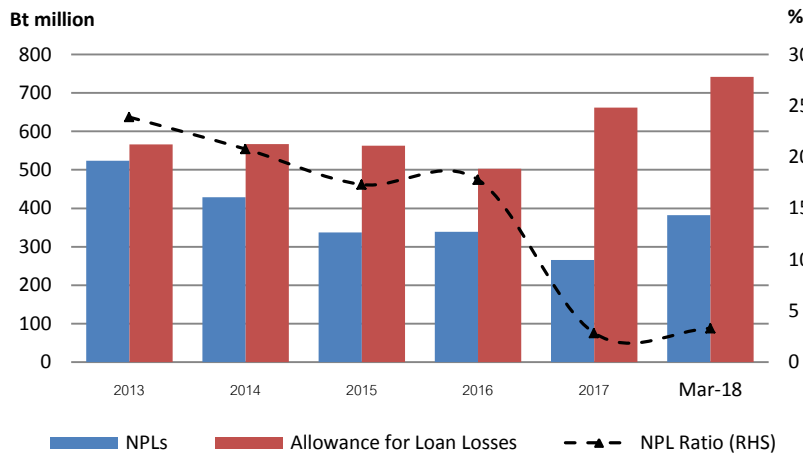
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: BFIT
* Year-to-date growth for Mar-18

Chart 2: Asset Quality and Reserves



Source: BFIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Total assets	13,531	11,294	5,593	5,314	4,623
Total loans	11,616	9,372	1,904	1,948	2,064
Allowance for doubtful accounts	742	662	503	563	567
Deposits	5,922	6,068	3,381	3,177	2,545
Borrowings	4,506	2,506	6	7	7
Shareholders' equity	2,257	2,150	2,075	1,982	1,941
Net interest income	361	496	175	157	196
Bad debts and doubtful accounts	58	160	0	0	0
Non-interest income	25	248	64	60	55
Operating expenses	202	308	97	97	104
Net income	107	235	129	98	96

Unit: %

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Profitability					
Net-interest income/average assets	11.63 *	5.87	3.21	3.17	3.84
Net-interest income/total income	78.00	57.56	56.91	49.00	54.94
Operating expenses/total income	43.68	35.77	31.60	30.32	29.18
Operating profit/average assets	6.51 *	3.65	1.78	1.96	2.04
Return on average assets	3.46 *	2.78	2.36	1.98	1.89
Return on average equity	19.49*	11.12	6.34	5.02	5.01
Asset Quality					
Non-performing loans/total loans	3.29	2.83	17.79	17.32	20.78
Bad debts and doubtful accounts/average loans	2.20 *	2.83	0.00	0.00	0.00
Allowance for doubtful accounts/total loans	6.39	7.06	26.43	28.89	27.49
Allowance for doubtful accounts/non-performing loans	194.26	249.41	148.57	166.82	132.31
Capitalization					
Shareholders' equity/total assets	16.68	19.03	37.10	37.30	41.98
Shareholders' equity/total loans	19.43	22.94	108.97	101.76	94.04
Debt to equity (time)	5.00	4.25	1.70	1.68	1.38
Liquidity					
Loans/deposits	196.14	154.46	56.33	61.30	81.09
Total loans/total assets	85.84	82.99	34.05	36.66	44.65

* Annualized

Srisawad Finance PLC (BFIT)
Company Rating:
BBB
Rating Outlook:
Stable
TRIS Rating Co., Ltd.

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

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