

RATCHTHANI LEASING PLC

No. 80/2024
23 September 2024

FINANCIAL INSTITUTIONS

Company Rating: A-

Issue Ratings:
Senior unsecured A-

Outlook: Stable

Last Review Date: 16/09/24

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

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns a rating of “A-” to Ratchthani Leasing PLC (THANI)’s proposed issue of up to THB2.5 billion senior unsecured debentures due within three years. The proceeds are intended for use in business operations and debt repayment. At the same time, TRIS Rating affirms the company rating on THANI and the ratings on its outstanding senior unsecured debentures at “A-” with a “stable” outlook.

The company rating on THANI incorporates a one-notch rating enhancement from its stand-alone credit profile (SACP) at “bbb+” to reflect the company’s status as a “strategically important” entity of Thanachart Capital PLC (TCAP), rated “A/Stable”. The enhancement reflects THANI’s strong equity, net profit, and asset contributions to TCAP. THANI also receives ongoing business and financial support from TCAP.

The SACP on THANI reflects its strong position in the commercial truck and luxury car hire-purchase (HP) loan market. The rating also takes into consideration the company’s strong capital base and sufficient funding and liquidity. However, these supporting factors are offset by our concerns over weak asset quality and high losses on sales of repossessed vehicles that are likely to continue in the medium term. In addition, lower yields together with rising funding costs are putting pressure on the company’s earnings capacity.

We expect THANI to maintain a strong position in the market for HP loans on commercial trucks, even with our anticipation that total outstanding loans are likely to drop below THB50 billion over the next two to three years. As of December 2023, THANI’s outstanding loans stood at THB54.1 billion, stable y-o-y. Outstanding loans declined to THB51.1 billion as of the end of second quarter 2024 (2Q24), a 5% contraction year-to-date (YTD). This decline aligns with industry trends and is attributed to a conservative growth strategy aimed at controlling asset quality.

We view THANI’s cautious approach positively as it demonstrates a prudent management of asset quality amidst economic uncertainty. We forecast a 25% y-o-y contraction in new loans in 2024 and a 10% annual growth in 2025-2026. Our assumptions are based on the sharp drop in sales and registrations of new trucks this year coupled with our anticipation of a gradual recovery in the next few years.

In 2023, the deterioration in THANI’s asset quality was primarily due to a weakening of debt serviceability, a higher number of repossessed trucks, and a decline in used truck prices. All these factors resulted in a significant rise in credit costs and losses on sale of repossessed trucks, similar to other lenders. The ratio of stage-3 loans (non-performing loans or NPL) formation to average loans rose to 2.4% in 2023 and 2.0% in the first half of 2024 (1H24), compared with the level below 1.2% in the past few years. The NPL ratio increased to 3.4% at the end of 2Q24 from 3.2% at end-2023.

We anticipate THANI’s asset quality to gradually improve starting in 2H24, supported by its ongoing efforts to tighten its underwriting policies, active debt collections, and accelerated NPL write-offs. The company aims to reduce its NPL ratio to 3.2% or below by the end of this year. As of June 2024, the NPL coverage ratio stood at 92%.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

We still assess THANI's earnings capacity as "moderate", despite a potential decline in profits. The company's earnings capacity, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), declined significantly to 3.1% in 2023 and 2.9% (annualized) in 1H24 from 4.3% in 2022. The reduction was largely attributed to a narrower interest spread, given lower yield and higher funding cost, as well as an increase in expected credit losses. Looking ahead, we anticipate EBT/ARWA to remain in the 2.4%-2.8% range in 2024-2026, a level that still supports THANI's ratings. This is based on our assumption of a maintaining 3.5% interest spread, operating expenses to total income of 17% due to higher litigation costs associated with managing NPLs, and 2% credit costs.

We continue to assess THANI's capital as "strong" reflecting ongoing profit accumulation and a prudent dividend policy. The company's risk-adjusted capital (RAC) ratio stood at 25.8% at the end of 2Q24. In terms of financial leverage, its debt to equity (D/E) ratio stood at 3 times at the end of 2Q24, well below the D/E covenant on its debt obligations of 10 times.

We anticipate THANI's funding and liquidity position to remain "adequate." The company has accessed a diverse range of funding sources, including both debt and equity capital markets and credit facilities from financial institutions, which we believe are sufficient for its future growth strategy. At the end of June 2024, THANI had credit facilities totaling THB6 billion from various financial institutions, of this, 50% remained undrawn. We view that the expected cash inflow from customers combined with credit lines from financial institutions should be sufficient to meet the company's liquidity needs.

RATING OUTLOOK

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

RATING SENSITIVITIES

THANI's SACP could be revised upward if its capital base is materially strengthened, with the RAC ratio rising well above 25% for a sustained period, while market position is at least maintained, and earnings capacity and asset quality improve steadily.

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 deteriorating substantially to the extent that EBT/ARWA falls below 1.5%.

The issuer credit rating (ICR) on THANI could be upgraded if the rating on TCAP is upgraded. A rating downgrade on TCAP could also pressure THANI's ratings.

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
THANI240A: THB3,000 million senior unsecured debentures due 2024	A-
THANI24DA: THB500 million senior unsecured debentures due 2024	A-
THANI251B: THB1,000 million senior unsecured debentures due 2025	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-
THANI25DB: THB1,000 million senior unsecured debentures due 2025	A-
THANI262A: THB1,000 million senior unsecured debentures due 2026	A-
THANI262B: THB1,000 million senior unsecured debentures due 2026	A-
THANI264A: THB700 million senior unsecured debentures due 2026	A-
THANI265A: THB2,500 million senior unsecured debentures due 2026	A-
THANI268A: THB2,000 million senior unsecured debentures due 2026	A-
THANI26NA: THB1,100 million senior unsecured debentures due 2026	A-
THANI271A: THB651.1 million senior unsecured debentures due 2027	A-
THANI271B: THB2,000 million senior unsecured debentures due 2027	A-
THANI272A: THB1,000 million senior unsecured debentures due 2027	A-
THANI274A: THB1,300 million senior unsecured debentures due 2027	A-
THANI27NA: THB900 million senior unsecured debentures due 2027	A-
THANI282A: THB1,000 million senior unsecured debentures due 2028	A-
Up to THB2,500 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

© Copyright 2024, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria