

RATCHTHANI LEASING PLC

No. 105/2024
23 December 2024

FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 23/09/24

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

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RATIONALE

TRIS Rating assigns a rating of “A-” to Ratchthani Leasing PLC (THANI)’s proposed issue of up to THB1 billion senior unsecured debentures due within four 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 anticipate that THANI will continue to hold a strong position in the market for HP loans on commercial trucks, even though we expect total outstanding loans to fall below THB50 billion in the next two to three years. As of December 2023, THANI’s outstanding loans stood at THB54.1 billion, remaining stable year-on-year (y-o-y). By the end of the third quarter of 2024 (3Q24), outstanding loans had decreased to THB49.4 billion, marking a 9% contraction year-to-date (YTD). This decline is consistent with industry trends and is due to a conservative growth strategy aimed at maintaining 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 sales 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 to the first nine months of 2024 (9M24), compared with a level below 1.2% in previous years. The NPL ratio increased to 3.8% at the end of 3Q24 from 3.2% at the end of 2023.

We expect THANI’s asset quality to gradually improve starting in the second half of 2024, thanks to its ongoing efforts to tighten underwriting policies, actively collect debts, and accelerate the write-offs of NPLs. The company aims to reduce its NPL ratio to 3.2% or lower by the end of this year. As of September 2024, the NPL coverage ratio was 93%.

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 to be "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 to 3.1% in 2023 and 2.3% (annualized) in 9M24, from 4.3% in 2022. This reduction was mainly due to a narrower interest spread, resulting from lower yields and higher funding costs, as well as an increase in expected credit losses. We anticipate EBT/ARWA to remain in the 2.4%-2.8% range from 2024 to 2026, a level that still supports THANI's ratings. This is based on our assumption of a 3.5% interest spread, operating expenses to total income of 17% which factors in higher litigation costs associated with managing NPLs and 2% credit costs.

We continue to evaluate THANI's capital as "strong," reflecting ongoing profit accumulation and a prudent dividend policy. The company's risk-adjusted capital (RAC) ratio was 26.8% at the end of 3Q24. In terms of financial leverage, its debt to equity (D/E) ratio was 2.8 times at the end of 3Q24, well below the D/E covenant on its debt obligations of 10 times.

We expect THANI's funding and liquidity position to remain "adequate." The company has access to 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, with 50% of this amount remaining undrawn. We believe that expected cash inflows 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. Conversely, a rating downgrade on TCAP could pressure THANI's ratings.

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
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-
THANI277A: THB2,500 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 THB1,000 million senior unsecured debentures due within 4 years	A-
Rating Outlook:	Stable

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