

RATCHTHANI LEASING PLC

No. 41/2017

9 June 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
19/10/16	A-	Stable
25/01/12	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Ratchthani Leasing PLC (THANI) and the ratings of THANI's existing senior unsecured debenture at "A-". At the same time, TRIS Rating assigns a "A-" rating to THANI's proposed issue of up to Bt2,000 million in senior unsecured debentures. The ratings reflect THANI's business profile underlined by the sustainable improvement in the company's market position and financial performance despite an unfavorable economic environment. The ratings also reflect the extensive experience of THANI's management team in the used car and commercial truck financing business, plus the continuous improvements THANI has made in its operating processes and risk management systems. The ratings have taken into consideration the business and financial supports from its major shareholder, Thanachart Bank PLC (TBANK). The ratings of THANI are enhanced from its stand-alone rating because the company is currently classified as a strategically important subsidiary of TBANK. However, the strengths are weighted down by concerns over intense competition and the quality of THANI's loan portfolio, despite improvement during the past two years, which might affect profitability.

THANI has been a subsidiary of TBANK since 2010, after Siam City Bank PLC (SCIB) and TBANK merged and undertook a recapitalization. TBANK now includes THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with consolidated supervision regulations issued by the Bank of Thailand (BOT). Although THANI's main line of business overlaps with TBANK's auto loan business, the two entities offer different products and target different market segments. TBANK intends to have THANI focus on market segments which TBANK has not yet penetrated. TBANK has helped THANI develop its underwriting and collection processes to improve operational efficiency. THANI has implemented a number of risk management policies to comply with the standards required by TBANK. Lastly, THANI has changed its information technology (IT) and accounting systems for hire-purchase lending. It now uses TBANK's systems. THANI has been closely supervised by its parent bank and is indirectly supervised by the BOT through the parent bank.

THANI has gained more financial flexibility after it became TBANK's subsidiary. THANI can now receive greater levels of business and financial supports from its parent bank. The supports it receives have enhanced THANI's competitive position and boosted its expansion efforts. THANI has been able to continuously improve its market position, as shown by the continued growth in its loan portfolio. Outstanding loans grew at double-digit annual rates from 2007 to 2013 or the equivalent of a six-year compound annual growth rate (CAGR) of 45%. Outstanding loans rose from Bt2,854 million in 2007 to Bt27,421 million in 2013. However, the adverse economy since 2014 cut the growth rate. The value of the portfolio increased to Bt28,224 million in 2014, to Bt29,921 million in 2015 and jumped to Bt34,169 million in 2016. At the end of March 2017, outstanding loans increased continuously to Bt35,854 million.

THANI has been focusing its efforts on the commercial truck segment since 2006. Loans made to this segment constituted 65% of the company's total hire-purchase loan portfolio at the end of June 2016. Commercial truck hire-purchase lending is quite sensitive to adverse changes in the economy. THANI compensates

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for the increased risk in this new customer segment by charging higher interest rates, requiring high down payments, and calling for post-dated payment cheques. A consecutive growth over a decade and satisfactory operating results of the commercial truck loan portfolio have proved the ability of THANI's management team in this particular segment.

THANI's ratio of non-performing loans (NPLs) to total loans had fallen almost every year from 2008 through 2012. The ratio dropped from 4.9% in 2008 to 2.3% as of December 2012. However, the ratio increased to 3.6% in 2013, and peaked at 5.2% in 2014, due to the economic slowdown. In 2015, the ratio decreased to 4.6% due to loan write-offs, the sale of bad loans, the restructuring of some loans, and a more stringent collection process. In 2016, the ratio further decreased to 4.4%. However, during the uncertain economic conditions, TRIS Rating still has a concern over the company's loan quality.

THANI's profitability improved significantly in 2012 and 2013. However, in 2014 amidst the economic slowdown, THANI had to set aside a huge loan-loss provision of Bt432 million. THANI reported a net profit of Bt704 million in 2014, down 4% from 2013. In 2015, the net profit improved to Bt749 million, up 6.4% from 2014. In 2016, the net profit was Bt881 million, 17.7% up from 2015. The return on average asset (ROAA) improved slightly to 2.61% in 2015 from 2.55% in 2014. The ratio continued to improve to 2.80% in 2016.

As the strategic subsidiary of TBANK, TRIS Rating has less concern over the company's liquidity and financial flexibility. A recapitalization in November 2011 strengthened the ratio of shareholder's equity to total assets to 17.2% at the end of 2011 from 12.2% at the end of September 2011. THANI used more debt to fund the significant growth of its loan portfolio in 2012 and 2013. As a result, the ratio of shareholders' equity to total assets dropped to 13.1% at the end of 2012. THANI paid a stock dividend in 2013, in an effort to increase its base of equity capital. However, the stock dividend was not enough to maintain the ratio of shareholders' equity to total assets as the loan portfolio grew rapidly. The ratio dropped to 11.8% at the end of 2013. In 2014, THANI paid another stock dividend but the loan portfolio grew at a slower rate. The ratio of shareholders' equity to total assets increased to 13.9% in 2014 and 15.5% in 2015. The ratio of 15% at the end of 2016 plus expected financial performance and dividend policy are considered adequate for the expected loan portfolio growth of approximately 10% during the next three years. For the more-than-expected growth, a new recapitalization may be needed to maintain the adequacy of capital base.

Rating Outlook

The "stable" outlook reflects the expectation that THANI's experienced management team, improving operating efficiency, and the support from its parent company will enable THANI to expand its loan portfolio in the market segments it has targeted. The loan quality is expected to be controlled and maintained at an acceptable level. In addition, THANI's profitability is expected to be maintained. The support THANI receives from its parent bank is expected to continue, especially the provision of credit facilities.

Possible credit upsidings will be limited in the next 12-18 months after the recent upgrades. THANI's ratings or outlook could be revised downward if the business position weakens continuously or the risk position and capitalization deteriorate substantially.

Any change in the degree of support TBANK provides to THANI or the change in the status of the strategic importance of THANI to TBANK would also affect the future ratings and/or outlook.

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
THANI176A: Bt2,000 million senior unsecured debentures due 2017	A-
THANI170A: Bt3,000 million senior unsecured debentures due 2017	A-
THANI185A: Bt2,000 million senior unsecured debentures due 2018	A-
THANI193A: Bt2,000 million senior unsecured debentures due 2019	A-
THANI201A: Bt1,510 million senior unsecured debentures due 2020	A-
THANI203A: Bt1,450 million senior unsecured debentures due 2020	A-
THANI205A: Bt1,000 million senior unsecured debentures due 2020	A-
Up to Bt2,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

Financial Statistics

Unit: Bt million

	Jan-Mar 2017	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	35,100	33,365	29,505	27,864	27,293
Total loans	35,854	34,169	29,921	28,224	27,421
Allowance for doubtful accounts	1,550	1,421	1,000	920	588
Short-term borrowings	16,402	20,151	12,907	8,560	9,010
Long-term borrowings	12,492	7,533	11,393	14,814	14,408
Shareholders' equity	5,256	5,009	4,564	3,879	3,223
Net interest income	437	1,538	1,345	1,325	1,194
Bad debts and doubtful accounts	139	496	412	432	269
Non-interest income	132	501	420	357	286
Operating expenses	120	440	408	353	255
Net income	246	881	749	704	754

Key Financial Ratios

Unit: %

	Jan-Mar 2017	Year Ended 31 December			
		2016	2015	2014	2013
Profitability					
Net interest income/average assets	1.28 *	4.89	4.69	4.81	5.13
Net interest income/total income	55.40	51.50	48.35	48.13	49.81
Operating expenses/total income	15.18	14.73	14.67	12.80	10.66
Operating profit/average assets	0.91 *	3.51	3.30	3.25	4.11
Return on average assets	0.72 *	2.80	2.61	2.55	3.24
Return on average equity	4.79 *	18.41	17.73	19.83	26.31
Asset Quality					
Non-performing loans/total loans	4.24	4.44	4.64	5.24	3.60
Bad debts and doubtful accounts/average loans	0.40 *	1.55	1.42	1.55	1.15
Allowance for doubtful accounts/total loans	4.32	4.16	3.34	3.26	2.14
Allowance for doubtful accounts/non-performing loans	102.08	93.73	72.13	62.20	59.50
Capitalization					
Shareholders' equity/total assets	14.97	15.01	15.47	13.92	11.81
Shareholders' equity/total loans	14.66	14.66	15.25	13.74	11.75
Debt/equity (time)	5.68	5.66	5.46	6.18	7.47
Liquidity					
Short-term borrowings/total liabilities	54.96	71.07	51.75	35.69	37.43
Total loans/total assets	102.15	102.41	101.41	101.29	100.47

* Non-annualized

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