

# BSL LEASING CO., LTD.

No. 21/2023  
27 February 2023

## FINANCIAL INSTITUTIONS

Company Rating: BBB  
Outlook: Stable

Last Review Date: 25/02/22

### Company Rating History:

Date	Rating	Outlook/Alert
25/09/20	BBB+	Stable
04/02/09	BBB	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on BSL Leasing Co., Ltd. (BSL) to “BBB” from “BBB+” with a “stable” outlook. The company rating downgrade results from the downgrade of BSL’s stand-alone credit profile (SACP) to “bbb-” from “bbb”. The rating action reflects BSL’s weakening earnings capacity attributed to the continuous deterioration of asset quality and profit margin.

BSL’s rating incorporates a one-notch uplift from BSL’s SACP. The enhancement reflects our assessment of BSL’s status as a “strategic” subsidiary of Bangkok Bank PLC (BBL, rated “AA+/stable”<sup>\*</sup>). The rating takes into consideration the financial support BSL receives from BBL.

The SACP reflects the company’s strong capital base, sufficient funding, and adequate liquidity position. However, these supporting factors are offset by our concerns over BSL’s asset quality and high credit concentration. In addition, intense competition in the equipment leasing and auto rental businesses together with rising funding costs, are putting pressure on the company’s earnings capacity.

## KEY RATING CONSIDERATIONS

### Weakened earnings capacity

BSL’s earnings assessment is revised to weak from moderate. This reflects the prolonged decline in loan yields and lingering asset quality issues that have considerably weakened the company’s earnings capacity. We see many hindrances to the recovery of the company’s earnings capacity in the medium term. Given the lower earnings capacity, the company’s ability to absorb credit cost is consequentially weakened.

We believe that it would be challenging for BSL to increase its loan yields, even with the rising interest rate environment. This is due to the pricing competition among equipment leasing and auto rental companies as many operators tend to benefit from low-cost funding support from their parent banks and major Japanese finance companies. Moreover, BSL’s earnings are likely to be pressured by rising funding costs following the upturn cycle of interest rates which could further squeeze the company’s loan margins. We project the company’s earnings as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) to fall below 2%, even with no significant increase in NPLs.

### Asset quality remains a key concern

One of the key rating constraints on the rating is the company’s asset quality, which is a key factor contributing to the weakening of BSL’s earnings capacity. The company’s earnings have previously been significantly impacted by bad debts, particularly in 2016-2017 and 2019-2020. Its focus on the small- and medium-sized enterprises (SMEs) sector and credit concentration are attributable to the spike in BSL’s non-performing loans (NPLs). The top-10 client accounts made up 36% of BSL’s loan portfolio at the end of 2022. BSL’s NPL ratio was 13.8% (unaudited) at the end of 2022 up from 13.3% at the end of 2021.

<sup>\*</sup> The rating assigned to BBL is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of the credit profile of BBL. The rating is assigned without participation from BBL.

We believe that the company's asset quality is significantly weaker than the pre-Coronavirus Disease 2019 (COVID-19) level given the susceptibility of BSL's target customers to the weak economy. In 2023, the company's NPL ratio will likely remain elevated as long as NPL accounts remain unresolved following the company's no-write off and no-disposal policy.

### Strategic subsidiary of BBL

BSL is 90% owned by BBL and is part of BBL's full consolidation financial group under the consolidated supervision of the Bank of Thailand (BOT). BBL controls BSL's strategy and operations through the company's three-member board of directors, which includes two representatives from BBL. BBL has provided financial support to BSL in the form of credit facilities, which is likely to continue in the foreseeable future. We also believe BBL will likely extend extraordinary support to BSL if required. However, in our view, BSL is less integrated to BBL compared with BBL's other subsidiaries.

### Strong capital base

In our view, BSL's capital position will likely remain strong, providing the company with ample financial resource to pursue its business plans and manage potential bad debts. This is evident in the company's risk-adjusted capital (RAC) ratio, which has been gradually improving due to profit accumulation as well as low dividend payouts and modest loan growth. The company's RAC ratio increased to around 23.3% in 2022 (unaudited) from 21.3% and 20.0% in 2021 and 2020, respectively. Based on end-of-2022 financials (unaudited), the company's debt to equity (D/E) ratio stood at 1.93 times. We expect the company's RAC ratio to remain above 22% over the next three years.

### Moderate market position

We anticipate BSL's total outstanding loans to remain below THB9 billion over the next few years. As a mid-sized equipment financing company, BSL's loan portfolio in hire-purchase loans and financial leases has remained relatively stable at around THB5-THB6 billion over the past decade. As per end-of-2022 financial (unaudited), the loan portfolio was THB5.06 billion compared with THB5.0 billion in 2021. We believe loan portfolio expansion will be challenging for BSL given the intense competition and weak economic environment.

### Shareholders' support ensures sufficient funding and liquidity

We assess BSL's funding and liquidity position as adequate. In terms of funding structure, BSL has a significant asset-liability maturity mismatch in its funding structure, as its assets are mostly long-term while it has relied on short-term borrowings to keep funding costs low, in accordance with its management policy. At the end of 2022, all its borrowings were short-term. However, the risk is mitigated by funding support through credit lines from its shareholders, BBL and Sumitomo Mitsui Banking Corporation (SMBC), to address any short-term liquidity gap if needed. We expect the support to continue over the longer term.

At the end of December 2022, BSL had total credit facilities of THB3.2 billion from BBL and THB2.1 billion from SMBC, representing 40% and 27% of total credit facilities from financial institutions, respectively. The total credit facilities from BBL increased from THB1.2 billion at the end of 2020 following BBL's increased shareholding in BSL.

Unused credit lines from its parent companies remained high at THB3.5 billion, which should be more than sufficient to meet liquidity needs. In addition, the company has outstanding bills of exchange (B/Es) of THB415 million and anticipated monthly cash inflows of around THB300-THB400 million from loan repayments. In the rising interest rate environment, we expect the company to rely more on B/Es issuance for cost savings.

### BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the operations of BSL during 2023-2025 are:

- New loans in hire-purchase and financial lease of THB2 billion in 2023, with a 5% growth per year thereafter.
- New contracts in operating lease to remain stable.
- RAC ratio to remain above 22%.
- Overall spread of 2.5% per year.
- Credit cost estimated at 3.5% in 2023 and below 1.0% per year thereafter.
- Operating expense to total income ratio to remain between 45%-50% per year.

### RATING OUTLOOK

The "stable" outlook is based on our expectation that the capital base of BSL will remain strong to provide cushion against significant deterioration in asset quality, and that BSL's financial performance and asset quality will be in line with our expectations.

## RATING SENSITIVITIES

The rating and/or outlook could be revised upward if the company's SACP improves significantly. This could result from material improvement in asset quality and earnings capacity. Conversely, the rating and/or outlook could be revised downward if the capital position measured by RAC ratio dropped below 15% or asset quality, earnings capacity, and market position weakened substantially. Moreover, if TRIS Rating views that the degree of importance of BSL to the BBL Group or support from BBL have weakened materially, the rating uplift from potential group support could be removed to reflect our view.

## COMPANY OVERVIEW

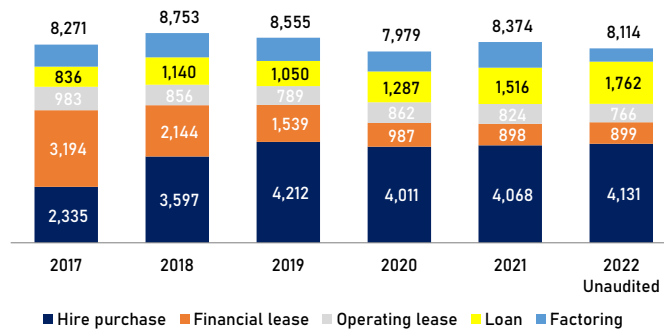
BSL was established in 1985 as Bangkok Commercial Leasing Co., Ltd. through a 50:50 joint venture between BBL and The Mitsui Bank, Ltd. (currently SMBC), a Japanese bank, and related companies. In 2001, the company changed the name to BSL Leasing Co., Ltd. BSL was established to provide industrial equipment financing services and vehicle financing services under lease and hire purchase contracts. BSL entered the factoring business in 2004. At that time, BSL's major shareholders were BBL, holding a 35.9% stake, the SMBC Group (40%), and JA Mitsui Leasing, Ltd. (10%). Both BBL and the SMBC Group provide support to BSL in terms of credit facilities and business referrals.

As of September 2020, BBL acquired the stake in BSL, increasing the ownership to 90% from 35.9%, from other shareholders. BSL's shareholders comprise BBL with a 90% stake, and SMBC with the remaining 10%. With 90% ownership from BBL, BSL became a full consolidated member in the BBL Group and no longer receives limited funding from BBL but will need to comply with all regulations under consolidated supervision of the BOT.

## KEY OPERATING PERFORMANCE

**Chart 1: BSL's Outstanding Loans**

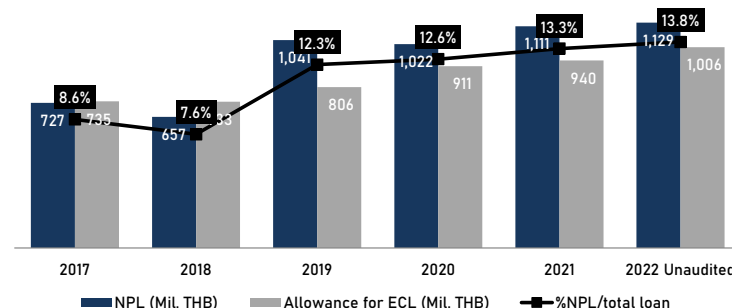
Unit: Mil. THB



Source: BSL

**Chart 2: BSL's NPL Ratio**

Unit: Mil. THB and %



Source: BSL

**Table 1: Shareholders of BSL**

Shareholders	%
Bangkok Bank PLC	90.00
Sumitomo Mitsui Banking Corporation	10.00
<b>Total</b>	<b>100.00</b>

Source: BSL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	----- Year Ended 31 December -----				
	2022*	2021	2020	2019	2018
Total assets	7,581	7,847	7,887	8,572	8,757
Total loans	8,201	8,337	8,098	8,500	8,645
Allowance for expected credit loss	1,006	940	911	806	733
Short-term debts	4,658	5,162	4,730	6,138	5,710
Long-term debts	0	0	673	0	651
Shareholders' equity	2,587	2,450	2,284	2,200	2,096
Net interest income	613	630	637	628	670
Expected credit loss	67	34	182	148	2
Non-interest income	59	47	68	47	50
Operating expenses	371	373	371	374	403
Earnings before taxes	233	269	153	158	315
Net income	186	216	135	153	289

\* Unaudited financial statement

*Unit: %*

	----- Year Ended 31 December -----				
	2022*	2021	2020	2019	2018
<b>Profitability</b>					
Net interest income/average assets	7.94	8.00	7.74	7.25	7.92
Non-interest income/average assets	0.76	0.59	0.83	0.55	0.60
Operating expenses/total income	48.82	48.66	44.47	43.26	45.07
Operating profit/average assets	3.02	3.42	1.86	1.83	3.72
Earnings before taxes/average risk-weighted assets	2.06	2.34	1.29	1.26	2.57
Return on average assets	2.42	2.75	1.64	1.77	3.41
Return on average equity	7.40	9.13	6.00	7.15	14.60
<b>Asset Quality</b>					
Non-performing loans/total loans	13.77	13.32	12.62	12.25	7.60
Expected credit loss/average loans	0.81	0.42	2.19	1.73	0.02
Allowance for expected credit loss/non-performing loans	89.15	84.63	90.06	77.41	111.62
<b>Capitalization</b>					
Risk-adjusted capital ratio	23.30	21.30	19.98	17.78	16.55
Debt/equity (time)	1.93	2.20	2.45	2.90	3.18
<b>Liquidity</b>					
Stable funding ratio	55.06	51.71	62.55	44.41	60.16
Liquidity coverage measure (times)	0.02	0.01	0.01	0.01	0.01
Short-term debts/total liabilities	93.28	95.65	84.42	96.31	85.72

\* Unaudited financial statement

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Nonbank Financial Institution Methodology, 17 February 2020

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**BSL Leasing Co., Ltd. (BSL)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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