

SRISAWAD FINANCE PLC

No. 101/2019
28 June 2019

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 10/07/18

Company Rating History:

Date	Rating	Outlook/Alert
10/07/18	BBB	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Srisawad Finance PLC (BFIT) to “BBB+” from “BBB”. The upgrade reflects BFIT’s strong capital and lower leverage as well as improving market position and profitability. The rating of BFIT is based on its status as a core operating entity under Srisawad Corporation PLC (SAWAD) Group. The rating also takes into account financial flexibility given its status as a finance company, which can access deposits from public. BFIT’s rating is, however, constrained by its asset quality which remains relatively weaker compared with peers.

The “stable” outlook is based on TRIS Rating’s expectation that BFIT will continue to expand the loan portfolio while maintaining sound profitability and low leverage. The outlook also assumes that BFIT’s loan quality will be controlled at an acceptable level.

KEY RATING CONSIDERATIONS

Strong capital base and improving leverage

BFIT’s capital base has risen strongly after recapitalization, leading to a significantly lower leverage level, captured by the debt to equity (D/E) ratio which we expect to fall below 3 times from 6.9 times at the end of March 2019. In March 2019, BFIT announced a rights offering (RO), which has been fully subscribed by its parent company, SAWAD. The total proceeds of approximately Bt6 billion to be received from SAWAD will likely raise BFIT’s tier-1 capital to almost 50% by the end of June 2019 and SAWAD’s stake in BFIT to 78% from 45% recently.

The recapitalization and continuous profit accretion should enable BFIT to maintain strong equity base in 2019-2021. The strong capital base provides additional room for BFIT to expand its loan portfolio and act as a buffer for downside risk from possible loan losses in the future.

Profitability likely to remain healthy

We expect BFIT’s profitability to continue to improve in 2019-2021, after a 60% increase in net profit year-on-year (y-o-y) in 2018. The strong rise in net profit was driven primarily by restructuring of lending business within the Group. Starting from 2018, loans backed by vehicles under loan contracts and loans with size of less than Bt10 million that are backed by properties will be booked at BFIT.

As a result of group restructuring, outstanding loans at BFIT increased by Bt8.8 billion (94%) while interest income surged by Bt1.6 billion (266%) by the end of 2018. However, net income rose by a small magnitude of Bt142 million to Bt377 million (61%) in 2018. This was due to higher operating expenses from the fees charged to BFIT by related company for loan processing services. The high operating expenses have still affected BFIT’s operating results so far this year. For the first three months of 2019, net income decreased to Bt51 million, down 51% y-o-y. Nonetheless, we believe BFIT will be able to manage such expenses as the company has support from its parent. Therefore, we expect BFIT’s return on average assets (ROAA) to remain in the range of 2% over the next few years.

Financial flexibility

BFIT’s ability to accept deposits from public, given its status as a finance

company, provides the company with financial flexibility which tends to be credit positive for a rated entity. Apart from deposit funding, BFIT can also borrow from SAWAD to support its business expansion. At the end of March 2019, BFIT's funding structure consisted mainly of deposits of Bt7.2 billion and borrowings from SAWAD of Bt8.5 billion.

Temporary weakness in loan quality

BFIT's non-performing loans (or NPLs, loans more than 90 days past due) to total loans have been on a rising trend since 2018. This could become a credit concern if its asset quality continues to weaken. Despite improvement from the past, with NPL ratio falling significantly to 3.8% at the end of 2018 from 17.8% at the end of 2016, the ratio rose to 5.2% at the end of March 2019. The increase is due to loan reclassification based on the advice from the regulator, which is likely to be a one-time effect. The "stable" outlook takes into account our expectation that BFIT's loan quality will not deteriorate from the current level in the next 36 months

BASECASE ASSUMPTIONS

- Outstanding portfolio to grow by 10%-30% per year during 2019-2021.
- D/E ratio is expected to remain below 3 times during 2019-2021.
- ROAA will average at 2% during the next three years.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that BFIT will continue to expand the loan portfolio while maintaining sound profitability and low leverage. The outlook also assumes that BFIT's loan quality will be controlled at an acceptable level.

RATING SENSITIVITIES

The possibility of further upgrade is limited in the near term. The downward rating and/or outlook could occur should the company's asset quality and its competitive position deteriorate significantly or leverage has increased, captured by D/E ratio exceeding 6.5 times.

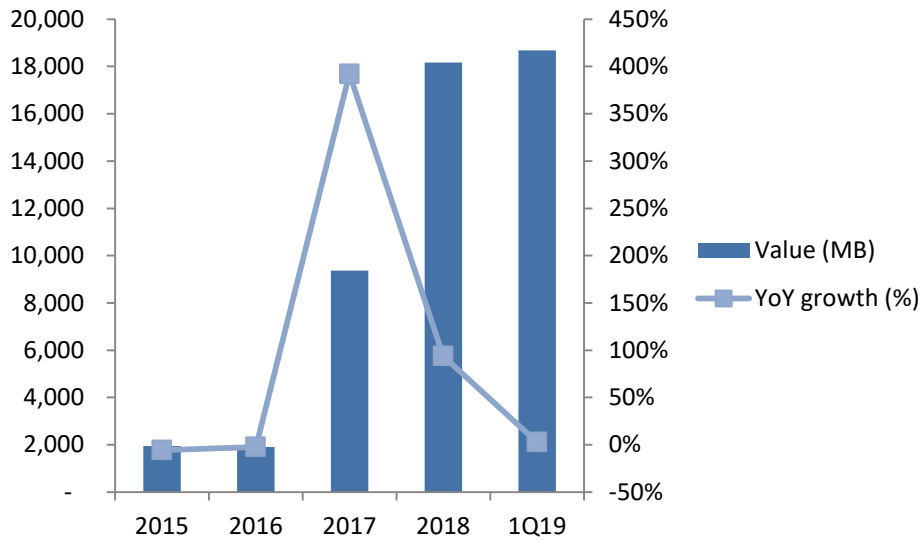
COMPANY OVERVIEW

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 debentureholders.

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 properties under loan agreements. In June 2019, SAWAD's holding increased to 77.95% of BFIT's paid-up capital of Bt2.76 billion.

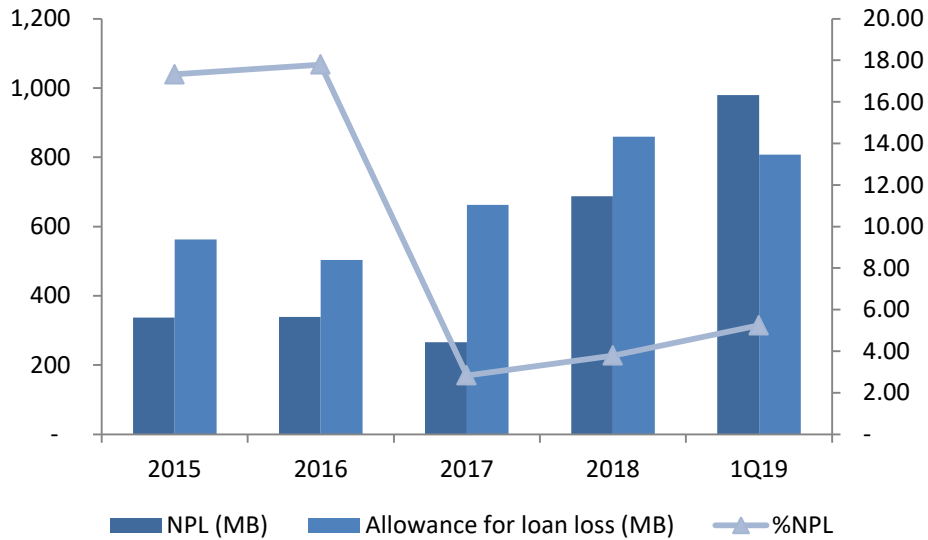
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: BFIT
Year-to-date growth for 1Q19

Chart 2: Asset Quality



Source: BFIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	20,361	19,677	11,294	5,593	5,314
Total loans	18,683	18,172	9,372	1,904	1,948
Allowance for doubtful accounts	807	860	662	503	563
Deposits	7,237	7,274	6,068	3,381	3,177
Borrowings	8,506	8,506	2,506	6	7
Shareholders' equity	2,570	2,517	2,150	2,075	1,982
Net interest income	573	1,760	496	175	157
Bad debts and doubtful accounts	(37)	200	160	0	0
Non-interest income	42	206	248	64	60
Operating expenses	587	1,297	308	97	97
Net income	51	377	235	129	98

Unit: %

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Profitability					
Net-interest income/average assets	11.44 *	11.37	5.87	3.21	3.17
Net-interest income/total income	73.87	71.70	57.56	56.91	49.00
Operating expenses/total income	75.73	52.84	35.77	31.60	30.32
Operating profit/average assets	11.73 *	8.38	3.65	1.78	1.96
Return on average assets	1.02 *	2.44	2.78	2.36	1.98
Return on average equity	8.03 *	16.17	11.12	6.34	5.02
Asset Quality					
Non-performing loans/total loans	5.24	3.79	2.83	17.79	17.32
Bad debts and doubtful accounts/average loans	(0.79) *	1.45	2.83	0.00	0.00
Allowance for doubtful accounts/total loans	4.32	4.73	7.06	26.43	28.89
Allowance for doubtful accounts/non-performing loans	82.46	124.96	249.41	148.57	166.82
Capitalization					
Shareholders' equity/total assets	12.62	12.79	19.03	37.10	37.30
Shareholders' equity/total loans	13.76	13.85	22.94	108.97	101.76
Debt to equity (time)	6.92	6.82	4.25	1.70	1.68
Liquidity					
Loans/deposits	258.15	249.82	154.46	56.33	61.30
Total loans/total assets	91.76	92.35	82.99	34.05	36.66

* Annualized

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018

Srisawad Finance PLC (BFIT)

Company Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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