

# SRISAWAD CORPORATION PLC

No. 100/2019  
28 June 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 10/07/18

### Company Rating History:

Date	Rating	Outlook/Alert
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

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## RATIONALE

TRIS Rating upgrades the company rating on Srisawad Corporation PLC (SAWAD) to “BBB+” from “BBB”. The upgrade reflects the company’s strong capital base as seen in low leverage, steady growth of loan portfolio, and solid profitability. SAWAD’s rating is, however, constrained by its moderate asset quality and higher exposure to property-related lending.

The “stable” outlook is based on our assumption that SAWAD will maintain its market position, profitability, and loan quality at an acceptable level. At the same time, we expect that the management will gradually improve its loan quality and maintain exposure to property loans at an appropriate level.

## KEY RATING CONSIDERATIONS

### Strong capital base and low leverage

We expect SAWAD’s debt to equity (D/E) ratio to remain below 2 times over the next few years. The company’s leverage has been lower than that of peers with D/E ratio declining from 2.2 times in 2016 to 1.4 times at the end of March 2019. The decrease was partly due to capital injection from Cathay Financial Holding Co., Ltd.’s (Cathay) private placement of Bt2.6 billion in February 2019.

The strong profit accumulation and low dividend payout also helped bolster the company’s equity. As at March 2019, equity has grown to Bt17.0 billion from Bt11.2 billion at the end of December 2017, a compound annual growth rate (CAGR) of 21%. We believe capital injection, strong profitability, and low dividend payout should help SAWAD maintain strong capital for business expansion in the medium term.

### Steadily growing portfolio

SAWAD’s consolidated loan portfolio (including loans originated by Srisawad Power 2014 Co., Ltd. (S2104) and Srisawad Finance PLC (BFIT)) has grown almost two folds over the last few years to Bt32.8 billion at the end of March 2019 from Bt17.5 billion in 2016. Loan growth in the first quarter of 2019 was up 5% year-to-date. New branches as well as the expansion towards higher-ticket loans have been driving the growth. As of March 2019, SAWAD renders services through 3,086 branches. With the targeted new branch opening of around 200 to 300 branches per year, SAWAD will likely continue to grow its loan portfolio at double-digit over the next three years.

### Solid profitability

We expect SAWAD’s profitability to remain strong despite a moderate decline due to group restructuring and lower loan yields. Consolidated net income increased to Bt3 billion in 2018, up 11% from 2017. Net income for the first three months of 2019 was Bt0.9 billion, 36% higher year-on-year (y-o-y). The return on average assets (ROAA) dropped to 8.3% in 2018 from 9.8% in 2017, but remained higher than most non-bank financial institutions rated by TRIS Rating. With the company’s increased stake in BFIT to 78% in June 2019 from 45% in 2018, we expect a higher average loan yield in the short-term since loans booked at BFIT can be charged higher than those booked at S2014. However, we view yield improvement as being temporary given high competition in the industry.

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### Moderate asset quality and reserves

Although SAWAD has maintained its ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans in a range of 3% to 4%, in line with its target of below 5%, its NPL ratio remained above its direct peers' average of around 1.2%. The rating and outlook are based on our expectation that in the longer term SAWAD's NPL ratio would gradually trend downward to be closer to peers' average. On provisioning, SAWAD's NPL coverage ratio has also remained below 100%, lower than peers' average. A material improvement in loan loss coverage, either from lower NPLs or higher provisions, would be positive for its rating.

### Risk from property-related lending

An increase in loans backed by properties has exposed SAWAD to asset liquidation and credit concentration risks. On liquidity, it generally takes time to foreclose and sell the properties in case of default. At the same time, concentration risk may increase with greater exposure to property loans given larger ticket size compared with auto-backed loans. However, SAWAD has implemented risk mitigation policy by offering property-backed loans at appropriate loan-to-value ratio. During the past three years, SAWAD has increased property loan mix from 25% of total portfolio in 2016 to 39% in March 2019. Although concentration risk based on the SAWAD's top-20 loan data has declined gradually, it remains significantly higher than its direct peers. The "stable" outlook is based on our expectation that the property loan exposure will be controlled at a proper level.

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### BASECASE ASSUMPTIONS

- Outstanding portfolio will grow by 15%-30% per year during 2019-2021.
- D/E ratio is expected to remain below 2 times during 2019-2021.
- Net income will averagely grow at 14% per year over the next three years.

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### RATING OUTLOOK

The "stable" outlook is based on our assumption that SAWAD will maintain its market position, ROAA, and loan quality at the acceptable level. At the same time, we expect that the management will gradually improve its loan quality and maintain exposure to property loans at an appropriate level.

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### RATING SENSITIVITIES

The likelihood of a rating upgrade is limited in the near- to medium-term. The rating and/or outlook could be revised downward if asset quality weakens significantly, with NPL ratio trending upward closer to 5% or D/E ratio exceeds 4.5 times or profitability declines materially for a sustained period of time as a result of weakened risk management framework.

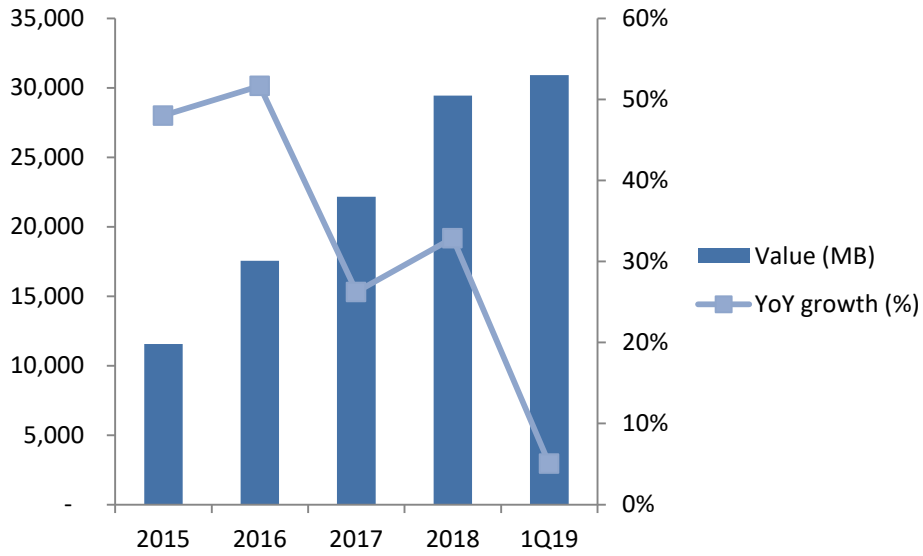
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### COMPANY OVERVIEW

SAWAD, founded in 2008 by the Kaewbootta family, has provided secured personal loans since 1979. The company offers secured personal loans made against vehicles (e.g., used motorcycles, cars, trucks, and more) or land and properties. In 2014, SAWAD was listed on the Stock Exchange of Thailand (SET). As of March 2019, the Kaewbootta family owned approximately 33% of the outstanding shares. Loans secured by properties comprised 39% of outstanding loans, followed by passenger cars (34%) and motorcycles and other vehicles (16%). Nano finance loans made up 11% of outstanding loans.

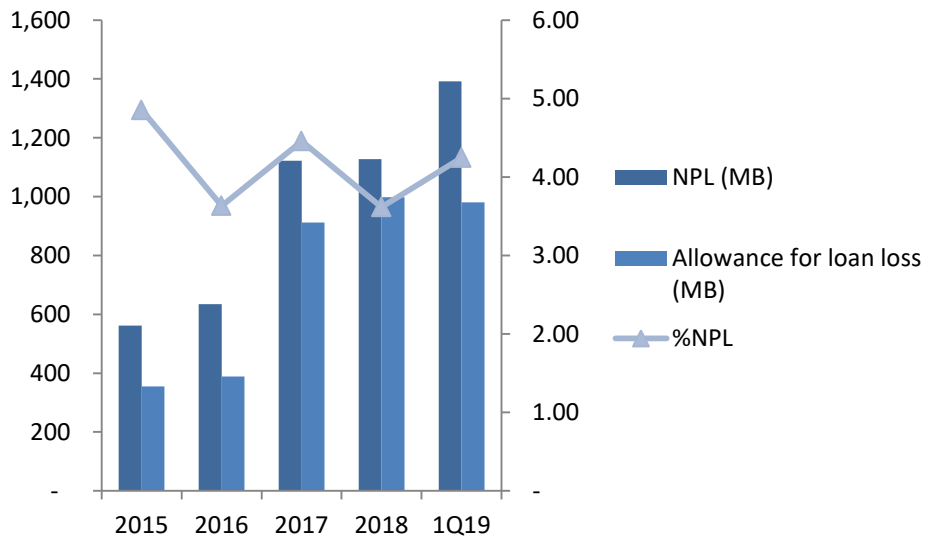
**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**



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

**Chart 2: Asset Quality**



Source: SAWAD

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	41,171	39,217	33,377	22,237	13,640
Total loans	32,791	31,171	25,179	17,469	11,568
Allowance for doubtful accounts	980	997	912	389	355
Short-term borrowings	14,853	15,660	12,789	8,535	2,544
Long-term borrowings	7,637	8,441	8,340	6,037	5,789
Shareholders' equity	17,072	13,628	11,175	6,857	4,772
Net interest income	1,461	5,078	4,385	3,639	2,536
Bad debts and doubtful accounts	61	388	394	158	168
Non-interest income	491	2,082	2,005	1,327	960
Operating expenses	810	3,046	2,666	2,298	1,678
Net income	872	3,001	2,715	2,009	1,336

\* Consolidated financial statements

Unit: %

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
<b>Profitability</b>					
Net-interest income/average assets	14.53 **	13.99	15.77	20.29	22.82
Net-interest income/total income	67.97	64.43	62.65	68.21	67.16
Operating expenses/total income	37.69	38.65	38.09	43.07	44.42
Operating profit/average assets	10.76 **	10.26	11.61	14.00	14.85
Return on average assets	8.68 **	8.27	9.76	11.20	12.02
Return on average equity	22.72 **	24.20	30.12	34.55	32.57
<b>Asset Quality</b>					
Non-performing loans/total loans	4.24	3.62	4.46	3.63	4.86
Bad debts and doubtful accounts/average loans	0.76 **	1.38	1.85	1.09	1.73
Allowance for doubtful accounts/total loans	2.99	3.20	3.62	2.23	3.07
Allowance for doubtful accounts/non-performing loans	70.44	88.46	81.26	61.27	63.26
<b>Capitalization</b>					
Shareholders' equity/total assets	41.47	34.75	33.48	30.84	34.98
Shareholders' equity/total loans	52.06	43.72	44.38	39.25	41.25
Debt to equity (time)	1.41	1.88	1.99	2.24	1.86
<b>Liquidity</b>					
Short-term borrowings/total liabilities	61.64	61.20	52.11	55.50	28.69
Total loans/total assets	79.65	79.48	75.44	78.56	84.81

\* Consolidated financial statements

\*\* Annualized

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**RELATED CRITERIA**

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- Nonbank Lending Company, 7 May 2018

**Srisawad Corporation PLC (SAWAD)**

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

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**TRIS Rating Co., Ltd.**

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