

SRISAWAD CORPORATION PLC

No. 105/2023
9 June 2023

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Guaranteed	BBB+
Outlook:	Stable

Last Review Date: 23/12/22

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

Contacts:

Jantana Taveeratanasilp

jantana@trisrating.com

Siriwan Weeramethachai

siriwan@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweekchok Jiamsakunthum

taweekchok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Srisawad Corporation PLC (SAWAD) and the ratings on its outstanding guaranteed debentures at “BBB+” with a “stable” outlook. The ratings on SAWAD reflect the company’s strong market position in the title loan business, well diversified funding source, and sufficient liquidity. While the ratings continue to be supported by SAWAD’s strong capital, they are weighed down by the recent declining trend in capital and earnings capability. Heightened credit risk in the market and fierce competition in the title loan industry continue to be key rating constraints.

KEY RATING CONSIDERATIONS

Stronger market position

SAWAD’s market position in the title loan business is supported by the company’s expertise and continuous branch expansion. Its branch network is the second largest among title loan operators, with 5,335 branches at the end of March 2023.

The company’s rapid growth in new motorcycle hire purchase (HP) operated by Srisawad Capital 1969 PLC (SCAP) since last year has also helped expand SAWAD’s overall market position further. SCAP’s new motorcycle HP alone grew strongly by about 300% year-on-year (y-o-y) to THB23.6 billion in the first quarter of 2023 (1Q23), and it is now the second largest lender in this segment.

Overall, SAWAD’s consolidated outstanding loans reached THB64.6 billion at the end of 1Q23, up 74% y-o-y and 17% year-to-date, surpassing that of other peers in the title loan and new motorcycle HP segments. With SCAP’s active growth target, we expect new motorcycle HP to provide the main impetus for the group’s loan expansion in the next few years.

We note, however, that although strong credit growth may help secure the company’s market position, rapid growth due to a shift in strategy that is not well managed could result in a weakened capital position and asset quality, and could put pressure on SAWAD’s ratings.

Consolidation of Fast Money supports growth but could pressure yield

SAWAD recently announced a share buyback in Fast Money Co., Ltd. (FM), a joint venture formed in 1Q21 between Government Savings Bank (GSB, rated “AAA/stable”) and SAWAD. FM operates motorcycle and car title loans.

The transaction is expected to be completed in June 2023. It will result in a consolidation of FM into SAWAD starting in 2Q23. As of 1Q23, FM’s outstanding loans stood at THB14.4 billion, equivalent to about 20% of SAWAD’s consolidated loans. With FM continuing to operate post-consolidation, SAWAD’s loan portfolio is poised to expand further.

However, the consolidation of FM is likely to put some pressure on SAWAD’s overall loan yield. This is due to the lower yield generated by FM’s portfolio, compared to other types of products currently offered by SAWAD. FM’s lower yield is due to GSB’s social-support policy to lend at below-market rates. Going forward, FM’s loans that are funded by credit lines from GSB will continue to be extended at lower rates.

Capital remains strong but is declining rapidly

We continue to assess SAWAD’s capital and leverage position as “very strong”, with a risk-adjusted capital (RAC) ratio of 28.5% at the end of March 2023. However, this

figure represents a sharp fall from 48.4% a year ago, caused mainly by a rapid expansion of new motorcycle HP operated by SCAP in 2022. At the end of March 2023, the proportion of new motorcycle HP loans more than doubled to 37% of total loans from 16% at the end of March 2022.

We project SAWAD's RAC ratio to decline to around 26% in 2023-2025 from 29% at the end of March 2023, assuming overall growth in new loans of 20%-25% and a 50% dividend payout ratio. A material expansion in new motorcycle HP, which we view as a high credit risk product, could put pressure on the company's capital position and the ratings.

Declining yields and rising costs to constrain earnings capability

We assess the company's earnings capacity as "adequate". We expect SAWAD's earnings capability, measured by the ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWA), to fall to 5%-6% over the next few years, from 8.6% in 2022. Our projection of lower earnings capability is premised on our assumptions of lower yield, higher operating costs, and rising funding costs. This is despite our expectation of increased revenue from continuing strong loan growth.

A few factors that should place yield under pressure are: 1) the new regulation effective in 2023 stipulated by the Office of the Consumer Protection Board (OCPB) which sets the interest rate ceiling for new motorcycle HP at 23%. The cap is significantly lower than the 30% range SCAP generated in 2022; 2) intense competition, especially from commercial banks' subsidiaries, that have encroached on the asset-backed title loan market. Their funding costs are likely to be lower, supported by the parent banks, allowing them to accept lower yields; and 3) the consolidation of FM's portfolio which charges below-market rates if funded by borrowings from GSB.

Our assumption of a higher cost-to-income ratio considers the higher mix of new motorcycle HP loans, which tend to have higher operating costs compared to title loans due to dealer commissions and higher losses from repossessed assets. Lastly, the rise of funding costs pushed by the rate-hike cycle and the company's increased leverage should result in elevated financing costs.

Asset quality deteriorates but remains manageable

We assess SAWAD's risk position as "moderate", in line with most other title loan operators, given the high credit risk profile of its target customers. Despite recent deterioration of asset quality, evidenced by increased non-performing loan (NPL) formation and rising credit costs, we expect these metrics to remain at acceptable levels over the next few years.

Meanwhile, the NPL ratio has been declining due to strong loan growth. At the end of March 2023, the company's NPL ratio stood at 2.49%, a decrease from 3.26% at the end of March 2022. Despite the active growth targets over the next few years, we expect SAWAD's NPL ratio to gradually ascend to about 4% in 2025 as we expect NPL formation to stay elevated over the next few years. This is likely to be influenced by the ending of debt relief programs and the seasoning of the new motorcycle HP portfolio.

Nevertheless, we view that SAWAD's relatively low loan-to-value (LTV) policy for title loans as well as effective debt collection and asset foreclosure should help mitigate provisioning risk in the medium term. For unsecured loans and personal loans, which accounts for 5% of total loans, overall current credit risk is minimal, in our view. This is because SAWAD offers personal loans mostly to the high-income segment.

In terms of provisioning, we still consider SAWAD's provisioning policy to be less conservative than peers with an NPL coverage ratio of 47.4% at the end of March 2023, compared with a range of 105%-270% for other title loan operators. Nonetheless, we expect SAWAD to gradually increase expected credit loss (ECL) provisioning in line with its loan portfolio expansion.

Slower expansion of property-backed loans alleviates credit risk concerns

We maintain our view that substantial expansion of property-backed lending may put the company's credit risk profile under pressure. In spite of its prudent LTV, generally 40%-50% of appraised value, we believe that the lengthy foreclosing and liquidating process of the properties could lead to rising liquidity risk if the portfolio expands excessively. The large ticket size of property loans also increases credit concentration risk.

The slower growth of this segment during 2020-2021 has reduced the proportion of land title loans to 29% of SAWAD's total loans from 40% in the past. The NPL ratio also fell to 2.2% from the peak of 3.8% at the end of 2021. Although we view this as a positive development, the resumption of aggressive growth could renew our concerns over credit risk. At the end of March 2023, SAWAD's property-backed loans stood at THB18.9 billion.

Adequate funding and liquidity profile

SAWAD's solid equity base and diversified sources of funds support our "adequate" funding assessment, thanks to the company's ability to access both equity and debt capital markets. As of March 2023, the company's funding structure comprised 49% long-term and 51% short-term borrowings. Outstanding debentures amounted to THB25.5 billion, of which

THB8.3 billion will mature within the next 12 months. The outstanding debentures are unconditional and irrevocable, and guaranteed by Srisawad Power 2014 Co., Ltd., a 100% owned subsidiary of SAWAD that contributes more than 30% of the consolidated earnings. This should help mitigate risk from structural subordination.

We view the company's liquidity position as adequate. As of March 2023, the company had THB15.6 billion in credit facilities from several financial institutions, 31% of which was available for use.

Challenges and risks remain for title loan operators

The robust growth of title loans and new motorcycle HP are likely to continue in the medium term, supported by network expansion, the aggressive growth targets of existing operators, entry of new players, and strong loan demand. That said, we have observed a number of key developments and challenges that have impacted non-bank lenders, and these need to be monitored. Firstly, declining interest spreads due to competitive pricing and interest rate caps as well as higher funding costs are squeezing profitability. Rising credit risk from aggressive growth strategies, coupled with the weakened credit profile of target customers, has resulted in higher credit costs for most lenders. Moreover, aggressive loan growth targets have led to eroded capital, which, if continued, could impact the credit profile of rated companies.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAWAD's operations in 2023-2025 are as follows:

- Outstanding portfolio to grow by 20%-35%.
- Interest spread to stay around 14-15%.
- NPL ratio to remain below 4.5%.
- NPL coverage ratio to stay around 45%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAWAD's capital position will remain strong. We also expect SAWAD's market position to remain strong and its financial performance and asset quality to be well managed, in line with our base-case scenario.

RATING SENSITIVITIES

An upward rating revision is unlikely in the near term but could occur if the company's market position remains solid, with a well-diversified asset mix, while asset quality and capital position improve materially. Conversely, the ratings and/or outlook could be revised downward if SAWAD's asset quality weakens significantly causing capital, leverage, and earnings capability to deteriorate such that the RAC ratio falls below 25% or EBT/RWA falls below 3.5% for a prolonged period.

COMPANY OVERVIEW

In 1979, the Kaewbootta family, the founder and current major shareholder of SAWAD, started providing secured personal loans. In 2007, the family sold the entire business, run by Srisawad International 1991 Co., Ltd. (SI), to a financial institution.

In 2014, SAWAD was listed on the Stock Exchange of Thailand (SET). After an initial public offering (IPO) in May 2014, its paid-up capital climbed by THB250 million to THB1 billion. SAWAD used the IPO proceeds to pay off some debts and expand the loan portfolio.

SAWAD's major shareholder is the Kaewbootta family, holding approximately 50% of the company's shares. In addition, SAWAD has three active affiliates: FM, which provides unsecured personal loans; SWP Asset Management Co., Ltd., formerly Srisawad Asset Management Co., Ltd., which offers debt collection services, and purchases and manages distressed assets; and Srisawad International Holding Co., Ltd., a new subsidiary, established to invest in other loan providing companies. SAWAD, as the parent company, offers secured personal loans made against all kinds of vehicles (e.g., used motorcycles, cars, trucks, and other types of vehicles), land, or properties.

In 2019, Cathay Financial Holding Co., Ltd. injected THB2.6 billion into the company and became SAWAD's strategic partner, holding 9.5% of the company's shares. SAWAD also increased its shareholding in Srisawad Finance PLC (BFIT) to 82% in 2019, from 45% in 2018.

In November 2020, the company increased its equity stake in SCAP to 65% from 5% with THB192.5 million of investment to expand its personal loan business.

In March 2021, the company entered into a joint investment with GSB in FM, a wholly-owned subsidiary of SAWAD, to operate the auto title loan business. GSB invested THB1.5 billion (THB1.3 billion of newly issued shares and THB198.9 million of existing shares from SAWAD), while SAWAD also subscribed to the newly issued shares for THB1.3 billion. GSB and SAWAD currently hold 49% each, making FM no longer SAWAD's subsidiary.

Also, in March 2021, SCAP, another subsidiary of SAWAD, acquired an 85% equity stake in S Leasing Co., Ltd. (SLS) for THB42.5 million. Therefore, SCAP currently holds 90% of SLS from a prior stake of 5%. The purpose of the investment is to expand the new motorcycle HP business.

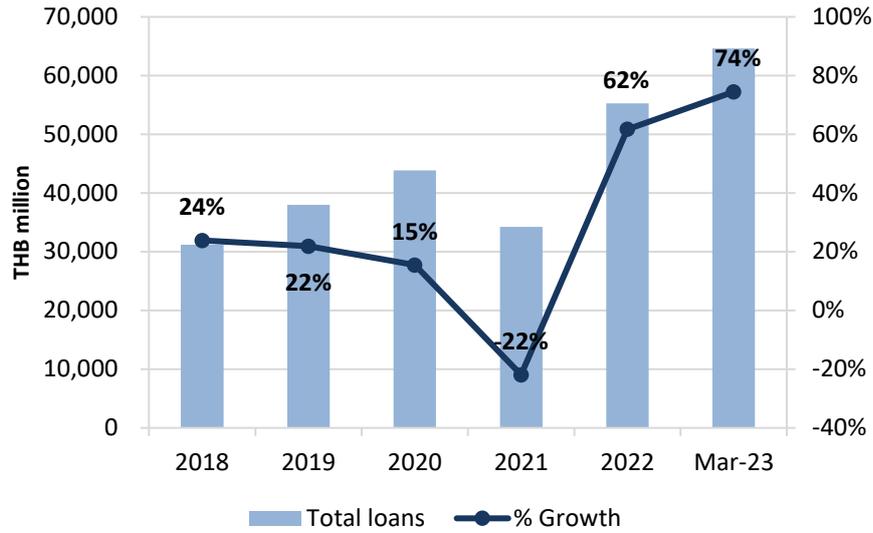
In April 2022, SCAP acquired 100% of Cathay Leasing Co., Ltd. (CTL), which provides new motorcycle HP, for THB39.77 million from Mr. Pratya Sermsuksakulchai (75% of shares) and Cathay Holdings Co., Ltd. (25% of shares). The aim of the investment is to expand the new motorcycle HP business.

In September 2022, BFIT, an 82%-owned subsidiary of SAWAD returned its finance business license to the Bank of Thailand (BOT). As part of SAWAD's group business restructuring, BFIT undertook a share swap by issuing 750 million new shares at THB24 per share totaling THB18 billion to acquire 100% of the shares of SCAP from SAWAD (65% shares in SCAP), Mr. Wichit Phayuhanaveechai (10% share in SCAP), and from nine other shareholders (the remaining 25% shares in SCAP).

After the completion of the transaction in 3Q22, SAWAD's shareholding in BFIT decreased from 81.64% to 72.05%. BFIT changed its name to SCAP 1969, consolidated SCAP's business through an Entire Business Transfer (EBT), started running SCAP's existing business, and ran down BFIT's existing portfolio. SCAP has a 90% stake in SLS and 100% in CTL, which both operate new motorcycle HP business, while SCAP itself operates unsecured personal lending.

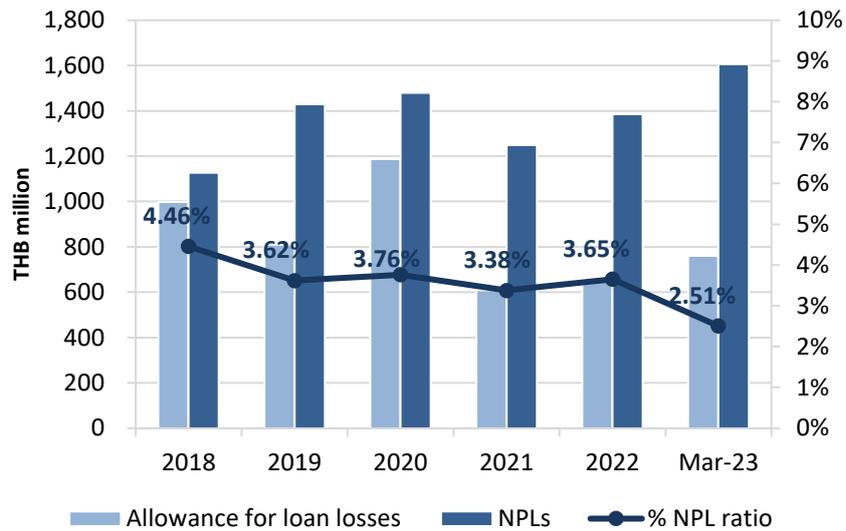
In May 2023, SAWAD announced a 49% share buy back in FM. The transaction value is THB1.5 billion which is the same as the transaction cost two years ago. After the transaction, SAWAD will hold 98% of FM. The transaction is expected to be completed by 30 June 2023.

Chart 1: Outstanding Loans



Source: SAWAD

Chart 2: Asset Quality



Source: SAWAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	78,915	69,482	49,967	52,007	45,462
Total loans	64,612	55,270	34,189	43,809	37,967
Allowance for expected credit loss	761	656	609	1,188	809
Short-term debts	22,771	17,664	9,777	11,044	12,601
Long-term debts	21,671	18,803	9,365	14,927	11,271
Shareholders' equity	30,075	29,005	26,975	24,070	20,192
Net interest income	2,763	7,918	6,065	7,266	6,414
Expected credit loss	208	78	(455)	321	552
Non-interest income	868	3,527	3,346	2,825	2,551
Operating expenses	1,778	5,442	3,476	3,787	3,532
Earnings before taxes	1,646	5,924	6,390	5,983	4,881
Net income	1,321	4,827	5,038	4,791	3,929

Unit: %

	Jan-Mar 2023	Year Ended 31 December			
		2022	2021	2020	2019
Profitability					
Net interest and dividend income/average assets	14.90	13.26	11.90	14.91	15.15
Non-interest income/average assets	4.68 *	5.91	6.56	5.80	6.03
Operating expenses/total income	44.72 *	44.23	34.07	34.45	36.06
Operating profit/average assets	8.87 *	9.61	12.53	12.28	11.53
Earnings before taxes/average risk-weighted assets	7.11 *	8.67	12.29	12.13	11.48
Return on average assets	7.12 *	8.08	9.88	9.83	9.28
Return on average equity	17.89	17.24	19.74	21.65	23.23
Asset Quality					
Non-performing loans/total loans	2.49	2.51	3.65	3.38	3.76
Expected credit loss/average loans	1.39 *	0.17	(1.17)	0.79	1.60
Allowance for expected credit loss/non-performing loans	47.38	47.37	48.76	80.25	56.65
Capitalization					
Risk-adjusted capital ratio	28.48	32.37	49.38	46.01	43.58
Debt/equity (times)	1.62	1.40	0.85	1.16	1.25
Funding and Liquidity					
Stable funding ratio	144.02	151.18	187.51	305.17	286.76
Liquidity coverage measure (times)	0.12	0.16	0.45	0.18	0.17
Short-term debts/total debts	46.62	43.64	42.52	39.53	49.87

* Annualized

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 7 September 2022
- Nonbank Financial Institution Methodology, 17 February 2020

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB+
Issue Ratings:	
SAWAD248B: THB1,998 million guaranteed debentures due 2024	BBB+
SAWAD253A: THB657 million guaranteed debentures due 2025	BBB+
SAWAD254A: THB4,113 million guaranteed debentures due 2025	BBB+
SAWAD258A: THB2,882.6 million guaranteed debentures due 2025	BBB+
SAWAD261A: THB1,999.5 million guaranteed debentures due 2026	BBB+
SAWAD265A: THB5,009.5 million guaranteed debentures due 2026	BBB+
SAWAD266A: THB1,343 million guaranteed debentures due 2026	BBB+
SAWAD271A: THB2,002.5 million guaranteed debentures due 2027	BBB+
SAWAD275A: THB1,314.7 million guaranteed debentures due 2027	BBB+
SAWAD285A: THB2,844 million guaranteed debentures due 2028	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria