

# SRISAWAD POWER 1979 PLC

No. 58/2017

5 June 2017

**Company Rating:** BBB

**Outlook:** Stable

## Company Rating History:

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

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## Rating Rationale

TRIS Rating affirms the company rating of Srisawad Power 1979 PLC (SAWAD) at “BBB”. At the same time, TRIS Rating replaces SAWAD’s “developing” CreditAlert with a “stable” outlook. The replacement of the outlook reflects TRIS Rating’s belief that SAWAD’s acquisition of Bangkok First Investment & Trust PLC (BFIT) and the transfer of SAWAD’s core business to a newly-established subsidiary, Srisawad Power 2014 Co., Ltd., as planned in this coming June will not have any material impact on the company’s performance. After the business transfer, SAWAD will receive a steady stream of dividend income from its core subsidiary, Srisawad Power 2014.

The company rating reflects SAWAD’s track record of making secured personal loans and its experienced management team. The rating also takes into consideration the company’s impressive profitability, adequate capital, and nationwide distribution channel. However, the rating is limited by external factors, including intense competition, an unfavorable domestic economy, and a high level of household debt nationwide. In addition, the company’s target customers are highly sensitive to changes in economic conditions.

SAWAD was founded in 2008 by the Kaewbootta family, which 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 property. In 2014, SAWAD was listed on the Stock Exchange of Thailand (SET). SAWAD’s major shareholder is the Kaewbootta family, holding approximately 52% of the outstanding shares.

As part of the recently announced restructuring, Srisawad Power 2014 will take over the existing portfolio of secured personal loans from SAWAD and offer loans to new customers. BFIT, owned by SAWAD with a 36.5% stake, is a finance company regulated by the Bank of Thailand (BOT). BFIT will focus on offering loans to small- and medium-sized enterprises (SME), plus secured and unsecured personal loans.

As of March 2017, SAWAD renders financing services through its 2,188 branches. SAWAD’s loan portfolio has grown significantly, surging from Bt5,722 million in 2013 to Bt17,469 million in 2016, a compound annual growth rate (CAGR) of 45%. Outstanding loans increased to Bt23,086 million at the end of March 2017, up 32.1% from the level at the end of 2016. The company consolidated BFIT’s loan portfolio of Bt3,357 million during the first quarter of 2017. At the end of March 2017, loans secured by passenger cars and pick-up trucks comprised 42.9% of outstanding loans, followed by used motorcycles (17.1%), commercial trucks (10.3%), property (20.7%), raw land (5.2%), and other vehicles (2.6%). Nano finance loans made up 1.2% of outstanding loans. SAWAD ceased providing hire-purchase loans for new motorcycles in 2015.

In terms of asset quality, the quality of SAWAD’s portfolio improved from 2015 to 2016, although the quality is still lower than its direct peers. The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans was 3.6% at the end of 2016, which was higher than an average of around 2% for its direct peers. SAWAD has set the NPL coverage ratio, the ratio of the allowance for loan losses to NPLs, at around 60%, which is far lower than the average NPL coverage ratio of peer companies. At the end of March 2017, after SAWAD consolidated BFIT onto its financial statements, the NPL ratio rose slightly to 4%.

The NPL coverage ratio also increased, rising to 100.8%.

SAWAD's target customers are in a high credit risk group and are more vulnerable to adverse changes in the economy. The company has implemented stringent credit approval policies and conservative underwriting criteria by setting a low loan to value (LTV) ratio for the loans it makes. SAWAD has an adequate debt collection process.

SAWAD's financial performance has been moving in a positive direction. Net income jumped from Bt26 million in 2011 to Bt1,336 million in 2015, and rose by 50.3% to Bt2,009 million in 2016. The return on average assets (ROAA) jumped from 1.6% in 2011 to 11.2% in 2016. Net income was Bt696 million for the first three months of 2017, a 65.3% rise from the same period in 2016. The ROAA was 11% (annualized).

SAWAD's capital base is considered strong enough to support a near-term expansion in its loan portfolio yet retain enough of a cushion to absorb the downside risks. The ratio of shareholders' equity to total assets dropped steadily from 40% in 2014 to 30.8% at the end of 2016. The ratio rose slightly to 31.2% at the end of March 2017, as strong earnings bolstered the equity base. The debt to equity ratio (or D/E ratio) was 2.2 times at the end of March 2017.

### Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that SAWAD will maintain its market position and deliver satisfactory performance. Loan quality is expected to be controlled at an acceptable level.

The rating and/or outlook upside case could arise if SAWAD continues to expand, maintains satisfactory levels of profitability, and keeps asset quality at an acceptable level on a sustained basis. In contrast, the rating and/or outlook could be revised downward should SAWAD's asset quality and competitive position deteriorate significantly.

## Srisawad Power 1979 PLC (SAWAD)

**Company Rating:**

BBB

**Rating Outlook:**

Stable

### Financial Statistics\*

Unit: Bt million

	Jan-Mar 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Total assets	28,184	22,237	13,640	8,592	6,046
Total loans	23,086	17,469	11,568	7,816	5,722
Allowance for doubtful accounts	930	389	355	273	183
Short-term borrowings	4,658	8,535	2,544	4,270	4,645
Long-term borrowings	13,437	6,037	5,789	500	0
Shareholders' equity	8,804	6,857	4,772	3,432	1,131
Net interest income	1,067	3,639	2,536	1,736	1,216
Bad debts and doubtful accounts	41	158	168	189	132
Non-interest income	492	1,327	960	735	491
Operating expenses	650	2,298	1,678	1,220	849
Net income	696	2,009	1,336	855	575

\* Consolidated financial statements

**Key Financial Ratios\***

Unit: %

	Jan-Mar 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
<b>Profitability</b>					
Net-interest income/average assets	4.23 **	20.29	22.82	23.72	23.05
Net-interest income/total income	63.32	68.21	67.16	64.56	62.78
Operating expenses/total income	38.53	43.07	44.42	45.37	43.82
Operating profit/average assets	3.04 **	14.00	14.85	14.51	13.76
Return on average assets	2.76 **	11.20	12.02	11.68	10.91
Return on average equity	8.89 **	34.55	32.57	37.46	66.07
<b>Asset Quality</b>					
Non-performing loans/total loans	4.00	3.63	4.86	5.71	5.48
Bad debts and doubtful accounts/average loans	0.20 **	1.09	1.73	2.79	2.71
Allowance for doubtful accounts/total loans	4.03	2.23	3.07	3.49	3.19
Allowance for doubtful accounts/non-performing loans	100.77	61.27	63.26	61.18	58.23
<b>Capitalization</b>					
Shareholders' equity/total assets	31.24	30.84	34.98	39.95	18.70
Shareholders' equity/total loans	38.13	39.25	41.25	43.91	19.76
Debt to equity (time)	2.20	2.24	1.86	1.50	4.35
<b>Liquidity</b>					
Short-term borrowings/total liabilities	24.03	55.50	28.69	82.77	94.49
Total loans/total assets	81.91	78.56	84.81	90.97	94.63

\* Consolidated financial statements

\*\* Non-annualized

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