

SRISAWAD FINANCE PLC

No. 91/2022
2 June 2022

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 07/06/21

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
10/07/18	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Srisawad Finance PLC (BFIT) at “BBB+” with a “stable” outlook. The rating on BFIT is equivalent to the company rating on Srisawad Corporation PLC (SAWAD) (“BBB+/Stable”, rated by TRIS Rating). The rating primarily reflects the company’s status as a core subsidiary of SAWAD.

KEY RATING CONSIDERATIONS

BFIT remains a core subsidiary of SAWAD after group restructuring

TRIS Rating continues to assess BFIT as a core subsidiary of SAWAD despite SAWAD’s recent announcement of group restructuring plan. The plan involves a consolidation of Srisawad Capital Co., Ltd. (SCAP), SAWAD’s 65%-owned subsidiary, into BFIT. The transaction will be executed through a share swap where BFIT will issue 750 million of new shares at THB24 per share to SCAP’s existing shareholders for the payment of acquired interest in SCAP, valued at THB18 billion.

The transaction will result in SAWAD’s shareholding in BFIT being diluted to 72.05% from 81.64%. As SAWAD will still maintain its majority control of BFIT, we view that BFIT will remain a core entity of SAWAD Group. Therefore, the restructuring will have no impact on the rating assigned to BFIT.

Based on the restructuring plan, the entire business transfer (EBT) of SCAP to BFIT is expected to be complete within the third quarter of 2022. BFIT will return its finance business license to the Bank of Thailand (BOT) and change its name to Srisawad Capital 1969 PLC (SCAP 1969). SCAP 1969’s future business growth will mainly be driven by the strong expansion of SCAP’s current businesses. These include unsecured personal loans and motorcycle hire purchase (HP), operated through SCAP’s two subsidiaries, S Leasing Co., Ltd. (SLS, 90%-owned) and Cathay Leasing Co., Ltd. (CTL, 100%-owned). At the same time, BFIT’s outstanding title loan portfolio of THB4.1 billion at the end of March 2022 will be gradually wound down.

Under the new group structure, the new BFIT (or SCAP 1969) will likely serve as one of SAWAD’s key business units. This would enable the group to provide comprehensive products and services to its client base with clear segregation of loan products offered by respective units. The company is likely to act as a key growth engine for the SAWAD Group due to strong new loan target of about THB11 billion for SCAP 1969 in 2022. If the target were achieved, SCAP 1969’s contribution in terms of assets and revenue to SAWAD will increase substantially in the next few years.

As of March 2022, BFIT’s loan portfolio accounted for 11% of SAWAD’s total consolidated loans, down substantially from 24% as of March 2021 as BFIT has been winding down its loan book. Including SCAP’s loans, which accounted for 21% of SAWAD’s total consolidated loans, the combined outstanding loans represented about 30% of SAWAD’s total loans.

In longer term, TRIS Rating anticipates BFIT will remain highly integrated with SAWAD, with its business strategy and risk policies closely controlled by SAWAD. The proposed new board with a total of nine board members will include four representatives from SAWAD, including the chairman of the board. In terms of operations, BFIT will rely on SAWAD’s branch network for debt collections. The regional hubs will be utilized for motorcycle HP loan underwriting and processing.

Revenue contribution to remain strong after consolidating SCAP

BFIT's ability to deliver strong financial performances and contribute significant revenue to SAWAD has been a factor supporting its status as a core subsidiary of the group. Although BFIT's loan portfolio has been shrinking since the third quarter of 2020 (3Q20), causing the revenue contribution to SAWAD to drop to only 8% in 1Q22 from 30%-35% in the past, the consolidation of SCAP will help substantiate the company's role as one of the main revenue contributors to the SAWAD Group. In 1Q22, SCAP's reported revenue of THB522 million, representing 21% of SAWAD's consolidated revenue.

Ongoing financial support from SAWAD

After the group restructuring, SCAP 1969 (or BFIT) intends to source its own credit facilities from financial institutions to support portfolio expansion and rely less on credit lines from SAWAD. Nevertheless, we are of the view that SAWAD's post-restructuring shareholding of 72.05% indicates that BFIT will remain SAWAD's core subsidiary and still demonstrates SAWAD's long-term commitment. We believe SAWAD will provide timely financial and other supports to BFIT, if needed.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that BFIT will remain a core subsidiary of SAWAD.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BFIT will maintain its status as a core subsidiary of SAWAD and continue to receive strong supports from its parent company.

RATING SENSITIVITIES

As a core subsidiary of SAWAD, the rating and outlook on BFIT move in tandem with those on SAWAD. The rating can be revised downward if TRIS Rating views that BFIT's group status has weakened materially or there are signs of reduced support from the parent company.

COMPANY OVERVIEW

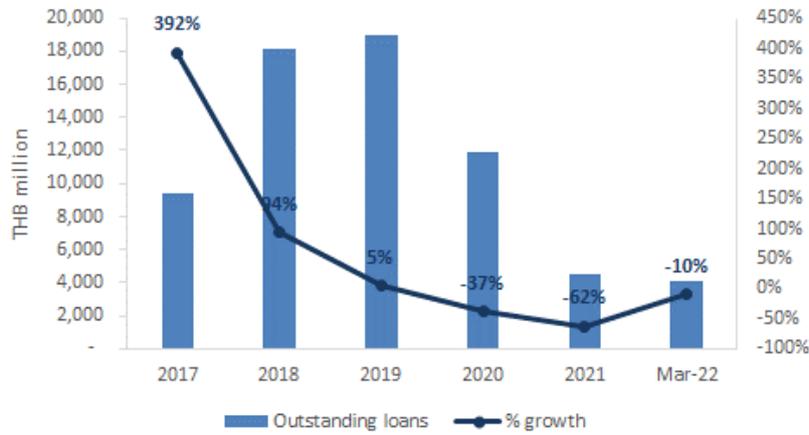
BFIT was established in 1972 as a finance company initially named Bangkok First Investment & Trust PLC. BFIT held four finance licenses including finance business for commerce, finance business for development, finance business for deposition and consumption, and finance business for housing. The company also acted as a debenture holder representative and/or trustee.

In 2017, SAWAD became BFIT's major shareholder, with an equity stake of 36.35%. SAWAD, as the non-operating holding company, filed documents to the BOT in order to form a financial conglomerate. BFIT was renamed Srisawad Finance PLC in June 2017 and began offering secured personal loans backed by customer vehicles under loan agreements. In 2019, SAWAD injected THB5.9 billion, increasing its shareholding in BFIT to 82.04% from 45% in 2018.

In March 2022, as part of the SAWAD Group's business restructure, BFIT opted to return its finance business license to the BOT. BFIT will change its company name from Srisawad Finance PLC (BFIT) to Srisawad Capital 1969 PLC (SCAP 1969). In addition, BFIT will acquire 100% shares of SCAP through a share swap transaction by issuing a total 750 million of new shares at THB24 per share to SCAP's existing shareholders including SAWAD (65% shares in SCAP), Mr. Wichit Phayuhanaveechai (10% shares in SCAP), and nine other SCAP shareholders (25% of SCAP shares). After the transaction completes (likely in 3Q22), SAWAD's shareholding in BFIT will reduce to 72.05% from 81.64%. BFIT will consolidate SCAP's business through the EBT and BFIT will operate SCAP's existing business which includes supervised unsecured lending and new motorcycle hire purchase through SCAP's two subsidiaries, which are S Leasing Co., Ltd. (SLS, 90%-owned by SCAP) and Cathay Leasing Co., Ltd. (CTL, 100%-owned by SCAP).

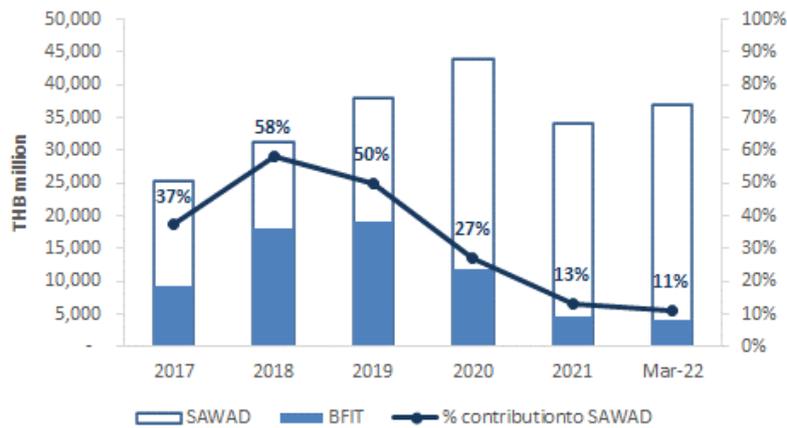
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



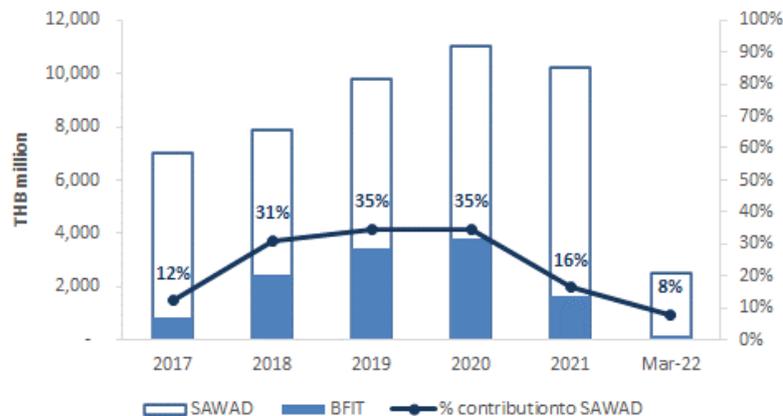
Source: BFIT

Chart 2: BFIT's Loan Contribution to SAWAD



Sources: BFIT and SAWAD

Chart 3: BFIT's Revenue Contribution to SAWAD



Sources: BFIT and SAWAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	14,049	14,250	19,582	20,699	19,677
Average assets	14,149	16,916	20,141	20,188	15,486
Investment in securities	1,769	1,773	217	180	195
Loans and receivables	4,093	4,528	11,941	19,004	18,172
Allowance for doubtful accounts	202	214	456	709	860
Deposits	120	170	5,234	6,348	7,274
Borrowings	6	6	6	2,006	8,506
Shareholders' equities	9,846	9,744	9,597	9,282	2,517
Average equities	9,795	9,670	9,439	5,900	2,333
Net interest income	182	1,355	3,201	2,634	1,760
Non-interest income	14	259	394	310	206
Total revenue	200	1,676	3,816	3,411	2,455
Operating expenses	90	726	1,554	1,840	1,297
Pre-provision operating profit (PPOP)	82	658	1,650	898	577
Impairment losses on loans and securities	(11)	(255)	83	87	200
Net income	93	913	1,567	811	377
Net fee and service income	4	139	138	214	145
Gains on investments	(4)	71	115	0	3

Unit: %

	Jan-Mar 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Earnings					
Return on average assets	2.64 *	5.40	7.78	4.02	2.44
Interest spread	13.20	14.94	18.84	12.68	12.09
Net interest margins	2.50 *	11.16	17.00	12.89	11.00
Net interest income/average assets	1.29 *	8.01	15.90	13.05	11.37
Non-interest income/average assets	0.10 *	1.53	1.95	1.53	1.33
Net fee and commission income/total revenue	2.19	8.27	3.62	6.27	5.89
Cost-to-income	45.27	43.31	40.72	53.96	52.84
Capitalization					
CET-1 ratio	50.80	54.67	45.34	45.16	13.33
Tier-1 ratio	50.80	54.67	45.34	45.16	13.33
BIS ratio	51.10	55.03	45.84	45.16	13.63
CET-1/BIS ratio	99.41	99.35	98.91	100.00	97.80
Asset Quality					
Credit costs	(1.01)	(3.10)	0.53	0.47	1.45
Non-performing loans/total loans	12.71	12.74	7.23	5.56	3.79
Non-performing assets/total assets	3.70	4.05	4.41	5.11	3.50
Allowance for loan losses/non-performing loans	38.91	37.05	52.84	67.05	124.96
Funding & Liquidity					
CASA/total deposits	51.68	36.55	3.81	1.50	5.56
Loan/total deposits	3,406.05	2,664.70	228.12	299.33	249.77
Deposits/total liabilities	2.86	3.77	52.42	55.60	42.39
Liquid assets/total deposits	2,593.89	1,638.30	94.56	27.26	26.84
Liquid assets/short-term liabilities	2,470.52	1,582.42	94.45	27.24	25.09

* Annualized

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

Srisawad Finance PLC (BFIT)

Company Rating:	BBB+
Rating Outlook:	Stable

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