

SRISAWAD CORPORATION PLC

No. 90/2022
2 June 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 07/06/21

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

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RATIONALE

TRIS Rating affirms the company rating on Srisawad Corporation PLC (SAWAD) at “BBB+” with a “stable” outlook. At the same time, TRIS rating assigns the rating of “BBB+” to SAWAD’s proposed issues of guaranteed debentures under the medium-term note (MTN) program of up to THB10 billion due within five years. The debentures are unconditionally and irrevocably guaranteed by Srisawad Power 2014 Co., Ltd. (S2014), SAWAD’s core subsidiary. The proceeds from the debenture issuance will be used for SAWAD’s debt refinancing and loan portfolio expansion.

The ratings reflect the company’s strong market position in the title loan business; robust capital, leverage, and earnings; as well as diversified funding source and sufficient liquidity. However, the ratings are constrained by the intensifying competition, fragile economic background, and the company’s sizeable portion of higher risk property-backed loans.

KEY RATING CONSIDERATIONS

Firm market position to continue

The company maintained its strong presence as one of the major lenders of title loans. We expect the company’s strong market position to continue in the next few years, despite the subdued loan growth in 2021 from the adverse impacts of the Coronavirus Disease 2019 (COVID-19) pandemic and the company’s strict credit approval. This is evidenced by the resumption of strong loan growth of 8% year-to-date (YTD) in the first quarter of 2022. We expect new motorcycle hire purchase (HP) and unsecured personal lending operated by Srisawad Capital Co., Ltd. (SCAP) to be the main driver for the group’s loan growth in the future. This is on top of the core title loan business at S2014 that will likely maintain its market position, supported by continuous expansion of branch network. S2014’s branch network has reached 4,954 branches since the end of March 2022, an increase from 4,800 branches at the end of March 2021.

No rating impact from group restructuring

In May 2022, SAWAD announced a group restructuring plan aimed for a clearer structure, flexible group business policy, and centralized administration.

The restructuring plan involves SCAP, currently 65% owned by SAWAD, being consolidated into Srisawad Finance PLC (BFIT), which is 81.64% owned by SAWAD. The transaction will be executed through a share swap where BFIT will issue new shares to SCAP’s existing shareholders for the payment of acquired interest in SCAP, valued at THB18 billion.

The share swap will result in SAWAD’s shareholding in BFIT being diluted to 72.05%. As SAWAD will still maintain its majority control of BFIT, we view that BFIT will remain a core entity of SAWAD Group, which means there will be no impact from the restructuring plan on the rating assigned to BFIT.

BFIT will return its finance business license to the Bank of Thailand (BOT) and change its name to Srisawad Capital 1969 PLC (SCAP 1969). After the entire business transfer (EBT) of SCAP’s business to BFIT in the third quarter of 2022 (3Q22), SCAP 1969 will take over SCAP’s businesses, dissolve SCAP, and continue to wind down BFIT’s existing auto and land title loan portfolio.

Solid capital and earnings

TRIS Rating anticipates that SAWAD's strong capital and leverage position should continue to support its credit profile, even with substantial business growth prospect of BFIT (or SCAP 1969) in the next few years. We project SAWAD's risk-adjusted capital ratio will decline to around 40% from 47% at the end of March 2022 but will likely remain one of the highest among rated peers. The company's solid earnings capability should also further strengthen its robust capital base over the medium term.

We expect SAWAD's adequate earnings capability to be supported by expansion of new high-yielding motorcycle hire-purchase loans which should partially offset the pressuring yield in asset-backed title loans caused by competition. The expansion of insurance brokerage fees will likely continue to strengthen the company's non-interest income. We expect operating costs to increase during the fast-growing phase of its new motorcycle leasing business but overall costs to remain under control, thanks to SAWAD's information technology (IT) system and improved operating efficiency. We expect SAWAD's earnings capability, measured by a ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs), to remain strong at around 9%-10% over the next few years.

Moderate risk profile

We expect the company's asset quality and credit losses to be at a manageable levels over the next few years. This is despite the resumption of active lending policy, for instance, raising loan-to-value (LTV) back to the pre-COVID-19 level of above 50%. SAWAD's strategy to expedite debt collection and asset foreclosure as well as the benefits from debt relief program on loan classification should help support overall asset quality in the medium term. At the end of March 2022, its non-performing loan (NPL) ratio was at 3.3%. We expect SAWAD's NPL ratio to rise gradually after the debt relief program expires but should stay below 4% over the next few years. Its NPL coverage ratio remained low at 48.7% at the end of March 2022 but is likely to improve moderately as we expect SAWAD to increase expected credit loss (ECL) provisioning in line with loan portfolio expansion. However, we believe its NPL coverage ratio will remain significantly below peers' average of 110%-310%, given its less conservative provisioning policy.

Adequate funding and liquidity profile

The company's large equity base and various sources of funds from the ability to access both equity and debt capital markets continue to support its adequate funding assessment and enhance the company's financial flexibility. At the end of March 2022, the company's stable funding ratio (SFR) remained high at 172.3%, despite a decline from 305.2% at the end of March 2021 due to the deposits run-down at BFIT and less issuance of long-term debentures. The company's liquidity position is assessed as adequate, with credit facilities of THB13 billion from various financial institutions, 60% of which was available for use.

Property-related loan undermined credit risk profile

A material expansion of property-backed lending may put pressure on the company's credit risk profile. Although the company's low LTV ratio for this type of loans may help limit credit loss at default, foreclosing and liquidating process for the properties generally takes time and could lead to heightened liquidity risk. In addition, the large ticket size of property loans also potentially increases credit concentration risk. At the end of March 2022, property-backed loans accounted for 41% of the company's total loan portfolio, a decrease from 48% at the end of March 2021 due mainly to a moderate contraction in property-backed loans and expansion of new motorcycle HP. If this trend continues, the portion of property-backed loans could gradually decline, alleviating pressure on its credit risk profile.

Competition in title loans continues to pressure earnings

Amidst vulnerable economic conditions, small and medium enterprises (SMEs) and households remain in need of liquidity for their businesses and consumption. This has led to continuous growth in title loans. In 2021, the average growth of outstanding loans for the three largest operators was 14%, a relatively high rate, in our view. Competitive interest rates and high LTV remain key strategies to attract customers as competition becomes more severe, caused by a combination of aggressive growth targets among existing operators and the emergence of small new operators. As competition intensifies, yields for title loans are likely to trend lower. Operators have therefore adapted by introducing new products such as motorcycle leasing, life and non-life insurance services, or "Buy Now Pay Later" (BNPL) for electrical appliances and IT gadgets to create new income streams to compensate for declining yields in their core businesses.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAWAD's operations in 2022-2024 are as follows:

- Outstanding portfolio to grow by 10%-15%.
- Interest spread to stay around 16%.

- NPL ratio to remain below 4%.
- NPL coverage ratio to stay around 45%-55%.

RATING OUTLOOK

The “stable” outlook reflects our expectation that SAWAD’s market position and financial performance will remain strong, while asset quality will be maintained at an acceptable level and capital will be kept at a strong level.

RATING SENSITIVITIES

An upward rating revision could occur if the company’s asset quality improves materially for a sustainable period, while market position is kept without further expansion of property-backed loans. Contrarily, the ratings and/or outlook could be revised downward if SAWAD’s asset quality weakens significantly causing credit cost to rise above 3%, or capital, leverage, and earnings positions deteriorate substantially with a risk-adjusted capital (RAC) ratio falling under 25% for extended duration.

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: Fast Money Co., Ltd. (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 and became SAWAD’s strategic partner, holding 9.5% of the company’s shares. SAWAD also increased its shareholding in 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 the Government Savings Bank (GSB) in FM, SAWAD’s wholly-owned subsidiary, to operate 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, SAWAD’s another subsidiary, acquired 85% of equity stake in S Leasing Co., Ltd. (SLS) for THB42.5 million. Therefore, SCAP currently holds 90% in SLS from a prior stake of 5%. The purpose is to expand new motorcycle HP business.

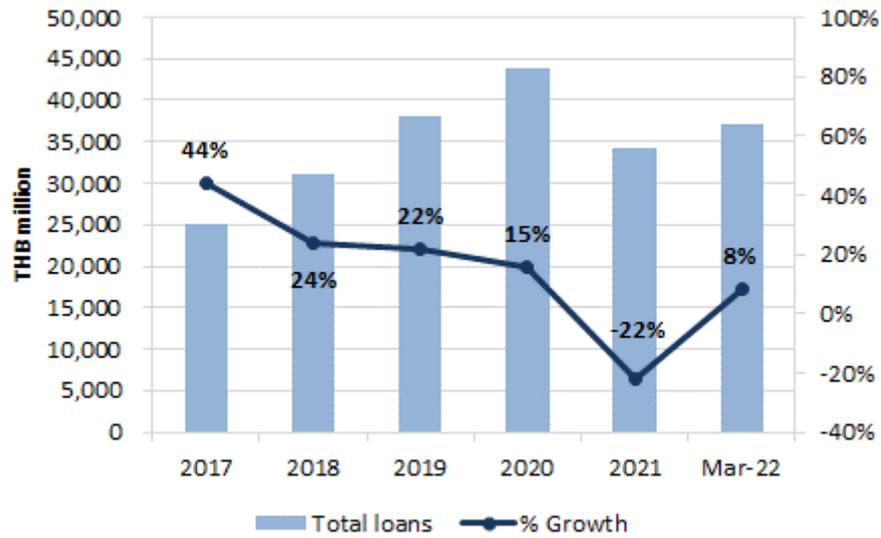
In April 2022, SCAP acquired 100% of Cathay Leasing Co., Ltd. (CTL), which provides new motorcycle hire purchase, in April 2022 with the value of THB39.77 million from Mr. Praty Sermuksakulchai (75% of shares) and Cathay Holdings Co., Ltd. (25% of shares). The purpose is to expand the new motorcycle HP business.

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

After the completion of the transaction, which is expected in 3Q22, SAWAD’s shareholding in BFIT will decrease from 81.64% to 72.05%. BFIT will change its name to SCAP 1969, consolidate SCAP’s business through an EBT, start running SCAP’s existing business, and run down its existing portfolio. SCAP will register the dissolution with the Department of Business Development (DBD). SCAP has 90% stakes in SLS and 100% in CTL, which both operate a new motorcycle HP while SCAP itself operates unsecured personal lending.

KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: SAWAD

Chart 2: Asset Quality



Source: SAWAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Mar 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	51,413	49,967	52,007	45,462	39,217
Total loans	37,043	34,189	43,809	37,967	31,171
Allowance for expected credit loss	588	609	1,188	809	997
Short-term debts	11,593	9,777	11,044	12,601	15,660
Long-term debts	7,555	9,365	14,927	11,271	8,441
Shareholders' equity	27,789	26,975	24,070	20,192	13,628
Net interest income	1,560	6,065	7,266	6,414	5,078
Expected credit loss	20	(455)	321	552	388
Non-interest income	788	3,346	2,825	2,551	2,082
Operating expenses	991	3,476	3,787	3,532	3,046
Earnings before taxes	1,337	6,390	5,983	4,881	3,726
Net income	1,118	5,038	4,791	3,929	3,001

Unit: %

	Jan-Mar 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Profitability					
Net interest and dividend income/average assets	12.31	11.90	14.91	15.15	13.99
Non-interest income/average assets	6.22 *	6.56	5.80	6.03	5.74
Operating expenses/total income	39.42	34.07	34.45	36.06	38.65
Operating profit/average assets	10.55 *	12.53	12.28	11.53	10.26
Earnings before taxes/average risk-weighted assets	9.94 *	12.35	12.13	11.48	10.92
Return on average assets	8.82 *	9.88	9.83	9.28	8.27
Return on average equity	16.33*	19.74	21.65	23.23	24.20
Asset Quality					
Non-performing loans/total loans	3.26	3.65	3.38	3.76	3.62
Expected credit loss/average loans	0.22 *	(1.17)	0.79	1.60	1.38
Allowance for expected credit loss/non-performing loans	48.71	48.76	80.25	56.65	88.46
Capitalization					
Risk-adjusted capital ratio	47.02	49.38	46.01	43.58	35.24
Debt/equity (times)	0.85	0.85	1.16	1.25	1.88
Funding and Liquidity					
Stable funding ratio	172.34	187.51	305.17	286.76	247.64
Liquidity coverage measure (times)	0.29	0.45	0.18	0.17	0.20
Short-term debts/total debts	49.07	42.52	39.53	49.87	61.20

** Annualized*
RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB+
Issue Rating:	
Up to THB10,000 million guaranteed debentures under the medium-term note program due within 5 years	BBB+
Rating Outlook:	Stable

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