

AYUDHYA CAPITAL AUTO LEASE PLC

No. 181/2021
27 October 2021

FINANCIAL INSTITUTIONS

Company Rating:	AA+
Issue Ratings:	
Senior unsecured	AA+
Outlook:	Stable

Last Review Date: 20/04/21

Company Rating History:

Date	Rating	Outlook/Alert
25/10/19	AA+	Stable
07/12/16	AA	Stable
29/12/14	AA-	Stable
26/12/13	A+	Alert Developing
24/04/09	A+	Stable
27/11/08	A	Positive
25/07/00	A+	Stable
03/02/00	A	Stable
18/02/98	A-	Stable
27/08/97	A	Stable
03/07/97	A	Negative
04/04/97	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ayudhya Capital Auto Lease PLC (AYCAL) and the ratings on AYCAL's outstanding senior unsecured debentures at "AA+" with a "stable" rating outlook. At the same time, TRIS Rating assigns the "AA+" rating to AYCAL's proposed issue of up to THB2 billion senior unsecured debentures due within 5 years. The ratings reflect AYCAL's status as a highly strategic subsidiary of Bank of Ayudhya PLC (BAY), rated "AAA" with a "stable" outlook by TRIS Rating. The ratings have taken into consideration the business support and financial support AYCAL receives from BAY. According to TRIS Rating's "Group Rating Methodology", the company rating on AYCAL is one notch below the company rating on BAY.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of BAY

TRIS Rating views the company as a highly strategic subsidiary of BAY. The company is wholly owned by BAY. The management team and board members of AYCAL and BAY are closely linked. Its business direction and financial targets are influenced by BAY through the board of directors. We also view AYCAL's reputation as being closely associated with BAY due to the shared brand name and services.

AYCAL serves as a motorcycle hire purchase lending arm of BAY and is a core part of Krungsri Auto, one of the key retail auto lending businesses of BAY. The company is also part of the ONE Retail platform of the BAY group where sales channels (including BAY's branch network and digital channel) and customer base are shared to create synergies and enhance growth opportunities for the group's retail business. The company also operates an insurance brokerage business and provides loan collection services for Krungsri Auto.

The company receives significant business and financial support from BAY. This has bolstered the company's leading market position in its core businesses and provided financial flexibility for its business expansion. As one of BAY's solo consolidated subsidiaries, AYCAL has received financial support in the form of THB25.5 billion capital and credit facilities of around THB15 billion from BAY as of June 2021. This has helped strengthen AYCAL's funding and liquidity profile and supported long-term business growth.

Leading market position in motorcycle financing

The company continues to rank top in the motorcycle hire purchase industry, thanks to business and financial support from BAY. The company utilizes the branch network of the BAY group and benefits from Mitsubishi UFJ Financial Group's (MUFG) connections with Japanese automakers that help strengthen the dealership network. Additionally, the prudent risk management as part of the integration with BAY helps the company strike the right balance of risk versus growth. Moreover, the sufficient and low-cost funding support from BAY is also key to its competitive advantage in the market.

Solid capital base

BAY's capital allocation to AYCAL further indicates AYCAL's importance to BAY. The company's equity base remains one of the highest among our rated non-bank lenders. The company's risk adjusted capital (RAC) ratio stood at 40.0% at the end of 2020, rising from 37.9% at the end of 2019. The higher

RAC ratio was mainly due to the shrinking loan portfolio induced by the Coronavirus Disease 2019 (COVID-19) pandemic and the capital accretion from BAY's policy for its subsidiaries to omit dividends in 2020 given the uncertain credit environment. We expect AYCAL's capital to be maintained at a high level. This should help support the company's business growth and absorb potential increase in credit losses.

Ample liquidity

In addition to the capital allocation from BAY, AYCAL also received THB15 billion credit facilities. As of June 2021, an approximate THB14 billion credit line from BAY remained unused. This is more than sufficient to refinance the outstanding debentures of THB9.5 billion in case bond market disruption were to recur. In addition to the secured credit line from BAY, the expected cash inflows from customer loan repayments for the next 12 months are projected to be approximately THB23 billion. This is well above the expected cash outflows for payment of debt obligations of around THB3.5 billion.

New entrants to add pressure on yields and asset quality

The economic fallout from COVID-19 has dented motorcycle sales volume in Thailand, which dropped by 11.8% year-on-year (y-o-y) in 2020. The lower sales volume resulted in the outstanding motorcycle hire purchase loans of nine operators in TRIS Rating's database falling in aggregate by 2% in 2020. Despite encouraging growth of 7.9% y-o-y in motorcycle sales in the first eight months of 2021, driven by the strong demand for logistics services, existing lenders remain cautious due to concerns over the debt serviceability of motorcycle buyers. Nonetheless, new lending could be spurred by aggressive lending campaigns offered by new entrants enticed by attractive loan yields. The fierce competition is likely to put more pressure on the loan yields and asset quality of all players in the medium term.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AYCAL's business direction will remain closely aligned with BAY's strategy. The outlook also assumes that AYCAL's status as a highly strategic subsidiary of BAY will be maintained and that it will continue to receive strong support from its parent bank.

RATING SENSITIVITIES

The ratings and/or outlook could be upgraded if AYCAL's status to the group is elevated to a higher level, although this is unlikely in the foreseeable future in our view. In contrast, the ratings/outlook could be revised downward should BAY's ratings/outlook is downgraded, or TRIS Rating takes the view that AYCAL's status to the BAY group has weakened.

COMPANY OVERVIEW

AYCAL was incorporated in 1992 by General Finance & Securities PLC under the name "General Finance Leasing Co., Ltd. (GFL)". In 1993, GFL formed a joint venture with the Government Savings Bank (GSB) and General Electric Capital Asia Investment (GECAL), a wholly-owned subsidiary of General Electric Capital Corporation (GECC) that is ultimately owned by General Electric Company (GE). GFL was recapitalized and renamed GS Capital Corporation PLC (GSCC) in 1993. In 1998, GSCC became a wholly-owned subsidiary of GECAL, after GECAL bought the shares of GSCC from its parent company. GSCC was renamed GE Capital Auto Lease PLC (GECAL).

In 2002 AYCAL diversified away from new and used car hire purchase lending into two market segments which promised higher return but higher risks as well: motorcycle hire purchase loans and secured personal loans (Car4Cash). AYCAL intended to capture the opportunities in the new segments by drawing on its experienced management team, the know-how of its parent company, and its good credit risk management system.

GE Capital Investment Holding (GECIH) took a 34.71% stake in BAY in early 2007. After GECIH's investment, BAY reorganized to enhance its competitiveness and efficiency. As a consequence of the reorganization, AYCAL ceased making new car hire purchase loans. All new car financing loans have been booked by BAY's new subsidiary, Ayudhya Capital Lease Co., Ltd. (AYCL), since January 2007. AYCAL continued to service the existing loan portfolio until the loans matured. In February 2008, BAY bought AYCAL's shares from GECAL. As a result, AYCAL became BAY's wholly-owned subsidiary. In the same month, AYCAL ceased offering secured personal loans, a type of auto sale and leaseback loan, called Car4Cash. AYCAL sold its existing THB7 billion Car4Cash loan portfolio to BAY's new subsidiary, Ayudhya Hire Purchase Co., Ltd. (AYHP). AYHP took over this business instead from AYCAL.

GECAL was renamed "Ayudhya Capital Auto Lease PLC (AYCAL)" on 10 November 2008. AYCAL has enlarged its customer base and its auto hire purchase loan portfolio and became the market leader in these segments. AYCAL built its success upon good brand recognition.

In November 2008, BAY reorganized its auto loan businesses one more time. As part of the reorganization, AYHP and AYCL ceased operations and transferred their auto loan portfolios to AYCAL. AYCAL became the sole subsidiary handling BAY’s auto loan business. AYCAL provides hire purchase financing for the purchase of new cars, used cars, and motorcycles. AYCAL also renders secured personal loans services through auto sale and leaseback agreements, under the brand “Krungsri Car4Cash”.

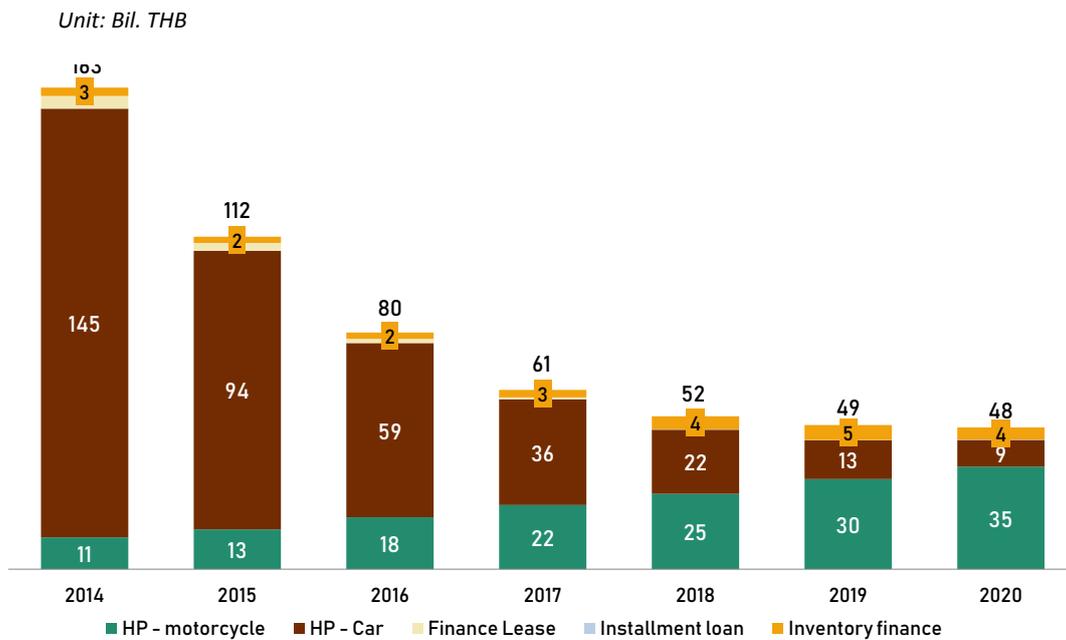
The “OneKrungsri” strategy took effect in 2010. AYCAL has more closely aligned its business with BAY and launched several new and innovative products and services under the name “Krungsri Auto”. AYCAL’s brand name has been enhanced significantly.

Until 2014, AYCAL was the only subsidiary of BAY to offer auto loans, under the name “Krungsri Auto”. The company provided hire purchase financing for the purchase of new cars, used cars, and motorcycles, and offered secured personal loans to consumers through auto sale and lease back agreements.

However, at the beginning of 2014, more major changes were made to the company’s business model after Mitsubishi UFJ Financial Group (MUFG) became the major shareholder of BAY, instead of GECIH. Under Krungsri Group’s business strategy, all of AYCAL’s new auto loans, including auto hire purchase financing and secured personal loans, are booked at BAY. AYCAL now offers motorcycle financing services which include new, used, and Car4Cash motorcycle, inventory financing services, insurance brokerage services, and continues to manage its existing portfolio of auto loans. AYCAL also provides collection services to BAY’s auto loans.

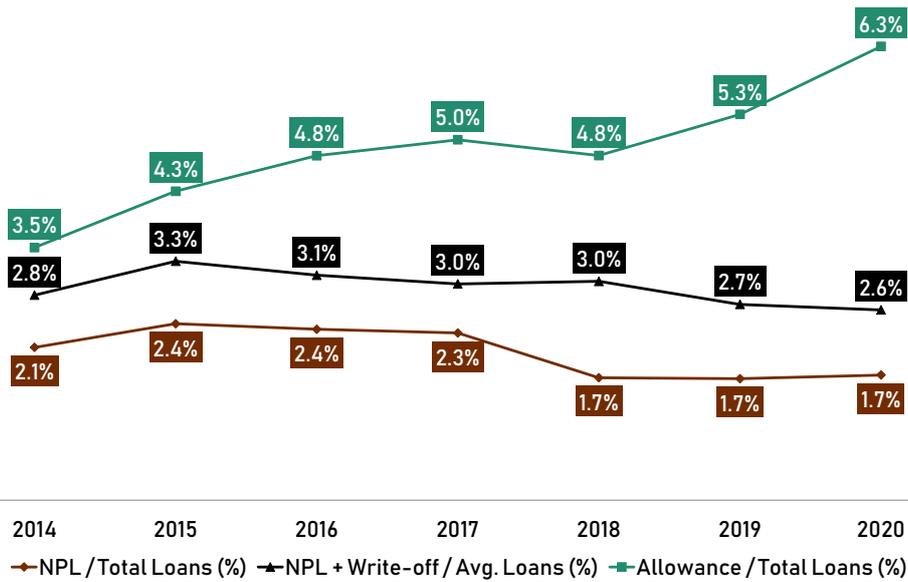
KEY OPERATING PERFORMANCE

Chart 1: Outstanding loans



Source: AYCAL

Chart 2: Asset quality



Source: AYCAL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Total assets	50,111	52,794	54,863	62,674	81,321
Total loans	47,883	48,728	51,667	60,566	79,973
Allowance for expected credit loss	3,003	2,598	2,461	3,017	3,808
Short-term debts	2,242	9,448	10,516	12,369	23,879
Long-term debts	11,872	9,888	12,115	16,894	25,328
Shareholders' equity	33,233	30,617	29,828	30,856	29,159
Net interest income	6,130	6,219	6,595	6,822	7,013
Expected credit loss	982	682	273	(84)	90
Non-interest income	1,644	1,935	1,535	1,657	1,453
Operating expenses	3,430	3,161	2,922	2,979	3,019
Earnings before taxes	3,363	4,311	4,936	5,584	5,358
Net income	2,627	3,434	3,935	4,469	4,288

* Consolidated financial statements

** Non-interest income deducted by loss on repossession

Unit: %

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Profitability					
Net interest income/average assets	11.91	11.55	11.22	9.48	7.21
Non-interest income/average assets	3.20	3.59	2.61	2.30	1.49
Operating expenses/total income	39.92	35.36	32.03	29.82	27.46
Operating profit/average assets	6.92	8.06	8.40	7.76	5.51
Earnings before taxes/average risk-weighted assets	4.11	5.36	6.04	6.11	4.71
Return on average assets	5.11	6.38	6.70	6.21	4.41
Return on average equity	8.23	11.36	12.97	14.89	14.60
Asset Quality					
Non-performing loans/total loans	1.73	1.68	1.69	2.31	2.36
Expected credit loss/average loans	2.03	1.36	0.49	(0.12)	0.09
Allowance for expected credit loss/non-performing loans	362.68	317.60	281.58	215.65	201.59
Capitalization					
Risk-adjusted capital ratio	40.00	37.98	37.17	37.10	29.31
Debt/equity (time)	0.51	0.72	0.84	1.03	1.79
Liquidity					
Stable funding ratio	195.09	169.23	167.01	156.34	124.81
Liquidity coverage measure (times)	0.72	0.26	0.15	0.08	0.03
Short-term debts/total liabilities	13.28	42.60	42.01	38.88	45.78

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Ayudhya Capital Auto Lease PLC (AYCAL)

Company Rating:	AA+
Issue Ratings:	
AYCAL21NA: THB1,000 million senior unsecured debentures due 2021	AA+
AYCAL222A: THB1,000 million senior unsecured debentures due 2022	AA+
AYCAL22NA: THB1,500 million senior unsecured debentures due 2022	AA+
AYCAL232A: THB2,000 million senior unsecured debentures due 2023	AA+
AYCAL245A: THB3,000 million senior unsecured debentures due 2024	AA+
AYCAL265A: THB1,000 million senior unsecured debentures due 2026	AA+
Up to THB2,000 million senior unsecured debentures due within 5 years	AA+
Rating Outlook:	Stable

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