

AYUDHYA CAPITAL AUTO LEASE PLC

No. 179/2020
29 October 2020

FINANCIAL INSTITUTIONS

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

Last Review Date: 08/01/20

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 senior unsecured debentures at "AA+" with a "stable" outlook. The ratings have taken into consideration the business support and financial support AYCAL receives from Bank of Ayudhya PLC (BAY), rated "AAA" with a "stable" outlook by TRIS Rating. The ratings on AYCAL incorporate an enhancement from its stand-alone rating, based on our opinion that AYCAL is a highly strategic subsidiary of BAY.

The standalone rating reflects its solid market position as Thailand's leading provider of motorcycle hire purchase loans, its strong capital base, ample liquidity, and well managed asset quality. However, the strengths are weighed down to some extent by concerns over the intense competition, which may result in pressure on loan yields. Moreover, the prolonged economic weakness induced by the Coronavirus Disease 2019 (COVID-19) pandemic could lead to significant deterioration in asset quality.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of BAY

We opine that the company's status as a highly strategic subsidiary to BAY will continue in the longer term. The company receives significant amount of business and financial support, which has bolstered the company's leading market position in its core businesses and enhancing its financial flexibility.

AYCAL serves as a motorcycle hire purchase lending arm of BAY. It has been leveraging BAY's network for new business and cross selling between entities within the BAY Group. The company also operates insurance brokerage business and provides loan collection services for BAY's auto business. As one of BAY's solo consolidated subsidiaries, AYCAL has received financial support in the form of THB25.5 billion capital and credit facilities from BAY. This has helped strengthen AYCAL's liquidity profile and support long-term business growth.

Leading market position in motorcycle financing

The company continues to rank top in the motorcycle hire purchase industry despite loan contraction caused by the COVID-19 pandemic. AYCAL's portfolio contracted similar to most of its peers in the industry, with new loans booked in the first half of 2020 declining by approximately 6% year-on-year (y-o-y). Its motorcycle outstanding loans stood at THB32.8 billion at the end of June 2020, with a 44.5% market share of new volume.

The strength of AYCAL is underpinned by: 1) its ability to access BAY's branch network as a distribution channel; 2) the strong long-term relationship with nationwide network of motorcycle dealers; 3) the greater variety of financial services compared with other non-bank operators; 4) healthy relationship with Japanese automakers via Mitsubishi UFJ Financial Group's (MUFG) network; 5) its efficient business platform shared by the BAY Group; and 6) focus on sound asset quality thanks to the Group's prudent risk management.

The company's push for new products has been another key success factor. The company has been the pioneer in providing financing for new high-cc motorcycles since 2008. The initiative has greatly benefited AYCAL in the past few years. The high-cc motorcycle segment became one of its key growth

areas, on top of existing low-cc motorcycle portfolio. Currently the company is exploring the possibility of financing electric motorcycles (EV motorcycles) and used vehicles.

Solid capital base

The strong capital position of AYCAL is another positive factor supporting the ratings. The company's equity base remained one of the highest among our rated non-bank lenders. The company's risk adjusted capital (RAC) ratio stood at 38.9% at the end of first half of 2020, rising from 32.6% at the end of 2019. The higher RAC ratio was mainly due to the shrinkage of loan portfolio as a result of the weakening economy induced by the COVID-19 pandemic.

For the long term, we expect AYCAL's RAC ratio to be lower than the current level on account of continuously expanding loan portfolio and high dividend payout of over 70%. Nevertheless, we expect the capital level to remain solid supported by capital accretion from healthy profits and abundant capital on hand. We project the company's RAC ratio to stay above 25%.

Acceptable asset quality despite deteriorating trend

We expect AYCAL's asset quality will remain stronger than its direct peers. The company's ability to manage asset quality has been attributed by prudent credit risk management and an efficient debt collection system. As of December 2019, the company's non-performing loan (NPL) ratio stood at 1.7%, lower than the motorcycle hire purchase industry average of around 4.7% from TRIS Rating's database.

In our view, the company's overall asset quality remains at a level commensurate with the current ratings. Its NPL ratio remained stable in the first nine months of 2020 despite loan contraction, thanks to the COVID-19 debt relief programs (April-October 2020) that prevent some borrowers' credit status from falling to deteriorated classifications. However, we note that there have been some early signs of deterioration in asset quality. In our view, after the end of the company's debt relief programs, its NPLs could be on an increasing trend starting from the fourth quarter of 2020. Nevertheless, we believe overall asset quality will remain manageable.

AYCAL's ratio of loan loss reserve to NPLs (NPL coverage) remains at a high level compared with direct peers, notwithstanding TFRS9 implementation. Its NPL coverage ratio was 320% at the end of June 2020 (post-TFRS9), compared with 318% at the end of 2019 (pre-TFRS9), compared with rated peers' average of less than 150% as of June 2020. To maintain high NPL coverage, AYCAL set aside additional loan loss provisions in the first half of 2020 with annualized credit cost of 2.4% compared with 1.4% in 2019. This was due to TFRS9 model and the company's own conservative policy of setting aside excess provisions through management overlays.

Ample liquidity

AYCAL has received strong financial support from BAY for its capital needs that includes THB15 billion credit facilities from BAY to support the company's expansion plans and enhance its financial flexibility.

Meanwhile, there are no major mismatches in its asset and liability structure. Short-term borrowings, including the current portion of long-term debt, accounted for approximately 3.9% of total borrowings as of June 2020. Monthly loan payments from AYCAL's customers, plus the secured credit lines from BAY, are more than sufficient to finance the liquidity gap in a timely manner. Over the next 12 months, cumulative cash inflows from customer loan repayments are projected to amount to approximately THB27.5 billion compared with cumulative cash outflows for payment of debt obligations of THB8.4 billion.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for AYCAL's performance in the period during 2020-2022 are as follows:

- New loans to decline by 5%-6% in 2020 and to expand by around 10% annually in 2021-2022.
- RAC ratio to remain above 30%.
- Overall yield to remain at 14%-15%.
- Credit cost to range at 2%-3%.
- Operating expenses to total income ratio to remain below 40%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AYCAL's business direction will remain closely aligned with BAY's strategy. The outlook assumes that AYCAL will continue to receive strong support from its parent bank. The outlook also considers the ability of the management team to maintain AYCAL's solid market position as a leading motorcycle hire purchase lender. We also expect AYCAL's profitability and capital base will be sufficiently strong to serve as cushions

against any downside risks in the motorcycle hire purchase business.

RATING SENSITIVITIES

The ratings and/or outlook may be uplifted 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 materially.

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 succeeded because of 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.

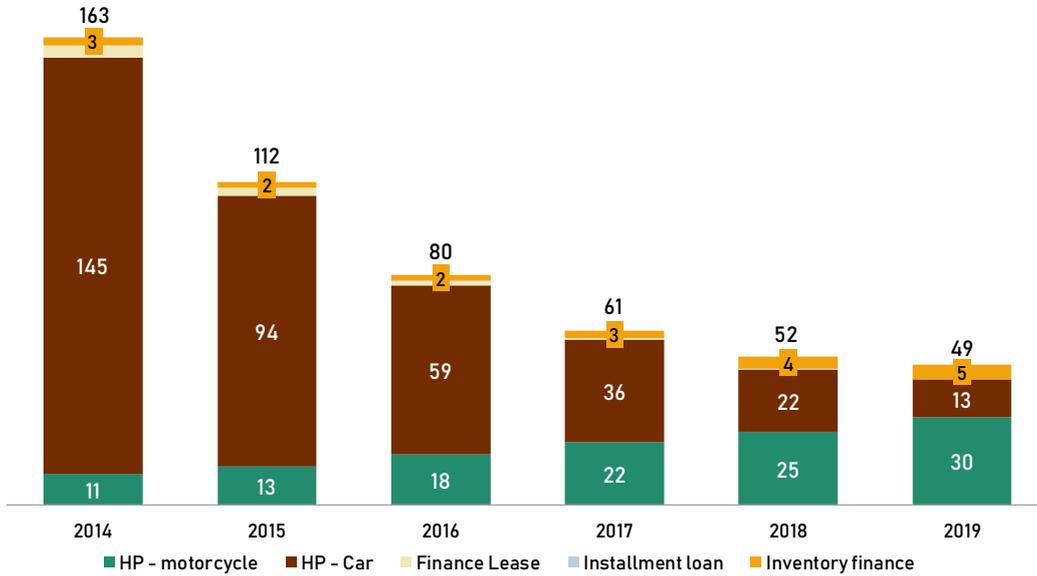
Until 2014, AYCAL was the only subsidiary of BAY which made auto loans, under the name "Krungsri Auto". The company provided hire purchase financing for the purchase of new cars, used cars, and motorcycles, and offered secured personal loans to consumers through auto sale and lease back agreements.

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

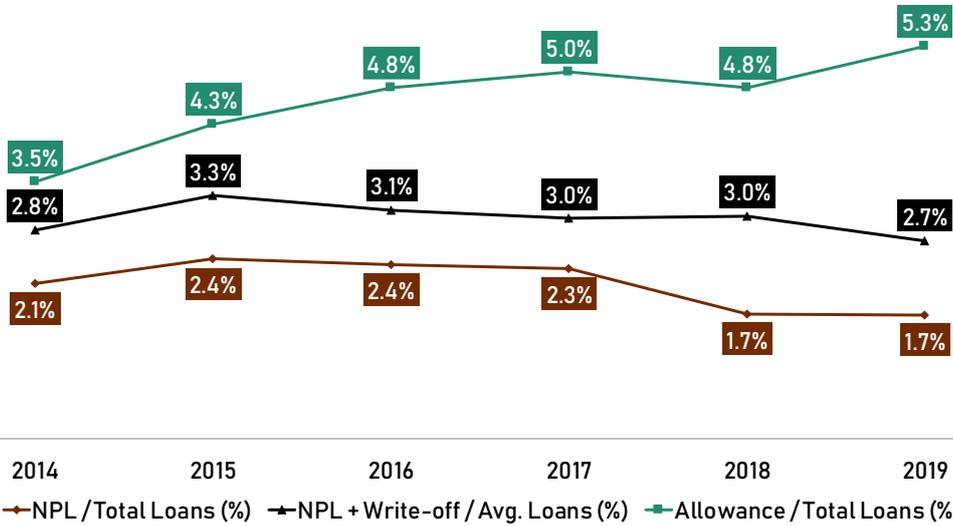
Chart 1: Outstanding Loans

Unit: Bil. THB



Source: AYCAL

Chart 2: Asset Quality



Source: AYCAL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

| | ----- Year Ended 31 December ----- | | | | |
|---------------------------------|------------------------------------|--------|--------|--------|---------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Total assets | 52,794 | 54,863 | 62,674 | 81,321 | 113,302 |
| Total loans | 48,713 | 51,667 | 60,566 | 79,973 | 112,363 |
| Allowance for doubtful accounts | 2,598 | 2,461 | 3,017 | 3,808 | 4,798 |
| Short-term borrowings | 9,448 | 10,516 | 12,369 | 23,879 | 36,495 |
| Long-term borrowings | 9,888 | 12,115 | 16,894 | 25,328 | 43,848 |
| Shareholders' equity | 30,617 | 29,828 | 30,856 | 29,159 | 29,568 |
| Net interest income | 6,219 | 6,595 | 6,822 | 7,013 | 7,586 |
| Bad debts and doubtful accounts | 682 | 273 | (84) | 90 | 922 |
| Non-interest income** | 1,935 | 1,535 | 1,657 | 1,453 | 800 |
| Operating expenses | 3,161 | 2,922 | 2,979 | 3,019 | 2,949 |
| Net income | 3,434 | 3,935 | 4,469 | 4,288 | 3,589 |

* Consolidated financial statements

** Non-interest income deducted by loss on repossession

Unit: %

| | ----- Year Ended 31 December ----- | | | | |
|--|------------------------------------|--------|--------|--------|--------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Profitability | | | | | |
| Net-interest income/average assets | 11.55 | 11.22 | 9.48 | 7.21 | 5.47 |
| Net-interest income/total income | 69.56 | 72.31 | 68.29 | 63.79 | 60.88 |
| Operating expenses/total income | 35.36 | 32.03 | 29.82 | 27.46 | 23.66 |
| Operating profit/average assets | 8.06 | 8.40 | 7.76 | 5.51 | 3.25 |
| Earnings before taxes/average risk-weighted assets | 4.44 | 4.53 | 4.10 | 2.87 | 1.69 |
| Return on average assets | 6.38 | 6.70 | 6.21 | 4.41 | 2.59 |
| Return on average equity | 11.36 | 12.97 | 14.89 | 14.60 | 12.04 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 1.68 | 1.69 | 2.31 | 2.36 | 2.44 |
| Bad debts and doubtful accounts/average loans | 1.36 | 0.49 | (0.12) | 0.09 | 0.67 |
| Allowance for doubtful accounts/total loans | 5.33 | 4.76 | 4.98 | 4.76 | 4.27 |
| Allowance for doubtful accounts/non-performing loans | 317.60 | 281.58 | 215.65 | 201.59 | 175.11 |
| Capitalization | | | | | |
| Risk adjusted capital | 32.60 | 29.76 | 26.24 | 18.82 | 13.57 |
| Shareholders' equity/total loans | 62.85 | 57.73 | 50.95 | 36.46 | 26.31 |
| Debt to equity (times) | 0.72 | 0.84 | 1.03 | 1.79 | 2.83 |
| Liquidity | | | | | |
| Stable funding ratio | 0.97 | 0.96 | 0.96 | 0.94 | 0.96 |
| Liquidity coverage measure (times) | 2.72 | 2.52 | 2.32 | 1.54 | 1.32 |
| Short-term borrowings/total liabilities | 42.60 | 42.10 | 38.88 | 45.78 | 43.58 |
| Total loans/total assets | 92.27 | 94.17 | 96.64 | 98.34 | 99.17 |

* Consolidated financial statements

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

Ayudhya Capital Auto Lease PLC (AYCAL)

| | |
|--|--------|
| Company Rating: | AA+ |
| Issue Ratings: | |
| AYCAL20NA: THB500 million senior unsecured debentures due 2020 | AA+ |
| 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+ |
| Rating Outlook: | Stable |

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