

# AYUDHYA CAPITAL AUTO LEASE PLC

No. 196/2022  
28 October 2022

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	AA+
<b>Issue Ratings:</b>	
Senior unsecured	AA+
<b>Outlook:</b>	Stable

**Last Review Date:** 27/10/21

### 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

### Contacts:

Sithakarn Tongphiphat, CFA, FRM  
sithakarn@trisrating.com

Pawin Thachasongtham  
pawin@trisrating.com

Jittrapan Pantaleard  
jittrapan@trisrating.com

Taweechok Jiamsakunthum  
taweechok@trisrating.com

Narumol Charnchanavivat  
narumol@trisrating.com



WWW.TRISRATING.COM

## 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. 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 take 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 AYCAL as a highly strategic subsidiary of BAY, based on its important role in BAY's retail banking strategy. The company is a wholly-owned subsidiary of BAY under the solo consolidated supervision of the Bank of Thailand (BOT). The linkages between the management teams and board members of AYCAL and BAY are very strong. Its business direction and financial targets are influenced by BAY through the board of directors. AYCAL's brand reputation and recognition are closely associated with BAY as illustrated by the shared brand name and services. Additionally, the company maintains superior asset quality compared with peers thanks to the underwriting performance backed by the group's prudent risk control.

AYCAL serves as a motorcycle hire-purchase lending arm of BAY and is a core part of "Krungsri Auto", which includes the auto business at BAY and AYCAL, one of the key retail lending businesses of BAY. The company is 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. The company also receives business referral from the BAY Group that helps support its motor insurance brokerage business. Moreover, AYCAL also serves as a key business function by providing loan collection services for Krungsri Auto.

AYCAL received financial support in the form of a THB25.5 billion capital injection and credit facilities of THB15 billion from BAY as of June 2022. This has helped strengthen AYCAL's funding and liquidity profile and supported its long-term business growth.

### Leading market position in motorcycle financing

We expect AYCAL to maintain its strong market position in the motorcycle hire-purchase industry, thanks to the business and financial support the company receives from BAY despite the highly competitive environment in the industry. The company ranked number one in the motorcycle hire-purchase industry with outstanding motorcycle loans of THB35.5 billion at the end of June 2022.

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

---

## Solid capital base

In our view, BAY's capital allocation to AYCAL further indicates AYCAL's importance to BAY. The company's equity base remains one of the strongest among our rated non-bank lenders. The company's risk adjusted capital (RAC) ratio remained high at 40.8% at the end of 2021, up from 40.0% at the end of 2020. We expect AYCAL's capital to be maintained at a high level. This should help support the company's growth plan and absorb potential increase in credit losses from rising non-performing loans (NPLs).

## Modest operating performance

TRIS Rating expects AYCAL's operating performance as measured by earnings before tax to average risk-weighted assets (EBT/ARWA) to decline gradually over the next few years. One major hindrance to operating performance is the pressure on loan yields, given the regulatory cap on interest rates of 23% for motorcycle hire-purchase loans to be imposed in January 2023. At the same time, the company's funding cost is likely to be on an upward trend due to rising interest rates. Additionally, we expect the company's asset quality to remain under pressure in line with other motorcycle lenders due to the still-weak economy and high inflation. Still, we believe AYCAL, as a BAY subsidiary, should retain its competitive advantage over other non-bank financial institution peers in the market given the strong foundation in risk management and lower funding cost which should lessen the impact of adverse developments.

## Ample funding and liquidity

In addition to the capital allocation, credit facilities from BAY remain the same at THB15 billion as of June 2022, of which THB14 billion remained unused. This is more than sufficient to refinance the outstanding debentures of THB8.8 billion under a stress scenario. Moreover, the company projects expected cash inflows from customer loan repayments for the next 12 months to be approximately THB23-THB24 billion, well above the expected cash outflows for payments of debt obligations totaling around THB3.5 billion.

## Interest rate cap will likely transform the motorcycle leasing landscape

The motorcycle leasing industry is recovering in line with the recovery of the Thai economy but is still facing many headwinds. Motorcycle sales increased by 11% year-on-year (y-o-y) in the first eight months of 2022, despite the impact from chip shortages. The stronger sales led to a 10.5% growth in an aggregate of outstanding loans for listed motorcycle leasing companies at the end of the first half of 2022. However, with the chip shortage likely to continue, motorcycle sales are likely to grow at a more moderate pace for the rest of 2022. In addition, the operators' tightened underwriting policies could limit the growth in new lending due to concerns over the debt serviceability of their target customers that remain vulnerable.

The recent announcement of the Office of the Consumer Protection Board's (OCPB) capping interest rates for motorcycle hire-purchase lending at 23%, well below the market rate of over 30% as well as the shift to effective rate contracts from flat rate contracts, will likely transform the whole landscape of the motorcycle leasing industry. Many operators plan to mitigate the impact by lowering the rebates paid to motorcycle dealers and tightening underwriting policies. Thus, we expect slower loan growth, partly due to higher rejection rates, to be reported by motorcycle leasing operators over the next 1-2 years. At the same time, larger operators are likely to gain market share from smaller players that will be struggling to manage lower yields and rising funding costs. We expect competition to be more severe from 2023 onwards, hence the ability to control credit risk and operating costs will be key.

---

## 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 be 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 Inc. (GECAI), 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 GECAI, after GECAI 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 returns 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 Holdings Corporation (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 GECAI. 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 provides secured personal loans services through auto sale and leaseback agreements, under the brand "Krungsri Car4Cash".

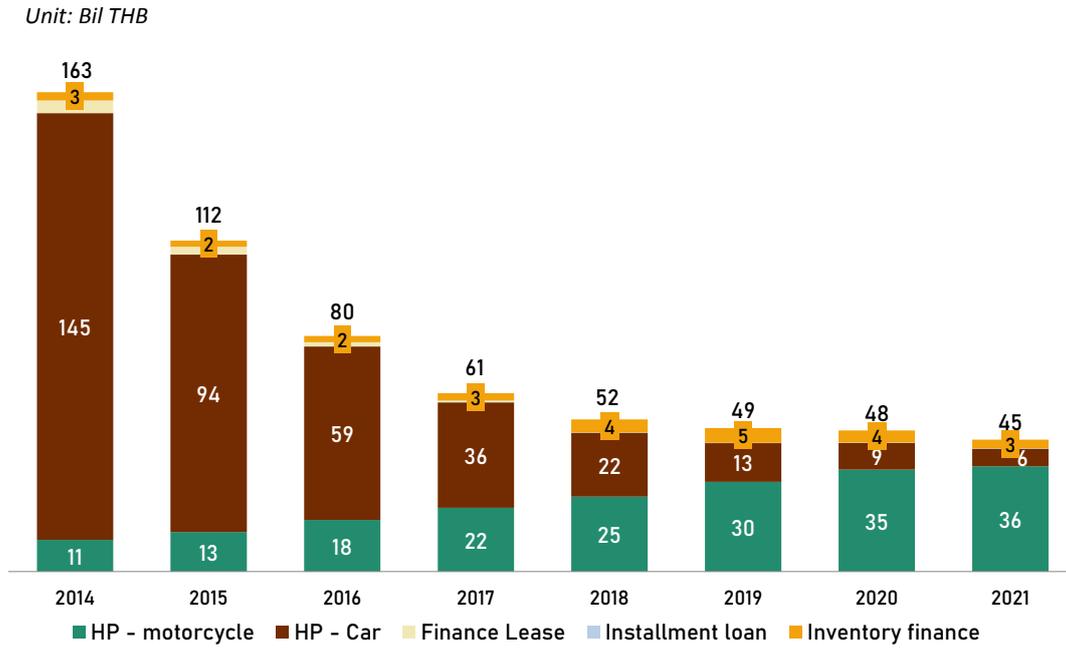
The "OneKrungsri" strategy took effect in 2010. AYCAL has more closely aligned its business with BAY and launched several new and innovative products and services under the name "Krungsri Auto". AYCAL's brand name has been enhanced significantly.

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 the 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 motorcycles, inventory financing services, insurance brokerage services, and continues to manage its existing portfolio of auto loans. AYCAL also provides collection services for BAY's auto loans.

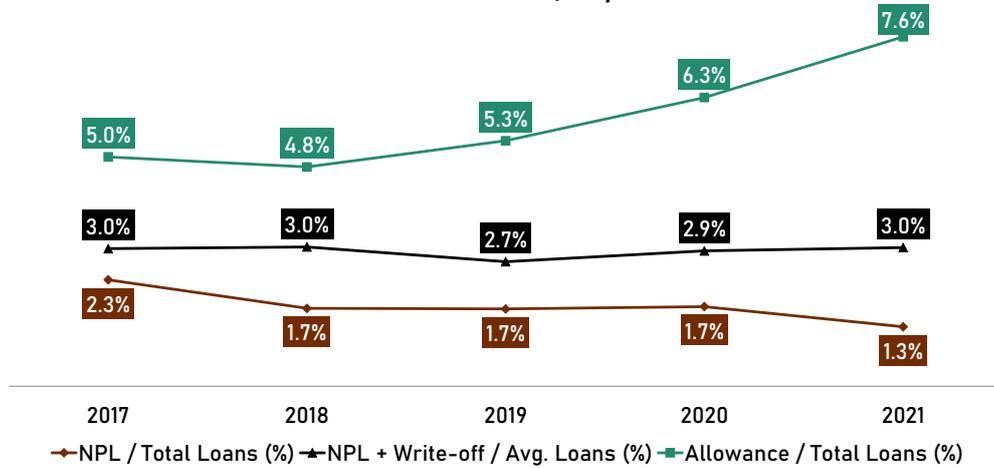
KEY OPERATING PERFORMANCE

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 -----				
	2021	2020	2019	2018	2017
Total assets	48,575	50,111	52,794	54,863	62,674
Total loans	44,846	47,883	48,728	51,667	60,566
Allowance for expected credit loss	3,404	3,003	2,598	2,461	3,017
Short-term debts	4,337	2,242	9,448	10,516	12,369
Long-term debts	9,890	11,872	9,888	12,115	16,894
Shareholders' equity	31,826	33,233	30,617	29,828	30,856
Net interest income	5,779	6,130	6,219	6,595	6,822
Expected credit loss	1,237	982	682	273	(84)
Non-interest income	1,762	1,644	1,935	1,535	1,657
Operating expenses	3,495	3,430	3,161	2,922	2,979
Earnings before taxes	2,809	3,363	4,311	4,936	5,584
Net income	2,236	2,627	3,434	3,935	4,469

\* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
<b>Profitability</b>					
Net interest income/average assets	11.71	11.91	11.55	11.22	9.48
Non-interest income/average assets	3.57	3.20	3.59	2.61	2.30
Operating expenses/total income	43.42	39.92	35.36	32.03	29.82
Operating profit/average assets	5.83	6.92	8.06	8.40	7.76
Earnings before taxes/average risk-weighted assets	3.46	4.11	5.36	6.04	6.11
Return on average assets	4.53	5.11	6.38	6.70	6.21
Return on average equity	6.87	8.23	11.36	12.97	14.89
<b>Asset Quality</b>					
Non-performing loans/total loans	1.29	1.73	1.68	1.69	2.31
Expected credit loss/average loans	2.67	2.03	1.36	0.49	(0.12)
Allowance for expected credit loss/non-performing loans	587.91	362.68	317.60	281.58	215.65
<b>Capitalization</b>					
Risk-adjusted capital ratio	40.08	40.00	37.98	37.17	37.10
Debt/equity (times)	0.53	0.51	0.72	0.84	1.03
<b>Liquidity</b>					
Stable funding ratio	192.46	195.09	169.23	167.01	156.34
Liquidity coverage measure (times)	0.87	0.72	0.26	0.15	0.08
Short-term debts/total liabilities	25.89	13.28	42.60	42.01	38.88

\* Consolidated financial statements

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

**Ayudhya Capital Auto Lease PLC (AYCAL)**

<b>Company Rating:</b>	AA+
<b>Issue Ratings:</b>	
AYCAL22NA: THB1,500 million senior unsecured debentures due 2022	AA+
AYCAL232A: THB2,000 million senior unsecured debentures due 2023	AA+
AYCAL23DA: THB1,300 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+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)