

# RATCHTHANI LEASING PLC

No. 175/2021  
15 October 2021

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b> Senior unsecured	A-
<b>Outlook:</b>	Stable

**Last Review Date:** 12/10/20

### Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	A-	Stable
14/03/19	A-	Alert Negative
19/10/16	A-	Stable
25/01/12	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Ratchthani Leasing PLC (THANI) and the ratings on its senior unsecured debentures at “A-”, with a “stable” outlook. The company rating on THANI incorporates a rating enhancement from its stand-alone credit profile (SACP) to reflect the company’s status as a “strategically important” entity of Thanachart Capital PLC (TCAP), rated “A/Stable” by TRIS Rating. The enhancement reflects THANI’s strong revenue and cashflow contributions to TCAP. THANI also receives business and financial support from TCAP.

The SACP on THANI at “bbb+” reflects its strong niche-market position in the hire-purchase loan market, focusing on the commercial truck and luxury car segments. The rating also takes into account the company’s ability to maintain its market position, strong capital base, and sound financial performance. However, the strengths are pressured by concerns over intense competition in the commercial truck loan market and its deteriorating asset quality due to the weak economic environment. These factors might constrain the company’s profitability over the next few years.

## KEY RATING CONSIDERATIONS

### Stable support from TCAP

TRIS Rating views THANI as a strategically important subsidiary of TCAP. We believe it is highly likely that TCAP will maintain its majority shareholding in THANI as THANI has become TCAP’s major revenue and cash flow contributor. In the first half of 2021, THANI contributed 17% of TCAP’s net profit. For business support, TCAP oversees THANI’s overall strategy, including risk management, through its representatives on THANI’s board. TCAP also provided financial support through a capital injection in October 2020, which helped strengthen THANI’s capital base, needed for business expansion and to cushion against potential losses amid the weak economy. In the longer term, we believe THANI will continue to benefit from TCAP’s funding support, and the company can look to TCAP as a lender of last resort in times of need.

### Solid market position

THANI holds a leading position in the commercial truck hire-purchase market in terms of total outstanding loans. The company’s outstanding loans stood at THB48 billion at the end of 2020, a drop of 7.6% year-on-year (y-o-y). The decline followed decelerating growth due to the company’s cautious underwriting strategy, given concerns over asset quality during the Coronavirus Disease 2019 (COVID-19) pandemic. THANI’s outstanding loans as of June 2021 stood at THB49.1 billion.

We expect THANI will maintain its market position over the next few years as we believe a gradual expansion after the slower business volume should be in line with the industry as a whole. We estimate that THANI’s loan portfolio will increase by 3% in 2021, before growing by 6% per year in 2022-2023, driven mainly by truck loans in the logistics segment and luxury car loans, which are the company’s main areas of expertise. The company will focus on the logistics and government-related construction segments that are less vulnerable to COVID-19 pandemic-related disruptions.

### **Asset quality weakens but remains manageable**

Although THANI's asset quality deteriorated in 2020, we anticipate that the company will be able to manage its asset quality through the weak economic cycle. THANI's non-performing loan (NPL; or stage-3 receivables to total loans) formation increased to 1.6% in 2020, from 0.7% in 2019, amid the fragile credit environment induced by COVID-19 and the inclusion of write-offs of litigated NPLs. NPL formation remained relatively stable at 1.5% (annualized) for the first half of 2021, and we expect it to stay at this level for the remainder of 2021 before declining to 1.25% in 2022-2023. This is based on our assumption that the economy will slowly recover over the next two years. We estimate credit costs to be in the range of 1.1%-1.5% in 2021-2023. In view of the company's prudent credit policy, improved loan collection, and adequate loan loss reserves, the weaker asset quality should remain manageable. Based on the company's provisioning policy to reserve an additional allowance for potential asset deterioration after the cessation of debt relief measures in 2021, we expect the company's NPL coverage ratio to reach 85% during the next few years, from 77% at the end of June 2021.

### **Moderate profitability expected**

We expect THANI to sustain moderate profitability by effectively managing its provision expenses, interest spread, and operating expenses. The company's earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), is assessed as moderate with a ratio of 4.6% in 2020 and 4.4% (annualized) for the first half of 2021. THANI reported THB854 million of net profit in the first six months of 2021, a 6% decline y-o-y due to higher provision expenses and loan portfolio contraction.

We expect its EBT/ARWA to be around 4.2% during 2021-2023. This is supported by our expectation that the company will maintain a spread of 4.3%-4.5% while keeping its credit cost in the range of 1.1%-1.5% and operating expenses below 14% of total income in 2021-2023. The company's strategy to maintain its spread should continue to underpin its strong performance. This is despite intensifying competition that has led to falling loan yields. We estimate THANI's blended loan yield will stay at 7% over the next few years, the same as the current level. We believe the company's expansion into retail customers will help sustain yields by offsetting the higher funding cost incurred from a larger proportion of long-term funding.

### **Capital position to remain strong**

THANI's strong capital base serves as a positive factor for its ratings. Despite its strong and steady loan expansion over the past few years, the company has maintained a strong capital base, thanks to continuous profit accretion. At the end of June 2021, its capital, as measured by the risk-adjusted capital (RAC) ratio, stood at 22.3%, improving from 14.9% in 2019. The strengthened capital base was due to the capital injection in October 2020 coupled with strong profitability. The current capital position is appropriate to support the company's growth strategy in the medium term.

In terms of financial leverage, the company has managed to keep its debt to equity (D/E) ratio below 4 times. At the end of June 2021, the D/E ratio stood at 3.6 times and has remained in compliance with its D/E ratio covenant of 10 times. We expect THANI to maintain the strong capital with an RAC ratio of 23% and sustain the low leverage during 2021-2023, given reasonably high profitability, conservative loan growth, and moderate dividend pay-outs.

### **Adequate funding and liquidity profile**

We assess the company to have an adequate funding and liquidity position. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provides a variety of available funding sources that enhance its funding and liquidity profile. The company can also issue bills of exchange (B/E) to manage liquidity from time to time. As of August 2021, the company had available credit facilities from various financial institutions totalling THB17 billion, 34% of which were undrawn. At the end of August 2021, available long-term credit provided by TMB Thanachart Bank PLC (TTB) stood at THB3 billion.

In terms of funding structure, at the end of June 2021, short-term debts accounted for 44% of THANI's total debts, a decline from more than 60% before 2019. This improving trend is a result of the management's strategy to gradually increase long-term funding to 70% or more of total funding. We expect THANI's well-established relationships with financial institutions and ample credit facilities will help mitigate liquidity risk.

### **Limited impact from COVID-19 on commercial truck loans**

Thailand's total vehicle sales for the first eight months of 2021 increased by 2.4% y-o-y. Sales of commercial vehicles increased by 6.6%, in contrast with sales of passenger cars which dropped by 5.4%. The lower impact on sales of commercial vehicles compared with passenger cars reflects the heightened demand for commercial vehicles due to increased logistics activities during the city lockdown. The number of new truck registrations also increased, by 19% in the first eight months of 2021. Nonetheless, the overall impact on the auto industry combined with lending institutions' more stringent credit underwriting criteria caused outstanding loans of listed lenders to fall by 0.1% y-o-y in the first half of

2021, compared with a 1.9% growth in the first half of 2020. We expect an economic recovery in 2022 to help improve the performance of both the auto manufacturers and the auto loan industries. The weakened asset quality in 2020-2021 is likely to be temporary and manageable.

### BASE-CASE ASSUMPTIONS

TRIS Rating’s base-case assumptions for the performance of THANI during 2021-2023 are as follows:

- Outstanding portfolio to grow by 3%-6% annually.
- Loan spread to be maintained at 4.3%-4.5%.
- Credit cost to be in the range of 1.1%-1.5%.

### RATING OUTLOOK

The “stable” outlook is based on TRIS Rating’s expectation that THANI will maintain its current market position, capital position, and earnings capability. The outlook also takes into consideration our anticipation that the company’s asset quality will remain manageable amid the weak credit environment.

### RATING SENSITIVITIES

THANI’s SACP could be revised upward if its capital base is materially strengthened, with the RAC ratio hovering at a level above 25% for a sustained period. The issuer credit rating (ICR) could be upgraded if TCAP’s rating is upgraded. The SACP could be revised downward if the company’s capital position weakens materially, with the RAC ratio falling below 9%, or if asset quality deteriorates substantially with credit cost rising above 5%, adversely affecting profitability and capital. A downgrade of the rating on TCAP could pressure the rating on THANI.

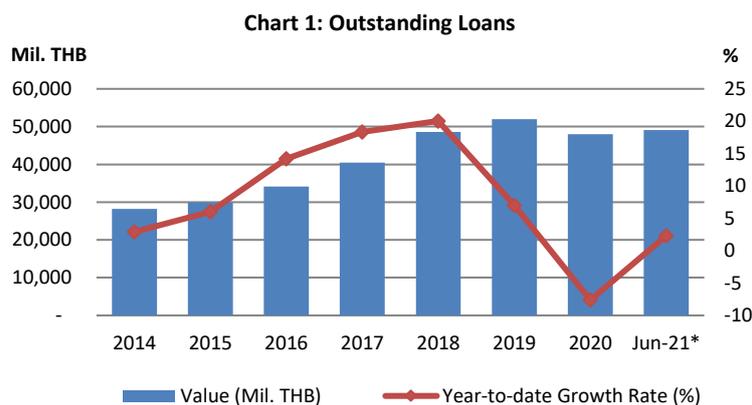
### COMPANY OVERVIEW

THANI was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 2002. THANI provides hire-purchase loans for both new and used commercial trucks.

In 2006, Siam City Bank PLC (SCIB) was the company’s largest shareholder with a 39.8% stake. THANI’s shareholding structure changed after the merger of SCIB and Thanachart Bank PLC (TBANK) in 2010. TBANK included THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with the Bank of Thailand’s (BOT) consolidated supervision regulations. After the merger of TMB and TBANK in 2019, TCAP became a major shareholder of THANI with 59.8% as of June 2021, 56% through Thanachart SPV1 Co., Ltd., and 3.8% through TCAP.

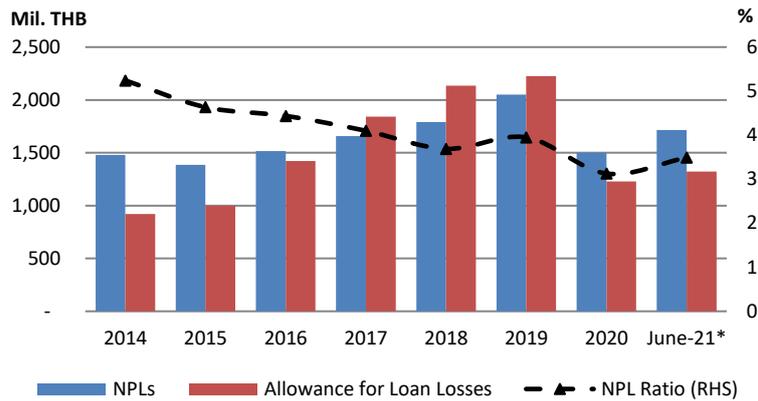
THANI’s loan portfolio stood at THB49.1 billion at the end of June 2021, 70% of which was made up of commercial truck loans and the remaining 30% of luxury passenger car and high-CC motorcycle loans.

### KEY OPERATING PERFORMANCE



Source: THANI’s financial statements  
\* Year-to-date growth for June 2021

Chart 2: Asset Quality



Source: THANI's financial statements

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2021	Year Ended 31 December			
		2020	2019	2018	2017
Total assets	49,717	48,518	50,881	47,531	39,492
Total loans	49,098	47,976	51,933	48,545	40,441
Allowance for expected credit loss	1,321	1,228	2,225	2,134	1,843
Short-term debts	16,506	11,000	29,089	21,986	17,205
Long-term debts	21,373	25,742	13,151	17,339	15,922
Shareholders' equity	10,710	10,819	7,671	7,195	5,627
Net interest income	1,229	2,452	2,527	2,332	1,878
Expected credit loss	246	338	194	403	523
Non-interest income	380	747	700	625	547
Operating expenses	278	538	570	504	496
Earnings before taxes	1,084	2,324	2,463	2,051	1,406
Net income	854	1,860	1,964	1,641	1,126

\* Consolidated financial statements

Unit: %

	Jan-Jun 2021	Year Ended 31 December			
		2020	2019	2018	2017
<b>Profitability</b>					
Net interest income/average assets	5.00 **	4.93	5.14	5.36	5.16
Non-interest income/average assets	59.49 **	57.53	59.63	60.94	56.79
Operating expenses/total income	13.47	12.61	13.45	13.16	14.99
Operating profit/average assets	4.41 **	4.68	5.01	4.71	3.86
Earnings before taxes/average risk-weighted assets	4.42 **	4.65	4.95	4.65	3.80
Return on average assets	3.48 **	3.74	3.99	3.77	3.09
Return on average equity	15.88 **	20.12	26.42	25.59	21.17
<b>Asset Quality</b>					
Receivable in stage 3/total loans	3.49	3.13	3.95	3.69	4.10
Expected credit loss/average loans	1.01 **	0.68	0.39	0.90	1.40
Allowance for expected credit loss/Receivable in stage 3	77.08	81.86	108.57	119.16	111.15
<b>Capitalization</b>					
Risk-adjusted capital ratio	21.54	22.30	14.91	14.95	14.06
Debt/equity (times)	3.64	3.48	5.63	5.61	6.02
<b>Funding and Liquidity</b>					
Stable funding ratio	108.24	64.78	64.78	80.12	85.66
Liquidity coverage measure (times)	0.07	0.01	0.01	0.01	0.01
Short-term debts/total liabilities	42.32	29.18	67.32	54.51	50.81

\* Consolidated financial statements

\*\* Annualized

#### RELATED CRITERIA

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

**Ratchthani Leasing PLC (THANI)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
THANI210A: THB145 million senior unsecured debentures due 2021	A-
THANI221A: THB2,070 million senior unsecured debentures due 2022	A-
THANI227A: THB1,745.2 million senior unsecured debentures due 2022	A-
THANI220A: THB1,200 million senior unsecured debentures due 2022	A-
THANI237A: THB486.3 million senior unsecured debentures due 2023	A-
THANI23NA: THB3,439 million senior unsecured debentures due 2023	A-
THANI247A: THB593.7 million senior unsecured debentures due 2024	A-
THANI254A: THB1,000 million senior unsecured debentures due 2025	A-
THANI255A: THB593 million senior unsecured debentures due 2025	A-
THANI264A: THB700 million senior unsecured debentures due 2026	A-
THANI274A: THB1,300 million senior unsecured debentures due 2027	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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