

# RATCHTHANI LEASING PLC

No. 175/2023  
14 September 2023

## FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 28/06/23

### 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”. The enhancement reflects THANI’s strong revenue and cash flow contributions to TCAP. THANI also receives ongoing business and financial support from TCAP.

The SACP on THANI at “bbb+” reflects its strong position in the commercial truck and luxury car hire-purchase (HP) loan market. The rating also takes into consideration the company’s ability to maintain a strong capital base and sufficient funding and liquidity.

However, the strengths are pressured by the company’s weakening earnings capacity caused by rising funding costs, lower yield resulting from intense competition, and a potential rise in credit cost amid an uncertain economic environment.

## KEY RATING CONSIDERATIONS

### Continuous support from TCAP

TRIS Rating continues to view THANI as a strategically important subsidiary of TCAP. We believe it is highly likely that TCAP will maintain its majority shareholding in THANI. As of September 2023, TCAP held a 60.6% stake in THANI, the same level as last year. THANI has been a major revenue and cash flow contributor to TCAP, and this is likely to continue over the next few years. In the first half of 2023 (1H2023), THANI contributed 23% of TCAP’s net profit, compared with 27% in 2022.

In terms of business support, TCAP oversees THANI’s overall strategy, including risk management, through its representatives on THANI’s board of directors. In the longer term, we believe THANI will continue to benefit from TCAP’s funding support and can look to TCAP as a lender of last resort in times of need.

### Continued top market position in truck segment

We expect THANI to maintain a strong market position in HP loans for commercial trucks over the next two to three years, despite its conservative growth strategy. At the end of June 2023, outstanding loans stood at THB55.3 billion, up by 3% year-to-date. This follows a year-on-year (y-o-y) growth of 8% in 2022, which was significantly lower than the company’s major peer. We view THANI’s cautious strategy amid uncertain economic conditions positively, as it indicates the company’s prudent approach to managing asset quality.

We project that THANI’s outstanding loans will increase gradually by 6%-7% per year in 2023-2025, backed mainly by truck HP in the consumption, energy and agriculture sectors, whose demand remains strong. In addition, Thailand’s planned adoption of European Emission Standard 5 (EURO 5) for newly manufactured vehicles, including trucks, starting on 1 January 2024, could support demand for new trucks and HP loans.

THANI has also expanded into floor-plan loans for dealers and title loans for its existing clients. Outstanding loans for the two products stood at around THB500 million at the end of June 2023. In the longer term, we view that the

diversification should help support continuous business expansion and alleviate pressure on loan yields given a mix of higher yields from title loans.

### Capital position to remain strong

THANI's capital is assessed as "strong", with a risk-adjusted capital (RAC) ratio of 21.9% at the end of the second quarter of 2023 (2Q23). Stable profits and a 60% dividend payout policy have helped the company gradually build up its equity base. In the medium term, based on our assumption of 6%-7% outstanding loan growth and a 60% dividend payout, the RAC will likely still be in the strong range. In terms of financial leverage, its debt to equity (D/E) ratio stood at 3.6 times at the end of June 2023, far below the D/E covenant on its debt obligations of 10 times.

### Adequate funding and liquidity profile

We expect THANI's funding and liquidity position to remain "adequate". The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provide it with sufficient and diversified funding sources to support growth. The company also has credit lines from TCAP, which serve as additional funding sources to cushion against liquidity shortfalls. As of June 2023, the company had available credit facilities from various financial institutions totaling THB7.1 billion, including THB3.03 billion provided by TMB TCAP Bank PLC (TTB), 30% of which were undrawn.

In terms of funding structure, we view the company's asset-liability mismatches to be manageable as short-term borrowings including bills of exchange (B/E) accounted for a modest portion, at 18% of total debts at the end of June 2023. As for liquidity, we expect the company to be able to refinance its short-term borrowings given its well-established relationships with financial institutions and ample credit facilities. Meanwhile, long-term debentures of THB3.4 billion, out of a total THB31 billion outstanding as of 14 September 2023, are scheduled to be redeemed in 2023. We expect the company will be able to refinance these maturing obligations.

### Declining earnings capacity, rising costs

We expect THANI to maintain earnings capacity in the "moderate" range over the next 2-3 years, despite higher provision expenses and a lower interest spread. THANI's earnings capacity, as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), decreased slightly to 4.28% in 2022, from 4.43% in 2021. The ratio was pressured by higher operating expenses, mainly related to litigation processes for non-performing loan (NPL) management. The ratio of operating expenses to total income increased to 17% in 2022, from 12%-13% in previous periods.

In 1H23, annualized EBT/ARWA further decreased to 4.1%. This was despite improved interest income from credit expansion. The drop was caused by high credit cost, losses on sales of repossessed vehicles, funding cost, and operating costs. We project EBT/ARWA to fall further to the 3% range in 2023-2025, assuming a 4% interest spread, operating expense to total income of 16%, and 1.3%-1.7% credit cost. Nonetheless, EBT/ARWA at the 3% level still supports the current level of THANI's SACP.

### Credit risk likely to increase but remain manageable

THANI's cautious growth strategy and efficient collection system has resulted in improved asset quality. The ratio of stage-3 loans (NPLs) fell to 2.5% at the end of 2022 from 3.8% at the end of 2021. Although the NPL ratio increased slightly to 2.7% at the end of June 2023, this is still lower than the direct peer's range of 4.0%-4.5%. In our view, NPLs may continue to rise over the next few years if the company expands its business more actively in an environment of intense competition and still-weak economic conditions.

Nevertheless, the company aims to keep its NPL ratio within the target of 3%. This would be supported by more prudent loan approvals, efficient debt collections, and acceleration of NPL write-offs. With our assumption of higher NPL write-offs of 1.3%-1.4% to average loans in 2023-2025, compared with a level below 1% in the past, the NPL ratio is likely to stay within the target. With our assumptions of a 3% NPL ratio and higher credit costs in the 1.4%-1.7% range, the NPL coverage ratio should stay above 100%. As of June 2023, NPL coverage stood at 102.5%.

### Declining exports and high oil prices impacted truck sales

Overall vehicle sales declined in line with economic conditions, with domestic car sales contracting by 5.5% y-o-y in the first seven months of 2023 (7M23), passenger car sales by 10.0%, and commercial vehicles contracting by 12.6%. Truck sales in 7M23 contracted by 15.9% y-o-y, compared with flat growth in 2022. As a result, outstanding auto loans for firms listed on the Stock Exchange of Thailand grew at a slower pace of 1.3% (1H2023), down from 5.3% in 2022. Although the outlook for 2H23 remains dismal, the change in regulations related to emission standards for new trucks may act as a catalyst for sales and credit growth for the segment in 2024 and beyond.

## BASE-CASE ASSUMPTIONS

TRIS Rating’s base-case assumptions for the performance of THANI during 2023-2025 are as follows:

- Outstanding portfolio growth of 6%-7% annually.
- Loan spread maintained at around 4%.
- Credit cost in the range of 1.4%-1.7%.
- Operating expenses to total income in the range of 16%-17%.

## 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 an uncertain economic 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 the rating on TCAP is upgraded. The SACP could be revised downward if the company’s capital position weakens materially, with the RAC ratio falling below 12% and/or asset quality deteriorating substantially to the extent that EBT/ARWA falls below 1.5%. A rating downgrade on TCAP could also pressure THANI’s ratings.

## 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 TCAP 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 a 59.8% stake as of June 2023, 56.8% through TCAP SPV1 Co., Ltd., and 3.8% through TCAP.

THANI’s loan portfolio stood at THB55.3 billion at the end of June 2023, 70% of which comprised commercial truck loans and the remaining 30% luxury passenger car and high-CC motorcycle loans.

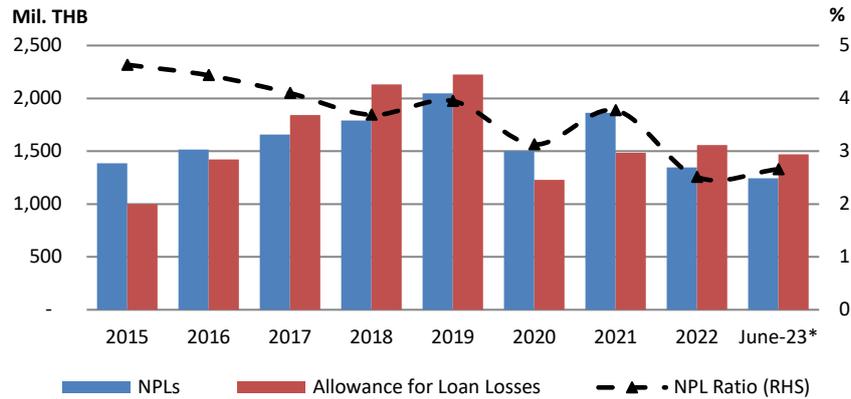
## KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: THANI’s financial statements  
\* Year-to-date growth for June 2023

Chart 2: Asset Quality



Source: THANI's financial statements

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	56,179	53,909	49,223	48,518	50,881
Total loans	55,322	53,660	49,396	47,976	51,933
Allowance for expected credit loss	1,507	1,558	1,485	1,228	2,225
Short-term debts	18,839	16,396	17,802	11,000	29,089
Long-term debts	24,037	24,504	18,879	25,742	13,151
Shareholders' equity	12,274	12,361	11,567	10,819	7,671
Net interest income	1,281	2,585	2,517	2,452	2,527
Expected credit loss	322	555	586	338	194
Non-interest income	504	933	796	747	700
Operating expenses	354	774	585	538	570
Earnings before taxes	1,109	2,189	2,143	2,324	2,463
Net income	875	1,753	1,709	1,860	1,964

\* Consolidated financial statements

Unit: %

	Jan-Jun 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
<b>Profitability</b>					
Net interest income/average assets	4.65**	5.01	5.15	4.93	5.14
Non-interest income/average assets	1.85**	1.81	1.64	1.50	1.39
Operating expenses/total income	15.15	17.41	13.83	12.61	13.45
Operating profit/average assets	4.03**	4.25	4.38	4.68	5.01
Earnings before taxes/average risk-weighted assets	4.03**	4.23	4.37	4.65	4.95
Return on average assets	3.18**	3.40	3.50	3.74	3.99
Return on average equity	14.21**	14.65	15.27	20.12	26.42
<b>Asset Quality</b>					
Receivable in stage 3/total loans	2.66	2.51	3.77	3.13	3.95
Expected credit loss/average loans	1.18**	1.08	1.20	0.68	0.39
Allowance for expected credit loss/Receivable in stage 3	102.50	115.70	79.69	81.86	108.57
<b>Capitalization</b>					
Risk-adjusted capital ratio	21.91	22.93	23.34	22.30	14.91
Debt/equity (times)	3.58	3.36	3.26	3.48	5.63
<b>Funding and Liquidity</b>					
Stable funding ratio	103.39	108.37	101.85	126.13	64.78
Liquidity coverage measure (times)	0.06	0.04	0.03	0.09	0.01
Short-term debts/total liabilities	42.91	39.46	47.27	29.18	67.32

\* Consolidated financial statements

\*\* Annualized

**RELATED CRITERIA**

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

**Ratchthani Leasing PLC (THANI)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
THANI23NA: THB3,439 million senior unsecured debentures due 2023	A-
THANI247A: THB593.7 million senior unsecured debentures due 2024	A-
THANI24DA: THB500 million senior unsecured debentures due 2024	A-
THANI251B: THB1,000 million senior unsecured debentures due 2025	A-
THANI254A: THB1,000 million senior unsecured debentures due 2025	A-
THANI255A: THB593 million senior unsecured debentures due 2025	A-
THANI25DA: THB2,000 million senior unsecured debentures due 2025	A-
THANI25DB: THB1,000 million senior unsecured debentures due 2025	A-
THANI262A: THB1,000 million senior unsecured debentures due 2026	A-
THANI262B: THB1,000 million senior unsecured debentures due 2026	A-
THANI264A: THB700 million senior unsecured debentures due 2026	A-
THANI265A: THB2,500 million senior unsecured debentures due 2026	A-
THANI268A: THB2,000 million senior unsecured debentures due 2026	A-
THANI271A: THB651.1 million senior unsecured debentures due 2027	A-
THANI272A: THB1,000 million senior unsecured debentures due 2027	A-
THANI274A: THB1,300 million senior unsecured debentures due 2027	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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