

SRISAWAD CORPORATION PLC

No. 137/2023
7 December 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Issue Ratings:
Guaranteed BBB+
Outlook: Stable

Last Review Date: 22/08/23

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Srisawad Corporation PLC (SAWAD) and the ratings on its outstanding guaranteed debentures at “BBB+” with a “stable” outlook. At the same time, TRIS Rating assigns a rating of “BBB+” to SAWAD’s proposed issue of guaranteed debentures of up to THB8 billion due within five years. The company intends to use the proceeds from the proposed debenture issue for working capital, debt repayment, and to fund its loan portfolio expansion.

The ratings incorporate SAWAD’s solid market position as one of the leading players in the title loan business, well diversified funding source, and sufficient liquidity.

SAWAD’s strong capital continues to support its credit profile. Nevertheless, if the capital and earnings capability continue to follow the recent declining trend, the ratings could come under pressure. Intense competition in the consumer finance segment remains an additional constraint on the ratings.

SAWAD’s overall performance in the first nine months of 2023 (9M23) was in line with our expectations. However, loan growth was higher than our base-case assumptions resulting from strong expansion of the company’s new motorcycle hire purchase (HP) and title loan segments, which led to a depleting capital position.

At the end of the third quarter of 2023 (3Q23), SAWAD’s outstanding loans had increased to THB92.6billion, a 93.8% growth year-on-year (y-o-y) and 6.3% quarter-on-quarter (q-o-q). This was partly due to SAWAD’s consolidation of THB15 billion in net loans from Fast Money Co., Ltd. (FM) at the end of 2Q23 after the 49% share buyback from Government Savings Bank (GSB, rated “AAA/stable”).

Net income in 9M23 increased to THB4.0 billion, up 13.1% y-o-y, stemming from the sharp rise in interest income. This was partially offset by a significant increase in provisions expenses, higher operating expenses, and higher interest expenses. Operating expenses in 9M23 rose y-o-y due to the higher commissions paid to motorcycle dealers, increased marketing expenses, and branch expansion.

In terms of asset quality, SAWAD’s non-performing loans (NPL) have followed a deteriorating trend, in line with peers. The NPL ratio rose slightly to 2.7% at the end of 3Q23 from 2.6% as of June 2023. NPL formation decreased to 2.0% in 3Q23 from 4.5% in 2Q23. We expect NPL formation to remain elevated at the current level over the next few years. NPL coverage was a relatively stable 50% at end-September 2023, still considerably lower than peers.

SAWAD’s capitalization, as measured by the risk-adjusted capital (RAC) ratio remains strong. However, with the continued expansion of the motorcycle HP and title loan segments, the company’s RAC ratio has fallen significantly, dropping from 32.2% at the end of 2022 to 22.5% in 2Q23 and 22.3% in 3Q23. Should the company’s RAC ratio decline further on a prolonged basis, the outlook and/or ratings on SAWAD could come under pressure.

The company’s earnings capability measured by earning before taxes to average risk weighted assets (EBT/ARWA) stood at 6.0% (annualized) in 9M23,

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compared with 9.1% in 9M22. We expect the company's profitability to continue to be pressured by elevated credit costs as well as higher operating expenses and funding costs. We project the company's EBT/ARWA to remain at around 5%-6% over the next few years. Any further weakening of the ratio could pressure the ratings.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAWAD's capital position will remain strong. We also expect SAWAD's market position to remain strong and its financial performance and asset quality to be well managed, in line with our base-case scenario.

RATING SENSITIVITIES

An upward rating revision is unlikely in the near term but could occur if the company's market position remains solid, with a well-diversified asset mix, while asset quality and capital position improve materially. Conversely, the ratings and/or outlook could be revised downward if SAWAD's asset quality weakens significantly causing capital, leverage, and earnings capability to deteriorate such that the RAC ratio falls below 25% or EBT/RWA falls below 3.5% for a prolonged period.

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB+
Issue Ratings:	
SAWAD248B: THB1,998 million guaranteed debentures due 2024	BBB+
SAWAD253A: THB657 million guaranteed debentures due 2025	BBB+
SAWAD254A: THB4,113 million guaranteed debentures due 2025	BBB+
SAWAD258A: THB2,882.6 million guaranteed debentures due 2025	BBB+
SAWAD259A: THB1,199.5 million guaranteed debentures due 2025	BBB+
SAWAD261A: THB1,999.5 million guaranteed debentures due 2026	BBB+
SAWAD265A: THB5,009.5 million guaranteed debentures due 2026	BBB+
SAWAD266A: THB1,343 million guaranteed debentures due 2026	BBB+
SAWAD269B: THB2,750.5 million guaranteed debentures due 2026	BBB+
SAWAD271A: THB2,002.5 million guaranteed debentures due 2027	BBB+
SAWAD275A: THB1,314.7 million guaranteed debentures due 2027	BBB+
SAWAD279A: THB524.1 million guaranteed debentures due 2027	BBB+
SAWAD285A: THB2,844 million guaranteed debentures due 2028	BBB+
SAWAD289A: THB1,890.4 million guaranteed debentures due 2028	BBB+
Up to THB8,000 million guaranteed debentures due within 5 years	BBB+
Rating Outlook:	Stable

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