

RATCHTHANI LEASING PLC

No. 116/2022
4 November 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 10/10/22

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 THANI's existing senior unsecured debentures at "A-" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A-" to THANI's proposed issue of up to THB2 billion senior unsecured debentures due within four years. The proceeds from this latest proposed debenture issue are intended for use in business operations and for debt repayment.

The company rating on THANI incorporates a rating enhancement from its stand-alone credit profile (SACP) of "bbb+" 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 reflects its strong niche-market position in the hire-purchase loan market, focusing on the commercial truck and luxury car segments. The rating also considers 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 the uncertain economic environment.

THANI's expertise in the truck hire-purchase segment should enable the company to maintain its position as one of the leaders in the segment in terms of total outstanding loans despite its conservative growth strategy in recent years. At the end of June 2022, outstanding loans amounted to THB52.3 billion, up by 6% year-to-date. Going forward, we expect a more active growth outlook for THANI. We estimate that its new loans will increase by 20% y-o-y in 2022 and 5% per year in 2023-2024. The growth should be backed by its marketing strategy, strong demand for truck loans, and economic recovery. The company has also started offering auto title loans to existing customers this year, which we expect to provide the impetus for THANI's overall portfolio expansion and should help alleviate pressure on loan yields as competition in the hire purchase loan market intensifies.

THANI's cautious growth strategy over the last two years and efficient collection system resulted in improved asset quality. The ratio of stage-3 loans (non-performing loans (NPL) fell to 2.4% at the end of the second quarter of 2022 (2Q22) from 3.8% at the end of 2021. In our view, NPL could potentially rise in the next few years given more active expansion in an environment of intense competition and economic uncertainty. Nonetheless, the rise in NPL should be manageable.

THANI's capital base, measured by the risk-adjusted capital ratio (RAC), is relatively strong. The company's RAC was 22% at the end of 2Q22. 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% (annualized) for the first half of 2022. The company reported THB947 million of net profit in the first six months of 2022, a 11% increase y-o-y. This was thanks to its ability to maintain spread, lower credit cost, and offset higher operating expenses with revenue from debt collection. We estimate its RAC to remain strong in the next few years with EBT/ARWA above 4.5% during 2022-2024.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

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 provide a variety of available funding sources that support its funding and liquidity profile.

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 deteriorates substantially to the extent of EBT/ARWA falling below 1.5%. A rating downgrade on TCAP could also pressure the rating on THANI.

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)

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| Company Rating: | A- |
| Issue Ratings: | |
| 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- |
| THANI25DA: THB2,000 million senior unsecured debentures due 2025 | A- |
| THANI262A: THB1,000 million senior unsecured debentures due 2026 | A- |
| THANI264A: THB700 million senior unsecured debentures due 2026 | A- |
| THANI268A: THB2,000 million senior unsecured debentures due 2026 | A- |
| THANI274A: THB1,300 million senior unsecured debentures due 2027 | A- |
| Up to THB2,000 million senior unsecured debentures due within 4 years | A- |
| Rating Outlook: | Stable |

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