

RATCHTHANI LEASING PLC

No. 8/2024
31 January 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 25/10/23

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 THANI's outstanding senior unsecured debentures at "A-" with a "stable" outlook. At the same time, TRIS Rating assigns a rating of "A-" to THANI's proposed issue of up to THB3 billion senior unsecured debentures due within four years. The proceeds are intended for use in business operations and debt repayment.

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 as well as 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.

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 the third quarter of 2023 (3Q23), its outstanding loans stood at THB55.2 billion, up by 3% year-to-date and remained flat quarter on quarter (QOQ). This is due to its conservative growth strategy driven by concerns over the risk of deteriorating 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. THANI has also expanded into floor-plan loans for dealers and title loans for its existing clients. In the longer term, we view that the diversification should help support its continuous business expansion and alleviate pressure on loan yields given a mix of higher yields from title loans.

THANI's asset quality slightly deteriorated due to still-weak economic conditions similar to other operators. The ratio of stage-3 loans (non-performing loans -- NPLs) slightly increased to 2.7% at the end of September 2023 from 2.5% at the end of 2022. The expected credit loss (ECL) provisions to average loans (credit cost) increased to 1.6% in the first nine months of 2023 (9M23, annualized), from 1% in 2022. This was caused by the drop in used truck price. Nonetheless, we expect the asset quality should be manageable. This would be supported by more cautious growth strategy, prudent loan approvals, and efficient debt collections.

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), dropped to 3.5% in 9M23 (annualized), from 4.3% in 2022 despite improved interest income from credit

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expansion. The drop was caused mainly by high credit cost, losses on sales of repossessed vehicles, as well as rising funding and operating costs. We project EBT/ARWA to fall further to the 3% range in 2023-2025, but still supports the current level of THANI's SACP.

THANI's capital is assessed as "strong", with a risk-adjusted capital (RAC) ratio of 23% at the end of 3Q23. In terms of financial leverage, its debt to equity (D/E) ratio stood at 3.4 times at the end of 3Q23, well below the D/E covenant on its debt obligations of 10 times.

We assess the company's funding and liquidity position as "adequate". The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provide diversified funding sources that support its business expansion.

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.

RELATED CRITERIA

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

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
THANI247A: THB593.7 million senior unsecured debentures due 2024	A-
THANI240A: THB3,000 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-
THANI26NA: THB1,100 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-
THANI27NA: THB900 million senior unsecured debentures due 2027	A-
Up to THB3,000 million senior unsecured debentures due within 4 years	A-
Rating Outlook:	Stable

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