

MICRO LEASING PLC

No. 5/2024
25 January 2024

FINANCIAL INSTITUTIONS

Company Rating: BB
Outlook: Stable

Last Review Date: 03/04/23

Company Rating History:

Date	Rating	Outlook/Alert
03/04/23	BB+	Negative
08/04/21	BB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Micro Leasing PLC (MICRO) to “BB” from “BB+ and revises the outlook to “stable” from “negative”. This reflects the company’s weakened asset quality and operating performance, which has pressured its capital and earnings position.

Despite a strong capital base supporting MICRO’s rating, weakened earnings due to increased provisions, repossession losses, and elevated expenses weigh down its rating. Additionally, its modest market penetration in used truck and new motorcycle hire purchase segments, coupled with a moderate funding and liquidity profile, further constrain its rating.

KEY RATING CONSIDERATIONS

Market position remains modest

Overall, MICRO’s market share in both used truck and new motorcycle hire purchase (HP) segments remains relatively modest compared to its competitors. At the end of September 2023, the company’s outstanding loans stood at THB4.7 billion, -1% year-on-year (y-o-y), comprising THB3.9 billion used truck HP and THB775 million new motorcycle HP newly launched under Micro Plus Leasing Co., Ltd. (MPLUS).

Following a period of robust loan expansion in 2021-2022, MICRO slowed down its loan expansion due to concerns regarding asset quality. The decline was primarily driven by used truck HP loans, which contracted by 12% y-o-y. The new motorcycle HP loans experienced a remarkable 145% y-o-y growth, although this was from a low base.

MICRO also started top-up loans under Micro FIN Co., Ltd. (MFIN) in the second quarter of 2023 (2Q23). The business started off at a slow pace, with a balance of only THB11 million at the end of September 2023. MFIN also plans to embark on title loans secured by used trucks in 2024. In terms of branch network, MICRO will temporarily pause its branch expansion plan, maintaining its current footprint at 25 branches.

In the next few years, we anticipate MICRO to cautiously expand its loan portfolio and places primary emphasis on strengthening asset quality. Thus, we expect its business position to remain modest.

Strong capital position

We expect that MICRO will sustain its robust capital position for the foreseeable future. Risk-adjusted capital ratio (RAC) is likely to remain comfortably above 25% throughout 2023-2025, assuming a decline in new loan originations by approximately 30% in 2023, followed by a moderate 10% growth in 2024-2025. Material credit expansion, particularly in new motorcycle HP which we view as a high credit risk product, could put pressure on the company’s capital position and the rating.

MICRO’s RAC ratio declined slightly to 37.4% at the end of September 2023 from 38.4% at the end of December 2022 due to a dent in capital base from losses of THB69 million during the first nine months of 2023. However, this was counterbalanced by a contraction of credit growth, especially that of used truck HP.

Deteriorating earnings capacity

We assess the company's earnings capacity as weak, with projected 5-year average (2021-2025) earnings before taxes to risk-weighted assets (EBT/RWAs) at 0.3%, compared with the 7.0%-8.0% range in the past few years. This is based on our assumptions of the credit cost ranging between 3%-5% as a result of elevated non-performing loan (NPL) formation and a slight decline in interest spread to 10% from higher funding cost.

The company's EBT/ARWAs steadily fell to -2.0% in the first nine months of 2023 (9M23) from 1.7% in 2022 and 7.1% in 2021. This stemmed from higher credit loss provisions, exacerbated by surging losses from foreclosures. Higher funding costs as well as staff and collection expenses were also the reasons.

As for revenue diversity, fee income contributed 14% of total revenue in 9M23, down from 16% in 2022, as a result of a slowdown in new loan originations while a rise in late payment fees offered some counterbalance. The company plans to expand insurance product offerings of its subsidiary, Micro Insure Broker, which could help MICRO to diversify revenue gradually.

Weakened asset quality

The company's risk position is assessed as 'moderate'. MICRO's asset quality deteriorated considerably since 2022 following the aggressive credit growth during 2021-2022 amid the fragile economy. In particular, higher oil prices, lackluster exports, and delayed government budget allocations negatively impact demand for truck usage. NPLs and number of repossessed trucks rose notably as a result. This put more pressure on the prices of used trucks, which has already been on a declining trend due to slower demand for trucks.

Over the last few years, MICRO's NPL ratio has increased continuously to 4.7% at end-September 2023 from 3.5% at end-2021 from both used trucks and new motorcycle HP. Stage 2 loans also rose to 21.0% at end of September 2023 from 17.7% at end-2022. This led its credit cost (provisions for expected credit loss or ECL to average loans) to remain elevated at 4.4% in 9M23, compared to 3.7% in 2022.

Meanwhile, the higher number of repossessed cars and a decline in used truck price resulted in significant increase in losses on asset foreclosed, spiking to 6.1% of average loans in 9M23 from 3.2% of average loans in 2022 and 0.9% in 2021. Nonetheless, there is a positive sign. NPL formation decreased to 3.8% of average loans in 9M23 from 4.2% in 2022. The NPL coverage ratio increased to 113% at the end of September 2023 from 103% at the end of 2022, relatively on par with its peers. However, we are of the view that MICRO's NPL coverage should be higher given its asset mix comprise mainly older age used trucks (on average 15 years).

In response to its asset quality concerns, MICRO has implemented various measures, such as more rigorous underwriting policies, leading to a reduced loan balance. Additionally, the company has expedited its debt collection process since mid-2022. These initiatives are expected to gradually enhance asset quality over the medium term. Nonetheless, persistent deterioration in asset quality may exert pressure on its rating.

Moderate funding and liquidity profile

We expect MICRO to maintain its 'moderate' funding profile over the next few years. Short-term borrowings, including the current portion of long-term debts, accounted for around 24% of the total borrowings as of September 2023. The majority of borrowings are debentures. Total outstanding debentures currently stood at THB2.38 billion, THB321 million of which will mature in April 2024 and THB762 million in October 2024. The company already has plans for the bond redemptions in place.

We also assess MICRO's liquidity as 'moderate'. Based on the company's data, cash on hand, available credit facilities of close to THB1 billion, steady cash flows from monthly loan repayment, altogether should be sufficient to support liquidity needs in the short- to medium-term. The company also has financial flexibility as it has access to both equity and debt capital markets for funding needs, and secured debt to total debt is currently low at 10%. However, financial flexibility could be constrained if the company pursues aggressive growth strategy.

Declining exports and elevated oil prices weighed on truck sales.

Thailand's auto market suffered a slowdown in 2023, mirroring the sluggish economy. Domestic car sales plummeted 7.7% in the first 11 months compared with flat growth in 2022, driven by a 16.2% drop in commercial vehicles and a 13.5% decline in truck sales compared to the same period in 2022. As a result, outstanding auto loans for firms listed on the Stock Exchange of Thailand (SET) grew at a slower pace of 1.2% (9M2023), down from 5.3% in 2022. Although the outlook for the second half of 2023 (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 MICRO's operations in 2023-2025 are as follows:

- New loans to contract around 30% in 2023 and subsequently expand by 10% per year.
- Interest spread to hold at around 10%.
- NPL ratio to hover around 4.5%-5.0%

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market position and capital and financial leverage level while gradually improve its financial performance and asset quality.

RATING SENSITIVITIES

A rating upgrade will be materialized if the company improves its earnings capacity and asset quality over an extended period while maintaining its strength in capital position with the RAC ratio maintained well above 25%.

On the contrary, the rating and/or outlook could be revised downward if the company's asset quality or profitability deteriorates further, resulting in the RAC ratio falling below 25% for an extended period.

COMPANY OVERVIEW

The company was established on 7 November 1994 with a registered capital of THB1 million, building upon the management's experience of over 25 years in the auto parts trading business, to provide financing for commercial trucks used for transportation in the logistics, construction, and agricultural sectors. As of June 2020, 93% of the company's outstanding loans were used-truck hire purchase loans, with mostly 6-, 10-, and 12-wheel trucks as collateral.

The company set up its first office in Nakorn Pathom. Since 2002, the company has opened branches across the Central region. Over the years, MICRO has continuously increased its registered and paid-up capital and expanded its branch network across the Northeastern and Eastern regions. The company currently has 12 branches and over 350 dealers in its network. In September 2019, the company became a public limited company and changed its name to "Micro Leasing Public Company Limited" in preparation for its initial public offering on the SET in 2020.

In September 2020, the company sold 235 million of its registered shares at THB2.65 per share through an initial public offering and successfully raised THB622 million. The company's registered and paid-up capital subsequently increased to THB935 million from THB700 million. Following the initial public offering, the Auchyawat family remained the majority shareholder with a total stake of 57%.

In October 2021, the company set up a new subsidiary under the name "MICRO Insure Broker Co., Ltd." with the registered capital of THB3 million to undertake the life and non-life insurance brokerage business. MICRO holds a 99.99% stake in the company.

In January 2022, the company set up another subsidiary under the name "MICRO FIN Co., Ltd." with registered capital of THB50 million to engage in the secured and unsecured personal loan under supervision business. MICRO also holds 99.99% of the company.

In March 2022, the company established a joint venture under the name "MICRO Plus Leasing Co., Ltd." (MPlus) with registered capital of THB400 million to engage in the motorcycle hire purchase business. The shareholders consist of MICRO (51%), Mr. Thammasak Auchyawat (9%), and Mr. Thaveepol Charoenkitkhunpaisal and partners (19%). Later in Mar 2023, MPlus increased its registered capital to THB800 million. MICRO maintains its 51% shareholding.

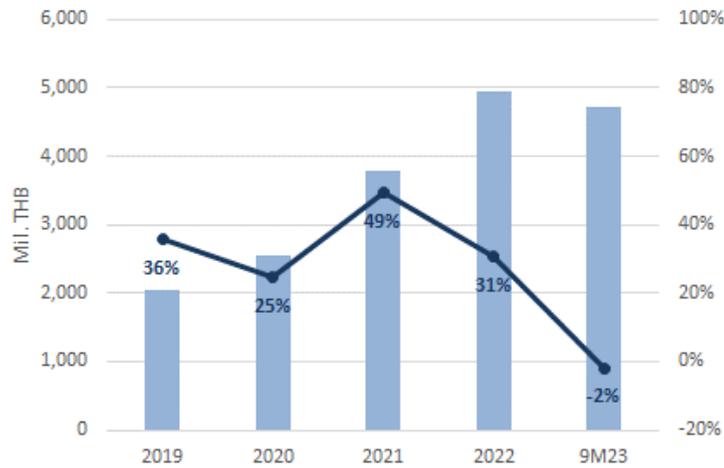
Chart 1: Company Structure



Source: MICRO

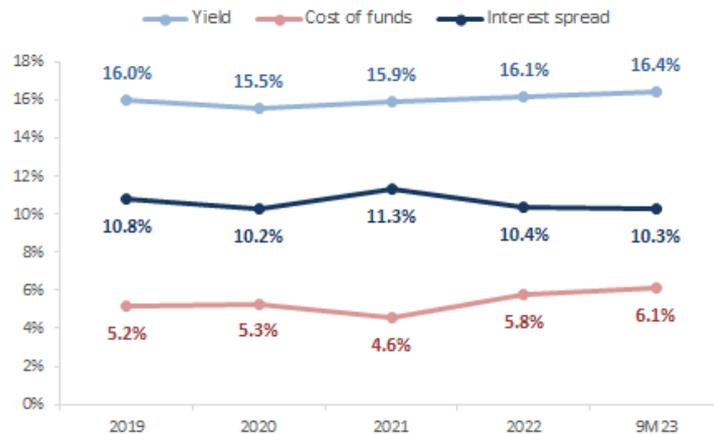
KEY OPERATING PERFORMANCE

Chart 2: Outstanding Loans



Source: MICRO

Chart 3: Interest Spread



Source: MICRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	5,791	5,511	4,034	2,755	2,118
Total loans	4,729	5,003	3,810	2,555	2,043
Allowance for expected credit loss	252	232	162	98	112
Short-term debts	838	989	477	678	686
Long-term debts	2,642	2,181	1,452	145	301
Shareholders' equity	2,142	2,148	1,958	1,823	1,080
Net interest income	444	559	441	308	243
Expected credit loss	161	192	128	36	4
Non-interest income	105	148	101	58	29
Operating expenses	473	292	186	153	129
Earnings before taxes	(85)	82	227	176	139
Net income	(69)	65	187	135	111

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Net interest and dividend income/average assets	10.47	11.72	12.98	12.63	13.31
Non-interest income/average assets	2.30	2.94	3.53	3.20	2.22
Operating expenses/total income	67.37	54.48	36.32	43.57	45.06
Operating profit/average assets	(8.64)	1.71	6.70	7.23	7.59
Earnings before taxes/average risk-weighted assets	(2.01)	1.73	7.09	7.62	7.89
Return on average assets	(1.64)	1.37	5.52	5.54	6.06
Return on average equity	(4.32)	3.18	9.92	9.31	10.82
Asset Quality					
Non-performing loans/total loans	4.71	4.56	3.46	3.80	4.45
Expected credit loss/average loans	4.44	3.66	3.54	1.17	0.21
Allowance for expected credit loss/non-performing loans	113.27	102.55	122.87	100.89	123.02
Capitalization					
Risk-adjusted capital ratio	37.43	38.37	51.13	70.42	53.09
Debt/equity (times)	1.70	1.57	1.06	0.51	0.96
Funding and Liquidity					
Stable funding ratio	149.40	129.64	130.70	114.09	96.24
Liquidity coverage measure (times)	0.79	0.29	0.30	0.19	0.07
Short-term debts/total debts	24.08	31.20	24.73	82.41	69.49

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023

Micro Leasing PLC (MICRO)

Company Rating:	BB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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