

# MIDA LEASING PLC

No. 139/2021  
31 August 2021

## FINANCIAL INSTITUTIONS

**Company Rating:** BB  
**Outlook:** Negative

**Last Review Date:** 11/08/20

### Company Rating History:

Date	Rating	Outlook/Alert
11/08/20	BB+	Negative
10/04/20	BB+	Alert Negative
21/04/16	BBB-	Stable
27/05/15	BBB-	Developing
11/03/15	BBB-	Alert Developing
05/09/14	BBB-	Stable

### Contacts:

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Jutamas Bunyawanichkul

jutamas@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweetchok Jiamsakunthum

taweetchok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



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## RATIONALE

TRIS Rating downgrades the company rating on Mida Leasing PLC (ML) to “BB” from “BB+” and maintains a “negative” rating outlook. The rating downgrade is in line with the rating actions on MIDA Asset PLC (MIDA, rated “BB/Negative” by TRIS Rating). ML’s rating is capped by MIDA’s rating, which represents the group credit profile of the MIDA group. We assess ML’s status as a “strategically important” subsidiary of MIDA. The “negative” rating outlook mirrors the rating outlook on MIDA which reflects the group’s medium-term refinancing risk due to its concentration of debt obligations.

ML’s standalone credit profile (SACP) is at “bbb-”, taking into account its solid capital position and stable profitability. However, the rating is constrained by its moderate business position and funding profile.

## KEY RATING CONSIDERATIONS

### Strategically important subsidiary of MIDA

The rating assigned to ML is capped by the rating assigned to MIDA according to TRIS Rating’s “Group Rating Methodology”. MIDA’s group credit profile (GCP) of “bb” is lower than the company’s SACP of “bbb-”. ML is a 46.98% owned subsidiary of MIDA. MIDA has direct control of ML’s operations through the appointment of ML’s board of directors, part of which is composed of MIDA’s senior executives.

The funding management between the two entities has been very close. There has been evidence of reciprocal financial supports over the past few years. Examples include intercompany lending from ML to MIDA and the use of MIDA’s fixed assets to secure ML’s bank borrowings.

From the group perspective, ML serves to fulfill MIDA group’s diversification strategy. ML’s relatively more stable leasing business has helped support the group’s performance to a certain extent as MIDA’s cyclical businesses, mainly property and hotel, have been adversely impacted by the COVID-19 pandemic since 2020. As of the first half of 2021 (1H21), ML contributed 38% of total assets, 54% of total shareholder equity, and 29% of total revenue to MIDA’s consolidated financial statements.

### Solid capital base and low financial leverage

TRIS Rating assesses ML’s capital position as very strong. The risk-adjusted capital (RAC) ratio was 49.9% at the end of June 2021, compared with 52.3% at the end of 2020. The capital position is stronger than peers and appropriate for the high credit risk profile of its target customers in the used car segment.

At the same time, ML’s financial leverage remains low as measured by a debt to equity (D/E) ratio of 1.05 times at the end of June 2021, improving slightly from 1.08 times at the end of 2020. The current D/E ratio is below the limit of 3 times covenant required under the debenture covenant. The company’s prudent capital structure is evidenced by the low D/E ratio of around 1 time over the past 10 years. We expect the company to maintain its solid capital base with a RAC ratio of around 50% over the next few years.

## Moderate market position

The rating on ML is constrained by its moderate market position. ML extends loans to a niche market with a focus on used pick-up trucks. The majority are small ticket-sized loans ranging from THB50,000-THB300,000. The company's loan portfolio has remained relatively stable over the past few years. Outstanding hire purchase loans amounted to THB2.8 billion at the end of June 2021, declining by 4% year-to-date (YTD) due to the company's stricter underwriting policies amid a weak economy and limited funding. We expect the portfolio to expand at a measured pace with new hire purchase loans of around THB1.1 billion in 2021 compared with THB1.3 billion in the past.

## Stable profit

ML has maintained stable net profit of around THB100 million per annum over the past two years. The company's performance has exceeded our expectations, with reported net profit of THB99 million in 2020 and THB74 million in 1H21. The 1H21 earnings improved 168% year-on-year (y-o-y) due to lower provision expense and a narrower loss on sale of repossessed assets. Profit generating capabilities, as measured by earnings before tax to average risk-weighted assets (EBT/ARWA) have been moderate compared to peers, averaging 3.5% in 2018-2020. The ratio improved to 4.8% in 1H21. We expect the company to maintain EBT/RWA above 3.5% over the next three years. This is based on our assumption that the company will be able to maintain outstanding loans of about THB3.3-THB3.5 billion in 2021-2023 and a cost to income ratio of around 50%. We also expect the company to retain its loan spread at about 8%. ML's loan spread fell to 8.8% in first half 2021 from 9.7% in 2019. The decline was from the result of a higher mix of loans to MIDA and higher funding costs.

## Asset quality remains under control

The company's asset quality has improved, following the prudent underwriting that led to the slowdown in loan growth since 2019. The non-performing loan (NPL) ratio for hire purchase receivable was 5.5% at the end of June 2021 dropping from 6.2% and 6.5% at the end of 2020 and 2019 respectively. Despite the lingering credit risk concern following the prolonged COVID-19 pandemic, the company has been able to maintain its NPL formation below 2% over the past few years. With its cautious lending policy, we expect the company to maintain its NPL ratio below 6% over the next few years.

The application of the TFRS9 accounting standard at the beginning of 2020 had minimal impact on the company. Given excess reserves of THB22.3 million, there has been no need to set aside additional provisions. In 2020, credit cost (provision for expected credit loss (ECL) to average total loans) stayed at a similar level as in the past. In the first half of 2021, annualized credit cost was 0.9% lower than the 2.1% recorded in 2020 and past average of around 2.0% per year. Based on our NPL ratio assumption, we estimate credit cost will be about 2% in 2021-2023.

## Liquidity risk remains

Although the bond market has returned to normal following the turbulent condition seen in the second quarter of 2020, we remain vigilant about the refinancing risk of ML and its parent, MIDA, due to the concentration of debt obligations. Nonetheless, we believe ML should be able to refinance its debt obligations over the next 12 months. Currently, ML has debt obligations of THB700 million due in November 2021 and THB450 million due in April 2022. The company plans to refinance the obligations with a combination of borrowings from financial institutions and issuance of new debentures. The borrowings from financial institutions will be secured by fixed assets of MIDA and its receivables portfolio. In addition, based on ML's estimate, cash inflow from customer repayments are expected to add up to about THB960 million from August 2021 to March 2022, providing another source of funds to help mitigate liquidity risk.

## BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period 2021-2023 are:

- Negative growth in new hire purchase loans in 2021 and 5%-10% annual growth thereafter.
- Loan spread to be around 8%
- Credit cost to be in the range of 1.5%-2.0%.
- RAC ratio to be around 50%.
- Operating expense to total income ratio to be around 50%.

## RATING OUTLOOK

The "negative" outlook mirrors the rating outlook on ML's parent, MIDA.

**RATING SENSITIVITIES**

ML’s rating/outlook could be revised upward/downward following a rating action on MIDA.

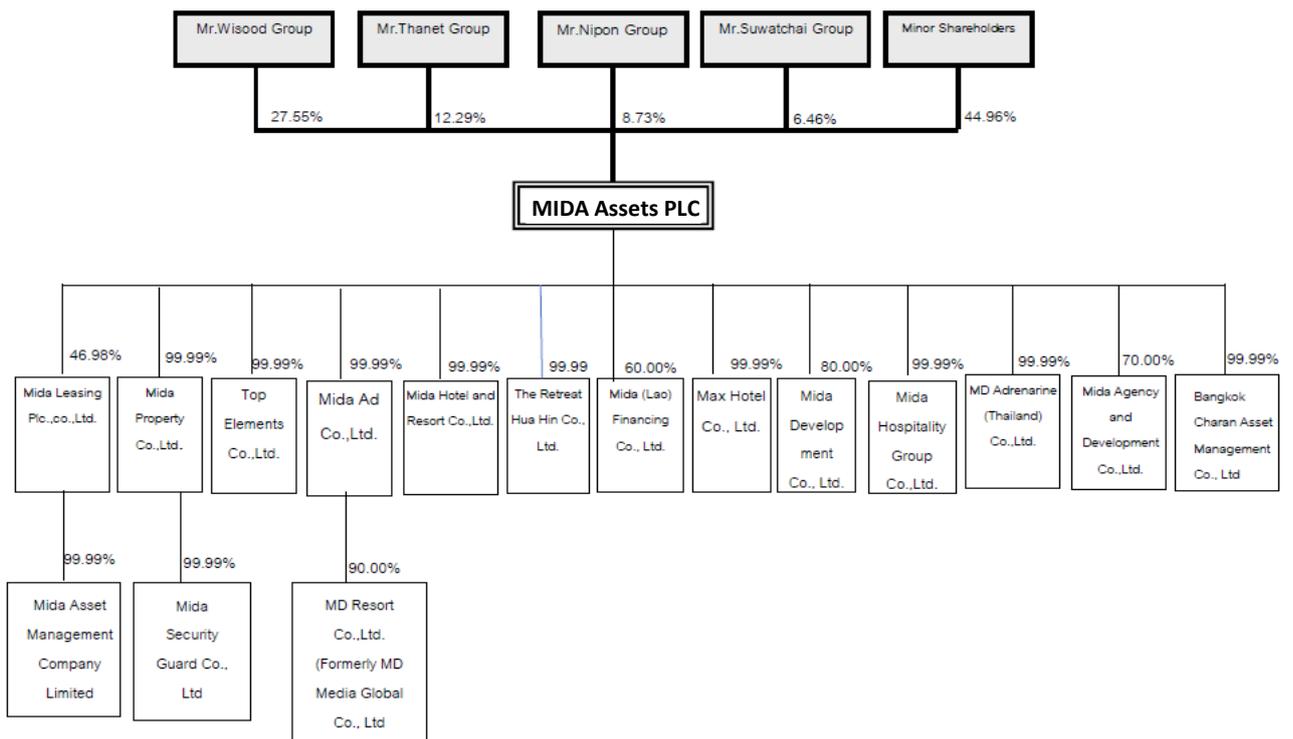
**COMPANY OVERVIEW**

ML was founded on 4 October 2000 under the name Star Ranium Auto Leasing Co., Ltd. The company was renamed Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 11 June 2020, ML’s major shareholders were MIDA with a 46.98% stake, members of the leosivikul family with 8%, and the Panyajirawut family with 7.8%. These two families are also the founders and major shareholders of MIDA. In addition, half of ML’s board members also sit on the board of MIDA or are top executives of MIDA. This close relationship between ML and MIDA reflects the harmonization of the business policies of the two firms.

ML was listed on the Stock Exchange of Thailand (SET) and became a public company in 2004. Registered capital was THB90 million when the company was founded. Currently, ML’s paid-up capital is THB532 million.

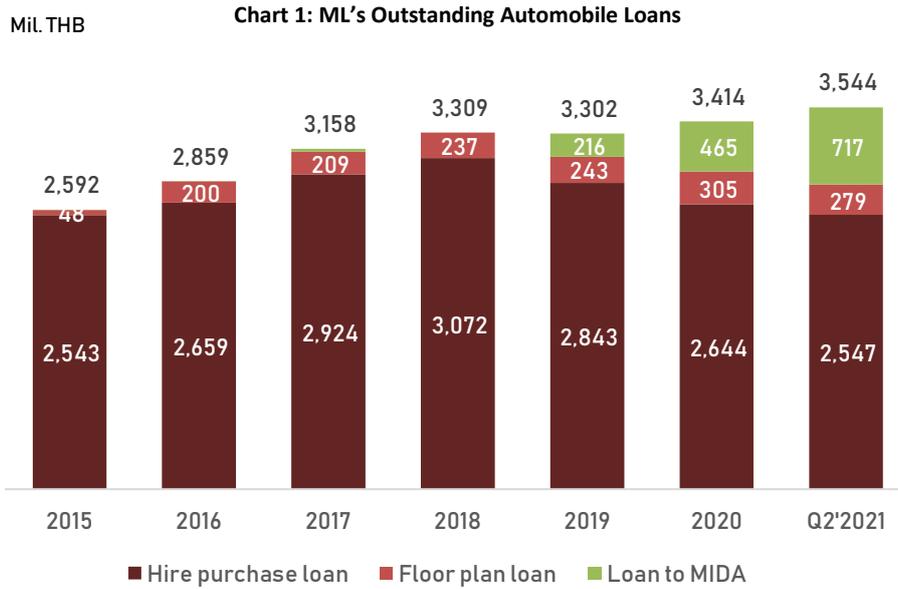
ML’s main line of business has always been hire purchase loans for used automobiles. ML finances used automobiles, especially pick-up trucks, focusing its marketing efforts in provincial areas. Most of ML’s target customers, such as farmers, have incomes at or below the national average. The company has a headquarters office in Bangkok and 16 branches in key provinces in every region of the country. The locations of the branches are consistent with ML’s policy to penetrate markets in rural areas where its target customers live. As of December 2020, ML’s portfolio of automobile loans consisted of hire-purchase loans (77%), floor plan loans (9%), and related party lending (14%).

**Table 1: MIDA Group Structure**

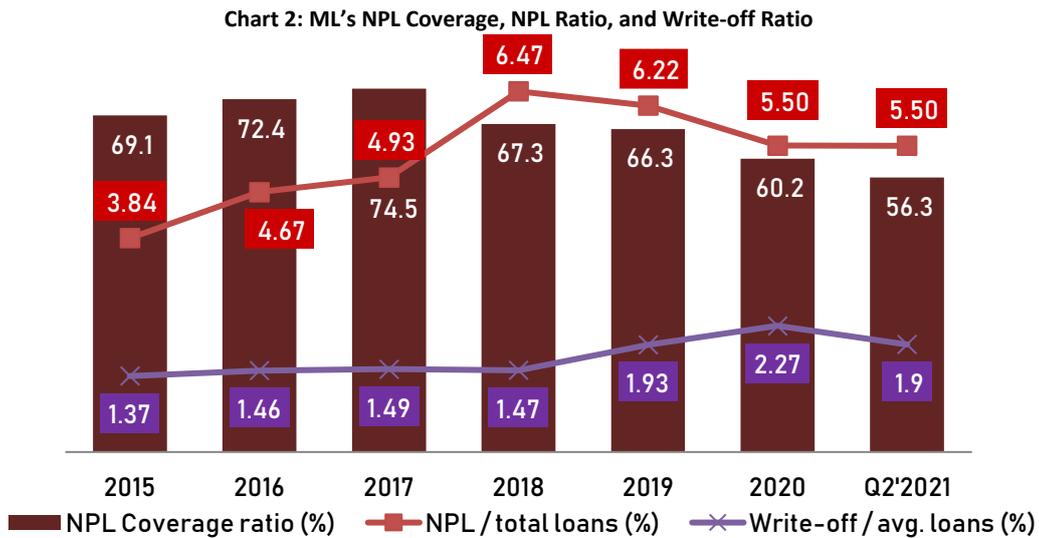


Source: ML

KEY OPERATING PERFORMANCE



Source: ML



Source: ML

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	Jan-Jun 2021	Year Ended 31 December			
		2020	2019	2018	2017
Total assets	4,109	4,127	3,695	3,730	3,599
Total loans	3,544	3,414	3,302	3,309	3,158
Allowance for expected credit loss	89	95	122	136	107
Short-term debts	1,757	1,178	978	1,520	210
Long-term debts	256	881	728	285	1,497
Shareholders' equity	2002	1981	1,896	1,793	1,750
Net interest income	190	368	402	423	401
Expected credit loss	16	71	49	77	62
Non-interest income	44	97	87	90	103
Operating expenses	125	270	312	312	299
Earnings before taxes	93	125	128	124	143
Net income	74	99	99	96	113

\* Consolidated financial statements

*Unit: %*

	Jan-Jun 2021	Year Ended 31 December			
		2020	2019	2018	2017
<b>Profitability</b>					
Net-interest income/average assets	9.21 **	9.42	10.82	11.54	11.31
Net-interest income/total income	2.14 **	2.49	2.35	2.45	2.90
Operating expenses/total income	43.60	47.18	53.63	51.86	50.73
Operating profit/average assets	4.52 **	3.19	3.44	3.38	4.03
Earnings before taxes/average risk-weighted assets	4.77 **	3.36	3.47	3.42	4.11
Return on average assets	3.60 **	2.52	2.66	2.63	3.17
Return on average equity	7.44 **	5.09	5.36	5.44	6.61
<b>Asset Quality</b>					
Non-performing loans <sup>***</sup> /total loans	5.50	5.50	6.22	6.47	4.93
Expected credit loss/average loans	0.92 **	2.12	1.49	2.37	2.08
Allowance for expected credit loss/non-performing loans <sup>***</sup>	56.34	60.16	66.26	67.31	74.51
<b>Capitalization</b>					
Risk-adjusted capital ratio	51.25	52.29	51.92	48.53	49.20
Debt to equity (time)	1.05	1.08	0.95	1.08	1.06
<b>Liquidity</b>					
Stable funding ratio	117.95	151.90	135.30	97.61	152.94
Liquidity coverage measure (times)	0.06	0.29	0.04	0.02	0.20
Short-term debts/total liabilities	83.46	54.91	54.35	78.99	11.35

\* Consolidated financial statements

\*\* Annualized

\*\*\* Only hire purchase loan receivable

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**RELATED CRITERIA**

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- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Rating Methodology, 17 February 2020

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**Mida Leasing PLC (ML)**

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<b>Company Rating:</b>	BB
<b>Rating Outlook:</b>	Negative

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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