TRIS RATING
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CreditNews ข่าวเครดิต

AYUDHYA CAPITAL AUTO LEASE PLC

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FINANCIAL INSTITUTIONS

Company Rating:	AA+
Issue Ratings:	
Senior unsecured	AA+
Outlook:	Stable

Last Review Date : 11/01/19

Company Rating History:

Date	Rating	Outlook/Alert
07/12/16	AA	Stable
29/12/14	AA-	Stable
26/12/13	A+	Alert Developing
24/04/09	A+	Stable
27/11/08	A	Positive
25/07/00	A+	Stable
03/02/00	A	Stable
18/02/98	A-	Stable
27/08/97	A	Stable
03/07/97	A	Negative
04/04/97	A	Stable

Contacts:

Sithakarn Tongphiphat, FRM

sithakarn@trisrating.com

Annop Supachayanont, CFA

annop@trisrating.com

Taweechok Jiamsakunthum

taweechok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating upgrades the company rating on Ayudhya Capital Auto Lease PLC (AYCAL) and the ratings on its senior unsecured debentures to "AA+" from "AA" and maintains "stable" outlook. TRIS Rating also assigns the rating to AYCAL's proposed senior unsecured debentures of up to Bt3 billion at "AA+". The proceeds from the new debentures will be used to fund business expansion and replace previous debenture which has already matured.

The ratings upgrade reflects TRIS Rating's view on AYCAL's status to Krungsri Group as a highly strategic subsidiary of Bank of Ayudhya PLC (BAY, rated "AAA/Stable" by TRIS Rating).

On a stand-alone basis, the company rating reflects the company's solid market position as the leading operator of motorcycle hire purchase loans, strong capital base, ample liquidity, and well managed asset quality. However, the strengths are weighed down moderately by concerns over intense competition, which may pressure loan yield, and a potential rise in credit risk due to the weakening economy.

KEY RATING CONSIDERATIONS

Highly strategic importance subsidiary of BAY

The rating upgrades reflect a change in our view regarding the status of AYCAL to the BAY group, where we now view AYCAL as a highly strategic subsidiary of the Group. We previously viewed that there was a strong possibility that after Mitsubishi UFJ Financial Group (MUFG) became the major shareholder of BAY, AYCAL's status to the Group could weaken due to the change in group strategy which required all new hire purchase (HP) loans for four wheelers to be booked on BAY's balance sheet instead of AYCAL's.

Nevertheless, as AYCAL's four wheeler loans have continued to wind down, there have been evidences of unwavering business and financial support from the BAY Group to AYCAL. This implies that AYCAL's strategic importance to the BAY Group has not changed as we expected. Moreover, we now see even greater integration in terms of operations, risk management, cross sale of products, and services sharing between AYCAL and the BAY group, all of which remain in line with BAY group's overall strategy.

Apart from BAY's capital injection of Bt24 billion in 2014, AYCAL has received financial support in form of both short- and long-term credit facilities from BAY, which has helped support AYCAL's liquidity profile and business growth potential.

In terms of business support, we view that the level of synergy and collaboration between AYCAL and the BAY group, and also in some cases, MUFG, has been enhanced continuously. A notable example is the "Krungsri Collaboration" project developed by the BAY group to enhance product cross sales and business collaboration within the Group which involves AYCAL. The cross selling of auto HP and insurance products has been managed through shared customer acquisition platforms. In addition, AYCAL has worked closely with BAY on inventory financing to fortify long-term relationship with auto dealers and Japanese auto makers, thus creating business opportunities for the BAY group as a whole.

At the operational level, back office operations are also shared by AYCAL and

BAY. For example, AYCAL provides debt collection and insurance brokerage services to BAY, while some of the key operations such as finance, risk, IT, and etc., are shared from BAY to AYCAL.

Solid capital base

TRIS Rating expects AYCAL's capital base to remain solid and financial leverage to stay modest over the next few years. As the company continues to expand its motorcycle loan portfolio, its financial leverage measured by debt to equity (D/E) ratio could rise from the level of 0.84 times as of December 2018. Nonetheless, we believe the abundant capital on hand is likely to keep the company's D/E ratio at a modest level, below 1.5 times.

The company has a very strong capital position. At the end of 2018, the ratio of shareholders' equity to total assets (E/A) was high, at 54.4%, compared with the rated peer average of 50.0%. The strong capital was the result of a capital injection from BAY in 2014 due to regulations (when MUFG became BAY's major shareholder, AYCAL's corporate status was changed to a foreign company, which under the Foreign Business Act, is not allowed to hold debt more than 7 times of the paid-up capital, hence the capital injection). Despite the high dividend payout, over 70%, we expect the capital level to remain solid due to capital accretion from healthy profits. We estimate return on average assets (ROAA) will be in a range of 6%-7% over the next few years.

Leading market position in motorcycle financing

TRIS Rating forecasts AYCAL's motorcycle loan portfolio will grow at 10%-15% through 2021. The company has maintained its number one position in the motorcycle hire purchase lenders for the past five years, despite the fierce market competition. While some competitors have slowed down their credit expansion, AYCAL has consistently expanded its loan book.

The strength of AYCAL is derived from its ability to: 1) access BAY branch network as a distribution channel; 2) maintain strong long-term relationship with nationwide network of dealers; 3) provide greater variety of financial services compared to other non-bank operators; 4) establish healthy relationship with Japanese automakers via MUFG network; 5) utilize efficient business platform shared by the BAY group; and 6) expand its business with focus on sound quality thanks to the group's prudent risk management.

The company's strive for growth in potential new products has also been another key success factor. The company was the pioneer in providing financing for new high-cc motorcycles since 2008. The initiative has greatly benefit AYCAL in the past few years, since the high-cc motorcycles segment became one of its key growth areas, on top of existing low-cc motorcycle portfolio. Moreover, the addition of the high-cc motorcycles segment has also helped improve overall asset quality as the credit quality of high-cc motorcycles customers are superior to that of the low-cc motorcycle segment. Currently the company is also exploring and planning to launch title loans with motorcycles used as collateral.

Asset quality remains healthy

We expect AYCAL's asset quality will remain stronger than its direct peers, with the non-performing loan (NPL) ratio, (loans of more than three months past due divided by total loans) staying below 2.5% over the next three years. The strong asset quality has been attributed by prudent credit risk management and an efficient collection system. As of December 2018, the company's NPL ratio stood at 1.7% lower than the industry average of 4.6% from TRIS Rating's database.

We note that the quality of loan origination in recent years has been on a deteriorating trend, mainly deriving from loans in premium motorcycles and Chinese manufactured motorcycles. Nevertheless, we have no major concern on AYCAL's overall asset quality at this point but will continue to monitor the situation closely.

In addition, AYCAL's provisioning policy is more conservative than peers. The ratio of loan loss reserve to NPLs (NPL coverage) has been stronger than its direct peers. The coverage ratio was 282% at the end of 2018, up from 202% at the end of 2016, compared with rated peer average of less than 150%. We expect the coverage ratio to remain at a similar level over the next few years, assuming credit cost stays below 1.5% on average through 2021.

Ample liquidity

AYCAL's high level of financial flexibility stems from its status as one of BAY's solo consolidated subsidiaries. As a solo consolidated subsidiary, BAY, the parent bank, is able to provide an ample amount of funding to its subsidiary, which is sufficient to support the company's expansion plans.

Meanwhile, there are no major mismatches in its asset and liability structure. Short-term borrowings, including the current portion of long-term debt, accounted for approximately 46% of total borrowings as of December 2018. Monthly loan payments from AYCAL's customers, plus the secured credit lines from BAY, are more than sufficient to finance the liquidity gap in a timely manner.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period 2019-2021 are:

- New loan will grow by 5%-10% per year
- D/E ratio will remain below 1.5 times
- Overall yield will remain between 11%-12%
- Credit cost will remains below 1.5%
- Operating expenses to total income ratio remains below 34%

RATING OUTLOOK

The "stable" outlook reflects the expectation that AYCAL's business direction will remain closely aligned with BAY's strategy. The outlook assumes that AYCAL will continue to receive a high level of support from its parent bank. The outlook also considers the ability of the management team to maintain AYCAL's strong market position as a leading motorcycle hire purchase lender. TRIS Rating also expects AYCAL's profitability and capital base will stay strong enough to serve as cushions against any downside risks in the motorcycle hire purchase business.

RATING SENSITIVITIES

The ratings and/or outlook may be uplifted if AYCAL's status to the Group further improves, which is highly unlikely in the foreseeable future. In contrast, the rating/outlook could be revised down should BAY's rating/outlook is downgraded, or TRIS Rating takes the views that AYCAL's status to the BAY Group has weakened.

COMPANY OVERVIEW

AYCAL was incorporated in 1992 by the General Finance & Securities PLC under the name "General Finance Leasing Co., Ltd. (GFL)". In 1993, GFL formed a joint venture with the Government Savings Bank (GSB) and General Electric Capital Asia Investment (GECAI), a wholly-owned subsidiary of General Electric Capital Corporation (GECC) that is ultimately owned by General Electric Company (GE). GFL was recapitalized and renamed GS Capital Corporation PLC (GSCC) in 1993. In 1998, GSCC became a wholly-owned subsidiary of GECAI, after GECAI bought the shares of GSCC from its parent company. GSCC was renamed GE Capital Auto Lease PLC (GECAL).

In 2002 AYCAL diversified away from new and used car hire purchase lending into two market segments which promised higher return but higher risks as well: motorcycle hire purchase loans and secured personal loans (Car4Cash). AYCAL intended to capture the opportunities in the new segments by drawing on its experienced management team, the know-how of its parent company, and its good credit risk management system.

GE Capital Investment Holding (GECIH) took a 34.71% stake in BAY in early 2007. After GECIH's investment, BAY reorganized to enhance its competitiveness and efficiency. As a consequence of the reorganization, AYCAL ceased making new car hire purchase loans. All new car financing loans have been booked by BAY's new subsidiary, Ayudhya Capital Lease Co., Ltd. (AYCL), since January 2007. AYCAL continued to service the existing loan portfolio until the loans matured. In February 2008, BAY bought AYCAL's shares from GECAI. As a result, AYCAL became BAY's wholly-owned subsidiary. In the same month, AYCAL ceased offering secured personal loans, a type of auto sale and leaseback loan, called Car4Cash. AYCAL sold its existing Bt7 billion Car4Cash loan portfolio to BAY's new subsidiary, Ayudhya Hire Purchase Co., Ltd. (AYHP). AYHP took over this business instead from AYCAL.

GECAL was renamed "Ayudhya Capital Auto Lease PLC (AYCAL)" on 10 November 2008. AYCAL has enlarged its customer base and its auto hire purchase loan portfolio and became the market leader in these segments. AYCAL succeeded because of good brand recognition.

In November 2008, BAY reorganized its auto loan businesses one more time. As part of the reorganization, AYHP and AYCL ceased operation and transferred their auto loan portfolios to AYCAL. AYCAL became the sole subsidiary handling BAY's auto loan business. AYCAL provides hire purchase financing for the purchase of new cars, used cars, and motorcycles. AYCAL also renders secured personal loans services through auto sale and leaseback agreements, under the brand "Krungsri Car4Cash".

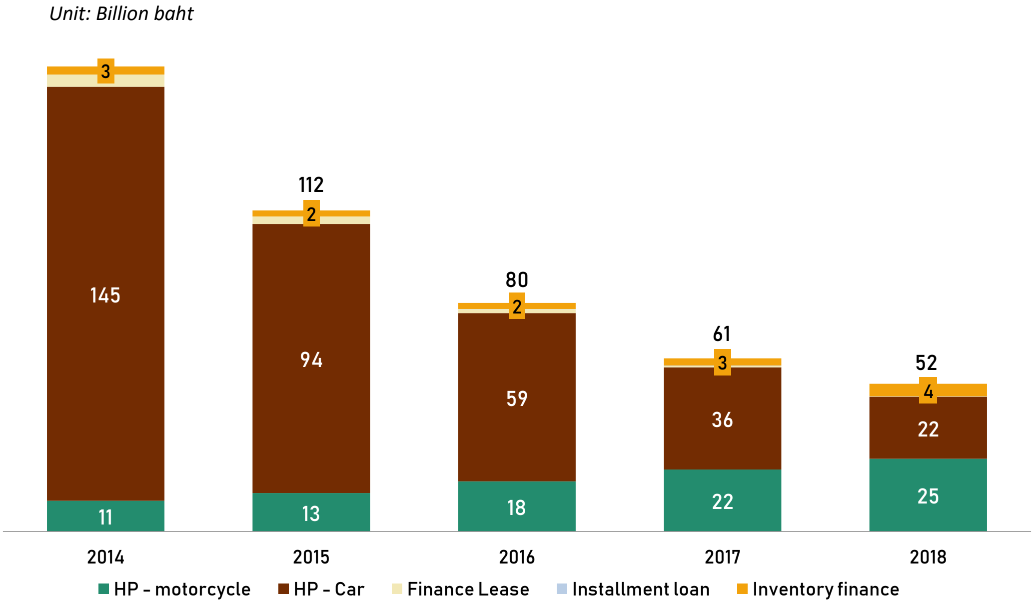
The "OneKrungsri" strategy took effect in 2010. AYCAL has more closely aligned its business with BAY and launched several new and innovative products and services under the name "Krungsri Auto". AYCAL's brand name has been enhanced significantly.

Until 2014, AYCAL was the only subsidiary of BAY which made auto loans, under the name "Krungsri Auto". The company provided hire purchase financing for the purchase of new cars, used cars, and motorcycles, and offered secured personal loans to consumers through auto sale and lease back agreements.

However, at the beginning of 2014, more major changes were made to the company's business model after Mitsubishi UFJ Financial Group (MUFG) became the major shareholder of BAY, instead of GECIH. Under Krungsri Group's business strategy, all of AYCAL's new auto loans, including auto hire purchase financing and secured personal loans, are booked at BAY. AYCAL now offers motorcycle financing services which include new, used, and car4cash motorcycle, inventory financing services, insurance brokerage services, and continues to manage its existing portfolio of auto loans. AYCAL also provides collection services to BAY's auto loans.

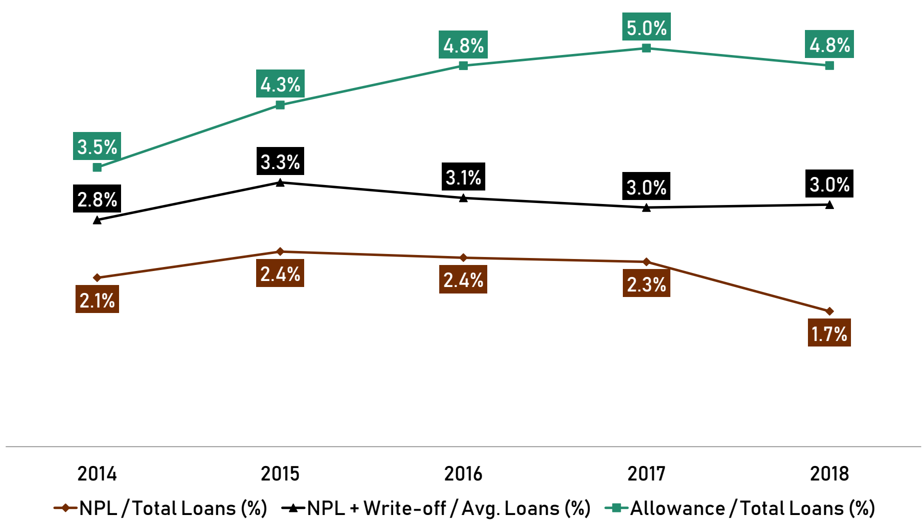
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: AYCAL

Chart 2: Asset Quality



Source: AYCAL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 31 December				
	2018	2017	2016	2015	2014
Total assets	54,814	62,674	81,321	113,302	164,142
Total loans	51,667	60,566	79,973	112,363	162,764
Allowance for doubtful accounts	2,461	3,017	3,808	4,798	5,682
Short-term borrowings	10,516	12,369	23,879	36,495	65,117
Long-term borrowings	12,115	16,894	25,328	43,848	64,625
Shareholders' equity	29,828	30,856	29,159	29,568	30,046
Net interest income	6,595	6,822	7,013	7,586	9,132
Bad debts and doubtful accounts	273	(84)	90	922	1,480
Non-interest income	1,535	1,657	1,453	800	(32)
Operating expenses	2,922	2,979	3,019	2,949	3,706
Net income	3,935	4,469	4,288	3,589	3,123

* *Consolidated financial statements*

Unit: %

	Year Ended 31 December				
	2018	2017	2016	2015	2014
Profitability					
Net-interest income/average assets	11.23	9.48	7.21	5.47	4.67
Net-interest income/total income	72.31	68.29	63.79	60.88	59.05
Operating expenses/total income	32.04	29.82	27.46	23.66	23.96
Operating profit/average assets	8.40	7.76	5.51	3.25	2.00
Return on average assets	6.70	6.21	4.41	2.59	1.60
Return on average equity	12.97	14.89	14.60	12.04	11.70
Asset Quality					
Non-performing loans/total loans	1.69	2.31	2.36	2.44	2.11
Bad debts and doubtful accounts/average loans	0.49	(0.12)	0.09	0.67	0.76
Allowance for doubtful accounts/total loans	4.76	4.98	4.76	4.27	3.49
Allowance for doubtful accounts/non-performing loans	281.58	215.65	201.59	175.11	165.37
Capitalization					
Shareholders' equity/total assets	54.42	49.23	35.86	26.10	18.30
Shareholders' equity/total loans	57.73	50.95	36.46	26.31	18.46
Debt to equity (time)	0.84	1.03	1.79	2.83	4.46
Liquidity					
Short-term borrowings/total liabilities	42.09	38.88	45.78	43.58	48.56
Total loans/total assets	94.26	96.64	98.34	99.17	99.16

* *Consolidated financial statements*

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015

Ayudhya Capital Auto Lease PLC (AYCAL)

Company Rating:	AA+
Issue Ratings:	
AYCAL207A: Bt2,500 million senior unsecured debentures due 2020	AA+
AYCAL201A: Bt2,000 million senior unsecured debentures due 2020	AA+
Up to Bt3,000 million senior unsecured debentures due within 3 years	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000