

# SRISAWAD CORPORATION PLC

No. 134/2022

23 December 2022

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB+  
**Issue Ratings:**  
**Guaranteed** BBB+  
**Outlook:** Stable

**Last Review Date:** 02/06/22

### Company Rating History:

| Date     | Rating | Outlook/Alert    |
|----------|--------|------------------|
| 28/06/19 | BBB+   | Stable           |
| 05/06/17 | BBB    | Stable           |
| 06/01/17 | BBB    | Alert Developing |
| 26/12/14 | BBB    | Stable           |

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## RATIONALE

TRIS Rating affirms the company rating on Srisawad Corporation PLC (SAWAD) and the ratings on its outstanding guaranteed debentures at “BBB+” with a “stable” outlook. At the same time, TRIS Rating assigns the “BBB+” rating to SAWAD’s proposed issue of guaranteed debentures of up to THB20 billion due within five years. The company intends to use the proceeds from the proposed debenture issue for debt repayment and for funding its loan portfolio expansion.

The ratings reflect the company’s strong market position in the title loan business, robust capital, leverage, and earnings, as well as diversified funding source and sufficient liquidity. However, the ratings are constrained by the intensifying competition, fragile economic climate, and the company’s sizeable proportion of higher risk property-backed and motorcycle hire purchase (HP) loans.

SAWAD’s performance in the first nine months of 2022 (9M22) is in line with our expectations. At the end of the third quarter of 2022 (3Q22), SAWAD’s outstanding loan portfolio increased to THB47.8 billion, a 35.7% growth year-on-year (y-o-y) and 13.5% quarter-on-quarter (q-o-q), stronger than our base case assumption. Despite the strong loan portfolio expansion, net income declined 7.9% y-o-y to THB3.5 billion. This was due to the one-time gains from the sale of Fast Money shares in 1Q21 and higher reversal of expected credit losses in 9M21.

Operating expenses in 9M22 also increased y-o-y. The increase was driven mainly by higher commissions paid to its motorcycle dealers, following its plan to expand motorcycle HP lending. Marketing expenses also increased given the company’s strategy to boost loan volume and expand its branch network.

Thanks to its robust loan expansion as well as more effective debt collection and asset foreclosure, the non-performing loan (NPL) ratio dropped to 2.65% at the end of 3Q22 from 3.65% at the end of 2021. NPL formation in 3Q22 increased slightly from the previous few quarters, a trend that we have also observed among SAWAD’s peers.

We expect some pressure on asset quality going forward on the back of a weak economy, rising inflation, and the company’s resumption of aggressive loan expansion, especially in the higher-risk motorcycle HP segment. Nevertheless, we expect the company’s overall asset quality and credit losses to remain at a manageable level over the next few years.

SAWAD’s capitalization remains at a strong level and continue to support its credit profile. However, given the rapid expansion of motorcycle HP, the company’s risk-adjusted capital (RAC) ratio has declined considerably, falling to 35.2% in 3Q22 from 49.4% at the end of 2021.

The company’s profitability measured by earning before taxes to average risk weighted assets (EBT/ARWA) stood at 9.0% (annualized) in 9M22 compared to 12.6% in 2021. We expect the company’s profitability to continue to be pressured by the higher operating expenses required to support its motorcycle HP business. We also expect credit cost to rise given the uncertain economic environment and the generally weak credit profile of its customers. Despite the pressure, we expect SAWAD’s earnings capability, measured by EBT/ARWAs, to

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remain strong at around 9%-10% over the next few years. However, further deterioration in the RAC ratio and earnings capability could pressure the ratings.

#### RATING OUTLOOK

The “stable” outlook reflects our expectation that SAWAD’s market position and financial performance will remain strong, while asset quality will be maintained at an acceptable level and at a strong level.

#### RATING SENSITIVITIES

An upward rating revision could occur if the company’s asset quality improves materially for a sustained period, while market position is maintained without further expansion of property-backed loans. Conversely, the ratings and/or outlook could be revised downward if SAWAD’s asset quality weakens significantly causing credit cost to rise above 3%, or capital, leverage, and earnings positions deteriorate substantially with the RAC ratio falling below 25% for an extended duration.

#### RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

#### Srisawad Corporation PLC (SAWAD)

|  |        |
|--|--------|
| <b>Company Rating:</b>   | BBB+   |
| <b>Issue Ratings:</b>  |        |
| SAWAD253A: THB657 million guaranteed debentures due 2025         | BBB+   |
| SAWAD258A: THB2,882.6 million guaranteed debentures due 2025     | BBB+   |
| SAWAD266A: THB1,343 million guaranteed debentures due 2026       | BBB+   |
| Up to THB20,000 million guaranteed debentures due within 5 years | BBB+   |
| <b>Rating Outlook:</b>   | Stable |

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