

# BSL LEASING CO., LTD.

No. 16/2022  
25 February 2022

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 25/02/21

### Company Rating History:

Date	Rating	Outlook/Alert
25/09/20	BBB+	Stable
04/02/09	BBB	Stable

### Contacts:

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Siriwan Weeramethachai

siriwan@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweechok Jiamsakunthum

taweechok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on BSL Leasing Co., Ltd. (BSL) at “BBB+” with a “stable” outlook. The rating on BSL incorporates a one-notch enhancement from BSL’s stand-alone credit profile (SACP) assessed at “bbb” level. The enhancement reflects our assessment of BSL’s status as a “strategic” subsidiary of Bangkok Bank PLC (BBL, rated “AA+/Stable” by TRIS Rating\*). The ratings take into consideration the financial support BSL receives from BBL.

The SACP reflects the company’s strong capital base, sufficient funding, and adequate liquidity position. However, these supporting factors are partly offset by our concerns over BSL’s asset quality and high credit concentration. In addition, intense competition in the equipment leasing and auto rental businesses may limit the company’s loan yield. This could put pressure on profitability when funding costs rise in the future.

## KEY RATING CONSIDERATIONS

### Strategic subsidiary of BBL

BSL is 90% owned by BBL and therefore has become part of BBL’s prudentially regulated financial group, and a fully consolidated subsidiary. BBL exert control over BSL’s strategy and operations through BSL’s Board of Directors. BSL’s board comprises three members, two of which are representatives from BBL while the other is BSL’s President. BBL has provided financial support to BSL in the form of credit facilities. We expect BBL to continue providing financial support to BSL in the foreseeable future. We also believe BBL will likely extend extraordinary support to BSL if needed.

### Solid capital base and moderate earnings

We believe that BSL’s capital will remain robust to support the company’s business plans over the next three years. BSL’s capital measured by risk adjusted capital (RAC) ratio, has gradually improved over the years due to stagnant loan growth, low dividend payout, and profit accumulation. The company’s RAC ratio increased to around 21.4% in 2021 (unaudited) from 20.0% and 17.8% in 2020 and 2019, respectively. At the end of 2021 (unaudited), the company’s debt to equity (D/E) ratio stood at 2.18 times. We expect the company’s RAC ratio to remain above 20% over the next three years.

The company’s earnings measured by earnings before taxes to average risk weight assets (EBT/ARWA) is considered moderate. At the end of 2021 (unaudited), EBT/ARWA stood at 2.59%. We expect the company’s EBT/ARWA to remain above 2% over the next three years.

### Shareholders’ support ensures sufficient funding and liquidity

In terms of funding structure, we view there to be significant asset-liability maturity mismatch as BSL has relied on short-term borrowings to keep funding costs low, while its assets are mostly long-term. At the end of 2021, the short-term borrowings to total borrowings were approximately 88%. Nevertheless, we are not overly concerned with the high usage of short-term debts as we believe BSL has sufficient funding support in the form of credit lines from

\* The rating assigned to BBL is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of the credit profile of BBL. The rating is assigned without participation from BBL.

shareholders, both BBL and Sumitomo Mitsui Banking Corporation (SMBC), to support the short-term liquidity gap, if required.

We assess BSL's funding position as adequate. Its shareholders, BBL and SMBC, have been providing large amounts of credit facilities and will likely continue over the longer term. At the end of December 2021, BSL had total credit facilities of THB3.2 billion from BBL and THB2.7 billion from SMBC, representing 38% and 33% of total credit facilities from financial institutions, respectively. The total credit facilities from BBL increased from THB1.2 billion at the end of 2020 following BBL's increased shareholding in BSL. Apart from shareholders' funding, BSL also had THB2.5 billion of credit facilities from other financial institutions at the end of December 2021, making up another 30% of total credit facilities. Unused credit lines remain ample at THB4.2 billion. Other parts of funding include THB520 million bills of exchange (B/Es) and expected cash inflow from loan repayments of around THB300-THB400 million per month.

#### **Yield pressure from competition and rising funding cost**

We expect the pressure on asset yields will persist for equipment leasing and auto rental companies, including BSL. This is due to pricing competition from many operators with low-cost funding support from their parent banks and major Japanese finance companies. Although BSL's lower funding cost in recent years has enabled the company to endure the yield pressure, this is likely temporary. BSL's funding cost has dropped to an average of 1.7% in 2021 compared with 2.8% in 2019. This was due to the lower interest rates charged on credit facilities following the increase in ownership of BBL to 90% as well as the low interest rate trend. As a result, the company was able to maintain the loan spread of 3.6% in 2021. Over the next few years, we expect its interest spread to start trending down as its funding cost rises in tandem with the upturn cycle of interest rates while the competition remains high.

#### **Asset quality remains a key concern**

BSL's asset quality remains our major concern and one of the key rating constraints. High credit concentration is the key risk factor causing the spike in non-performing loans (NPL). As of December 2021, BSL's top-10 clients accounted for 36% of its loan portfolio, an increase from 32% and 27% in 2020 and 2019, respectively. NPL ratio underwent an upsurge during 2016 and 2019-2020 and remains high because of large credit exposure and lengthy NPL resolutions. At the end of 2021, BSL's NPL ratio remained at around 12.4% (unaudited), an increase from the five-year low of 4.2% at the end of 2017. The still-high NPL ratio was also partly caused by the company's policy not to write-off or dispose of NPLs, relatively in line with BBL's own policies. Nonetheless, new NPL formation in 2020 and 2021 was considerably lower which suggests the improved credit quality control of its new business. Going forward, BSL's NPL ratio could remain high if the NPL accounts were to remain unresolved. We note that the weak economy could lead to higher NPLs, which may put more pressure on BSL's risk position, if not well managed.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for the period 2022-2024 are:

- New loans in hire-purchase and financial lease of THB2 billion in 2022, to grow by 5% per year thereafter.
- New loans in operating lease to remain stable.
- RAC ratio to remain above 20%.
- Overall spread to be above 3.0% per year.
- Credit cost to be below 1.0% per year.
- Operating expense to total income ratio to remain between 45%-50% per year.

#### **RATING OUTLOOK**

The "stable" outlook is based on our expectation that the capital base of BSL will remain strong enough to cushion against significant deterioration in asset quality, and BSL's financial performance will be in line with our expectations.

#### **RATING SENSITIVITIES**

The rating and/or outlook could be revised upward if the company's SACP improves significantly. This includes strengthening of market position while financial performance and asset quality are at satisfactory levels.

Conversely, the rating and/or outlook could be revised downward if there is a significant deterioration in the company's SACP, e.g., capital position, financial performance, or asset quality.

If there are material changes in TRIS Rating's view on the degree of importance of BSL to the BBL Group, the rating could also be revised to reflect the view.

**COMPANY OVERVIEW**

BSL was established in 1985 as Bangkok Commercial Leasing Co., Ltd. through a 50:50 joint venture between BBL and The Mitsui Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation -- SMBC), a Japanese bank, and related companies. In 2001, the company changed the name to BSL Leasing Co., Ltd. BSL was established to provide industrial equipment financing services and vehicle financing services under lease and hire purchase contracts. BSL entered the factoring business in 2004. At that time, BSL's major shareholders were BBL, holding a 35.9% stake, the SMBC Group (40%), and JA Mitsui Leasing, Ltd. (10%). Both BBL and the SMBC Group provide support to BSL in terms of credit facilities and business referrals.

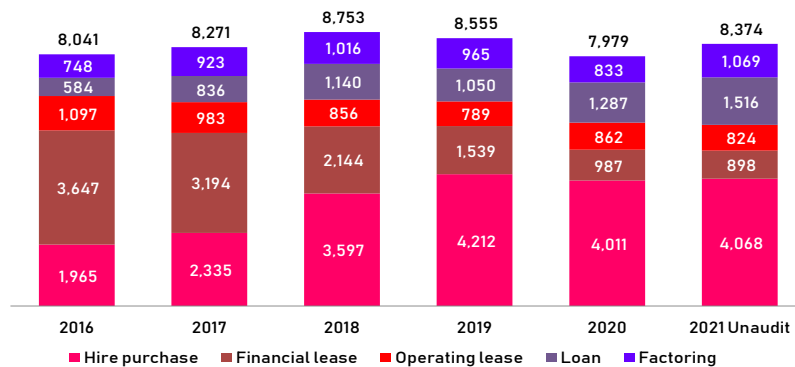
As of September 2020, BBL acquired the stake in BSL, increasing the ownership to 90% from 35.9%, from other shareholders. BSL's shareholders comprise BBL with a 90% stake, and SMBC with the remaining 10%. With 90% ownership from BBL, BSL became a full consolidated member in the BBL Group and no longer receives limited funding from BBL but will need to comply with all regulations under consolidated supervision of the Bank of Thailand (BOT).

As of December 2021, the largest portion (49%) of BSL's loan portfolio comprised hire purchase. Financial lease loans comprised 11% of the portfolio, while operating leases, factoring, and other loans were 10%, 13%, and 18%, respectively.

**KEY OPERATING PERFORMANCE**

**Chart 1: BSL's Outstanding Loans**

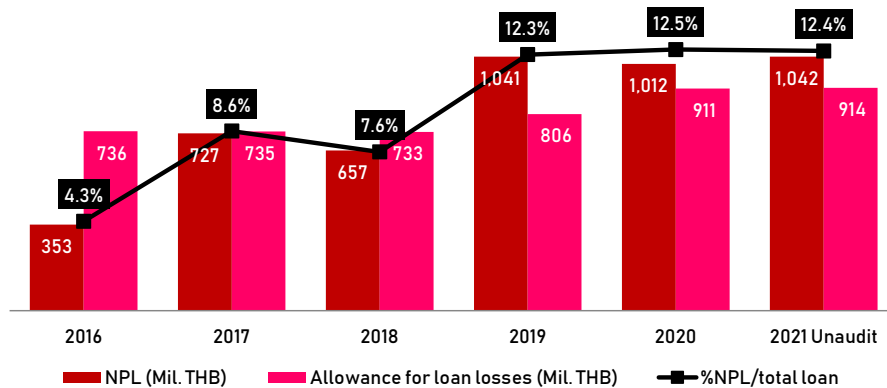
Unit: Mil. THB



Source: BSL

**Chart 2: BSL's NPL Ratio**

Unit: Mil. THB and %



Source: BSL

**Table 1: Shareholders of BSL**

Shareholders	%
Bangkok Bank PLC	90.00
Sumitomo Mitsui Banking Corporation	10.00
<b>Total</b>	<b>100.00</b>

Source: BSL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2021*	2020	2019	2018	2017
Total assets	7,861	7,887	8,572	8,757	8,160
Total loans	8,388	8,098	8,500	8,645	8,260
Allowance for expected credit loss	914	911	806	733	736
Short-term debts	4,532	4,730	6,138	5,710	4,200
Long-term debts	630	673	0	651	1,656
Shareholders' equity	2,474	2,284	2,200	2,096	1,858
Net interest income	630	637	628	670	668
Expected credit loss	5	182	148	2	294
Non-interest income	47	68	47	50	55
Operating expenses	373	371	374	403	430
Earnings before taxes	298	153	158	315	(1)
Net income	249	135	153	289	37

\* Unaudited financial statement

Unit: %

	----- Year Ended 31 December -----				
	2021*	2020	2019	2018	2017
<b>Profitability</b>					
Net interest income/average assets	7.99	7.74	7.25	7.92	8.27
Non-interest income/average assets	0.59	0.83	0.55	0.60	0.69
Operating expenses/total income	48.61	44.47	43.26	45.07	48.20
Operating profit/average assets	3.79	1.86	1.83	3.72	(0.01)
Earnings before taxes/average risk-weighted assets	2.59	1.29	1.26	2.57	(0.01)
Return on average assets	3.05	1.64	1.77	3.41	0.45
Return on average equity	10.08	6.00	7.15	14.60	1.97
<b>Asset Quality</b>					
Non-performing loans/total loans	12.43	12.49	12.25	7.60	4.28
Expected credit loss/average loans	0.06	2.19	1.73	0.02	3.63
Allowance for expected credit loss/non-performing loans	87.66	90.06	77.41	111.62	208.25
<b>Capitalization</b>					
Risk-adjusted capital ratio	21.42	19.98	17.78	16.55	15.66
Debt/equity (time)	2.18	2.45	2.90	3.18	3.39
<b>Liquidity</b>					
Stable funding ratio	63.85	62.55	44.41	60.16	72.07
Liquidity coverage measure (times)	0.01	0.01	0.01	0.01	0.01
Short-term debts/total liabilities	84.13	84.42	96.31	85.72	66.63

\* Unaudited financial statement

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**RELATED CRITERIA**

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

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**BSL Leasing Co., Ltd. (BSL)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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