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PHATRA LEASING PLC

No. 139/2025
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FINANCIAL INSTITUTIONS

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

Last Review Date: 14/08/24

Company Rating History:

Date	Rating	Outlook/Alert
07/08/20	BBB+	Stable
07/08/19	A-	Negative
25/07/13	A-	Stable
30/03/11	A-	Positive
09/08/05	A-	Stable
12/07/04	BBB+	Stable
10/10/02	BBB+	-
23/08/00	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Phatra Leasing PLC (PL) and the ratings on PL's outstanding senior unsecured debentures at "BBB+" with a "stable" outlook.

The ratings reflect the company's leading market position in the operating lease (OL) business, ability to maintain cash flow protection, moderate financial leverage, and adequate liquidity.

While we expect its cash flow protection to continue to support the ratings, a decline in profitability or finance costs beyond our base-case assumptions could be a negative factor for the company's credit profile.

KEY RATING CONSIDERATIONS

Pressure on cash flow protection remains

We expect PL's cash flow protection, as measured by the earnings before interest and taxes (EBIT) interest coverage ratio, to improve over the next three years, despite recent deterioration.

In 2024, the ratio declined to 0.6 times from 1.7 times in 2023 for two major reasons: lower EBIT and higher finance costs. The decline in EBIT stemmed from increased credit costs for a few financial lease (FL) accounts, which were non-recurring. Accordingly, without major provisioning expenses in the first half of 2025 (1H25), EBIT improved and the EBIT interest coverage ratio rebounded to 1.3 times.

The increase in funding costs was largely due to its conservative funding strategy to shift toward long-term borrowings. This shift aimed at enhancing asset-liability management and funding stability amid ongoing economic uncertainties. As a result, PL's average funding cost rose to 3.8%-4.0% in 2024 to 1H25, compared to around 3% over the past few years. Given that the majority of its funding consists of fixed-rate borrowings, the company is unlikely to benefit significantly from rate cuts. We therefore expect its funding costs to remain elevated at 4.0% in 2025 and 3.9% in 2026-2027.

Looking ahead, we project the EBIT interest coverage ratio to average around 1.3 times over the next three years. This will be supported by an improvement in OL gross margin due to lower direct rental costs and higher margin from retired asset sales from gradual recovery in used car prices. Therefore in 2025-2027, we assume an OL gross margin of 17%-18% (compared with 17% in 2024) and the margin from retired asset sales to rise to 11% (compared with 10% In 2024).

Improved profitability expected

We expect PL's performance to improve gradually in the medium term, supported by the management's strategy of maintaining the higher margin of the OL business, diversifying towards higher-yielding assets, increasing vehicle sales through retail channels, and utilizing vehicles from expired contracts to earn additional income through short-term rentals.

PL's profitability, as measured by EBIT margin, fell substantially to 8% in 2024 from 15% in 2023 due to credit losses of THB200 million in 2024. However, in 1H25, EBIT margin rose to 17%, fueled by an increase in the gross profit margin (GPM) of the OL segment to 19% in 1H25, up from 16% in 1H24. This gain was partially offset by declining GPM from retired asset sales to 8% in 1H25 from 10%-12% in 2023-2024.

For 2025-2027, we forecast its EBIT margin to rise gradually to 14%-17% based on our assumption that the gross margin for OL (65% of PL's total portfolio) continues to improve. We expect the OL gross margin to stabilize at around 17%-18% (compared with 17% in 2024) due mainly to cost control and increased revenue from the short-term leasing of retired vehicles. Additionally, the gross margin from retired asset sales is projected to recover to around 11% (compared with 10% in 2024), based on our expectation of a gradual rebound in used car prices.

Meanwhile, FL receivables have been declining since 2023 up to 1H25. We expect this trend to continue in 2H25, with expansion resuming in 2026-2027, albeit at a measured pace given PL's cautious stance. The portfolio contraction, coupled with declining yields pressured by non-performing assets, has led to lower interest income over the past few years. We project revenue from FL to start trending upwards as the company starts expanding its portfolio and yields recover after the asset quality issue of major accounts are resolved.

Continued leadership in car rentals as core business

We expect PL to maintain its dominant position as a top-3 operator within the car rental industry, supported by its extensive industry experience, sizable scale of operations, well-established relationships with key corporate clients and automotive suppliers, a proven operational track record, and strong data analytics capabilities. PL still ranks highly as the largest OL operator even though it has been expanding OL portfolio at a lower rate. As of June 2025, its OL portfolio was stable at around THB7 billion, underpinned by quality corporate customers.

At the same time, PL has progressively expanded its leasing portfolio to include hybrid and plug-in hybrid vehicles (PHEVs), in line with the increasing adoption of electric vehicles (EVs). In 2024-1H25, these environmentally friendly vehicle types accounted for around 45%-47% of auto portfolio, up from 37% in 2023. This diversification trend is expected to persist over the medium term.

Moderate financial leverage

PL's financial leverage is expected to remain moderate over the medium term. As of the end of June 2025, the company reported a net debt to capitalization ratio of 74%, relatively stable compared to the 73%-75% range, over the past few years.

We forecast the net debt to capitalization ratio to remain 74% during 2025-2027, assuming a sustained 50% dividend payout policy. This reflects our view that overall portfolio growth will be flat, thereby limiting the need for additional borrowings. We anticipate the OL segment will remain stable while the FL segment expands slightly, driven by subdued economic conditions.

In terms of funding requirements, our base case scenario assumes PL's total loans, including short-term loans and asset financing, will remain stable at THB0.7 billion in 2025-2027, while the total portfolio (OL and FL) will stay at around THB10-THB11 billion in 2025-2027.

Furthermore, the company's interest-bearing debt to equity (D/E) ratio is projected to remain well below its bond covenant threshold of 7 times. As of June 2025, the D/E ratio stood at 2.8 times, and we expect it to remain under 3 times throughout 2025-2027.

Conservative debt structure

We view PL's debt structure as prudent. As of June 2025, its long-term borrowings accounted for 78% of the total, while the remaining 22% consisted of short-term debt. The company continues to prioritize long-term funding sources to align with the typical tenor of its OL and FL portfolios, which generally range from three to five years. This debt structure, in our view, helps minimize asset-liability mismatch risks and supports funding stability. As of June 2025, PL reported total debt obligations of around THB8.6 billion. The company has no priority debt ratio.

Adequate liquidity

We assess PL's liquidity as "adequate". We anticipate the company's sources of liquidity will cover its needs over the next 12 months ending June 2026. The company had undrawn credit facilities totaling THB2 billion from multiple financial institutions, a committed credit line of THB0.3 billion, cash and expected funds from operations (FFO) of THB1.2 billion and expected asset divestures of around THB1 billion. These should be sufficient to support the debt repayment of THB2.5 billion and expected capital expenditure of around THB1.7 billion. We believe PL benefits from well-established and solid relationships with local financial institutions and can access both equity and debt capital markets.

Manageable credit risk

PL's top 20 clients represent over 50% of its lease portfolio, creating concentration risk. The strong creditworthiness of these large corporate customers, broad product offerings, and diversified customer base help mitigate this risk. When entering new markets or launching products, PL generally employs pilot testing to ensure strong credit quality. This is evidenced by its low non-performing loan (NPL) or stage 3 ratio of FL portfolio at 4%-5% over the past few years.

As for the increase in bad debts from major accounts, which caused the NPL ratio of FL to surge to 22.5% at the end of December 2024, we expect this to be temporary. Following debt clearance with one debtor, the NPL ratio of FL declined to 10.6% by June 2025. PL expects liquidation of the financed assets to improve loss recovery for these accounts. Despite the surge in NPLs, we expect the company's overall credit risk to remain manageable.

Automobile operating lease business growth slowed in line with economy

Demand for OL services has moderated due to weak economic growth. Net assets at end-2024 of top 10 major operators in TRIS Rating's database contracted by 1% y-o-y, compared with a zero growth and a 7% expansion at the end of 2023 and 2022, respectively.

Meanwhile, gains on disposal of retired vehicles improved compared to the prior year. This was partly supported by the reduced supply of repossessed cars, thanks to asset quality improvement at several auto hire purchase lenders and the targeted debt restructuring measures of the Bank of Thailand (BOT). As a result, second-hand car prices strengthened, as evidenced by the BOT's used-car price index, which averaged 76.4 in 1H25, compared with the full-year average of 69.4 in 2024.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PL's operations during 2025-2027 include:

- Total portfolio to stay relatively flat.
- OL gross margin to range from 17%-18%.
- Gross margin on sales of retired assets to range from 10%-11%.
- Cost of funds to range from 3.9%-4.0%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will be able to improve financial performance and have adequate cash flow protection over the next 12 months. We also expect PL to preserve its competitive market position over the forecast period.

RATING SENSITIVITIES

A downward revision on the ratings and/or outlook could occur if there are no signs of improvement in the company's cash flow protection, with EBIT interest coverage ratio falling well below 1.3 times. Conversely, PL's credit ratings could be upgraded if the EBIT interest coverage ratio consistently exceeds 1.7 times alongside sustained improvements in EBIT.

COMPANY OVERVIEW

PL was established in 1987 by the Lamsam Family to offer automobile leases. In 1996, PL was listed on the Stock Exchange of Thailand (SET) after it increased its paid-up capital to THB300 million. PL's shares were mainly held by KASIKORNBANK PLC (KBANK), Muang Thai Life PLC (MTL), Phatra Insurance PLC, and the Lamsam Family. KBANK's stake was gradually reduced to 8.5% in 2006 before it sold all its shares to MTL in January 2007. As a result, PL's shareholder structure changed, and MTL became the largest shareholder. Currently, the Muang Thai Group, which comprises MTL, Muang Thai Insurance PLC, and Muang Thai Holding Co., Ltd., holds 25.9% of PL's shares. In June 2015, PL raised THB149 million in new equity capital through rights offering. As a result, PL's equity capital increased to THB596 million at the end of June 2015 from THB447 million at the end of 2014.

PL focuses on the automobile OL segment, targeting corporate clients. The company currently provides long-term OL for various types of vehicles, including sedans, pick-up trucks, luxury cars, and multi-purpose vehicles. More and more corporations have decided to outsource automobile fleet maintenance, which has helped PL expand its OL fleet. The company also offers a finance lease for more specialized asset types, which helps diversify its exposure to a particular type of asset in the portfolio.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2025	------------Year Ended 31 December ----------- 2024	2023	2022	2021
Total operating revenues	1,393	2,702	2,699	2,966	3,237
Earnings before interest and taxes (EBIT)	232	204	406	343	313
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	794	1,351	1,580	1,605	1,756
Funds from operations (FFO)	616	1,015	1,337	1,407	1,543
Adjusted interest expense	178	336	243	198	212
Capital expenditures	757	2,049	3,304	1,532	1,281
Total assets	12,115	12,613	12,305	10,285	10,829
Adjusted debt	8,620	9,147	8,440	6,555	6,969
Adjusted equity	3,043	3,000	3,174	3,138	3,083
Adjusted Ratios					
EBIT margin (%)	16.63	7.56	15.04	11.58	9.68
Return on average assets (%)[1]	0.69	(0.85)	0.95	1.14	1.05
EBIT interest coverage (times)	1.30	0.61	1.67	1.73	1.48
FFO to debt (%)[1]	11.91	11.10	15.84	21.46	22.15
Debt to capitalization (%)	73.91	75.30	72.67	67.63	69.33

[1] *Annualized*

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Corporate Rating Methodology, 15 July 2022

Phatra Leasing PLC (PL)

Company Rating:	BBB+
Issue Ratings:	
PL258A: THB600 million senior unsecured debentures due 2025	BBB+
PL262A: THB94.9 million senior unsecured debentures due 2026	BBB+
PL263A: THB500 million senior unsecured debentures due 2026	BBB+
PL268A: THB900 million senior unsecured debentures due 2026	BBB+
PL272A: THB440 million senior unsecured debentures due 2027	BBB+
PL272B: THB428.5 million senior unsecured debentures due 2027	BBB+
PL282A: THB560 million senior unsecured debentures due 2028	BBB+
Rating Outlook:	Stable

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