



บริษัท เจริญรุ่งเรือง จำกัด (มหาชน)

TSR.IR.005/2019

27 February 2019

Subject: Management Discussion & Analysis for Y2018 of Thiensurat Group

To: President

The Stock Exchange of Thailand

For Y2018, the Group had a net profit of Baht 106.79 Million compared to a profit of Baht 77.37 Million for Y2017, it was continuous improved so that the profit for the result of Y2018 was higher than the result of Y2017 by Baht 29.42 Million or increased by 38.00% because of an increase of the proportion of Online to Offline sales with lower cost than Direct Sales (Door to Door) including with the constructive plan to reduce the cost and selling & administrative expenses. As a result, the Group's Earning per Share (EPS) for Y2018 was Baht 0.191 compared to Baht 0.156 per Share for Y2017.

During Y2018, the major highlights were:-

- The Group increased telemarketing seats to serve the customers call by using the existing database of good credit customers to have more repeated sale. As a result, sales of water purifiers, water filters and electric home appliances have been increased.
- After learning how to build sales of electrical appliances via telemarketing, the Group concreted the strategy of O-2-O (Online to Offline) to sell both electrical appliances and water filters via the digital Marketing with the strength of PONSaBUY Program, and comprehensively sale network in Thailand.
- The Group continues to invest in product research and development for improving the cleanliness of water and contains minerals which are necessary for body.
- The Group continually improve product quality as well as design, and utilize technology for the convenient use by customers.
- The Group also launched the constructive plan to reduce the cost and selling & administrative expenses.
- The Group signed the cooperative agreement with new MLM Partner to launch new model of water purifier.



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- The right to buy the Company's warrant (TSR-W1) for Y2018 had been expired on 20 December 2018.

Performance Overview for Y2018

Analysis of operating results

Income Statement

Revenues

- **Revenues from sales of goods, hire purchase interest income including income from loan receivables of a subsidiary ("total revenues")** of the Group for Y2018 amounting to Baht 1,575.50 Million, a decrease of Baht 74.06 Million or 4.49 % compared to those of Y2017. The revenues consisted of revenue from sales of goods amounting to Baht 1,378.50 Million, a decrease of Baht 53.19 Million or 3.72%; hire purchase interest income including income from loan receivables amounting to Baht 196.40 Million, a decrease of Baht 21.23 Million, or decreased by 9.76%. Even though, sale volume of water purifier in Y2018 was higher than sale volume of water purifier in Y2017 by 3%, the amount of sale became lower because of its lower selling price according to the company's plan to sell water purifier model with lower maintenance cost. From the impact of more stringent measures of credit approval policy and shorten the term of hire purchase contracts for new one in view of the impact of high household debts from slow recovery in domestic demand, hire purchase interest income was reduced.
- **Other income** of the Group for Y2018 was Baht 37.59 Million, a decrease of Baht 6.23 Million from Y2017 caused by lower sales of plastic scrap from the plan to refurbishing the returned water purifiers to sell and donate instead, including with a reduction of bad debt recovered from the operation process changed.

Expenses

- **Cost of sales** of the Group for Y2018 was Baht 388.52 Million, an increase of Baht 11.90 Million or 2.97% compared to Y2017, the proportion of cost of sales to total revenues from sales of goods and hire purchase interest income including income from loan receivables slightly increased from 24.27% in Y2017 to 24.66% in Y2018 caused by higher sale proportion of electrical home appliances with lower product margin than water purifiers

together with the impact of booking cost of material supplies to produce water purifiers in one-time expense.

- **Selling expenses** of the Group for Y2018 were Baht 537.18 Million, a decrease of Baht 57.82 Million or 9.72%. The proportion of selling expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables was 34.10% which decreased from Y2017 (Y2017: 36.07 %). The decreases were due to higher proportion sale from Online to Offline with lower selling expenses including with the improvement of sales level and sale benefit structure be well managed and more efficient.
- **Administrative expenses** of the Group for Y2018 were Baht 387.29 Million, a decrease of Baht 40.60 Million or 15.06%. The proportion of administrative expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables decreased from 25.94% of Y2017 to 24.58% of Y2018. The decreases were due to a significant decrease of collecting commission caused by lower amount of hire purchase receivables to collect and the changing of customers' payment from using credit team to collect to be direct payment by customers with lower cost as well as the Group's plan to reduce all the administrative expenses by reducing the redundant and unproductive administrative expenses and using the outsourcings to support the Group's operation such as transportation, customer services, print and delivery documents etc.
- **Doubtful accounts and bad debts** of the Group for Y2018 were Baht 168.52 Million that were increased by Baht 9.08 Million or 5.69% compared with Y2017. This increase could not be compared due to the adjustment of doubtful accounts and bad debts to be reduced by Baht 18.81 Million in Y2017 under the measurement to cope with bad debts - establishment of more prudent credit approval policy; shortening payment terms and increase stringency in credit approval processes to ensure quality of hire purchase receivables. The credit approval process was strictly monitored by the Company's Credit Department. In addition, according to the Company's policy, commissions will be recalled from sales staff on uncollectible hire purchase receivables. Such policy has been consistently reviewed on a regular basis.



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Profits

- **Gross Profit** (calculated by deducting cost of sales from total revenues from sales of goods and hire purchase interest income including income from loan receivables) of the Group for Y2018 and Y2017 were Baht 1,186.98 Million and Baht 1,249.14 Million, or 75.34% and 75.73%, respectively. A drop of Baht 62.16 Million or 4.98% was due to a decrease of revenues from sales of goods and hire purchase interest income as the above mentioned.
- **Net profit** of the Group for Y2018 was Baht 106.79 Million, increased of Baht 29.42 Million or 38.03% (Y2017: net profit of Baht 77.37 Million). The net profit ratio of Y2018 increased from 4.57% of Y2017 to 6.62% resulting from the above mentioned rationale.

Statement of Financial Position

Total assets

As at 31 December 2018, total assets of the Group were Baht 1,419.80 Million, decreased by Baht 61.51 Million, or 4.15% compared to 31 December 2017 caused by total net booking of land, building and equipment depreciation less new purchasing of equipment amounting Baht 43.29 Million including with a decrease of accounts receivable from hire purchase caused by more stringency in credit approval process to improve debt quality for mitigating risk of bad debts, and more efficiency in debt collection that was decreased by Baht 16.45 Million and lower inventory caused by inventory control by Baht 15.52 Million.

From the comparison aging of hire purchase accounts receivable as of 31 December 2018 to those as of 31 December 2017, there were lower overdue hire purchase accounts of both water purifiers and electrical home appliances by considering the amount of hire purchase accounts overdue three months (NPL) of both water purifier and electrical home appliance reduced from 5.39% to 4.70% and from 14.35% to 13.26% respectively. The lower overdue hire purchase accounts of water purifiers came from more prudent salesforces after having issued the strict measurement for imprudent salesforce that have to take responsibilities with the loss by return the commission and send credit officers to collect and solve those overdue hire purchase accounts. The lower overdue electrical home appliance accounts came from collection improvement by hybrid of direct payment and sending credit officers to collect the overdue accounts for the customers who



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have less responsibilities to have direct payment on time, but if it cannot be collected, send credit officers to take the products back.

Details of the accounts receivable are shown below:

Water Purifiers								
Accounts receivable from hire purchase accounts (Receivables less deferred hire-purchase interest and deferred output tax)								
Unit : '000 Baht	Water Purifier							
	Balance of hire purchase				Allowance for doubtful account			
	31 Dec.'18		31 Dec.'17		31 Dec.'18		31 Dec.'17	
Current	385,854	72.20%	447,418	79.36%	9,758	2.53%	11,292	2.52%
Overdue 1 installment	84,740	15.86%	49,242	8.73%	5,084	6.00%	2,955	6.00%
Overdue 2 installments	23,556	4.41%	21,330	3.78%	7,067	30.00%	6,399	30.00%
Overdue 3 installments	15,157	2.84%	15,414	2.73%	7,578	50.00%	7,707	50.00%
Non-consecutive overdue exceeding 3 installments	9,491	1.78%	10,272	1.82%	4,746	50.01%	5,136	50.00%
Consecutive overdue exceeding 3 installments	15,609	2.92%	20,119	3.57%	15,609	50%/100%	20,119	50%/100%
Total balance	534,407	100.00%	563,795	100.00%	49,842	9.33%	53,608	9.51%
Allowance for doubtful accounts/Total hire purchase receivables					9.33%	9.51%		
*Rate of allowance for doubtful accounts of 50 percent is for non-consecutive delinquency over 3 installments and 100 percent for consecutive delinquency over 3 installments.								

Electrical appliances								
Accounts receivable from hire purchase accounts (Receivables less deferred hire-purchase interest and deferred output tax)								
Unit : '000 Baht	Electrical appliances							
	Balance of hire purchase				Allowance for doubtful account			
	31 Dec.'18		31 Dec.'17		31 Dec.'18		31 Dec.'17	
Current	78,909	62.33%	73,744	62.29%	522	1.00%	447	1.00%
Overdue 1 installment	14,510	11.46%	13,142	11.10%	173	2.00%	169	2.00%
Overdue 2 installments	9,948	7.86%	8,469	7.15%	603	10.00%	562	10.00%
Overdue 3 installments	6,441	5.09%	6,056	5.11%	801	20.00%	801	20.00%
Overdue 4 installments	4,998	3.95%	5,512	4.66%	919	30.00%	1,114	30.00%
Overdue 5 installments	3,475	2.75%	4,332	3.66%	860	40.00%	1,168	40.00%
Overdue 5 installments	2,938	2.32%	3,452	2.92%	934	50.00%	1,178	50.00%
Non-consecutive overdue exceeding 6 installments	3,385	2.67%	1,653	1.40%	870	50.00%	572	50.00%
Non-consecutive overdue exceeding 6 installments	1,985	1.57%	2,037	1.72%	1,261	50%/100%	1,363	50%/100%
Total balance	126,589	100.00%	118,397	100.00%	6,943	5.48%	7,374	6.23%
Allowance for doubtful accounts/Total hire purchase receivables					5.48%	6.23%		
* Rate of allowance for doubtful accounts of 50 percent is for non-consecutive delinquency over 6 installments and 100 percent for consecutive delinquency over 6 installments.								
** Allowance for doubtful accounts for electric appliances receivables calculated based on receivables less deferred interest and output tax, and net from residual value of returned electric appliances which considered from usage time, condition and market price of second hand electric appliances. Subsequently, these returned units will be sold as second hand items.								



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Total liabilities

As at 31 December 2018, total liabilities of the Group were Baht 216.62 Million, decreased by Baht 143.32 Million or 39.82 % from 31 December 2017. Liabilities that posed a huge decrease were short-term and long-term borrowings from financial institutions, as well as liabilities under financial lease agreements. From the result of the improvement in debt collection, prudent credit approval for new hire purchase accounts and cash receipts from shared capital issued of warrant exercised amounting to Baht 59.90 Million in Y2018, it helped the Company has more liquidity and be able to repay portion of the outstanding debts.

Total borrowings from financial institutions, promissory notes, of the Group as at 31 December 2018 were Baht 29.50 Million, decreased by Baht 100.41 Million or 77.29%. The short-term borrowings were leveraged for working capital. The Company have never defaulted on loans and have been able to make all repayments.

Shareholders' equity

Shareholders' equity of the Group as at 31 December 2018 was Baht 1,203.18 Million (31 December 2017: Baht 1,1121.36 Million), increased by Baht 81.81 Million or 7.30%.

Debt to equity ratio as at 31 December 2018 was 0.18 (31 December 2017: 0.32). Book value per share was Baht 2.19 (31 December 2017: Baht 2.16 per share) due to warrant exercise amounting to Baht 59.90 Million in Y2018 and an increase of retained earnings by Baht 23.70 Million

Kindly be informed.

Yours truly,

(Mr. Ekarat Changyoo)

Chief Executive Officer