



บริษัท เจริญรุ่งเรือง จำกัด (มหาชน)

TSR.IR.013/2019

14 May 2019

Subject: Management Discussion & Analysis for the first quarter of Y2019 of Thiensurat Group

To: President

The Stock Exchange of Thailand

For the 1<sup>st</sup> quarter of Y2019, the Group had a net profit of Baht 20.76 Million decreased by Baht 4.19 Million or decreased by 16.80% compared to a profit in the same period of last year. A decrease caused by a reduction of revenue from sales of goods and interest income from hire purchase contracts and loans by 1.88% and 4.67% respectively. Even both sales of water purifier and interest income from hire purchase contracts and loans were decreased, sales of electrical home appliances were increased. As a result, the Group's Earning per Share (EPS) for the 1<sup>st</sup> quarter of Y2019 was Baht 0.037 compared to Baht 0.049 per Share for the same period of Y2018.

During the 1<sup>st</sup> quarter of Y2019, the major highlights were:-

- The Group continued to develop traditional direct sale to O-2-O (Online to Offline) model under the marketing strategy of Digital Marketing by recruiting telemarketing seats to serve call for old and new customers to sell both electrical appliances and water filters with the strength of PONSaBUY Program, and comprehensively sale network in Thailand as well as launching a plan to have the advertising for water purifier via television.
- The Group also arranges the training and development program for the telemarketing seats to be able to support after sale service system
- 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 by improving the production and operation process with modern and new technology.
- At the Annual General Meeting of Shareholders held on 26 April 2019, the shareholders approved the payment of the final dividend for 2018 at the rate of Baht 0.08 per share,

payable to shareholders entitled to receive dividends totaling Baht 43.97 Million and is scheduled for payment on 24 May 2019.

- At the Annual General Meeting of Shareholders held on 26 April 2019, the shareholders approved the decrease of registered capital of the Company from Baht 622,198,922 to Baht 549,682,133 by reduction of the registered capital of un-subscription shares amounting to 112,516,789 shares and approve to amend Clause 4 of the Memorandum of Association of the Company in accordance with the above details.

## Performance Overview for the 1<sup>st</sup> quarter of Y2019

### 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 the 1<sup>st</sup> quarter of Y2019 amounting to Baht 385.92 Million, a decrease of Baht 8.85 Million or 2.24 % compared to those of the same quarter in Y2018. The revenues consisted of revenue from sales of goods amounting to Baht 341.27 Million, a decrease of Baht 6.55 Million or 1.88% and hire purchase interest income including income from loan receivables amounting to Baht 44.58 Million, a decrease of Baht 2.18 Million, or decreased by 4.67%. A decrease of total revenues were due to 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.
- **Other income** of the Group for the 1<sup>st</sup> quarter of Y2019 was Baht 8.47 Million, a decrease of Baht 2.69 Million from the same period of Y2018 was 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 the 1<sup>st</sup> quarter of Y2019 was Baht 98.20 Million, an increase of Baht 6.69 Million or 7.31% compared to the same period of Y2018, the percentage of cost of sales to total revenues from sales of goods and hire purchase interest income

including income from loan receivables increased from 23.18% in the 1<sup>st</sup> quarter of Y2018 to 25.45% in the 1<sup>st</sup> quarter of Y2019 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; whereas, the company still keep on improving and developing the production process.

- **Selling expenses** of the Group for the 1<sup>st</sup> quarter of Y2019 were Baht 140.37 Million, a decrease of Baht 6.25 Million or 4.27% compared to the same quarter of last year. The percentage of selling expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables was 36.37% which decreased from the 1<sup>st</sup> quarter of Y2018 ( the 1<sup>st</sup> quarter of Y2018: 37.14 %). 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 the 1<sup>st</sup> quarter of Y2019 were Baht 95.23 Million, a decrease of Baht 4.57 Million or 4.58%. The percentage of administrative expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables decreased from 25.28% of the 1<sup>st</sup> quarter of Y2018 to 24.68% of the 1<sup>st</sup> quarter of Y2019. 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 the 1<sup>st</sup> quarter of Y2019 were Baht 33.77 Million that were decreased by Baht 1.37 Million or 3.90% compared with the same quarter of last year. A decrease was due to the strictly credit approval process monitored by the Company's Credit Department and shorten hire-purchase term provided to new customers' contracts. 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.





บริษัท เอียร์สูริตม์ จำกัด (มหาชน)

### 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 the 1<sup>st</sup> quarter of Y2019 and Y2018 were Baht 287.72 Million and Baht 303.25 Million, or 74.55% and 76.82%, respectively. A drop of Baht 15.53 Million or 5.12% was due to higher sale proportion of electrical home appliances with lower product margin than water purifiers including with a decrease of revenues from sales of goods and hire purchase interest income as the above mentioned.
- **Net profit** of the Group for the 1<sup>st</sup> quarter of Y2019 was Baht 20.76 Million, decreased of Baht 4.19 Million or 16.80% (the 1<sup>st</sup> quarter of Y2018: net profit of Baht 24.96 Million). The net profit ratio of the 1<sup>st</sup> quarter of Y2019 reduced from 6.32% of the 1<sup>st</sup> quarter of Y2018 to 5.38% resulting from the above mentioned rationale.

### Statement of Financial Position

#### Total assets

As at 31 March 2019, total assets of the Group were Baht 1,411.31 Million, decreased by Baht 3.78 Million, or 0.27% compared to 31 December 2018 caused by 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 17.48 Million and lower inventory caused by inventory control by Baht 18.62 Million.

From the comparison aging of hire purchase accounts receivable as of 31 March 2019 to those as of 31 December 2018, there were lower overdue hire purchase accounts of water purifiers, but higher overdue hire purchase accounts of electrical home appliances by considering the amount of hire purchase accounts overdue three months (NPL) of water purifier reduced from 4.70% to 3.34%, but electrical home appliance increased from 13.26% to 19.11%. 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 higher overdue electrical home appliance accounts came from direct payment by customers who have less responsibilities to have payment on time. The company try to have

collection improvement by hybrid of direct payment and sending credit officers to collect the overdue accounts, 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 Mar.'19		31 Dec.'18		31 Mar.'19		31 Dec.'18	
Current	379,744	74.17%	385,854	72.20%	9,593	2.5%	9,757	2.5%
Overdue 1 installment	80,017	15.63%	84,740	15.86%	4,801	6.0%	5,084	6.0%
Overdue 2 installments	20,799	4.06%	23,556	4.41%	6,240	30.0%	7,067	30.0%
Overdue 3 installments	14,354	2.80%	15,157	2.84%	7,177	50.0%	7,579	50.0%
Non-consecutive overdue exceeding 3 installments	8,800	1.72%	9,491	1.78%	4,400	50.0%	4,746	50.0%
Consecutive overdue exceeding 3 installments	8,289	1.62%	15,609	2.92%	8,289	50%/100%	15,609	50%/100%
<b>Total balance</b>	<b>512,003</b>	<b>100.00%</b>	<b>534,407</b>	<b>100.00%</b>	<b>40,500</b>	<b>7.91%</b>	<b>49,842</b>	<b>9.33%</b>
Allowance for doubtful accounts/Total hire purchase receivables					7.91%		9.33%	

\*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 Mar.'19		31 Dec.'18		31 Mar.'19		31 Dec.'18	
Current	81,067	61.21%	78,909	62.33%	541	1.0%	522	1.0%
Overdue 1 installment	12,891	9.73%	14,510	11.46%	149	2.0%	173	2.0%
Overdue 2 installments	7,240	5.47%	9,948	7.86%	412	10.0%	603	10.0%
Overdue 3 installments	5,929	4.48%	6,441	5.09%	699	20.0%	801	20.0%
Overdue 4 installments	5,873	4.43%	4,998	3.95%	1,096	30.0%	919	30.0%
Overdue 5 installments	5,182	3.91%	3,475	2.75%	1,330	40.0%	860	40.0%
Overdue 6 installments	4,292	3.24%	2,938	2.32%	1,379	50.0%	934	50.0%
Non-consecutive overdue exceeding 6 installments	5,221	3.94%	3,385	2.67%	1,514	50.0%	870	50.0%
Consecutive overdue exceeding 6 installments	4,735	3.58%	1,985	1.57%	3,348	50%/100%	1,261	50%/100%
<b>Total balance</b>	<b>132,430</b>	<b>100.00%</b>	<b>126,589</b>	<b>100.00%</b>	<b>10,468</b>	<b>7.90%</b>	<b>6,943</b>	<b>5.48%</b>
Allowance for doubtful accounts/Total hire purchase receivables					7.90%		5.48%	

\* 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.

**Total liabilities**

As at 31 March 2019, total liabilities of the Group were Baht 187.54 Million, decreased by Baht 24.54 Million or 11.57 % from 31 December 2018. 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



บริษัท เจริญสูรตี จำกัด (มหาชน)

approval for new hire purchase accounts, 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 March 2019 were nil, compared to Baht 29.50 Million as at 31 December 2018. The Company have been able to invest in the improvement of production process of water purifier and ready to expand the business as the plan.

#### Shareholders' equity

Shareholders' equity of the Group as at 31 March 2019 was Baht 1,223.77 Million (31 December 2018: Baht 1,203.01 Million), increased by Baht 20.76 Million or 1.73%. Debt to equity ratio as at 31 March 2019 was 0.15 (31 December 2018: 0.18). Book value per share was Baht 2.23 (31 December 2018: Baht 2.19 per share) due to the net profit from operation for the first quarter of Y 2019.

Kindly be informed.

Yours truly,

(Mr. Ekarat Changyoo)

Chief Executive Officer