AC.14/2024 28 February 2024

Dear President
The Stock Exchange of Thailand

SGF Capital Public Company Limited would like to submit the management discussion and analysis report as of December 31st, 2023.

In 2023, The Office of the Consumer Protection Board's (OCPB) jurisdiction over the interest ceiling on hire purchase business impacted the company. As a result, the company concentrated on offering car for cash loans to replace the current hire purchase loans. To increase revenue, the company has ventured into new motorcycle loans through hire purchase and leasing contracts in the meantime. But in the second half of 2023, the market demand for electric vehicles (EV) had a bigger influence than expected. As a result, trading in old cars has declined, and the used vehicle price index has continued to drop. In response, the company has tightened its standards for reviewing new loans in the second half of the year. Compared to 2022, the company's total new loan amount was 1,022.56 million baht, which is 11.9% less than 2022 and represents 139.12 million baht. However, financing for new motorcycle loans results in more personnel, marketing, and operating expenses for the business.

Furthermore, the company offers support to 1,767 borrowers who are impacted by the state of the economy, by making a long-term debt restructure, to assist impacted debtors in maintaining their ability to do business without incurring bad debt. Throughout 24 installments, all restructuring borrowers are permitted to make smaller installment payments. An extension of the repayment period from this program did affect the effective interest rate (EIR), leading to a decline in hire purchase loans in this group.

Regarding the credit quality, the company had hire purchase receivables, leasing, and car for cash receivables outstanding over 3 installments (3 months) amounted to 8.35% of total net hire purchase, leasing, and car for cash receivables. The number of non-performing loans in the motorcycle and car loan industries is currently rising as a result of the debtor's propensity to make late installment payments, forcing the company to make larger expected credit losses. The company has tightened its screening processes, reduced loan limits to account for variations in the value of the collateral and the debtor's ability to repay and put in place procedures that allow the marketing team to help with debt collection to reduce the likelihood of NPL in the future. These actions are being taken in response to the new NPL debt.

For the overall company performance: the company's overall income increased from 516.16 million baht to 570.76 million baht or an equivalent of 10.6%. At the same time, the company invested in a new motorcycle loan business, resulting in an increase in operating expenses from 222.96 million baht to 234.04 million baht, or an increase of 5.0%. The company has set an expected credit loss that is anticipated to occur, increasing from 2022 in the amount of 82.45 million baht. These losses are impacted by the industry's growing NPL debt and the price of used cars continuing to decline as a result of rising demand for electric vehicles and the auction yard receives an increasing number of repossessed vehicles. Consequently, there will be a 23.0% increase in total expenses from 406.55 million baht in 2022 to 500.08 million baht in 2023. The company's financial costs increased by 22.76 million baht, representing an increase of 31.9%. The operating results for the fiscal year 2023 showed a net loss before income tax of 23.44 million baht, decreasing from 2022 which had a net profit before income tax of 38.25 million baht, representing a decrease of 161.3% at the same time. The Company has a total net loss of 31.32 million baht as a result of recording an increase in income tax due to the removal of income tax assets from the account related to the loss on sales in repossessed vehicles amounting to 7.88 million baht.

Regarding the company's liquidity, the company released bonds totaling 428.40 million baht in July 2023, repaid the debentures for 400 million baht, and used the remaining to expand the company credit. Also, the company has been approved for credit from financial institutions. Therefore, there is no liquidity problem.

For debentures, there were financial covenants to maintain financial ratios of "Net Debt to Equity Ratio" to not exceed a 2.5 to 1 ratio respectively at the end of each quarter in the accounting period or the end of the fiscal year, throughout the term of the debentures. As of December 31st, 2023, the company's net Debt-to-Equity ratio was 0.68 without any default or cause of default.

Revenues

Unit : Thousand Baht	Y2023	%	Y2022	%	change	%
Retail loans interest income	496,647.36	87.0%	443,366.28	85.9%	53,281.08	12.0%
Loans interest income	32,098.19	5.6%	31,192.44	6.0%	905.75	2.9%
Other interest income	2,676.84	0.5%	3,522.30	0.7%	(845.46)	(24.0%)
Total interest income	531,422.39	93.1%	478,081.01	92.6%	53,341.38	11.2%
Fee and services income	22,490.62	3.9%	23,764.75	4.6%	(1,274.13)	(5.4%)
Other income	16,842.70	3.0%	14,314.84	2.8%	2,527.86	17.7%
Total revenues	570,755.71	100.0%	516,160.60	100.0%	54,595.11	10.6%

The revenues of the company in 2023 consist of interest income, fee, and services income, and other income in the proportion of 93.1%, 3.9%, and 3.0% respectively. The company had a total revenue of 570.76 million baht, an increase from the year 2022 with revenue of 516.16 million baht or a 10.6% increase, with details as follows:

1. Revenue from retail loans, consisting of automobile and motorcycle hire purchase loans, car for cash, and motorcycle leasing contracts, which is the main business of the company, accounting for 87.0% of total income, amounting to 496.65 million baht, an increase of 12.0% from credit expansion.
2. Revenue from the loan (SME Loan) business amounted to 32.10 million baht, an increase of 2.9% from recorded according to accounting standards.
3. Other interest income includes land loans, personal loans, etc., amounting to 2.67 million baht, a decrease of 24.0%.
4. Fees and service income worth 22.49 million baht dropped by 5.4% as a result of offering the car for cash loans rather than hire purchase loans. Fee income from hire purchase loans consequently declined.

Operating cost

Unit : Thousand Baht	Y2023	%	Y2022	%	change	%
Administrative expenses	234,043.15	46.8%	222,960.26	54.8%	11,082.89	5.0%
Expected Credit Loss	266,039.57	53.2%	183,592.35	45.2%	82,447.22	44.9%
Total Expenses	500,082.72	100.0%	406,552.61	100.0%	93,530.11	23.0%

In 2023, the company had administrative expenses of 234.04 million baht, an increase from 2022 with an expense of 222.96 million baht, an increasing amount of 11.08 million baht, a 5.0% rise over the past year. This is mainly because the Company has invested in a new motorcycle hire purchase loan business, whether it is the number of employees, marketing expenses, or operation expenses.

Expected Credit Losses According to New Accounting Standards (TFRS9)

In 2023, there was an expected credit loss of 266.04 million baht, which represented a 44.9% rise from 2022 and an increase of 82.45 million baht. The expanding size of the loan portfolio and the outcome of the debtor's late installment payments are reflected in this increase in expected credit losses. The aforementioned accounting entries included the write-off of car for cash loans and hire purchase loans as bad debts in accounting even though those debts were still pursued, a total of 132.40 million baht, and a loss of 85.38 million baht from the transfer of receivables to foreclosed assets that were up for sale.

Financial cost

In 2023, the company had finance costs of 94.11 million baht, an increase from the year 2022, which was 71.36 million baht or a 31.9% growth. This occurs as a result of the corporation issuing new bonds and rising loan interest rates, due to the Bank of Thailand's policy interest rate increase, which raises the company's financial expenses.

Income tax expenses

In 2023, the company has an income tax recording of 7.88 million baht. This is because the Company removed income tax assets from the account related to the loss on sales in repossessed vehicles, which resulted in an increase in income tax being recorded. As a result, assets are subject to income tax decline. This turns becomes a line item for income tax expenses.

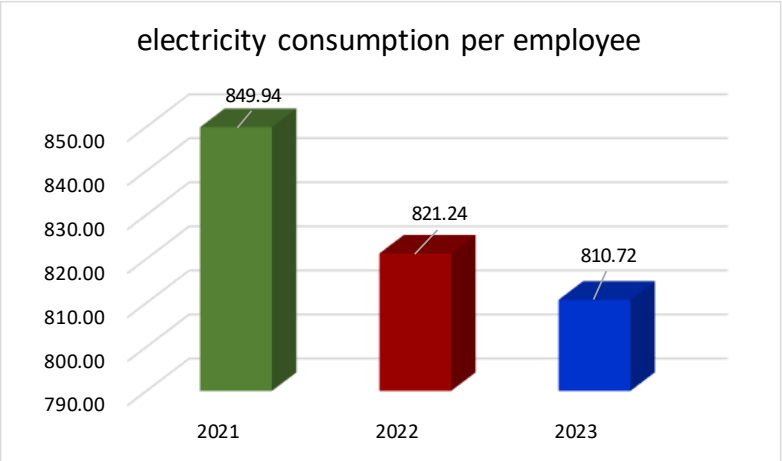
Net loss

In 2023, the company had a net loss of 31.32 million baht, a decrease from the year 2022, which was net profit

of 41.27 million baht, a decrease of 175.9%. This is due to the hire purchase interest cap from the Office of the Consumer Protection Board (OCPB) and the car for cash interest cap from the Bank of Thailand, which reduces the rate of income growth. Meanwhile, the company's growing loan portfolio forced it to incur more expected credit losses, and increased costs from investing in the new motorcycle loans business. In addition, the decline in deferred tax assets has resulted in a rise in income tax expenses.

Environmental performance

In terms of electricity consumption: In 2023, the company had an electricity consumption amounting to 0.27% of revenue, a slight increase compared to 2022, with an average electricity consumption of 810.72 units per employee, decreased from 821.24 units per employee in the previous year, due to the company's promotion to reduce electricity consumption during lunch and after work and regular maintenance of the air conditioning systems.



In terms of water consumption: In 2023, the company had water consumption account for 0.015% of revenue, reduced from 0.020% in 2022. The company is a service business with no water use in the production process. The water is used for office cleaning and personal use only.

In terms of reducing the amount of waste: The company has a campaign to reduce the amount of waste generated from business operations by reducing the use of paper. However, the company's paper and printing expenses as a percentage of income are 0.365%, up from 2022 when that percentage was 0.244% due to the company's increased lending to the motorcycle loans. It has to print more forms due to an increase in consumers.

In management to reduce carbon footprint: In 2023, the company emitted a carbon footprint amount of 318.64 tons of carbon dioxide, an increase of 56.29% compared to 2022. This was because of the growth in the new motorcycle loans business. As a result, more cars and fuel must be used during the job process.

Analysis of financial position

Unit : Million Baht	Q4/2023	%Asset	Q3/2023	%Asset	Q4/2022	%Asset
Cash and equivalents	155.0	5.3%	216.4	7.2%	222.3	7.5%
Receivables	2,617.8	89.0%	2,623.4	87.4%	2,561.3	86.9%
Hire Purchase Receivables, Leasing and Car for cash	2,367.0	80.5%	2,372.8	79.1%	2,318.7	78.6%
Loans receivables	6.1	0.2%	6.1	0.2%	7.5	0.3%
Personal Loan receivables	0.6	0.0%	0.7	0.0%	0.9	0.0%
Loans receivables from purchase of receivables	0.1	0.0%	0.1	0.0%	0.1	0.0%
SME loans	244.1	8.3%	243.6	8.1%	234.2	7.9%
Property, plant and equipment	22.6	0.8%	25.0	0.8%	27.6	0.9%
Deferred tax asset	23.2	0.8%	17.2	0.6%	30.5	1.0%
Other assets	122.6	4.2%	118.4	3.9%	107.4	3.6%
Total assets	2,941.2		3,000.2		2,949.1	
Total Liabilities	1,192.5	40.5%	1,235.0	41.2%	1,166.9	39.6%
Total equity	1,748.7	59.5%	1,765.2	58.8%	1,782.3	60.4%

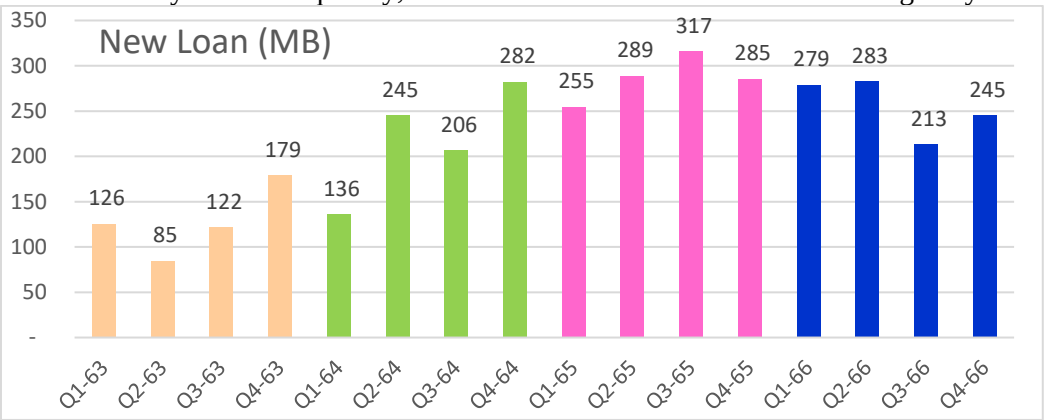
Assets

As of December 31st, 2022, and 2023, the company had total assets worth 2,949.16 million baht and 2,941.18 million baht respectively of which the majority were credit receivables 86.9% and 89.0% of the total assets respectively.

Hire purchase receivables, Leasing and Car for cash receivables

As of December 31st, 2023, the company accumulated hire purchase receivables, leasing, and car for cash receivables of 2,366.95 million baht, an increase of 48.28 million baht from the year of 2022, or a 2.1% growth.

New hire purchase, leasing, and car for cash loans in 2023 amounted to 1,022.56 million baht, a decrease of 139.12 million or a decrease by 11.9% from 2022 as a result of the business's tighter loan screening practices in the second half of the year. Consequently, the total amount of new loans made during the year fell.



Mortgaged loan receivables

As of December 31st, 2023, the company had a total of 6.07 million baht of mortgaged loan receivables, a decrease of 1.43 million baht, or 19.1% from repayment.

Personal loan receivables

As of December 31st, 2023, the company had personal loan receivables of 0.61 million baht, a decrease of 0.27 million baht, or a 30.4% decrease from the end of 2022, which was 0.88 million baht, due to repayment and does not expand this type of credit.

Loan Receivables (SME Loan)

As of December 31st, 2023, the company has outstanding SME Loan receivables amounting to 244.08 million baht, an increase of 9.92 million baht from the year 2022, or a 4.2% growth from interest accrued in 2023.

Hire purchase receivable, Leasing, and Car for cash receivables quality

As of December 31st, 2023, the company had hire purchase receivables, leasing, and car for cash receivables outstanding over 3 installments (3 months) amounting to 207.73 million baht or 8.3% of total net hire purchase, leasing, and car for cash receivables. An increase of 67.94 million baht from the end of 2022 with the outstanding hire purchase and car for cash receivables over 3 installments equal to 139.79 million baht. The reasons were an increase in non-performing loans in the auto and motorcycle lending sectors, liquidity problems in low-income households, and economic problems such as high inflation and rising interest rates.
The rise in outstanding debts and the percentage of non-performing loans caused the company to make further,which came to 119.60 million baht, or 4.8% of the hire purchase, leasing, and car for cash receivables. In response, the business has strengthened the way it screens prospective loan applicants to reduce the likelihood of future non-performing loans.

Liabilities

The company's funding source can be classified into 2 types:

1. Borrowing from Financial Institutions.
   Under the loan agreement, there are certain covenants that the company must comply with such as

- To maintain the Debt-to-Equity ratio below 2.5: the company is able to maintain the financial ratio as stipulated in the loan agreements of all financial institutions. At the end of December 31st, 2023, the company's Debt-to-Equity Ratio is 0.68.
- Maintaining the rate between non-performing hire purchase receivables (Stage 3) per hire purchase and car for cash receivables to not exceed the specified percentage, which the company has exceeded the percentage on one financial institution at the end of December 31st, 2023. This ratio represents 8.3% of all net hire purchases and car for cash receivables. The banking institution's executives were informed of this situation. After the submission of the financial statements, the company will issue a notification letter and request a waiver of such conditions to financial institutions.

As of December 31st, 2023, the company has a total credit line from financial institutions of 204.80 million baht, with regular installment payments according to the contract, and has no history of defaulting.

2. Debentures

   For the debentures, some practices must be complied with. Such as the value of collateral under the hire purchase contract must not be less than 1.5 times the value of the debenture that has not been redeemed throughout the term of the debentures. Maintaining the Debt-to-Equity ratio to not exceed 2.5, which the company has maintained financial ratio following all debentures.

   As of December 31st, 2023, the company owned 428.40 million baht and 500.00 million baht, respectively, for the outstanding balance from the issuing of bonds. The total outstanding sum as of that date was 928.40 million baht.

As of December 31st, 2022, and 2023, the company had total liabilities worth 1,166.86 million baht and 1,192.49 million baht respectively. Most of the total liabilities consisted of borrowings from financial institutions and debentures. The increase in the total liabilities comes from the issuance of new loans during the year amounting to 130 million baht and new debenture during the year amounting to 428.40 million baht, in order to repay the existing debenture on the maturity date amounting to 400 million baht and the rest has been expanded to the Company business.

Equity

As of December 31st, 2023, the company has shareholders' equity worth 1,748.69 million baht, a decrease of 31.32 million baht or 1.9% from the end of 2022 due to the company's net loss. The company has retained earnings of 91.94 million baht, a decrease of 31.32 million baht, and a legal reserve in the amount of 19.05 million baht, stable from 2022.

Please acknowledge the above matters.
Sincerely yours,

Mr.Kannanat Boonsunanondha
Chief Executive Officer