



TSR.IR.018/2021

10 November 2021

Subject: Management Discussion & Analysis for Q3-Y2021 of Thiensurat Group.

To: President  
The Stock Exchange of Thailand

For the third quarter in Y2021, the Group had a loss of Baht 30.33 Million which lower than the net profit of the second quarter in Y2021 that was equal to Baht 14.98 Million or deceased by 302.43%, and was compared to a profit for the same quarter in Y2020, it was decreased by Baht 70.94 Million or decreased by 174.68% with the main cause of lower gross margin from 78.43% in Q.3/2020 to 71.20% in Q.3/2021 caused by higher portion of sales of hire purchase of canvass cars and trucks with no product margin of Thiensurat Leasing Co., Ltd. (TSRL), one of the subsidiary company that run business on financial service. whereas, sale of water purifiers with high product margin did not get along with the plan to increase sale teams with canvassing trucks and opening new shops since the beginning of the Y2021, the Group have to make the provision for one-time restructuring cost to improve the expense structure to fit with a sale of water purifier decrease including with an increase of impairment losses (Doubtful accounts and bad debts) under the COVID-19 pandemic. As a result, the Group's loss per Share (LPS) for this quarter was Baht 0.055 per share compared to Baht 0.075 per share for the same quarter of Y2020

During the third quarter 2021, the major highlights were:-

- The Group have established the year of 2021 as the year of the Group's Re-Branding to be modern and differentiate for doing business with a new logo through new and clear vision for the Group's growth strategies under the brand of "TSR" instead of the company's name as "Thiensurat".
- 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.
- The Group expand the main business of sales of water purifiers from B2C to B2B in a view of strong and secure purchasing power of B2B more than B2C and also earn higher portion of cash sales than sale of hire purchase.
- After having launched the plan to open new shops and to recruit new direct sales teams in the first quarter, the Group got the effect from the impact of the outbreak of COVID-19 so that sales of water filters were so decreased that the Group have to stop opening new shops and recruiting new direct sales teams in the red area under the Government's policy to lock down. The group focused to have all of salesman and staffs to have the vaccine to prevent the outbreak of COVID-19 at the priority job. However, the Group keep to develop the strategy to have product portfolio management for multi-products, multi-sales channels, multi sell services and multi-financial services for instance of sales of famous multi-brands of water purifiers sourcing from Korea, China, Japan and Europe through the cooperated website named "DrinkCo", sales of ice making machines through Alpine brand, sales of water mate through cross selling and providing more financial services of hire purchase of cars and trucks, floor plan and loans with asset security through a subsidiary company named TSRL.
- The Group also keep to arrange the training and development program for sale & credit people and mechanic to serve the customers after sale.
- The Group continues to invest in product research and development for improving the cleanliness of water and contains minerals which are necessary for body and to improve product quality as well as design, and utilize technology for the convenient use by customers.



- In order to improve the expense restructure to fit with a sale of water purifier decrease under the COVID-19 pandemic, the Group had consideration to make the provision for one-time restructuring cost of lean organization and cancellation of rental contracts of canvassing trucks and shops before the due of rental contracts with the amount of Baht 14 Million. As the result of this structure improvement will save the expenses amounting around Baht 3 Million per month.
- According to the Board Meeting No.7/2021, on 27 October 2021 approved the resolution to dissolve TSR Lao Co., Ltd., the company of Joint venture in The Lao People's Democratic Republic in which the company held its shares by 49% purpose to reduce the company's expenses from such a severe impact of the COVID-19 outbreak in the Lao People's Democratic Republic that the joint venture company is unable to expand the market by means of direct marketing. The company therefore decided to close the said company, and then change to appoint JB Group to be Sole Distributor in the Lao People's Democratic Republic to sell water purifiers and filters instead. This will enable the company to manage the sale of water purifiers and filters at lower costs than opening of TSR Lao Co., Ltd. The Group already made the provision of impairment cost for this dissolution around Baht 2 Million.
- 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.
- According to the Board of Directors' Meeting No. 3/2021 convened on 12 May 2021 approved sales of the Share Repurchase (Treasury Stock) bought during the period of 14 April 2020 to 14 October 2020 and hold for a certain time as the SEC's regulation totaling number of 2,697,900 shares or equal to 0.49% of the total of paid-up capital with the amount of Baht 5.61 million presented as a separate category within equity and recognized as a deduction from equity in the consolidated financial statements with an equivalent amount had been appropriated from retained earnings to treasury shares reserve through Thailand Stock Market from 1 June 2021 to 1 December 2021. As on 30 September 2021, the balance of treasury stock remained 270,900 shares.
- According to the Board of Directors' Meeting No. 3/2021 convened on 12 May 2021 approved a change of dividend payment policy that is calculated based on Thiensurat's Financial Report to the Consolidated Thiensurat Group Financial Report instead.
- At the Board of Directors' meeting held on 16 August 2021, the Board agreed to approve the payment of an interim dividend for 2021 at the rate of Baht 0.040 per share, totaling approximately Baht 21.98 Million and the payment has been done on 13 September 2021

## Performance Overview for the 3<sup>rd</sup> quarter of Y2021

### 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 3<sup>rd</sup> quarter of Y2021 amounting to Baht 427.92 Million, a decrease of Baht 56.33 Million or 11.63 % compared to those of the same quarter in Y2020. The revenues consisted of revenue from sales of goods amounting to Baht 365.65 Million, a decrease of Baht 58.92 Million or 13.88% and hire purchase interest income amounting Baht 58.93 Million, a decrease of Baht 0.17 Million or 0.29% and income from loan receivables amounting Baht 3.34 Million, an increase of Baht 2.77 or 479.03%. A decrease of total revenue from sales of goods was due to the impact of the outbreak of COVID-19 that was so serious that the Group could not recruit new salesman and could not increase direct sales teams of water purifiers to the customers' houses with the concern of strictly protection measurements from the outbreak of COVID-19 as well as the Government's policy to lockdown. An increase of hire purchase interest income and income from loan receivables was due to an increase of receivables loans with assets security, hire purchase loans of canvass cars and trucks and Floor Plan loans as the business expansion of TSRL.



- **Other income** of the Group for the 3<sup>rd</sup> quarter of Y2021 was Baht 9.82 Million decreased by Baht 5.60 Million from the same period of Y2020 was caused by lower debt recovery, lower gain from sales of assets not utilized, and lower sale of premium products.

#### Expenses

- **Cost of sales** of the Group for the 3<sup>rd</sup> quarter of Y2021 was Baht 123.24 Million, an increase of Baht 18.78 Million or 17.98% compared to the same period of Y2020, 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 21.57% in the 3<sup>rd</sup> quarter of Y2020 to 28.80% in the 3<sup>rd</sup> quarter of Y2021 caused by higher sale proportion of hire purchase of canvassing cars and trucks with no product margin but will get hire purchase interest income instead including lower sale of water purifiers with high product margin caused by the impact of the outbreak of COVID-19.
- **Distribution costs** of the Group for the 3<sup>rd</sup> quarter of Y2021 were Baht 171.39 Million, a decrease of Baht 6.63 Million or 3.73% 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 40.05% which increased from the 3<sup>rd</sup> quarter of Y2020 ( the 3<sup>rd</sup> quarter of Y2020: 36.76%). An increase was due to lower sales of water purifiers and electrical home appliances than the plan to open new branches and recruiting new direct sales teams that had been proceeded in the first quarter. This caused the Group to revise the plan not to open new unprofitable branches and not recruiting new direct sales teams in the red areas for the outbreak of COVID-19, but still keep to develop the strategy to have product portfolio management for multi-products, multi-sales channels, multi sell services and multi-financial services
- **Administrative expenses** of the Group for the 3<sup>rd</sup> quarter of Y2021 were Baht 116.63 Million, an increase of Baht 2.41 Million or 2.11%. The percentage of administrative expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables increased from 23.59% of the 3<sup>rd</sup> quarter of Y2020 to 27.26% of the 3<sup>rd</sup> quarter of Y2021. An increase in the percentage of administrative expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables was due to lower total revenue but higher employee expenses from the plan to expand the business and service including with higher employee expenses for the vaccines and material equipment to protect the outbreak of COVID-19.
- **Impairment losses (Doubtful accounts and bad debts)** of the Group for the 3<sup>rd</sup> quarter of Y2021 were Baht 59.13 Million that were increased by Baht 5.12 Million or 9.48% compared with the same quarter of last year. An increase was due to fast booking of impairment losses from seizing the products back from the customers with high potential risk that cannot afford the payment as hire purchase contracts under the situation of the outbreak of COVID-19 and Accounting Standard IFRS No.9. The percentage of overdue 3 months (NPL) of hire purchase receivables was increased from 5.09% as at 31 December 2020 to 5.76% as at 30 September 2021

#### 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 3<sup>rd</sup> quarter of Y2021 and Y2020 were Baht 304.68 Million and Baht 379.79 Million, or 71.20% and 78.43%, respectively. A decrease of Baht 75.11 Million or 19.78% was due to lower sale of water purifiers with higher product margin; whereas, higher sale of ice making machines with lower product margin and higher hire purchase sales of canvass cars and trucks without product margin.
- **Net loss** of the Group for the 3<sup>rd</sup> quarter of Y2021 was Baht 30.33 Million, decreased of Baht 70.94 Million or 174.68 % (the 3<sup>rd</sup> quarter of Y2020: net profit of Baht 40.61 Million). The net profit ratio of the 3<sup>rd</sup> quarter of Y2021 decreased from 8.39% of the 3<sup>rd</sup> quarter of Y2020 to -7.09% resulting from the above mentioned rationale.



## Statement of Financial Position

### Total assets

As at 30 September 2021, total assets of the Group were Baht 1,846.80 Million, increased by Baht 155.26 Million, or 9.18% compared to 31 December 2020 mainly caused by an increase of net hire purchase receivable and loans receivable amounting Baht 14.79 Million, an increase of inventory by Baht 72.77 Million to serve the backlog of ice making machines from the customers' booking by their advance payment including with higher materials for producing new model of water purifier, and an increase of property, plant and equipment by Baht 67.71 Million for purchasing new land on Samakkhi Road for building a new warehouse for the business expansion to replace warehouse rental

From the comparison aging of hire purchase accounts receivable as of 30 September 2021 to those as of 31 December 2020, there were higher overdue hire purchase accounts of water purifiers, but lower overdue hire purchase accounts of electrical home appliances by considering the amount of hire purchase accounts overdue three months (NPL) of water purifier increased from 4.84% as 31 December 2020 to 6.27% as 30 September 2021 caused by the impact of COVID-19, but electrical home appliance, cars trucks and others reduced from 6.12% to 4.52% with 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. Due to the collection of electrical home appliance accounts came from direct payment, 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 have been implemented.

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   | Balance of hire purchase |         |           |         | Allowance for doubtful account |         |           |         |
|--|--------------------------|---------|-----------|---------|--------------------------------|---------|-----------|---------|
| Staging  | 30 Sep 21                | %       | 31 Dec 20 | %       | 30 Sep 21                      | % of AR | 31 Dec 20 | % of AR |
| Stage 1 (not over 1 installment)                                       | 436,811                  | 84.51%  | 539,482   | 87.43%  | 12,131                         | 2.78%   | 13,459    | 2.49%   |
| Stage 2 (not over 3 installment)                                       | 47,648                   | 9.22%   | 47,717    | 7.73%   | 18,772                         | 39.40%  | 18,534    | 38.84%  |
| Stage 3 (Over 3 installment)   | 32,435                   | 6.27%   | 29,849    | 4.84%   | 28,240                         | 87.07%  | 25,988    | 87.06%  |
| Total amount   | 516,894                  | 100.00% | 617,048   | 100.00% | 59,143                         | 11.44%  | 57,981    | 9.40%   |
| % of Allowance for doubtful account per total hire purchase receivable |                          |         |           |         |                                | 11.44%  |           | 9.40%   |

#### Electrical appliances and others

Accounts receivable from hire purchase accounts (Receivables less deferred hire-purchase interest and deferred output tax)

| Unit : '000 Baht   | Balance of hire purchase |         |           |         | Allowance for doubtful account |         |           |         |
|--|--------------------------|---------|-----------|---------|--------------------------------|---------|-----------|---------|
| Staging  | 30 Sep 21                | %       | 31 Dec 20 | %       | 30 Sep 21                      | % of AR | 31 Dec 20 | % of AR |
| Stage 1 (not over 1 installment)                                       | 193,807                  | 91.45%  | 132,870   | 88.10%  | 2,504                          | 1.29%   | 2,394     | 1.80%   |
| Stage 2 (not over 3 installment)                                       | 8,546                    | 4.03%   | 8,721     | 5.78%   | 1,685                          | 19.72%  | 1,577     | 18.08%  |
| Stage 3 (Over 3 installment)   | 9,572                    | 4.52%   | 9,223     | 6.12%   | 5,005                          | 52.29%  | 4,886     | 52.98%  |
| Total amount   | 211,925                  | 100.00% | 150,814   | 100.00% | 9,194                          | 4.34%   | 8,857     | 5.87%   |
| % of Allowance for doubtful account per total hire purchase receivable |                          |         |           |         |                                | 4.34%   |           | 5.87%   |



#### **Total liabilities**

As at 30 September 2021, total liabilities of the Group were Baht 610.17 Million, increased by Baht 193.65 Million or 46.49 % from 31 December 2020. An increase of liabilities came from bank overdraft and short term borrowings increased by Baht 225.73 Million netting with liabilities under finance lease agreement, income tax payable, and trade payables.

**Bank overdraft and short term borrowings** of the Group as at 30 September 2021 were Baht 276.63 million, increased by Baht 225.73 Million or increased by 443.48% from 31 December 2020. An increase of bank overdraft and short term borrowings came from the investment of new land for building warehouse to replace warehouse rental, the business expansion of TSRL in loans with asset security, hire purchase loans of canvassing cars and trucks and floor plan loans including with higher purchasing of ice making machines to serve the backlog and an opportunity under the situation of the outbreak of COVID-19.

#### **Shareholders' equity**

Shareholders' equity of the Group as at 30 September 2021 was Baht 1,236.63 Million (31 December 2020: Baht 1,275.02 Million), decreased by Baht 38.39 Million or 3.01%. Debt to equity ratio as at 30 September 2021 was 0.49 (31 December 2020: 0.33). Book value per share was Baht 2.25 (31 December 2020: Baht 2.32 per share) due to the net profit from operation for nine months of Y2021 netting with the dividend payment for the operation result in the second half year of Y2020 and the first half year of Y2021 including with the gain from the distribution of treasury stock.

Kindly be informed.

Yours truly,

(Mr. Ekarat Changyoo)  
Chief Executive Officer