

Title : AN ANALYSIS OF FINANCIAL STRUCTURE AND FINANCIAL
MANAGEMENT OF FINANCE AND SECURITY COMPANIES
IN THAILAND

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To accommodate with the economic advancement in South East Asian Countries as well as to take advantages of the geographical position, together with the favourable economic, social, and political situations of the country, The Royal Thai Government has launched a strategic program to promote Thailand to be financial center of the region. All financial institutions including finance and security companies adjust their administrative structure and financial management to cope with the conditions. It is, therefore, interesting to investigate and evaluate these phenomena.

This thesis is concerned with the structure, behavior, and operational conditions of finance and security companies. The main objectives include 1) to analyse the structure in term of market share (loan), average cost for loan, gross margin, ratio of non-interest income and percentage of accrued interest per loan, 2) to analyse the financial operation of finance and security companies, 3) to suggest strategies to increase profitabilities

of finance and security companies which involved in financial system development of the country.

Data for analysis based primarily on secondary sources consisting of balance sheets and income statements of seventy four finance and security companies. This is supplemented by documents from the Bank of Thailand, magazines, and books in the field of finance and banking. Industrial Economic Theory serves as the major analytical tool of this study.

The size of the companies, in terms of the quantity of loan granting varies widely. There are nineteen big companies, thirteen medium companies and forty two small companies. In 1989 the biggest company granted, seventeen thousand four hundred and sixty millions baht loan while the smallest company accounted for only thirty four millions baht.

Considering the market share (ratio of granted loan), the big, medium, and small companies accounted for 69.43%, 16.28% and 14.29% respectively.

Taking into consideration on the size of company, the group of big companies enjoy high profitability and the small ones suffer from low profitability. The high profitability of the big company derived from their grand market share inspite of the low ratio of primary gross margin and low average interest on loan. One reason is that customers of the big ones are first class which result in low percentage of default. Therefore risk premium is trivial. Besides, the big companies enjoy higher goodwill than the small ones. The big ones are therefore able to secure loan at a lower cost. Apart from these, the big companies also provide more supplementary services and engage in more variety of business than the small ones which in turn attract more customers to use more services.

Small companies, in spite of enjoying high gross margin, suffering from high cost for loans and high percentage of accrued interest per loan management result in low profitability. It is interesting to note that a few small companies having low percentage of accrued interest per loan but still suffered from low profit. However, this is attributed to having low ratio of non-interest income. Customers prefer to do business with big companies rather than with small companies because the former provide more varieties of services.

The important factors that determine profitability are ranked as follow:

- 1) Proportion of market share in loan granting. It has direct effect on profitability which is consistent with the research result showing a correlation coefficient of 0.62642 at 95% statistical confidence level. This means that size of companies is highly correlated to earning per share.
- 2) Companies with high proportion of non-interest income enjoy higher earning per share than those with low proportion of non-interest income which is consistent with the research result showing a correlation coefficient of 0.294166 at 95% statistical confidence level. This means that proportion of non-interest income is moderately correlated to earning per share.
- 3) Costs for loan. They have opposite effect on profitability which is consistent with the research result showing a correlation coefficient of -0.2188 at 95% statistical confidence level. This means that costs for loan have some relation to earning per share.
- 4) Companies with good debt-management enjoy higher profit than those with bad debt-management which is consistent with the research result showing a correlation coefficient of -0.14908 at 95% statistical

confidence level. This means that there are some correlation between the percentage of accrued interest per loan and profitability but in the low level. And 5) Gross margin. It has direct effect on profitability which is consistent with the research result showing a correlation coefficient of 0.11230 at 95% statistical confidence level. This means that gross margin is slightly correlated to earning per share.

The recommendations from this study are to increase the ratio of non-interest income by inventing new financial instruments, improving the quality of account receivables, supporting joint venture of the small companies with other financial companies, permitting foreign companies to take part in the business in the form of share-holder of companies in order to increase the competitive capability.