

KRUNGSRIAYUDHYA CARD CO., LTD.

No. 188/2021
28 October 2021

FINANCIAL INSTITUTIONS

Company Rating:	AAA
Issue Ratings:	AAA
Senior unsecured	
Outlook:	Stable

Last Review Date: 23/02/21

Company Rating History:

Date	Rating	Outlook/Alert
15/11/16	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating on Krungsriayudhya Card Co., Ltd. (KCC) and the ratings on KCC's senior unsecured debentures at "AAA" with a "stable" rating outlook. The ratings primarily reflect the company's status as a core subsidiary of the Bank of Ayudhya PLC (BAY). The ratings on KCC are equivalent to the company rating on BAY ("AAA/Stable" rated by TRIS Rating).

KEY RATING CONSIDERATIONS

Continuous support from BAY as a core subsidiary

We believe that KCC will continue to receive strong business and funding support from BAY given its status as a core member of the BAY Group. KCC is a wholly owned subsidiary of BAY, positioned as the bank's principal credit card unit under the "Krungsri" brand. KCC closely collaborates and is aligned with the "Krungsri Consumer Group", which comprises a group of companies that manages various credit card businesses.

KCC's operations are fully integrated with BAY's. KCC leverages the bank's extensive branch network as the primary channel to acquire new cardholders and to facilitate payments and services. The majority of client acquisitions have come from BAY's branches, contributing around 50% of new cards over the past few years. BAY also supports KCC with centralized and standardized systems for risk management, internal controls, and information technology (IT). As a solo-consolidated subsidiary, KCC receives ongoing financial support from BAY in the form of credit facilities.

Strong market position in credit card business with healthy asset quality

KCC has maintained its strong market position over the past few years, retaining a market share of around 10% in both outstanding credit card receivables and credit card spending. However, the company's outstanding loans declined to THB45 billion at the end of 2020, a drop of 6% year-on-year (y-o-y). KCC's spending also declined by 12% y-o-y, in line with the industry as a whole. The decline was due to the city lockdown and weak economy induced by the Coronavirus Disease 2019 (COVID-19) pandemic. We believe KCC's loan portfolio expansion will resume in the next 2-3 years supported by an effective marketing campaign and collaboration with BAY.

Robust capital base

We expect KCC's capital to be maintained at a high level which should help support the company's business expansion in the medium term and absorb any potential rise in credit losses after the expiration of debt relief programs. At the end of December 2020, its capital, as measured by the risk-adjusted capital (RAC) ratio, stood at 21%, improving from 17.4% in 2019. The higher RAC ratio was mainly due to its ongoing profitability and the capital accretion from BAY's policy for its subsidiaries to omit dividend payments in 2020 given the uncertain credit environment.

Consistent funding support from BAY

The company's adequate funding and liquidity profile is bolstered by ongoing financial support from BAY, in the form of credit lines. The company also has access to other funding sources including issuance of debentures in the capital

markets. At the end of July 2021, the company had credit facilities from various financial institutions totaling THB40.5 billion, 98% of which were undrawn.

Loans and credit card spending to recover

The credit card and personal loan segments inevitably bore the brunt of the economic fallout from the city lockdown following successive COVID-19 outbreaks. In 2020, card spending fell by 11% y-o-y and recovered to a positive growth of 4.5% y-o-y in the first half of 2021. However, card spending contracted again in the third quarter of this year during the city lockdown. The lower interest rate ceiling applied to credit card loans and personal loans announced by the Bank of Thailand (BOT) in August 2020 has also put pressure on the profitability of loan operators. Nonetheless, asset quality deterioration caused by the weak economy has been moderate and manageable, supported by a reduction of the minimum payment for both credit cards and personal loans as part of the debt relief programs. The industry's non-performing loan (NPL) ratio for credit cards increased to 2.60% at the end of June 2021, from 1.91% at the end of 2020. For personal loans, the NPL ratio increased slightly to 3.60% at the end of June 2021, from 3.45% at the end of 2020. The anticipated economic recovery will likely help support credit card spending and loan growth in the last quarter of 2021, while the extension of debt relief programs should help mitigate asset quality deterioration. However, the ability to stimulate spending and generate non-interest income to compensate for the lower yields is likely to be a major challenge facing all operators.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that KCC will remain a core subsidiary of BAY.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating that KCC will maintain its status as a core subsidiary of the BAY Group and will continue to receive strong support from BAY.

RATING SENSITIVITIES

KCC's credit profile could be revised downward if the BAY Group's credit profile changes or TRIS Rating sees any change regarding the importance of KCC to the BAY Group or the degree of support provided by BAY to KCC.

COMPANY OVERVIEW

KCC was established in 1996 and later became a joint venture between BAY and GE Capital (Thailand) Ltd. (GE Capital). In 2001, it was responsible for all credit card businesses of the BAY Group. KCC became a wholly-owned subsidiary of BAY in 2010 after BAY acquired all consumer loan businesses from GE Money in 2009. In April 2009, BAY completed the acquisition of AIG Retail Bank PLC (AIGRB) and AIG Card (Thailand) Co., Ltd. (AIGCC). BAY's acquisition of both entities resulted in an increase of approximately 222 billion credit cards which were transferred to Ayudhya Card Services Co., Ltd. (AYCS). AYCS transferred its entire business to KCC on 24 July 2013 having already registered its dissolution. In March 2012, BAY completed its acquisition of the retail business of HSBC, Bangkok branch, after which BAY received the transfer of personal loan, home loan, deposit, and bill of exchange businesses. Through BAY, KCC received the transfer of HSBC's credit card business. The acquisition of HSBC accelerated the growth of KCC's portfolio.

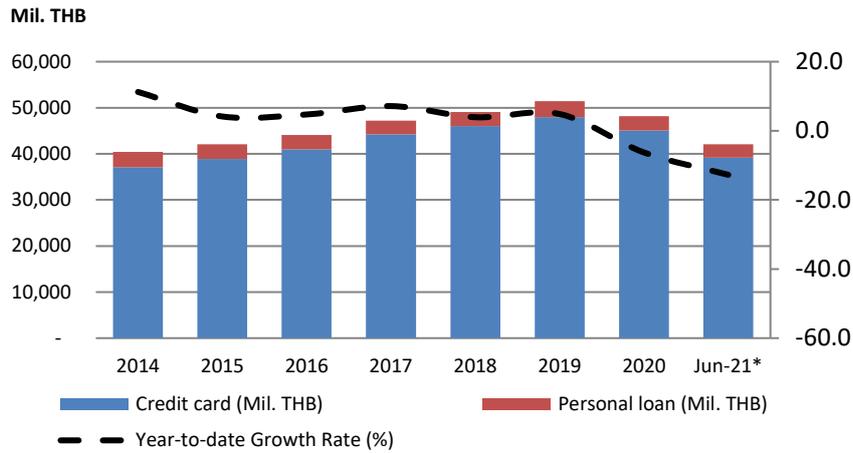
At the beginning of 2014, some major changes were made to the company's business model after MUFG Bank, Ltd. (MUFG Bank) became the major shareholder of BAY instead of GE Capital. According to the Krungsri Group's business strategy, KCC held the largest credit card portfolio of "Krungsri Consumer".

KCC is BAY's core subsidiary in the Krungsri Consumer Group assigned as the flagship for credit card services in BAY's retail loan business. KCC's credit cards are issued under the name "Krungsri Card" and co-branded with Home Product Center PLC (HMPCO) under the name "HomePro Card", AIA Thailand under the name "AIA Card", and Manchester United Thailand under the name "MANU Card". In 2016, KCC launched "Krungsri JCB Platinum" in response to the lifestyle needs of its target customers who enjoy travelling, particularly to Japan. KCC has gained competitiveness in terms of strategic partners in Japan thanks to leverage from its ultimate major shareholder, MUFG Bank.

KCC utilizes BAY's nationwide branch network and the networks of its co-brand alliances as channels to acquire new cardholders and provide services to its clients. As of June 2021, the company had 296 full-time employees providing services through a number of BAY's channels including the Bangkok head office and around 700 branches.

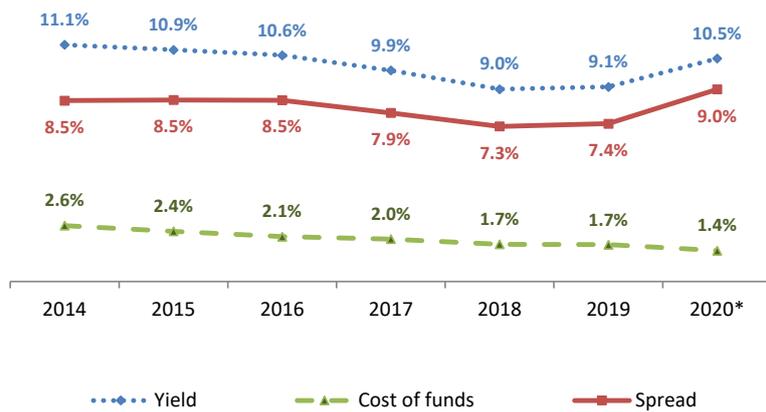
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



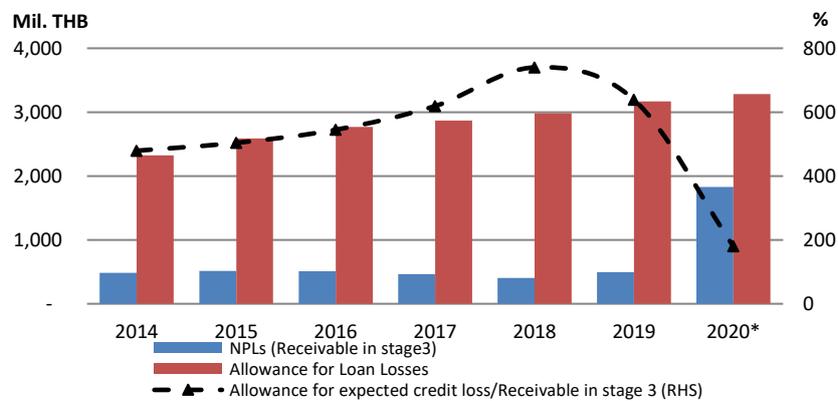
Source: KCC's financial statements
* Year-to-date growth for June 2021

Chart 2: KCC's Yield



Sources: KCC's financial statements & TRIS Rating
* Interest income in 2020 based on changing in accounting standard, TFRS9

Chart 3: Asset Quality



Source: KCC's financial statements
* NPLs in 2014 – 2019 based on receivables more than 90 days and NPLs in 2020 based on receivable in stage 3 due to TFRS9

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total assets	49,403	53,108	51,719	49,467	45,974
Total loans	48,209	51,435	49,055	47,203	44,054
Allowance for expected credit loss	3,285	3,169	2,982	2,866	2,768
Short-term debts	19,327	21,658	19,485	28,500	27,296
Long-term debts	6,944	9,413	11,306	3,355	3,550
Shareholders' equity	17,194	15,214	13,250	11,563	9,862
Net interest income	4,801	4,059	3,800	3,897	3,929
Expected credit loss	1,629	1,496	1,497	1,630	1,764
Non-interest income	3,635	3,939	3,708	3,488	3,163
Operating expenses	4,075	4,753	4,629	4,284	4,068
Earnings before taxes	2,732	2,537	2,160	2,181	1,837
Net income	2,088	1,969	1,675	1,700	1,427

* Including credit usage fee

** Excluding credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Profitability					
Net interest income/average assets	9.37	7.74	7.51	8.17	8.76
Non-interest income/average assets	7.09	7.51	7.33	7.31	7.05
Operating expenses/total income	46.04	51.00	52.40	49.13	48.94
Operating profit/average assets	5.33	4.84	4.27	4.57	4.10
Earnings before taxes/average risk-weighted assets	3.23	2.96	2.62	2.78	2.48
Return on average assets	4.07	3.76	3.31	3.56	3.18
Return on average equity	12.88	13.83	13.50	15.87	15.60
Asset Quality					
Receivable in stage 3/total loans	3.79	0.96	0.82	0.98	1.15
Expected credit loss/average loans	3.27	2.98	3.11	3.57	4.10
Allowance for expected credit loss/Receivable in stage 3	179.56	638.91	739.95	619.01	544.88
Capitalization					
Risk-adjusted capital ratio	21.03	17.36	15.77	14.26	13.03
Debt/equity (times)	1.87	2.86	2.90	3.28	3.66
Funding and Liquidity					
Stable funding ratio	53.50	50.90	53.17	33.58	32.42
Liquidity coverage measure (times)	0.07	0.08	0.12	0.06	0.05
Short-term debts/total liabilities	73.57	69.71	63.28	89.47	88.49
Payment rate	36.39	40.53	40.78	39.29	39.22

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Krungsriyudhya Card Co., Ltd. (KCC)

Company Rating:	AAA
Issue Ratings:	
KCC223A: THB4,000 million senior unsecured debentures due 2022	AAA
KCC229A: THB3,000 million senior unsecured debentures due 2022	AAA
KCC239A: THB5,000 million senior unsecured debentures due 2023	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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