

# KRUNGSRIAYUDHYA CARD CO., LTD.

No. 195/2022  
28 October 2022

## FINANCIAL INSTITUTIONS

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

Last Review Date: 09/02/22

### Company Rating History:

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

### Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweekchok Jiamsakunthum

taweekchok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

## 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 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 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 engaging in 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 almost 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 position in credit card business

KCC has maintained its strong market position over the past few years, despite steady loan contraction. KCC retains a market share of around 10% in outstanding credit card receivables with outstanding loans of THB45 billion at the end of 2021, flat year-on-year (y-o-y). In 2021, KCC's credit card spending totaled THB164 billion (11% of Thailand's total card spending), relatively stable y-o-y and in line with the industry due to the still-low consumer confidence.

Developments in 2022 so far have been positive. At the end of June 2022, credit card outstanding loans expanded by 5.3% y-o-y, while card spending in the first half of 2022 (1H22) recovered with a growth of 11.6% y-o-y. This is due to the recovery in consumption from the relaxation of COVID-19 control measures. We believe KCC's loan portfolio expansion will resume in the next 2-3 years supported by more active and efficient marketing campaigns and collaboration with BAY.

### Asset quality remains healthy

KCC maintained its NPL ratio (receivables overdue more than 90 days) for credit cards below 1% over the past few years, lower than the industry average of 2%. Similarly, for personal loans, KCC reported an NPL ratio of 2.4% at the end of 2021, also less than the industry average of 3.1%. KCC's asset quality is likely to remain healthy, underpinned by prudent credit policy and the shared credit data of customers within Krungsri consumer group.

### Strengthened capital base

We expect KCC's capital to be maintained at a high level. This should help support the company's expansion plan in the medium term and absorb any potential rise in credit losses following the expiration of debt relief programs.

At the end of December 2021, its capital, as measured by the risk-adjusted capital (RAC) ratio, stood at 24%. This was an improvement from 21% at the end of 2020 thanks to profit accumulation coupled with zero dividend pay-out policy.

### **Solid funding support from BAY**

The company's adequate funding and liquidity profile is backed by ongoing financial support from BAY in the form of credit facilities. The company also has access to other funding sources including issuance of debentures in the capital markets. At the end of June 2022, the company had credit facilities from BAY totaling THB40.5 billion, 97% of which were undrawn.

### **Pressure from intense competition continues**

As a result of the gradual easing of COVID-19 restrictive measures since late 2021, the economy has steadily recovered, and consumer spending has normalized to a great extent. Consumer loans, both credit cards and personal loans, have increased significantly. This was reflected in the volume of credit card spending for 1H22 at THB0.94 trillion, up 19.4% from the same period last year. Meanwhile, credit card outstanding loans in the industry also rose by 9.7% y-o-y at the end of 1H22.

However, asset quality of credit card and personal loans appears slightly weakened as economic recovery has yet to gather strong momentum. The industry's NPL ratio for credit cards stood at 2.1% at the end of June 2022 from 1.8% at the end of 2021. NPL ratio for personal loans, excluding title loans, also rose to 4.8% at the end of June 2022 from 3.1% at the end of 2021. We view overall asset quality as remaining fragile and potentially deteriorating after the debt relief measures expire. Moreover, unsecured loan operators are likely to remain pressured by fierce competition, interest rate caps, potential rises in funding costs, and economic uncertainty. Diversification to other business lines, while possibly helping to mitigate revenue pressure, remains a challenge.

### **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 our expectation 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 we see any material change in KCC's importance 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.

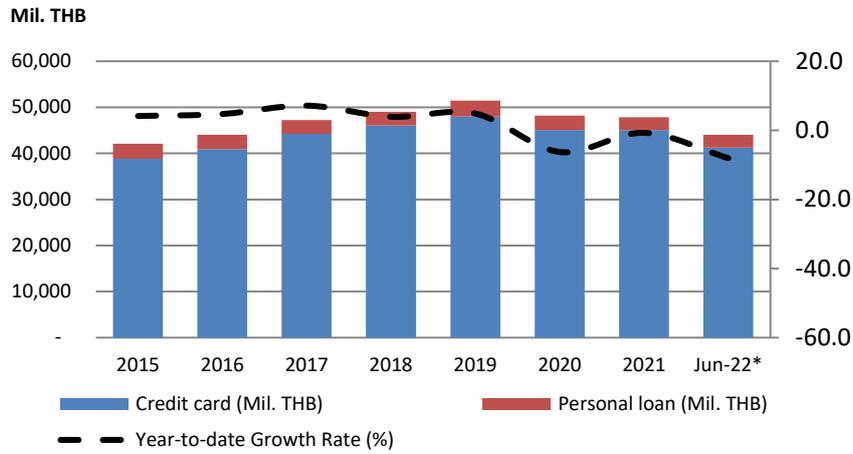
At the beginning of 2014, some major changes were made to the company's business model after MUFG Bank, Ltd. (MUFG Bank) became the major shareholder of BAY instead of GE Capital. According to the Krungsri Group's business strategy, KCC held the largest credit card portfolio of "Krungsri Consumer".

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 "Krungsri Card" and co-branded with Home Product Center PLC (HMPRO) under the "HomePro Card", AIA Thailand under the "AIA Card", and Manchester United Thailand under the "MANU Card". In 2016, KCC launched "Krungsri JCB Platinum" to meet 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. In late 2021, KCC launched "Krungsri NOW", a digital credit card to serve the younger target customers.

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 2022, the company had 273 full-time employees providing services through a number of BAY's channels including the Bangkok head office and around 630 branches.

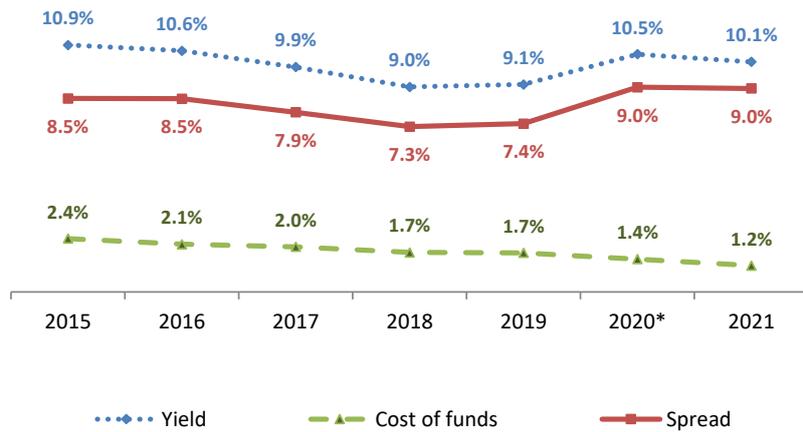
**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**



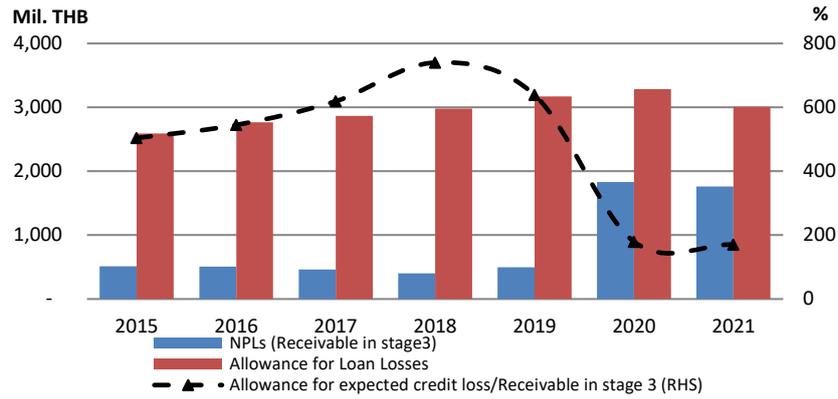
Source: KCC's financial statements  
\* Year-to-date growth for June 2022

**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				
	2021	2020	2019	2018	2017
Total assets	49,166	49,403	53,108	51,719	49,467
Total loans	47,860	48,209	51,435	49,055	47,203
Allowance for expected credit loss	3,008	3,285	3,169	2,982	2,866
Short-term debts	18,766	19,327	21,658	19,485	28,500
Long-term debts	4,981	6,944	9,413	11,306	3,355
Shareholders' equity	19,720	17,194	15,214	13,250	11,563
Net interest income	4,575	4,801	4,059	3,800	3,897
Expected credit loss	1,248	1,629	1,496	1,497	1,630
Non-interest income	3,878	3,635	4,726	4,486	4,198
Operating expenses	4,013	4,075	4,753	4,629	4,284
Earnings before taxes	3,192	2,732	2,537	2,160	2,181
Net income	2,528	2,088	1,969	1,675	1,700

\* Including credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
<b>Profitability</b>					
Net interest income/average assets	9.28	9.37	7.74	7.51	8.17
Non-interest income/average assets	7.87	7.09	9.02	8.87	8.80
Operating expenses/total income	45.89	46.04	51.00	52.40	49.13
Operating profit/average assets	6.48	5.33	4.84	4.27	4.57
Earnings before taxes/average risk-weighted assets	3.91	3.23	2.96	2.62	2.78
Return on average assets	5.13	4.07	3.76	3.31	3.56
Return on average equity	13.70	12.88	13.83	13.50	15.87
<b>Asset Quality</b>					
Receivable in stage 3/total loans	3.68	3.79	0.96	0.82	0.98
Expected credit loss/average loans	2.60	3.27	2.98	3.11	3.57
Allowance for expected credit loss/Receivable in stage 3	170.65	179.55	638.91	739.95	619.01
<b>Capitalization</b>					
Risk-adjusted capital ratio	24.24	21.03	17.36	15.77	14.26
Debt/equity (times)	1.49	1.87	2.49	2.90	3.28
<b>Funding and Liquidity</b>					
Stable funding ratio	55.02	53.67	51.00	53.26	33.65
Liquidity coverage measure (times)	0.08	0.07	0.08	0.12	0.06
Short-term debts/total liabilities	79.02	73.57	69.71	63.28	89.47
Payment rate	35.94	36.39	40.53	40.78	39.29

#### RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

---

**Krungsriyudhya Card Co., Ltd. (KCC)**

---

<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
KCC233A: THB4,500 million senior unsecured debentures due 2023	AAA
KCC239A: THB5,000 million senior unsecured debentures due 2023	AAA
KCC249A: THB5,500 million senior unsecured debentures due 2024	AAA
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)