

KRUNGSRIAYUDHYA CARD CO., LTD.

No. 214/2023
31 October 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 02/02/23

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 Bank of Ayudhya PLC (BAY). The ratings on KCC are equivalent to the company rating on BAY, “AAA/stable”.

KEY RATING CONSIDERATIONS

Fully integrated with BAY

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 overall strategy of the Krungsri Consumer Group, which comprises a group of companies engaging in various credit card businesses for BAY. Representatives from retail and consumer group of BAY and MUFG Bank Ltd. sit on KCC’s board to ensure strategic alignment with BAY Group.

KCC’s operations are also 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. As a result, most client acquisitions come from BAY’s branches, at around 40% of new cards.

BAY also supports KCC with the 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, which we expect to continue over the longer term.

Strong position maintained in credit card business

We expect KCC to maintain its strong market position in credit cards, thanks to its active marketing and strong brand. KCC ranks among the top-tier credit card issuers including banks and non-banks, with a 9.5% market share in outstanding credit card receivables at the end of June 2023.

KCC’s total receivables, including credit cards and personal loans, rose to THB49.5 billion at the end of December 2022, up 4% year-on-year (y-o-y). At the end of June 2023, credit card outstanding loans expanded by 6% y-o-y, while card spending in the first half of 2023 (1H23) recovered with growth of 13% y-o-y. This was in line with the industry and mainly underpinned by the recovery in consumption.

We believe KCC’s loan portfolio will continue to expand in the next 2-3 years supported by new card acquisitions due to more active and efficient marketing campaigns and collaboration with BAY.

Prudent risk management supports healthy asset quality

We expect KCC’s asset quality to remain healthy in the medium term, backed by prudent and effective risk management system. As part of BAY’s solo consolidated group, KCC adopts a similar risk framework as that of the bank.

KCC has maintained its non-performing loan (NPL) ratio (receivables overdue more than 90 days) for credit cards below 1%, lower than the industry average of 2%, despite the weak credit environment during the Coronavirus Disease 2019 (COVID-19) pandemic period. Similarly for personal loans, KCC reported an NPL ratio of 2% at the end of 2022 and June 2023, also less than the industry average of 3%.

We expect the increase in minimum payment for credit card loans to 8% in 2024 and 10% in 2025 from the current 5% to have minimal impact on KCC's asset quality. Nonetheless, any potential rise in NPLs should be absorbed by KCC's high level of allowance for expected credit loss (ECL). At the end of December 2022, the company's NPL coverage ratio was healthy at 191%.

Enhanced capital position

The company's high profitability continuously strengthened its capital position. The current rate of profit accumulation has strengthened its capital measured by risk-adjusted capital (RAC) ratio to 26% at the end of 2022. This was an improvement from 24% at the end of 2021 due to profit accumulation coupled with zero dividend pay-out policy. KCC's solid capital 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. In terms of financial leverage, its debt to equity (D/E) ratio declined to 1.3 times at the end of 2022 from 1.5 times at the end of 2021. However, this remains well below its D/E ratio covenant of 6 times.

Profit expected to remain stable

KCC reported net profit of THB2.2 billion in 2022 and THB1.1 billion in 1H23. Its earnings capacity, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) has remained above 3% since 2020. This was due to efficient management provision and operating expenses. We expect KCC's profitability to remain stable, given the continuous expansion of card base and effective control of asset quality and operating expense.

Ongoing financial support from BAY

KCC's funding policy as well as assets and liabilities, and interest risk management are aligned with BAY. The company has access to diversified funding sources, including issuance of debentures in the capital markets and credit facilities from other financial institutions. At the end of June 2023, the company had credit facilities totaling THB41.5 billion, 93% of which were undrawn. This is enough for the refinancing plan and business expansion over the next 2-3 years. The company's funding and liquidity profile has also been enhanced by ongoing financial support from BAY in the form of credit facilities, amounting to THB40.5 billion.

Continued pressure from intense competition

The Thai economy is continuing to recover post-COVID-19, with consumer spending greatly improving. Consumer loans, both credit cards and personal loans, have increased significantly. This was reflected in the volume of credit card spending of THB1.0 trillion in the first six months of 2023 (6M2023), up 12.7% y-o-y, with outstanding credit card loans rising by 4.3% y-o-y. However, there have been signs of weakening asset quality over the past year. While the overall NPL ratio for credit cards increased only slightly, rising to 2.2% at the end of 1H23 from 2.0% at the end of 2022, the NPL ratio for unsecured personal loans rose significantly to 4.3% from 3.4%.

With slower-than-expected economic growth, overall asset quality in the industry is likely to deteriorate further after the debt relief measures expire. We expect asset quality to remain manageable for the major credit card operators given the stronger credit profile of their customer base. However, those with vulnerable customers are likely to be more impacted by the weak economy. Overall, the fierce competition, ceiling rate caps, and potential rises in funding costs remain major challenges for consumer lenders.

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

The ratings on KCC 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.

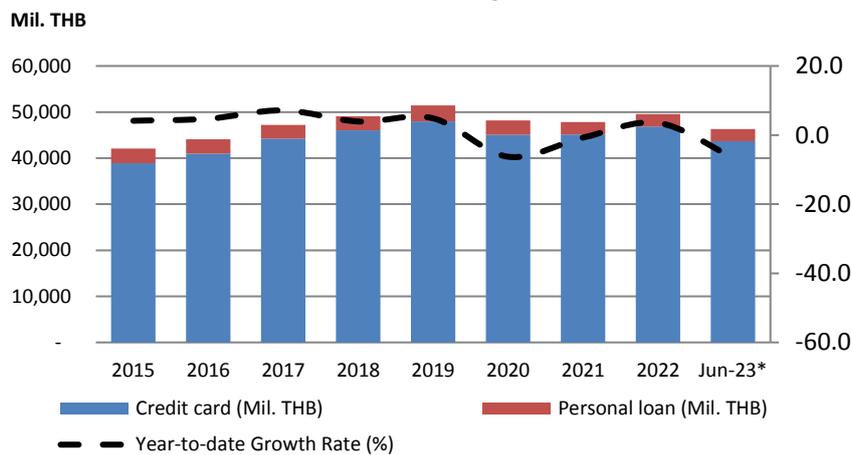
At the beginning of 2014, major changes were made to the company's business model after MUFG Bank became the major shareholder of BAY instead of GE Capital. According to Krungsri Group's business strategy, KCC held the largest credit card portfolio of Krungsri Consumer.

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.

As of June 2023, KCC utilizes BAY's nationwide branch network, including the Bangkok head office and around 650 branches, and the networks of its co-brand alliances as channels to acquire new cardholders and provide services to its clients.

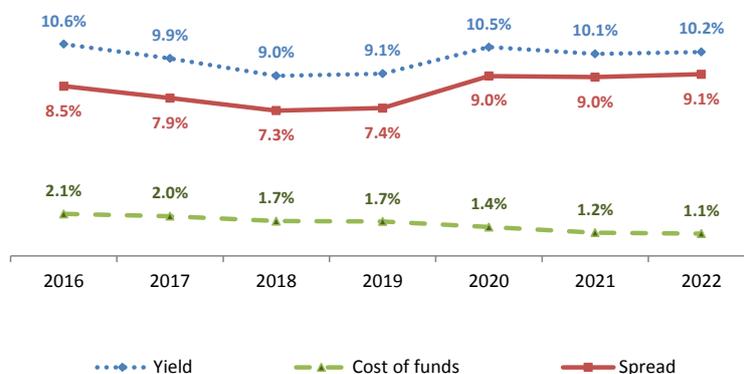
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



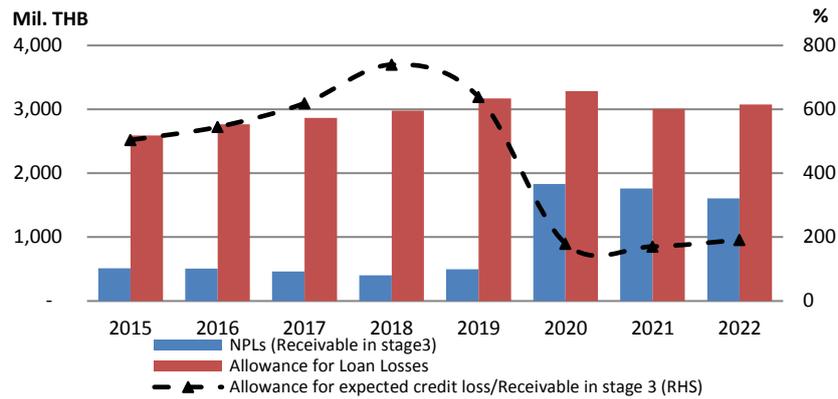
Source: KCC's financial statements
* Year-to-date growth for June 2022

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



Sources: 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				
	2022	2021	2020	2019	2018
Total assets	50,471	49,166	49,403	53,108	51,719
Total loans	49,579	47,860	48,209	51,435	49,055
Allowance for expected credit loss	3,075	3,008	3,285	3,169	2,982
Short-term debts	17,276	18,766	19,327	21,658	19,485
Long-term debts	5,563	4,981	6,944	9,413	11,306
Shareholders' equity	21,900	19,720	17,194	15,214	13,250
Net interest income	4,721	4,575	4,801	4,059	3,800
Expected credit loss	1,397	1,248	1,629	1,496	1,497
Non-interest income	3,843	3,878	3,635	4,726	4,486
Operating expenses	4,381	4,013	4,075	4,753	4,629
Earnings before taxes	2,786	3,192	2,732	2,537	2,160
Net income	2,177	2,528	2,088	1,969	1,675

* Including credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Net interest income/average assets	9.48	9.28	9.37	7.74	7.51
Non-interest income/average assets	7.71	7.87	7.09	9.02	8.87
Operating expenses/total income	49.65	45.89	46.04	51.00	52.40
Operating profit/average assets	5.59	6.48	5.33	4.84	4.27
Earnings before taxes/average risk-weighted assets	3.37	3.91	3.23	2.96	2.62
Return on average assets	4.37	5.13	4.07	3.76	3.31
Return on average equity	10.46	13.70	12.88	13.83	13.50
Asset Quality					
Receivable in stage 3/total loans	3.24	3.68	3.79	0.96	0.82
Expected credit loss/average loans	2.87	2.60	3.27	2.98	3.11
Allowance for expected credit loss/Receivable in stage 3	191.18	170.65	179.55	638.91	739.95
Capitalization					
Risk-adjusted capital ratio	26.06	24.24	21.03	17.36	15.77
Debt/equity (times)	1.30	1.49	1.87	2.49	2.90
Funding and Liquidity					
Stable funding ratio	59.02	55.02	53.67	51.00	53.26
Liquidity coverage measure (times)	0.08	0.08	0.07	0.08	0.12
Short-term debts/total liabilities	75.64	79.02	73.57	69.71	63.28
Payment rate	39.11	35.94	36.39	40.53	40.78

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)

Company Rating:	AAA
Issue Ratings:	
KCC243A: THB3,000 million senior unsecured debentures due 2024	AAA
KCC249A: THB5,500 million senior unsecured debentures due 2024	AAA
KCC259A: THB2,600 million senior unsecured debentures due 2025	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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