

KRUNGSRIAYUDHYA CARD CO., LTD.

No. 17/2021
23 February 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 28/01/21

Company Rating History:

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

Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Pawin Thachasongtham

pawin@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweekok Jiamsakunthum

taweekok@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 outstanding senior unsecured debentures at "AAA". At the same time, TRIS Rating assigns a "AAA" rating to KCC's proposed issues of up to THB9 billion in senior unsecured debentures. The outlook remains "stable". The new issue rating replaces the issue rating previously assigned on 28 January 2021, following KCC's decision to increase the issue size in total to up to THB9 billion from THB6 billion.

The rating on KCC incorporates a rating enhancement from its stand-alone credit profile based on our view of KCC's status as a core subsidiary of Bank of Ayudhya PLC (BAY), a commercial bank in Thailand rated "AAA" with a "stable" outlook by TRIS Rating. As a wholly-owned, solo-consolidated subsidiary of BAY, KCC is fully controlled by BAY, and as such, is indirectly under the supervision of the Bank of Thailand (BOT) in accordance with the regulation on Consolidated Supervision. KCC is operationally integrated with BAY. BAY also supports KCC in the form of business collaboration and financial assistance by making available credit facilities which enhance KCC's liquidity.

KCC's stand-alone credit profile reflects its strong market position in the credit card business. KCC has held market share of around 11% in credit card receivables and around 10% in credit card spending over the past few years. KCC's operating results in 2020 remained sound despite the impact from economic fallout induced by the Coronavirus Disease 2019 (COVID-19). The loan portfolio shrank by 6% to THB48.2 billion as of December 2020 from THB51.4 billion as of December 2019, in line with the industry. We believe the company will be able to maintain its market position with the help of an effective marketing campaign and collaboration with BAY.

We anticipate KCC will continue to maintain its earnings quality over the next few years, based on its efficient management of operating expenses and controllable credit costs. We expect earnings before taxes to average risk-weighted assets (EBT/ARWA) to stay at around 2.5% on average in 2020-2022. Factors that could put pressure on earnings include the potential rise in credit costs and the lower interest rate ceiling (to 16% from 18%) applied to outstanding credit card loans, which was introduced by the BOT in August 2020.

We also expect KCC to retain its healthy asset quality given its prudent loan underwriting standards, an efficient risk management system, and adequate loan loss reserves. We view the company has been adequately prepared for a potential deterioration in loan asset quality. We estimate that the ratio of stage-3 loans (NPLs or 90-day past due loans) to total loans is unlikely to exceed 4% in 2020-2022, compared to 3% at the end of the first quarter of 2020, and should remain lower than the industry average.

KCC's equity base will likely remain strong and sufficient to support the company's expansion plan and provides a cushion to absorb credit cost that may rise due to the weak economic environment. We expect the company's capitalization to remain strong over the next few years with a 5-year average (2018-2022) risk-adjusted capital ratio (RAC) of 20.4%. At the same time, KCC's financial leverage remains moderate as measured by its net debt to equity (D/E) ratio of 1.5 times at the end of December 2020, way below the D/E covenant of

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6 times on its debt obligations.

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 if the BAY Group’s credit profile changes or if we see any change regarding the importance of KCC to the BAY Group or the degree of support provided by BAY to KCC.

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Krungsriyudhya Card Co., Ltd. (KCC)

Company Rating:	AAA
Issue Ratings:	
KCC213A: THB365 million senior unsecured debentures due 2021	AAA
KCC219A: THB6,000 million senior unsecured debentures due 2021	AAA
KCC229A: THB3,000 million senior unsecured debentures due 2022	AAA
Up to THB9,000 million senior unsecured debentures due within 3 years	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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