

# KRUNGSRIAYUDHYA CARD Co., Ltd.

No. 150/2017

13 November 2017

**Company Rating:** AAA

**Issue Ratings:**  
Senior unsecured AAA

**Outlook:** Stable

**Company Rating History:**

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

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**Rating Rationale**

TRIS Rating affirms the company rating and the ratings of the existing senior unsecured debentures of Krungsriayudhya Card Co., Ltd. (KCC) at “AAA”. The ratings reflect KCC’s status as a core subsidiary of Bank of Ayudhya PLC (BAY), a commercial bank with branches throughout Thailand rated “AAA” with a “stable” outlook by TRIS Rating. The ratings recognized KCC’s strong management team and its lead position in the credit card business.

KCC is fully-owned by BAY. It is a solo-consolidated subsidiary of the BAY Group under the consolidated supervision guidelines implemented by the Bank of Thailand (BOT). TRIS Rating considers KCC as a core member of the BAY Group. The company operates as a business unit, closely collaborating and aligning with “Krungsri Consumer”, one of BAY’s main businesses and customer base. In addition, KCC has fully integrated its operations with BAY and has successfully performed in line with BAY’s expectations.

KCC is closely supervised and monitored by its parent bank, BAY, and, as such, is indirectly controlled by the BOT. Regulated by the same criteria set by the BOT; KCC employs a prudent operating system as well as a rigorous risk management system. The ratings also reflect KCC’s high level of financial liquidity and flexibility as a solo-consolidated subsidiary. KCC receives adequate ongoing financial support from BAY in the form of credit facilities.

In terms of business cooperation, KCC utilizes the bank’s nationwide branch network as a channel to expand its client base and to facilitate payments and services. Over 50% of KCC’s new cards over the past few years came through referral from BAY’s branches. BAY also supports KCC with centralized and standardized systems for risk management, internal controls, and information technology (IT) systems.

KCC’s management team has a proven track record and the company has a lead position in the credit card business. The ratings are, however, pressured by the intensely competitive operating environment in the consumer loan industry and uncertain economic conditions which might affect KCC’s credit quality and profitability. In addition, the implementation of a new regulation by BOT on 1 September 2017 might limit business growth and profitability.

KCC is BAY’s core subsidiary in the “Krungsri Consumer” group which is assigned to be the flagship for providing credit card services in BAY’s retail loan business. KCC’s credit cards are issued under the name “Krungsri Card” and co-brands with Home Product Center PLC (HMPRO) under the name “HomePro Card”, with AIA Co., Ltd. (AIA Thailand) under the name “AIA card”, and with Manchester United Thailand under the name “MANU card”. With over 15 years of experience in the credit card industry, KCC has developed a proficient management team and a strong business platform. KCC has maintained its leading market position in the credit card business with an 11% market share of outstanding receivables over the past few years. The loan portfolio grew significantly from Bt29,502 million in 2012 to Bt37,789 million in 2013, an increase of 28%, after acquiring credit card portfolios from the Hongkong and Shanghai Banking Corporation (HSBC), Bangkok branch. Outstanding loans continued to grow to Bt44,054 million at the end of December 2016, which accounted for 96% of KCC’s total assets.

KCC has strong underwriting and collection systems as evidenced in the ratio of non-performing loans (NPLs are loans more than 90 days past due) to total loans (NPL ratio). KCC maintained its NPL ratio for credit cards at 1.1% at the end of 2016, lower than the industry average of 2.8%. The results are similar for personal loans. KCC reported an NPL ratio for personal loans at 2.1% at the end of 2016, lower than the industry average of 3.2%. KCC provides personal loans for its credit card customers only. The company has maintained a conservative provisioning policy by setting the ratio of the allowance for loan losses against total loans at 6.3% as of December 2016, making the NPL coverage ratio (the ratio of the allowance for doubtful accounts to NPLs) rise to 545% at the end of 2016. This percentage is expected to be enough of a cushion against any potential adverse change in the operating environment and the implementation of IFRS9 in 2019.

KCC's financial performance has been moving in a positive direction. Net income jumped continuously to Bt1,427 million in 2016, from Bt1,213 million in 2015. The return on average assets (ROAA) was 3.2% in 2016, improving from 2.8% in 2015. KCC's net income for 2016 accounted for 6.6% of BAY's consolidated net income for the same period. The new regulation implemented on 1 September 2017 will affect KCC's profitability, particularly concerning the decreasing interest rate ceiling. However, TRIS Rating expects KCC will adapt and deliver an acceptable financial performance.

KCC has good asset-liability management, under the control of BAY. Liquidity is not a major concern for KCC. As KCC is categorized as a solo-consolidated subsidiary of BAY, the company has sufficient financial flexibility and liquidity.

KCC strengthened its capital base through recapitalizations in 2014. After BAY became a foreign-majority owned commercial bank, KCC, as a wholly-owned subsidiary of BAY, consequently changed its status to a foreign company. Under the Foreign Business Act, KCC is required to maintain sufficient paid-up capital in order to keep its total liabilities equal to or no more than 7 times its paid-up capital. According to its financial covenant, KCC has to keep its interest-bearing debt to equity ratio below 6 times. The ratio of shareholders' equity to total assets remained steadily high at 21.5%, while the ratio of total debt to total shareholders' equity was 3.7 times at the end of 2016. The total liabilities to paid-up capital ratio was 6.1 times at the end of 2016.

#### Rating Outlook

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

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

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

<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
KCC189A: Bt2,700 million senior unsecured debentures due 2018	AAA
KCC199A: Bt1,900 million senior unsecured debentures due 2019	AAA
<b>Rating Outlook:</b>	Stable

Financial Statistics

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Total assets	45,974	43,708	42,354	40,617	32,534
Total loans (ending gross receivables)	44,054	42,065	40,393	37,789	29,502
Allowance for doubtful accounts	2,768	2,590	2,324	2,178	1,261
Short-term borrowings	27,296	27,470	28,284	29,456	23,763
Long-term borrowings	3,525	2,797	2,659	2,724	2,708
Shareholders' equity	9,862	8,440	7,228	3,541	2,605
Net interest income *	3,929	3,733	3,446	2,909	2,055
Provision for bad debt and doubtful accounts	1,764	1,802	1,617	1,670	605
Non-interest income **	3,163	2,979	2,419	2,192	2,176
Operating expenses	4,068	3,850	3,478	3,067	3,257
Net income	1,427	1,213	989	779	789

\* Including credit usage fee

\*\* Excluding credit usage fee

**Key Financial Ratios**

Unit: %

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
<b>Profitability</b>					
Net interest and dividend income/average assets	8.76	8.68	8.31	7.95	8.03
Fees and services income/average assets	7.05	6.92	5.83	5.99	8.51
Operating expenses/total income	48.94	48.28	47.68	45.46	63.87
Operating profit/average assets	4.10	3.65	3.14	2.83	4.09
Return on average assets	3.18	2.82	2.38	2.13	3.08
Return on average equity	15.60	15.48	18.37	25.35	35.68
<b>Asset Quality</b>					
Non-performing loans/total loans	1.15	1.22	1.20	1.35	1.76
Provision for bad debts and doubtful accounts/average loans	4.10	4.37	4.14	4.96	2.54
Allowance for doubtful accounts/total loans	6.28	6.16	5.75	5.76	4.27
<b>Capitalization</b>					
Debt/equity (times)	3.66	4.18	4.86	10.47	11.49
Shareholders' equity/total assets	21.45	19.31	17.07	8.72	8.01
Shareholders' equity/total loans	22.39	20.06	17.89	9.37	8.83
<b>Liquidity</b>					
Total loans/total borrowings	142.94	138.98	130.54	117.43	111.45
Payment rate	39.22	38.81	37.59	36.36	39.03

**TRIS Rating Co., Ltd.**

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