

# KRUNGSRIAYUDHYA CARD CO., LTD.

No. 172/2018  
31 October 2018

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
Senior unsecured	AAA
<b>Outlook:</b>	Stable

### 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". 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 also recognize KCC's strong management team and its lead position in the credit card business.

## KEY RATING CONSIDERATIONS

### Support from BAY

TRIS Rating considers KCC as a core member of the BAY Group. 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). The company operates as a business unit, closely collaborating and aligning with "Krungsri Consumer", one of BAY's main businesses and customer bases. In addition, KCC has fully integrated its operations with BAY's 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 the channel of BAY's branches. BAY also supports KCC with centralized and standardized systems for risk management, internal controls, and information technology (IT) systems.

### Established position in the credit card industry

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. With over 15 years of experience in the credit card industry, KCC has developed a proficient management team and a strong business platform. The loan portfolio grew significantly to Bt47,203 million in 2017 from Bt29,502 million in 2012, a compound annual growth rate (CAGR) of 10%.

### Good asset quality and conservative provisioning policy

KCC has strong underwriting and collection systems as evidenced by 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 0.9% at the end of 2017, lower than the industry average of 2.1%. The results are similar for personal loans. KCC reported an NPL ratio for personal loans at 2% at the end of 2017, lower than the industry average of 2.5%. 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 6.1% since December 2017, making the NPL coverage ratio (the ratio of the allowance for

doubtful accounts to NPLs) rise to 619% at the end of 2017. 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 2020.

### **Profitability continuously improving**

KCC's financial performance has been moving in a positive direction. Net income jumped to Bt1,700 million in 2017, from Bt1,427 million in 2016. The return on average assets (ROAA) was 3.6% in 2017, improving from 3.2% in 2016. KCC's net income for 2016 accounted for 7.3% of BAY's consolidated net income for the same period. KCC's performance is, however, pressured by the intensely competitive operating environment in the consumer loan industry. The implementation of a new regulation by the BOT on 1 September 2017 particularly concerning the decreasing interest rate ceiling, has partly constrained the company's profitability. There is still an uncertainty in economic conditions which might affect KCC's loan quality. However, TRIS Rating expects KCC will adapt and deliver an acceptable financial performance.

### **Adequate equity base**

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 (IBD) to equity ratio below 6 times. The ratio of shareholders equity to total assets remained steadily high at 23.4%, while the ratio of total debt (IBD) to total shareholders' equity was 2.2 times at the end of 2017. The total liability to paid-up capital ratio was 5.4 times at the end of 2017.

### **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 has any change on the view 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 business of the BAY Group. KCC became a wholly-owned subsidiary of BAY in 2010 after BAY acquired all consumer loan business of 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 222,000 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 of 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.

In the beginning of 2014, there again were some major changes in the company's business model after the Mitsubishi UFJ 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".

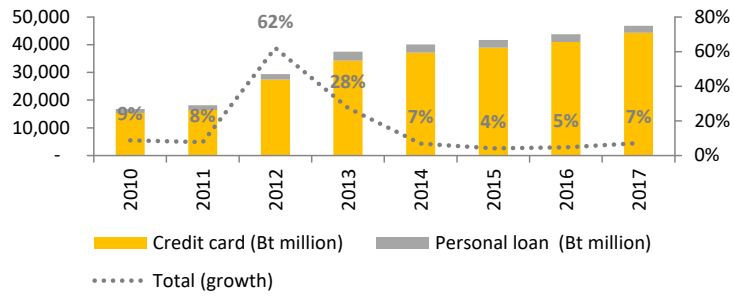
KCC is BAY's core subsidiary in the "Krungsri Consumer" Group which is assigned to be the flagship for providing credit card services in BAY's retail loan business. KCC's credit cards are issued under the name "Krungsri Card" and co-branded with Home Product Center PLC (HMPCO) under the name "HomePro 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 of its target customers, who love travelling, particularly to Japan. KCC has gained competitiveness in terms of strategic partners in Japan thanks to leverage from its ultimate major shareholders, MUFG.

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 2018, the company had 289 full-time employees providing services through a number of BAY's channels including the Bangkok head office and 701 branches.

**KEY OPERATING PERFORMANCE**

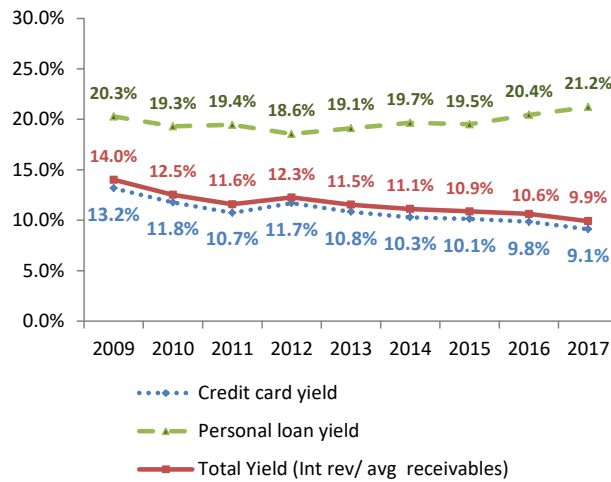
**Chart 1: Gross Credit Card and Personal Loan Receivables**

Bt million



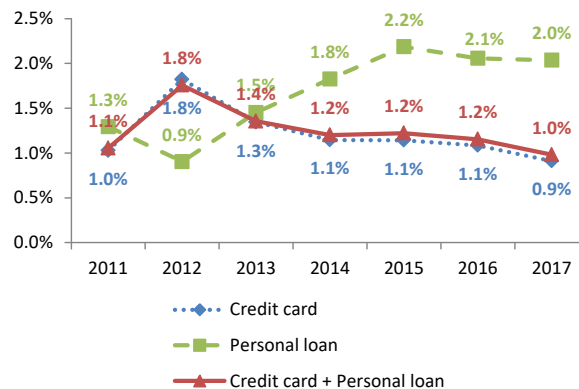
Sources: KCC & TRIS Rating

**Chart 2: KCC's Yield (%)**



Sources: KCC & TRIS Rating

**Chart 3: NPL Ratio (Over 90 Days Past Due)**



Sources: KCC & TRIS Rating

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	49,467	45,974	43,708	42,354	40,617
Total loans (ending gross receivables)	47,203	44,054	42,065	40,393	37,789
Allowance for doubtful accounts	2,866	2,768	2,590	2,324	2,178
Short-term borrowings	28,499	27,296	24,470	28,284	24,456
Long-term borrowings	3,326	3,525	2,797	2,659	2,724
Shareholders' equity	11,563	9,862	8,440	7,228	3,541
Net interest income *	3,897	3,929	3,733	3,446	2,909
Provision for bad debt and doubtful accounts	1,630	1,764	1,802	1,617	1,670
Non-interest income **	3,488	3,163	2,979	2,419	2,176
Operating expenses	4,284	4,068	3,850	3,478	3,257
Net income	1,700	1,427	1,213	989	789

\* Including credit usage fee

\*\* Excluding credit usage fee

*Unit: %*

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
<b>Profitability</b>					
Net interest and dividend income/average assets	8.17	8.76	8.68	8.31	7.95
Fees and services income/average assets	7.31	7.05	6.92	5.83	5.99
Operating expenses/total income	49.13	48.94	48.82	47.68	45.46
Operating profit/average assets	4.57	4.10	3.65	3.14	2.83
Return on average assets	3.56	3.18	2.82	2.38	2.13
Return on average equity	15.87	15.60	15.48	18.37	25.35
<b>Asset Quality</b>					
Non-performing loans/total loans	0.98	1.15	1.22	1.20	1.35
Provision for bad debts and doubtful accounts/average loans	3.57	4.10	4.37	4.14	4.96
Allowance for doubtful accounts/total loans	6.07	6.28	6.16	5.75	5.76
<b>Capitalization</b>					
Debt/equity (times)	3.28	3.66	4.18	4.86	10.47
Shareholders' equity/total assets	23.38	21.45	19.31	17.07	8.72
Shareholders' equity/total loans	24.50	22.39	20.06	17.89	9.37
<b>Liquidity</b>					
Total loans/total borrowings	148.32	142.94	138.98	130.54	117.43
Payment rate	39.29	39.22	38.81	37.59	36.36

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

<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
KCC193A: Bt7,000 million senior unsecured debentures due 2019	AAA
KCC199A: Bt1,900 million senior unsecured debentures due 2019	AAA
KCC199B: Bt8,500 million senior unsecured debentures due 2019	AAA
KCC203A: Bt8,000 million senior unsecured debentures due 2020	AAA
KCC209A: Bt2,900 million senior unsecured debentures due 2020	AAA
KCC213A: Bt365 million senior unsecured debentures due 2021	AAA
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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