

KRUNGSRIAYUDHYA CARD CO., LTD.

No. 196/2024
31 October 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 16/02/24

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" outlook. The ratings are equivalent to the rating on Bank of Ayudhya PLC (BAY, rated "AAA/Stable"), reflecting KCC's status as a core subsidiary of BAY.

KEY RATING CONSIDERATIONS

A core subsidiary of BAY

KCC is a wholly-owned subsidiary of BAY, positioned as the bank's principal credit card unit under the "Krungsri" brand. The company closely collaborates and is aligned with the overall credit card business strategy managed under the Krungsri Consumer Group. Representatives from the 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 fully integrated with BAY's, leveraging the bank's extensive branch network as the primary channel to acquire new cardholders and to facilitate payments and services.

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, which we expect to continue over the longer term.

Sustained strong position in the credit card business

KCC's solid market position in the credit card business stems from its active marketing efforts and well-established brand. KCC consistently ranks among the top-tier credit card issuers, including both banks and non-bank institutions, with a 9%-10% market share in outstanding credit card receivables and card spending over the past several years.

Although KCC also offers unsecured personal loans, credit cards remain its primary focus, accounting for around 95% of total receivables. As of December 2023, KCC's total gross receivables, including credit cards and personal loans, reached THB52 billion, representing a 4.6% year-on-year (y-o-y) growth.

The credit card segment showed moderate y-o-y growth in the first half of 2024 (1H24), with outstanding receivables increasing by 2.6%, aligning with broader industry trends. The growth was driven by new card acquisitions and focus on high-income customers. In terms of card spending, KCC continues to emphasize daily expenditures and, as part of the MUFG Group, leverages its connection with the Japanese ecosystem. Consequently, credit card spending in 1H24 demonstrated relatively strong momentum, rising by 6.8% y-o-y.

We anticipate that KCC's loan portfolio will continue to grow over the next 2-3 years, supported by collaboration with the BAY Group along with active and efficient marketing campaigns. For example, KCC aims to expand its market presence by targeting eligible Generation Z customers in the future.

Prudent risk management supports healthy asset quality

We expect KCC's asset quality to remain robust over the medium term, supported by its prudent and effective risk management system. As part of BAY's solo consolidated group, KCC follows a similar risk framework to that of the bank.

Despite economic uncertainties and the increase in the minimum credit card payment requirement to 8%, effective from January 2024, its asset quality remains manageable. At the end of 2023, KCC's non-performing loan (NPL) ratio stood at 0.8% for credit cards and 1.6% for personal loans, significantly lower than the industry average of 2.5% and 4.4%, respectively. The guidelines of the Bank of Thailand (BOT) on responsible lending related to persistent debt have not had significant impacts on KCC.

We view that KCC's allowance for expected credit losses remains healthy despite a steady decline from the past. At the end of 2023, its NPL coverage ratio stood at 183%. We expect its NPL coverage ratio to decrease to around 160%-170% in the next few years, based on our assumption of higher write-offs and stable credit costs.

Strengthening capital position

KCC's strong profitability and zero-dividend payout policy have been the main factors underpinning its capital accretion. Its risk-adjusted capital (RAC) ratio has steadily increased, reaching 26% at the end of 2023. The company's robust capital base is expected to support its expansion plans in the medium term. Additionally, its financial leverage has improved, with the debt-to-equity (D/E) ratio decreasing to 1.3 times at the end of 2023, well below the D/E ratio covenant of 6 times.

Profitability expected to remain moderate

We anticipate KCC's earnings capacity to remain "moderate" in 2024-2026, despite a potential decrease in overall earnings capabilities. KCC reported net profit of THB2.2 billion in 2023, flat y-o-y. The company's earnings capacity, as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), declined slightly to 3.3% in 2023 from 3.4% in 2022. This decline was primarily driven by a narrower interest spread due to rising funding costs, along with an increase in expected credit losses and operational expenses. Looking ahead, we expect KCC's profitability to stay within the "moderate" range, supported by the continued expansion of its card base, effective management of interest spread, and a strong focus on controlling asset quality and operating costs.

Ongoing financial support from BAY

KCC's funding policy, along with its management of assets, liabilities, and interest rate risk, is aligned with BAY's guidelines. The company has access to a diverse range of funding sources, following BAY's framework, including the issuance of debentures in the capital market and credit facilities from other financial institutions. As of the end of July 2024, KCC had secured credit facilities totaling THB36 billion, of which 89% remained undrawn. This amount is sufficient to support both the company's refinancing plans and business expansion over the next two to three years. Additionally, KCC's funding and liquidity profile has been strengthened by ongoing financial support from BAY, which includes credit facilities amounting to THB33 billion.

Thai consumer credit growth slows amid economic headwinds

Thailand's sluggish economic recovery and high household debt have slowed both credit card lending and personal consumer credit growth. Credit card spending reached THB1 trillion in 1H24, growing by only 2.8% y-o-y. Outstanding credit card balances grew 1.8% in 1H24 (down from 3.3% in 2023), while personal loans contracted by 2.8% (versus -1.0% in 2023). Lenders have become more cautious due to deteriorating asset quality. Credit card NPL ratios rose to 2.8% by June 2024 from 2.5% in December 2023, while personal loan NPLs (excluding car title loans) remained elevated at 4.1%, slightly down from 4.4%. While the BOT's assistance measures may improve asset quality, the industry faces ongoing challenges from intense competition, high financial costs, and economic uncertainty.

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.

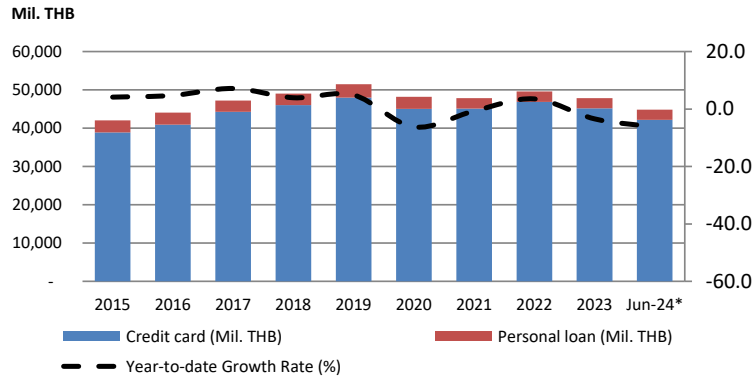
At the beginning of 2014, major changes were made to the company's business model after MUFG Bank became the major shareholder of BAY instead of GE Capital. According to Krungsri Group's business strategy, KCC held the largest credit card portfolio of Krungsri Consumer.

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.

Since June 2024, KCC has utilized 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.

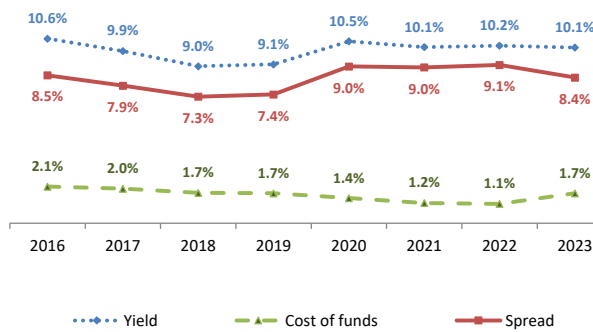
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



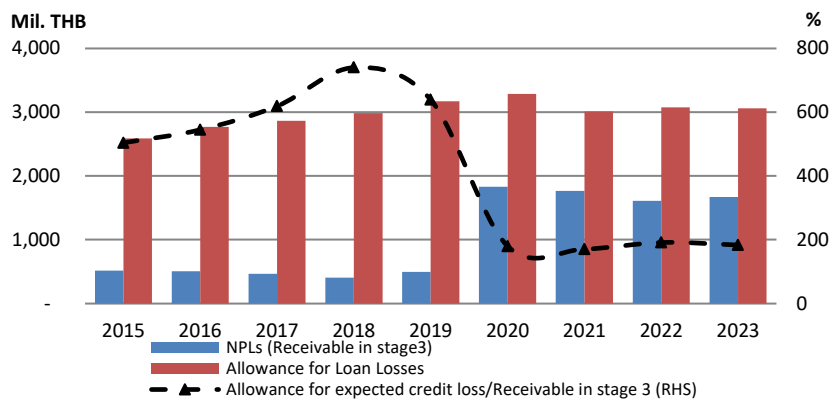
Source: KCC's financial statements
* Year-to-date growth for June 2024

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 -----				
	2023	2022	2021	2020	2019
Total assets	54,201	50,471	49,166	49,403	53,108
Total loans	51,903	49,579	47,860	48,209	51,435
Allowance for expected credit loss	3,059	3,075	3,008	3,285	3,169
Short-term debts	19,681	17,276	18,766	19,327	21,658
Long-term debts	3,402	5,563	4,981	6,944	9,413
Shareholders' equity	24,076	21,900	19,720	17,194	15,214
Net interest income	4,738	4,721	4,575	4,801	4,059
Expected credit loss	1,407	1,397	1,248	1,629	1,496
Non-interest income	4,290	3,843	3,878	3,635	4,726
Operating expenses	4,828	4,381	4,013	4,075	4,753
Earnings before taxes	2,793	2,786	3,192	2,732	2,537
Net income	2,178	2,177	2,528	2,088	1,969

* Including credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Profitability					
Net interest income/average assets	9.05	9.48	9.28	9.37	7.74
Non-interest income/average assets	8.20	7.71	7.87	7.09	9.02
Operating expenses/total income	51.22	49.65	45.89	46.04	51.00
Operating profit/average assets	5.34	5.59	6.48	5.33	4.84
Earnings before taxes/average risk-weighted assets	3.30	3.43	3.99	3.29	3.02
Return on average assets	4.16	4.37	5.13	4.07	3.76
Return on average equity	9.48	10.46	13.70	12.88	13.83
Asset Quality					
Receivable in stage 3/total loans	3.22	3.24	3.68	3.79	0.96
Expected credit loss/average loans	2.77	2.87	2.60	3.27	2.98
Allowance for expected credit loss/receivable in stage 3	183.26	191.18	170.65	179.55	638.91
Capitalization					
Risk-adjusted capital ratio	26.01	24.66	22.73	19.43	15.76
Debt/equity (times)	1.25	1.30	1.49	1.87	2.49
Funding and Liquidity					
Stable funding ratio	56.17	59.02	55.02	53.67	51.00
Liquidity coverage measure (times)	0.13	0.08	0.08	0.07	0.08
Short-term debts/total liabilities	65.33	75.64	79.02	73.57	69.71
Payment rate	40.13	39.11	35.94	36.39	40.53

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Krungsriyudhya Card Co., Ltd. (KCC)

Company Rating:	AAA
Issue Ratings:	
KCC259A: THB2,600 million senior unsecured debentures due 2025	AAA
KCC263A: THB3,500 million senior unsecured debentures due 2026	AAA
KCC273A: THB2,500 million senior unsecured debentures due 2027	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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