

KRUNGSRIAYUDHYA CARD CO., LTD.

No. 51/2017

27 July 2017

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

Rating Rationale

TRIS Rating affirms the company rating of Krungsriayudhya Card Co., Ltd. (KCC) at "AAA". At the same time, TRIS Rating assigns the ratings of KCC's proposed issues in senior unsecured debentures of up to Bt3,100 million due within 2 years at "AAA". KCC's ratings reflect its status as a core subsidiary of Bank of Ayudhya PLC (BAY), rated "AAA" with a "stable" outlook by TRIS Rating.

KCC is fully-owned by BAY, being 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 one of BAY's mainstream businesses and customer base, called "Krungsri Consumer". In addition, KCC has fully integrated its operations with BAY and has successfully performed in line with BAY's expectation.

KCC has been closely supervised and monitored by its parent bank and is indirectly controlled by the BOT through its parent bank. 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 of BAY. KCC receives adequate ongoing financial support from BAY in the form of credit facilities. In terms of business cooperation, KCC has utilized the bank's nationwide branch network as a channel to expand its client base and as channels for payments and services. Over 50% of KCC's new cards during the past few years were acquired 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 has a proven track record of the company's management team and its leading position in the credit card business. The ratings are, however, pressured by intense competitive operating environment in consumer loan industry and uncertain economic conditions which might affect KCC's credit quality 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", AIA Co., Ltd. (AIA Thailand) under the name "AIA Card", and 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 its 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 of 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 (or NPLs, meaning loans with more than 90 days past due) to total loans (NPL ratio). KCC maintained the NPL ratio for credit cards at 1.1% at

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the end of 2016, lower than the industry average of 2.9%. The results are similar for personal loans. KCC reported an NPL ratio in personal loans at 2.1% at the end of 2016, lower than the industry average of 3.1%. 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 large enough to be a cushion against any potential adverse change in the operating environment.

KCC's financial performance has been moving in a positive direction. Net income jumped continuously from Bt779 million in 2013 to Bt1,427 million in 2016, a compound annual growth rate (CAGR) of 10%. The return on average assets (ROAA) improved to 3.2% in 2016. Net income of KCC for the entire 2016 accounted for 7% of BAY's consolidated net income for the same period.

KCC has a good asset-liability management, under the control of its parent bank. The 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 with the support from its parent bank. The support gives KCC a cheaper source of funding than non-bank competitors which are not fully supported by commercial banks. In addition, KCC also has undrawn credit facilities from its parent bank to support its expansion efforts.

KCC has strengthened its capital base through recent recapitalizations. After BAY became a foreign-majority owned commercial bank, KCC, as a wholly-owned subsidiary of BAY, has consequently changed its status to a foreign company. Under the Foreign Business Act, KCC is required to maintain a sufficient paid-up capital in order to keep its debt equal to or no more than 7 times of its paid-up capital. The ratio of shareholder's 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 debt to paid-up capital ratio was 5.2 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 its parent bank.

The credit profile of KCC could be affected if the credit profile of the BAY Group changes or TRIS Rating's views any significant change regarding the degree of support provided by BAY to KCC or the important status of KCC in the BAY Group.

Krungsriyudhya Card Co., Ltd. (KCC)

Company Rating	AAA
Issue Rating:	
Up to Bt3,100 million senior unsecured debentures due within two years	AAA
Rating Outlook:	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 ***	3,740	2,979	2,419	2,192	2,176
Operating expenses	4,069	3,850	3,478	3,067	3,257
Net income	1,427	1,213	989	779	789

* Including allowance for doubtful accounts, debt restructuring and surplus reserve

** Including credit usage fee

*** Excluding credit usage fee

Key Financial Ratios
Unit: %

	Year Ended 31 December				
	2016	2015	2014	2013	2012
Profitability					
Net interest and dividend income/average assets	8.76	8.68	8.31	7.95	8.03
Fees and services income/average assets	8.34	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
Asset Quality					
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
Capitalization					
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
Liquidity					
Total loans/total borrowings	142.94	138.98	130.54	117.43	111.45
Payment rate	38.85	38.81	37.59	36.36	39.03

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