

SAVING AND CREDIT OF VAJIRA COOPERATIVE LTD.

No. 132/2022
10 August 2022

FINANCIAL INSTITUTIONS

Issuer Rating: **BBB+**
Outlook: **Stable**

Last Review Date: 13/09/21

Issuer Rating History:

Date	Rating	Outlook/Alert
25/08/17	BBB+	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Saving and Credit of Vajira Cooperative Ltd. (VJRC) at “BBB+” with a “stable” outlook. The rating reflects VJRC’s satisfactory operating performance, its robust member base, high loan quality, and the competitive edge of savings cooperatives from tax privileges and priority claims against debtors under the savings cooperative law. However, the rating is constrained by VJRC’s loan concentration, its asset and liability duration mismatches, as well as in our view, inadequate regulatory supervision of savings cooperatives in general.

The rating also takes into consideration VJRC’s readiness to cope and comply with regulatory changes following the enactment of new legislation governing the operations of savings cooperatives.

KEY RATING CONSIDERATIONS

Savings cooperatives enjoy privileges

Under the new law, the privileges granted to savings cooperatives in the forms of tax exemptions and priority claims against debtors remain unchanged. Savings cooperatives and their respective members are exempt from interest savings tax, value added tax, and tax on investment returns. The law also stipulates that a primary savings cooperative has priority claim over any other creditors to receive interest and repayments from its debtors. The priority claim privilege is an important competitive advantage over other lending institutions in lending to cooperative members. Most of the loans extended to ordinary members of primary savings cooperatives are under an arrangement with the borrower’s employer to deduct interest and principal installments from the borrower’s monthly salary. This explains the high loan quality and low credit costs of most primary savings cooperatives.

Solid equity and member bases

In our view, VJRC has an adequate capital position. Its ratio of equity to total assets stood at 29.4% at the end of fiscal year (FY) 2021 (year-ended 30 September 2021). The majority of VJRC’s ordinary members are employees of government entities with good credit profiles. The high job security and steady monthly income of its members explain the stability of VJRC’s base of ordinary members and the debt repayment ability of its members. The stability of its member base has led to steady increases in VJRC’s capital base as ordinary members are obliged to purchase VJRC’s shares every month. As a result, VJRC has recorded steady rises in its deposit base, loan portfolio, and paid-up share capital. VJRC’s paid-up share capital grew continuously to THB5.9 billion at the end of FY2021, from THB3.2 billion at the end of FY2017, a compound annual growth rate (CAGR) of 7%.

Concentration in loans to other savings cooperatives

In our view, VJRC is exposed to significant loan concentration risk, due to its high exposure of lending to other savings cooperatives. Loans to other cooperatives accounted for 79% of total loans at the end of September 2021. Out of the total loans to other cooperatives, 49% were extended to the 10 largest cooperative borrowers. The large credit exposure to other cooperatives stems from VJRC’s net-lender position as the amount of deposits it receives from members well exceeds the amount of loans extended to its members. VJRC primarily lends the excess funds to other savings cooperatives. VJRC

expects loan extensions to other cooperatives to yield higher returns than from the investment portfolio. However, the concentration risk is mitigated by VJRC's stringent and conservative lending criteria.

Good loan quality

We expect VJRC's asset quality to remain high. We believe VJRC has a prudent lending policy, as evidenced by its low ratio of non-performing loans (NPL, or loans of more than 90 days overdue). VJRC reported an NPL ratio of 0.53% of its total loans at the end of FY2021, similar to the same period last year and still considered a relatively low ratio. We expect that VJRC will continue to maintain its prudent credit risk policies.

Liquidity remains adequate despite some short-term debt obligations

In our view, VJRC has a high proportion of short-term debt obligations, relatively to the proportion of short-term assets. There are mismatches in the maturities of VJRC's assets and liabilities, stemming from its short-term borrowings by pledging its investment securities as security to keep its funding costs low.

As of March 2022, its short-term borrowings accounted for approximately 11% of the sum of total liabilities and equity. In contrast, only 1% of VJRC's total assets were short-term assets. Although the mismatches have been trending down over the past few years, we still view them as a significant risk in VJRC's asset and liability management, due to the refinancing risk of short-term borrowings.

We also view wholesale funding from financial institutions to be a less stable source of VJRC's funding than funds from members' deposits and members' equity. VJRC does have an investment portfolio large enough to cover all of its the external short-term borrowings, which helps mitigate liquidity risk. However, we expect VJRC to maintain its conservative investment policy, with no material concentration risk to a specific group of securities or significant investment in riskier classes of assets. VJRC ended March 2022 with a liquidity ratio of around 14.8%, which met the liquidity reserve requirement of 3%.

Inadequate regulatory supervision

Savings cooperatives are not subject to the same degree of close supervision and rigorous examination as banking institutions. In our view, this is the major weakness that constrains the credit standings of savings cooperatives in Thailand. Although the new law lays out the framework for tighter controls on savings cooperatives' activities, effective enforcement of rules and regulations based on periodic rigorous examinations seems unlikely to happen anytime soon.

Readiness to cope and comply with new regulations

We hold the view that VJRC is well prepared to cope and comply with the new regulations with no serious concerns over its operations. The law is basically designed to ensure tighter controls over the deposit taking, lending, and investment activities of savings cooperatives. We view the new law as an important step to alleviate concerns over the long-term stability of savings cooperatives that form an important part of Thailand's financial system.

Nevertheless, we expect the new law will constrain opportunities for growth and weaken VJRC's financial performance in the short term. For instance, more stringent lending and investment criteria and reserve requirements for liquidity and loan losses under the law will mean less flexibility in VJRC's investment activities and lower returns on assets. However, we do not expect the potential impact on profitability will materially affect VJRC's financial strength. On the other hand, the new requirements will likely strengthen VJRC's risk management, and thus enhance its long-term stability.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for VJRC's performance during FY2022-FY2024 are as follows:

- Loans to decline by 7% in FY2022 and to grow by 3% per annum on average in FY2023-FY2024.
- Equity to grow by 5% per annum on average.
- Spread of around 0.97%-1.22% per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that VJRC will maintain its solid member base and continue delivering satisfactory operating performance to generate acceptable returns for its members. We also expect VJRC to cope well and remain in compliance with the new regulations.

RATING SENSITIVITIES

The prospect of a credit upgrade is constrained by the lack of close supervision and rigorous examination of savings cooperatives in general. In contrast, a downgrade scenario could arise should there be indications of more aggressive operating and financial policies leading to a deterioration of the financial profile, asset quality or a material loss on investments. In addition, aggressive duration management of assets and liabilities may negatively impact the rating. Any regulatory changes that erode the tax and priority claim privileges currently enjoyed by savings cooperatives could also have a negative effect on the rating.

ORGANIZATION OVERVIEW

VJRC was established in 1975 as a savings cooperative for the Bangkok Metropolitan Administration’s (BMA) Medical College and Vajira Hospital, currently known as the Faculty of Medicine Vajira Hospital. VJRC also accepts personnel who work at Kuakarun Faculty of Nursing, the Medical Service Department (MSD) of the BMA, and nine other government hospitals under the supervision of the MSD as ordinary members.

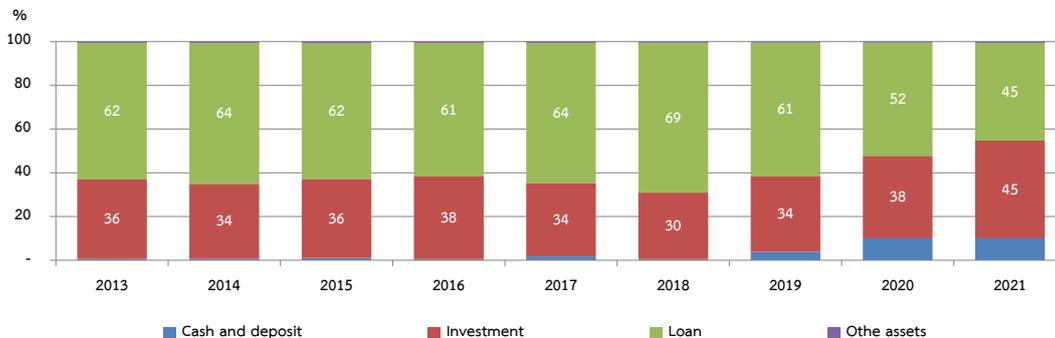
VJRC has strong business and organizational foundations, with a sizable base of assets, stable deposit base, and satisfactory financial performance. VJRC is a large savings cooperative. As of September 2021, in terms of total assets, VJRC was ranked among the top 50 of around 1,400 savings cooperatives in Thailand. Its total assets were THB20.06 billion as of March 2022, almost double the THB9.56 billion reported in FY2013.

As is the nature of a savings cooperative, VJRC provides a limited range of financial services for its members, such as taking deposits and extending loans. VJRC also provides basic welfare benefits, like other large and long-established savings cooperatives, to encourage its members to maintain their memberships.

VJRC has affiliate members in addition to ordinary members. Qualified affiliate members are people who have a relationship with an ordinary member or who have previously worked for the Faculty of Medicine Vajira Hospital or one of its affiliates. Deposits and outstanding loans from affiliate members are still relatively small.

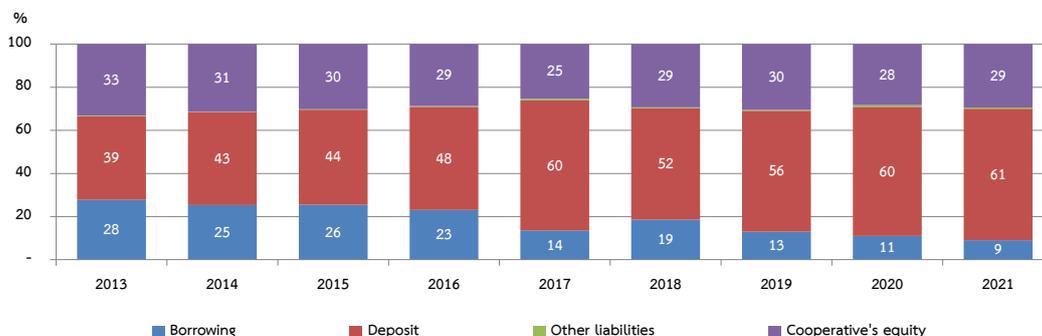
KEY OPERATING PERFORMANCE

Chart 1: VJRC’s Asset Structure



Source: VJRC

Chart 2: VJRC’s Funding Structure



Source: VJRC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 30 September -----				
	2021	2020	2019	2018	2017
Total assets	20,063	19,620	17,850	16,855	18,378
Total loans	8,968	10,165	10,939	11,547	11,756
Total investment in securities	8,967	7,388	6,141	5,128	6,176
Allowance for doubtful accounts	48	48	48	46	15
Deposits	12,236	11,763	10,023	8,699	11,090
Borrowings	1,815	2,153	2,313	3,141	2,492
Equity	5,898	5,555	5,437	4,937	4,667
Net interest and dividend income	358	359	362	341	341
Bad debts and doubtful accounts	16	19	16	20	2
Non-interest income	2	1	50	39	8
Operating expenses	40*	41	39	42	33
Net income	320	319	373	338	315

* Operating expenses excluding THB0.5 million in provision to cover losses from investing in the senior unsecured debentures of Thai Airways International PLC (THAI)

Unit: %

	----- Year Ended 30 September -----				
	2021	2020	2019	2018	2017
Profitability					
Net-interest and dividend income/average assets	1.81	1.92	2.09	1.94	2.03
Non-interest income/average assets	0.01	0.01	0.29	0.22	0.05
Operating expenses/total income	5.86*	5.39	5.12	5.57	4.44
Return on average assets	1.61	1.70	2.15	1.92	1.88
Return on average equity	5.58	5.81	7.19	7.04	6.99
Asset Quality					
Non-performing loans/total loans	0.53	0.47	0.44	0.43	0.15
Bad-debts and doubtful accounts/average loans	0.17	0.18	0.15	0.17	0.14
Allowance for doubtful accounts/total loans	0.53	0.47	0.44	0.40	0.13
Allowance for doubtful accounts/non-performing loans	100.00	100.00	100.00	92.66	83.82
Capitalization					
Equity/total assets	29.40	28.32	30.46	29.29	25.39
Equity/total loans	65.76	54.65	49.70	42.74	39.69
Funding and Liquidity					
Member deposit/total funding	79.62	74.88	73.81	69.27	58.63
Liquid assets/(deposits+borrowings+paid-up stocks)	63.95	53.24	43.20	34.54	38.94

* Operating expenses excluding THB0.5 million in provision to cover losses from investing in the senior unsecured debentures of Thai Airways International PLC (THAI)

RELATED CRITERIA

- Savings Cooperative Rating Methodology, 28 September 2020

Saving and Credit of Vajira Cooperative Ltd. (VJRC)

Issuer Rating:	BBB+
Rating Outlook:	Stable

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