

# THE FEDERATION OF SAVINGS AND CREDIT COOPERATIVES OF THAILAND LTD.

No. 130/2019

15 August 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** A-  
**Outlook:** Stable

**Last Review Date:** 27/09/18

### Company Rating History:

Date	Rating	Outlook/Alert
29/07/14	A-	Stable

### Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweechok Jiamsakunthum

taweechok@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT) at “A-” with a “stable” outlook. The rating reflects FSCT’s steady operating performance, consistently high asset quality, and the competitive edge of savings cooperatives from having tax privileges and priority claims against debtors under the savings cooperatives law. The rating is, however, constrained by the weakness in regulatory supervision of savings cooperatives in general, FSCT’s loans concentration risk, refinancing risk, and high leverage.

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

## KEY RATING CONSIDERATIONS

### FSCT’s readiness to cope with regulatory changes

The new law governing the operations of savings cooperatives, Cooperative Act (No. 3) B.E. 2562 (2019), took effect in May 2019. The new law is basically designed for tighter controls on the deposit taking, lending, and investment activities of savings cooperatives. We view the new law as an important step to alleviate the concern over the long-term stability of savings cooperatives that form an important part of Thailand’s financial system.

We hold the view that FSCT is prepared to cope with the regulatory changes with no serious concern over the potential impact on its operation. We expect the changes will constrain the opportunities for growth and weaken FSCT’s financial performance in the short term. For instance, more stringent investment criteria and reserve requirements for liquidity and loan losses under the new law will mean a less flexibility in FSCT’s investment activities and lower returns on assets. However, we do not expect the potential impact on FSCT’s profitability will alter our view on FSCT’s financial strength. On the other hand, the new requirements will likely help strengthen FSCT’s risk management, and thus enhance its long-term stability.

### Savings cooperatives continue to enjoy the privileges under the new law

The privileges granted to savings cooperatives in the form of tax exemptions and priority claims against debtors remain unchanged under the new law. Savings cooperatives and their respective members are exempt from interest saving tax, value added tax, and tax on the 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 debtor. 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 asset quality and low credit costs for most primary savings cooperatives which consequently support the loan quality of a secondary savings cooperative as FSCT.

### Consistently high asset quality

At the end of fiscal year 2018 (FY2018), FSCT had only Bt5.2 million of non-performing loans (NPLs), accounting for only 0.01% of outstanding loans. FSCT’s

high asset quality reflects the low credit risk in lending to primary savings cooperatives whose lending practices are supported by the priority claim privilege and salary deduction arrangements with the borrowers' employers as mentioned above. FSCT also has strict lending criteria.

#### **Weakness in close regulatory supervision**

Savings cooperatives are not subject to the same degree of close supervision and rigorous examinations as in the case of 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, it does not ensure that all savings cooperatives will actually adhere to the new regulations. The effective enforcement of any rules and regulations will rest on periodic rigorous examinations on savings cooperatives to ensure compliance, which it seems not likely to happen anytime soon.

#### **Loan concentration**

We view that FSCT is exposed to significant loan concentration risk. The 20 largest loans made to cooperative members accounted for 42% of total loans at the end of FY2018. FSCT provided loans to just 285 cooperative members, out of a total of 1,093 members at the end of 31 March 2019. Loans made to cooperative members represented the largest portion (72%) of FSCT's total assets at the end of FY2018. About 26% of FSCT's total assets were investments while the remainder (2%) was cash and other assets. However, FSCT's loans concentration risk is mitigated by the high quality of its loan portfolio.

#### **Refinancing risk**

FSCT has borrowed a substantial amount of funds from commercial banks. Borrowings from commercial banks were Bt11.05 billion at the end of FY2018, accounting for 11% of total liabilities or 8% of total assets. All commercial bank borrowings were short-term.

In our view, wholesale funding from financial institutions carries a higher level of risk (rollover risk) compared with funding through deposits and borrowings from cooperative members. The high proportion of external short-term funding exposes FSCT to significant refinancing risk and liquidity risk, particularly in the scenario of adverse changes in the savings cooperatives system or the financial markets in Thailand.

#### **High leverage**

Although FSCT's paid-up share capital has increased steadily with its ratio of equity to total assets improving to 24.8% in FY2018, it is still at a relatively low level compared with the average ratio of around 40% among large, long-established savings cooperatives. FSCT's equity base, including paid-up share capital, legal reserves, reserves mandated by the by-laws, unrealized gains or losses from investments, and net profit, has also increased steadily.

As required by FSCT's by-laws, cooperative members need to purchase additional shares in proportion to the paid-up share capital they already own. In a normal situation, FSCT's paid-up share capital will keep increasing. The paid-up share capital of each cooperative member will increase automatically, thanks to the traditional mechanism of monthly share purchases by members.

#### **BASE-CASE ASSUMPTIONS**

- Total equity to grow by 15% per annum on average in FY2019-FY2021.
- Loans to grow by 10%-12% per annum on average in FY2019-FY2021.
- The spread to be in the range of 0.48%-0.63% in FY2019-FY2021.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that FSCT will maintain its steady operating performance, high asset quality, and core funding base from its members. We also expect FSCT will be able to comply with the new regulations.

#### **RATING SENSITIVITIES**

The prospect of a credit upgrade is constrained by the existing institutional framework of savings cooperatives that lacks close supervision and rigorous examinations. In contrast, a downgrade scenario could arise should there be indications of more aggressive operating and financial policies being adopted and leading to deterioration of overall credit profile. Any regulatory changes that erode the tax and priority claims privileges currently enjoyed by the savings cooperatives will also have a negatively effect on the rating.

**COMPANY OVERVIEW**

FSCT is the first savings cooperative federation in Thailand. The Cooperative League of Thailand (CLT) and 81 savings cooperatives established FSCT as a national savings cooperative federation in 1972. FSCT started operations in 1973. According to the Cooperatives Act, FSCT is secondary savings cooperative, or a savings cooperative which has primary savings cooperatives as its members.

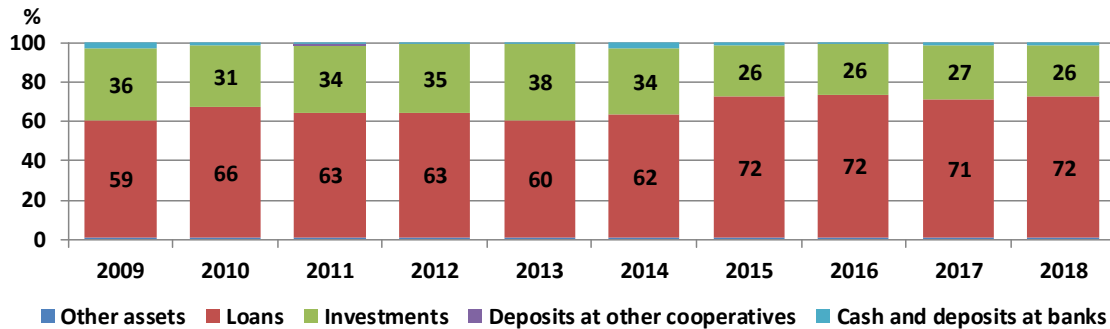
Over 40 years, the number of members has increased steadily. FSCT had 81 cooperative members when it was founded. The number of members increased to 1,093 at the end of FY2018. More than two-thirds of all primary savings cooperatives in Thailand are members of FSCT.

FSCT is the largest savings cooperative federation in Thailand, in terms of both asset size and the number of members. FSCT serves as a funding intermediary for its cooperative members by taking deposits from and making loans to its members. FSCT also provides additional benefits for its members, mostly in the forms of consulting and training services.

FSCT plays an important role in the promotion and development of the savings cooperatives in Thailand. In addition to striving to fulfill its responsibility in accordance with the cooperatives laws, FSCT also serves as a representative of savings cooperatives.

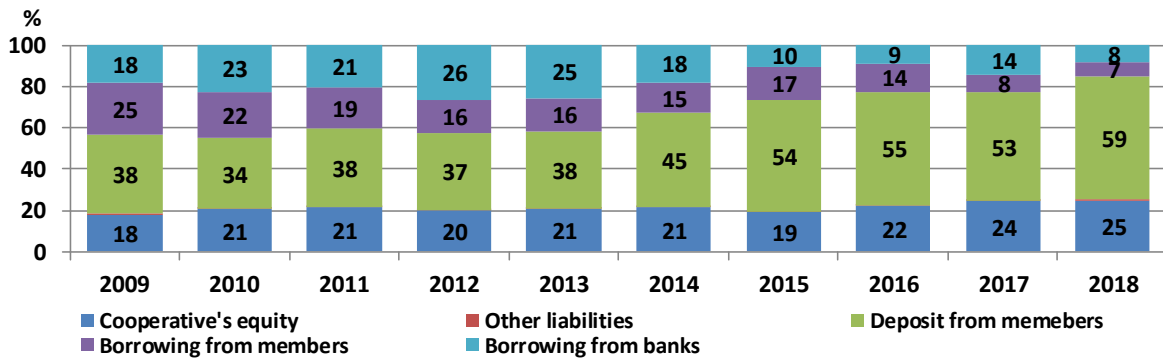
**KEY OPERATING PERFORMANCE**

**Chart 1: FSCT's Asset Structure**



Source: FSCT

**Chart 2: FSCT's Funding Structure**



Source: FSCT

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

	-----Year Ended 31 March -----				
	2019	2018	2017	2016	2015
Total assets	133,289	122,032	110,018	97,993	69,557
Total loans	95,595	86,306	79,707	70,402	43,355
Total investment in securities	35,008	33,105	28,268	25,313	23,608
Allowance for doubtful accounts	5	6	7	8	9
Deposits	79,240	64,264	60,546	52,491	31,352
Borrowings	20,317	27,874	24,551	26,254	22,924
Equity	33,099	29,688	24,640	18,977	14,893
Net interest and dividend income	1,795	1,481	1,332	1,216	1,161
Bad debts and doubtful accounts	(1)	(1)	0	2	2
Non-interest income	5	5	8	5	15
Operating expenses	162	164	165	141	134
Net income	1,713	1,612	1,356	1,117	1,193

*Unit: %*

	-----Year Ended 31 March -----				
	2019	2018	2017	2016	2015
<b>Profitability</b>					
Net-interest and dividend income/average assets	1.41	1.28	1.28	1.45	1.77
Non-interest income/average assets	0.06	0.25	0.18	0.05	0.26
Operating expenses/total income	3.20	3.53	3.52	3.69	3.89
Return on average assets	1.34	1.39	1.30	1.33	1.82
Return on average equity	5.46	5.94	6.22	6.60	8.62
<b>Asset Quality</b>					
Non-performing loans/total loans	0.01	0.01	0.01	0.01	0.02
Bad-dents and doubtful accounts/average loans	0.00	0.00	0.00	0.00	0.00
Allowance for doubtful accounts/total loans	0.01	0.01	0.01	0.01	0.02
Allowance for doubtful accounts/non-performing loans	99.24	99.34	99.42	99.48	99.52
<b>Capitalization</b>					
Equity/total assets	24.83	24.33	22.40	19.37	21.41
Equity/total loans	34.61	34.39	30.91	26.95	34.35
<b>Liquidity</b>					
Total loans/total adjusted deposits	75.23	74.32	75.73	75.89	66.37
Total loans/total assets	71.72	70.72	72.45	71.84	62.33
Liquid assets/total adjusted deposits	28.99	29.96	27.59	28.98	39.18
Liquid assets/total assets	27.65	28.52	26.40	27.44	36.81

**RELATED CRITERIA**

- Rating Methodology: Savings Cooperatives, 30 March 2015

---

**The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT)**

---

<b>Company Rating:</b>	A-
<b>Rating Outlook:</b>	Stable

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)