

# SAVING AND CREDIT OF VAJIRA COOPERATIVE LTD.

No. 131/2019  
15 August 2019

## FINANCIAL INSTITUTIONS

Company Rating: BBB+  
Outlook: Stable

Last Review Date: 27/09/18

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms the company rating on Saving and Credit of Vajira Cooperative Ltd. (VJRC) at “BBB+” with a “stable” outlook. The rating reflects VJRC’s steady operating performance, its solid member base, high asset quality, and the competitive edge of savings cooperatives from having tax privileges and priority claims against debtors under the savings cooperatives law. However, the rating is constrained by the weakness in regulatory supervision of savings cooperatives in general, VJRC’s loans concentration, and significant asset/liability duration mismatch.

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

## KEY RATING CONSIDERATIONS

### VJRC’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 VJRC 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 VJRC’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 VJRC’s investment activities and lower returns on assets. However, we do not expect the potential impact on VJRC’s profitability will alter our view on VJRC’s financial strength. On the other hand, the new requirements will likely help strengthen VJRC’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 loan asset quality and low credit costs for most primary savings cooperatives.

### Solid member base

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 debt repayment ability of its members. This stability of 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.

#### **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.

#### **Loans concentration**

In our view, VJRC has significant loan concentration risk based on the large exposure it has from lending to other savings cooperatives. Loans to other cooperatives accounted for 83% of total loans at the end of March 2019. Out of the total loans to other cooperatives, 34% were extended to the 10 largest cooperative borrowers. The large credit exposure to other cooperatives stem 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 places the excess fund to other savings cooperatives. VJRC expects that loans extended to other cooperatives would yield higher returns than from the investment portfolio. However, the concentration risk has been mitigated by VJRC's conservative lending criteria.

#### **High asset quality**

VJRC's high loan asset quality is indicated by its low non-performing loan (NPL, or loans more than 90-day overdue) ratio. VJRC reported an NPL ratio of 0.43% of total loans at the end of fiscal year 2018 (FY2018; ended on 30 September 2018). Although it represented a significant increase from 0.15% at the end of FY2017, it is still a relatively low ratio.

The increase of NPL ratio was caused by a bad loan of Bt33 million extended to a savings cooperative. We view this bad loan as an isolated case with no implication of further significant deterioration of asset quality in the near future.

#### **Mismatch in assets and liabilities**

VJRC has borrowed short-term loans from commercial banks by pledging its investment securities as security. At the end of March 2019, short-term borrowings from commercial banks accounted for 19.9% of the sum of total liabilities and equity. In contrast, only 5.5% of total assets were short-term assets. We view this as a significant risk in VJRC's asset and liability management.

We also hold the view that wholesale funding from external lenders is a less stable source of funding than the funds from members' deposits, members' equity, or deposits from other savings cooperatives. VJRC does have an investment portfolio large enough to cover all of the external short-term borrowings. However, the pledged securities are subject to price risk and potential loss in a forced liquidation scenario.

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

- Equity to grow by 5% per annum on average in FY2019-FY2022.
- Loans to grow by 3.5% per annum on average in FY2019-FY2022.
- The spread to range 1.0%-1.2% in FY2019-FY2022.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that VJRC will maintain its strength in member base, and continue delivering operating performance. We also expect VJRC to cope well and be in compliance 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. However, consistent, conservative management of assets and liabilities may enhance the rating. In contrast, a downgrade scenario could arise should there be indications of more aggressive operating and financial policies being adopted 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**

VJRC was established in 1975 as a savings cooperative for the Bangkok Metropolitan Administration (BMA) Medical College and Vajira Hospital, currently known as the Faculty of Medicine Vajira Hospital. VJRC also accepts as ordinary members' 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.

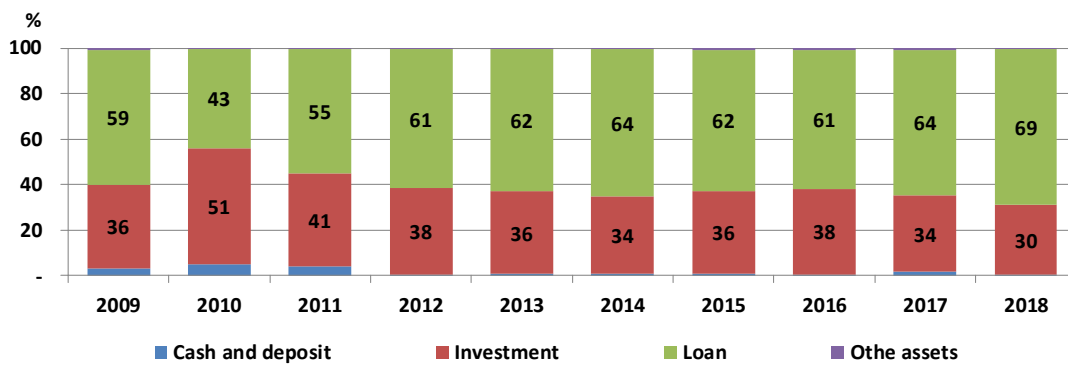
VJRC has strong business and organizational foundations, with a sizable base of assets, stable deposit base, and satisfactory financial performance. VJRC is a large savings cooperative. As of December 2018, in terms of total assets, VJRC was ranked 38rd among 1,184 savings cooperatives in Thailand. Total assets were Bt16.70 billion as of March 2019, almost double the Bt9.56 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 making loans. VJRC also provides basic welfare benefits, like other large and long-established savings cooperatives do, 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 have ever worked for the Faculty of Medicine Vajira Hospital or one of its affiliates. Currently, the amount of deposits and the outstanding loans from affiliate members is still relatively small.

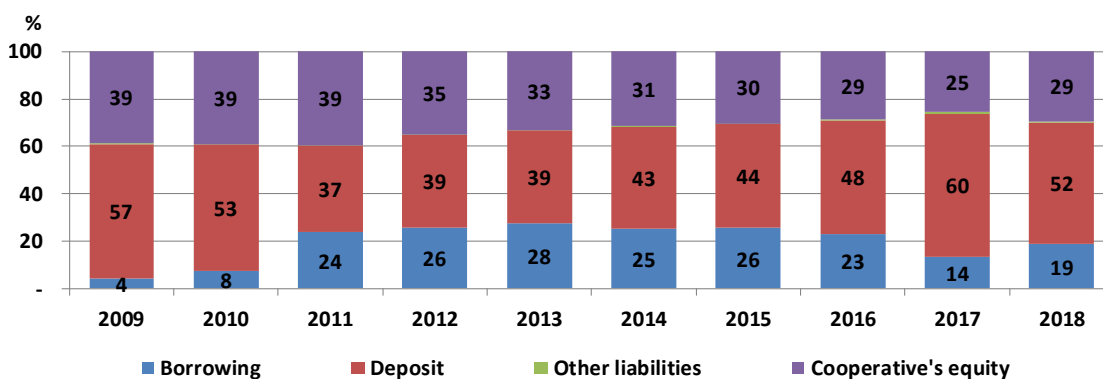
**KEY OPERATING PERFORMANCE**

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



Source: VJRC

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



Source: VJRC

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

	----- Year Ended 30 September -----				
	2018	2017	2016	2015	2014
Total assets	16,855	18,378	15,145	12,949	11,160
Total loans	11,547	11,756	9,233	8,021	7,193
Total investment in securities	5,128	6,176	5,714	4,680	3,815
Allowance for doubtful accounts	46	15	13	13	3
Deposits	8,699	11,090	7,237	5,707	4,800
Borrowings	3,141	2,492	3,498	3,302	2,824
Equity	4,937	4,667	4,354	3,913	3,512
Net interest and dividend income	341	341	344	358	294
Bad debts and doubtful accounts	20	2	0	10	2
Non-interest income	39	8	20	0	2
Operating expenses	42	33	31	30	19
Net income	338	315	333	328	277

*Unit: %*

	----- Year Ended 30 September -----				
	2018	2017	2016	2015	2014
<b>Profitability</b>					
Net-interest and dividend income/average assets	1.94	2.03	2.45	2.97	2.84
Non-interest income/average assets	0.22	0.05	0.14	0.00	0.02
Operating expenses/total income	5.57	4.44	4.73	4.79	3.67
Return on average assets	1.92	1.88	2.37	2.72	2.67
Return on average equity	7.04	6.99	8.06	8.83	8.30
<b>Asset Quality</b>					
Non-performing loans/total loans	0.43	0.15	0.17	0.21	0.12
Bad-debts and doubtful accounts/average loans	0.17	0.14	0.15	0.17	0.05
Allowance for doubtful accounts/total loans	0.40	0.13	0.14	0.16	0.04
Allowance for doubtful accounts/non-performing loans	92.66	83.82	84.68	76.49	34.78
<b>Capitalization</b>					
Equity/total assets	29.29	25.39	28.75	30.21	31.47
Equity/total loans	42.74	39.69	47.16	48.77	48.82
<b>Liquidity</b>					
Total loans/total adjusted deposits	76.37	70.47	67.65	68.34	70.60
Total loans/total assets	68.51	63.97	60.96	61.94	64.45
Liquid assets/total adjusted deposits	34.54	38.94	42.50	41.06	38.26
Liquid assets/total assets	30.98	35.35	38.30	37.22	34.93

**RELATED CRITERIA**

- Rating Methodology: Savings Cooperatives, 30 March 2015

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**Saving and Credit of Vajira Cooperative Ltd. (VJRC)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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