

SAVING AND CREDIT OF VAJIRA COOPERATIVE LTD.

No. 180/2024
10 October 2024

FINANCIAL INSTITUTIONS

Issuer Rating: BBB+
Outlook: Stable

Last Review Date: 29/08/23

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 strong capital and earnings, adequate business position, as well as sufficient funding and liquidity position. However, these supporting factors are offset by its aggressive financing policy.

KEY RATING CONSIDERATIONS

Savings cooperatives enjoy privileges

Savings cooperatives and their members are exempt from major taxes such as savings interest tax, value-added tax, and investment income tax. The law also stipulates that a 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 of savings cooperatives over other lending institutions.

Most loans provided to ordinary members of savings cooperatives are conducted under agreements with employers or affiliated entities, allowing for the deduction of interest or principal payments from members’ salaries. This arrangement results in most savings cooperatives having good credit quality and low credit costs.

Adequate business position

TRIS Rating views VJRC to have an “adequate” business position derived from three factors: scale and scope; strengths, support, and control from the original affiliation; and membership stability and support.

VJRC’s strength in scale and scope is evidenced by its THB21.7 billion asset size as of fiscal year 2023 (FY2023). This substantial asset size stems from a large membership base, built over nearly five decades of operations. VJRC’s scale facilitates operational efficiency and continuous strengthening of its capital and funding base.

VJRC’s operations benefit from the strength, support, and control of its affiliated entities, mainly Vajira Hospital (VH) and the related entities of the faculties of medicine of VH and other hospitals under the Medical Service Department, Bangkok Metropolitan Administration (BMA). VH is regarded as a government entity under the Medical Service Department, BMA. This network provides a solid foundation for VJRC’s membership, as most key personnel are BMA civil servant, while others are permanent employees with a status similar to civil servants, or BMA employees.

VH and its affiliates offer consistent management and operational support to VJRC, while encouraging employee participation in savings cooperative activities. This relationship has been instrumental in stabilizing and promoting VJRC’s long-term growth.

The high job security and stable income of VH and related entities’ employees contribute to VJRC’s membership stability and robust debt repayment capacity. Moreover, VJRC’s policy requiring ordinary members to make monthly share purchases also ensures steady growth in its paid-up share capital.

Solid capital and moderate earnings position

VJRC's capital and earnings are assessed as "strong". Its capital, measured by a risk-adjusted capital (RAC) ratio of 37% at the end of FY2023 (year-ended 30 September 2023), is assessed as "very strong".

VJRC's paid-up share capital grew continuously to THB4.3 billion at the end of FY2023 from THB3.2 billion at the end of FY2013, a compound annual growth rate (CAGR) of 5%. We project VJRC's RAC ratio to remain very strong at around 40% over the next three years based on the following assumptions: paid-up share growth of 5%-6% in FY2024-2026, loan contraction of 25% in FY2024, followed by an average of 15% growth per annum in FY2025-FY2026; and investment growth of 25% in FY2024 and an average of 1.5% per annum in FY2025-FY2026.

In FY2023, VJRC's earnings capacity, measured by net profit to average risk-weighted assets (NP/ARWA), was around 2.3%. At this level we assess NP/ARWA as "moderate" and expect it to be maintained over the next few years. This is based on our assumption of a 1% interest spread, while operating expenses and credit costs should remain under control.

Moderate risk position

We assess VJRC's risk position as "moderate", primarily due to its higher reliance on borrowings for investing and lending activities compared to other rated cooperatives. We view this increased use of debt, which is entirely short-term, as negative in our assessment. Over the past few years, VJRC's borrowings have consistently accounted for around 10% of the sum of total liabilities and equity. While this level has been maintained, it's important to note that any further increase in borrowings could potentially put pressure on the current rating. This underscores the need for careful management of debt levels to maintain the organization's financial stability and current risk profile.

VJRC's investment portfolio totaled THB12.6 billion as of March 2024, comprising mainly 98% corporate bonds. Investments in government bonds and equities were modest. The ratio of investments to total assets stood at 50% at the end of FY2022-FY2023. It also had deposits at the Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT) of about THB1 billion and THB775 million at the Federation of Savings and Credit Cooperatives of Bangkok Ltd. (FSC-Bangkok). The unrealized losses from its bond and equity investments were about 3%.

At the end of March 2024, VJRC's exposure in senior unsecured debentures of Thai Airways International PLC (THAI) was very small, totaling THB10 million. VJRC has set all reserves for impairment to absorb potential losses. THAI is currently submitting its restructuring plan to the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) and is in the process of exiting business rehabilitation.

VJRC is exposed to loan concentration risk. Loans to other cooperatives accounted for 78% of its total loans at the end of September 2023 and, around 50% were extended to the 10 largest cooperative borrowers. However, the concentration risk is mitigated by VJRC's stringent and conservative lending criteria, which helps maintain healthy asset quality. The ratio of non-performing loans (NPL, or loans more than 90 days overdue) was at 0.5% of its total loans at the end of FY2023, similar to the same period last year. We expect that VJRC will continue to maintain its prudent credit risk policies to preserve asset quality.

Adequate funding and liquidity

We assess VJRC's funding profile as "adequate". VJRC has a stable source of funds from member deposits and share capital. Its total deposits reached THB13.7 billion at the end of March 2024, accounting for 86% of total liabilities, while borrowings represented 13% and others 1%. VJRC had credit facilities, secured by investment securities, totaling THB5.5 billion from various financial institutions, 62% of which were undrawn.

In terms of liquidity, VJRC has an investment portfolio large enough to cover all its external short-term borrowings, which helps mitigate liquidity risk. Its liquidity ratio was strong, at 15.0% as of the end of March 2024, way above the current liquidity reserve requirement of 1% for savings cooperatives.

Coping and complying effectively with new regulations

Thailand's 2019 law tightening control over savings cooperatives' activities aims to enhance the long-term stability of these crucial financial institutions. VJRC, a savings cooperative, is expected to comply effectively with the new regulations without major operational concerns. However, the law may limit growth opportunities and slightly weaken VJRC's financial performance due to stricter investment criteria and reserve requirements. These changes are likely to reduce investment flexibility and lower asset returns, though the impact on VJRC's overall financial profile should be minimal.

Despite this progress, savings cooperatives in Thailand still lack the rigorous supervision applied to banks, which remains a significant weakness in their credit standing. While the law provides a framework for tighter controls, effective enforcement through regular, thorough examinations is unlikely in the near term.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for VJRC's performance during FY2024-FY2026 are as follows:

- Loans to decline by 25% in FY2024 and to grow by 15% per annum on average in FY2025-FY2026.
- Investments to grow by 25% in FY2024 and to grow by 1.5% per annum on average in FY2025-FY2026.
- Paid-up share to grow by 5%-6% per annum on average.
- Spread of around 1% 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.

Conversely, a downgrade scenario could arise should there be indications of VJRC's more aggressive operating and financial policies leading to a deterioration of the financial profile, asset quality, or a material loss on investments. Also, 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 negatively affect the rating.

ORGANIZATION OVERVIEW

VJRC was established in 1975 as a savings cooperative for the BMA's Medical College and Vajira Hospital, currently known as the Faculty of Medicine Vajira Hospital. VJRC also accepts personnel employed at the 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.

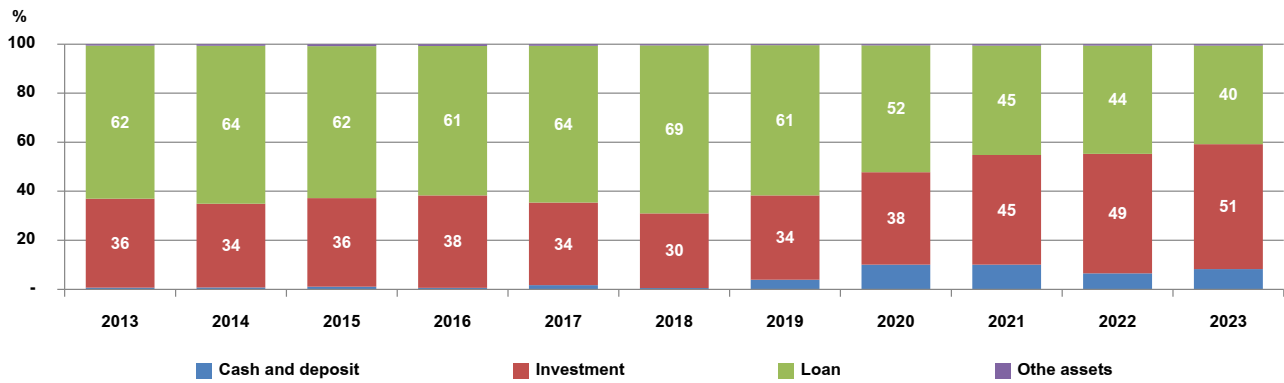
VJRC has strong business and organizational foundations, with a sizable base of assets, stable deposit base, and satisfactory financial performance. VJRC is a large savings cooperative. In terms of total assets, VJRC was ranked among the top 50 of around 1,400 savings cooperatives in Thailand. VJRC's total assets were THB22 billion as of FY2023.

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 membership.

VJRC has affiliate members as well as ordinary members. Qualified affiliate members are people who have a relationship with an ordinary member or those previously employed at the Faculty of Medicine Vajira Hospital or its affiliates. Deposits and outstanding loans from affiliate members remain relatively small.

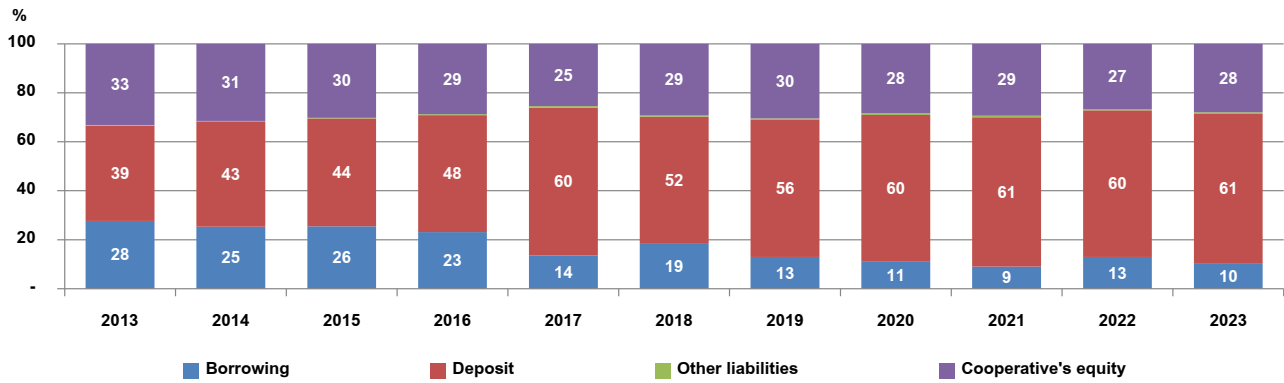
KEY OPERATING PERFORMANCE

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 ----- | | | | |
|----------------------------------|------------------------------------|--------|--------|--------|--------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total assets | 21,728 | 21,219 | 20,063 | 19,620 | 17,850 |
| Total loans | 8,767 | 9,416 | 9,016 | 10,213 | 10,986 |
| Total investment in securities | 11,075 | 10,347 | 8,967 | 7,388 | 6,141 |
| Allowance for doubtful accounts | 33 | 47 | 48 | 48 | 48 |
| Deposits | 13,237 | 12,705 | 12,236 | 11,763 | 10,023 |
| Borrowings | 2,265 | 2,747 | 1,815 | 2,153 | 2,313 |
| Equity | 6,079 | 5,638 | 5,898 | 5,555 | 5,437 |
| Net interest and dividend income | 401 | 383 | 358 | 359 | 362 |
| Bad debts and doubtful accounts | (1) | (1) | (0) | 0 | 16 |
| Non-interest income | 6 | 7 | 2 | 1 | 50 |
| Operating expenses* | 49 | 35 | 41 | 41 | 39 |
| Net income | 371 | 355 | 320 | 319 | 373 |

* Operating expenses excluding THB0.5 million in provision to cover losses from investing in the senior unsecured debentures of THAI.

Unit: %

| | -----Year Ended 30 September ----- | | | | |
|--|------------------------------------|--------|--------|--------|--------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Profitability | | | | | |
| Net-interest and dividend income/average assets | 1.87 | 1.85 | 1.81 | 1.92 | 2.09 |
| Non-interest income/average assets | 0.03 | 0.03 | 0.01 | 0.01 | 0.29 |
| Operating expenses*/total income | 6.40 | 4.93 | 5.90 | 5.39 | 5.12 |
| Return on average assets | 1.73 | 1.72 | 1.61 | 1.70 | 2.15 |
| Return on average equity | 6.33 | 6.16 | 5.58 | 5.81 | 7.19 |
| Net profit/average risk-weighted assets | 2.28 | 2.23 | 2.03 | 2.10 | 2.51 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 0.38 | 0.50 | 0.53 | 0.47 | 0.44 |
| Bad-debts and doubtful accounts/average loans | (0.01) | (0.01) | (0.00) | 0.00 | 0.15 |
| Allowance for doubtful accounts/total loans | 0.38 | 0.50 | 0.53 | 0.47 | 0.44 |
| Allowance for doubtful accounts/non-performing loans | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Capitalization | | | | | |
| Risk-adjusted capital ratio | 36.88 | 34.98 | 37.45 | 35.17 | 37.31 |
| Debt/equity (times) | 2.57 | 2.76 | 2.40 | 2.53 | 2.28 |
| Funding and Liquidity | | | | | |
| Stable funding ratio | 116.83 | 108.65 | 121.46 | 132.70 | 113.66 |
| Liquidity coverage measure (times) | 1.11 | 0.75 | 1.27 | 1.04 | 0.37 |

* Operating expenses excluding THB0.5 million in provision to cover losses from investing in the senior unsecured debentures of THAI.

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024

Saving and Credit of Vajira Cooperative Ltd. (VJRC)

| | |
|------------------------|--------|
| Issuer Rating: | BBB+ |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

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