

SAVING AND CREDIT OF VAJIRA COOPERATIVE LTD.

No. 107/2017

25 August 2017

Company Rating: BBB+
Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of Saving and Credit of Vajira Cooperative Ltd. (VJRC) at “BBB+”. The rating reflects the status of VJRC as a captive provider of financial services, with services available to its members. The rating takes into account the strong credit profiles of the Faculty of Medicine Vajira Hospital, Kuakarun Faculty of Nursing, and the government hospitals under the vision of the Medical Service Department (MSD) of the Bangkok Metropolitan Administration (BMA), where VJRC’s ordinary members work for. The rating also reflects the good quality of the outstanding loans made to members, the continuity and ability of VJRC’s board of directors and management team to deliver satisfactory financial performance. In addition, the legal privileges help enhance VJRC’s competitive edge over traditional financial institutions. However, the credit profile of VJRC is pressured by a relatively high level of leverage, a concentration risk of loans made to other savings cooperatives, a mismatch in assets and liabilities, and the possibility of regulatory changes, which may reduce the privileges currently enjoyed by savings cooperatives.

VJRC was established in 1975 as a savings cooperative for the BMA Medical College and Vajira Hospital, currently known as the Faculty of Medicine Vajira Hospital. VJRC also accepts the personnel who work at Kuakarun Faculty of Nursing, the MSD of the BMA, and nine other government hospitals under the vision of the MSD as ordinary members.

VJRC has strong business and organizational foundation, with a sizable assets, stable deposit base, and satisfactory financial performance. VJRC is a moderately large savings cooperative. As of December 2016, in terms of total assets, VJRC was ranked 33rd among 1,144 savings cooperatives in Thailand. Its total assets were Bt17,841 million as of March 2017, almost double the Bt9,560 million reported in fiscal year 2013 (FY2013, ending 30 September 2013). The increase in size during the past few years was due to a significant expansion in the amount of loans made to other cooperatives and the amount of deposits accepted from other cooperatives.

VJRC has the stable growth in its deposit base, portfolio of outstanding loans, and paid-up share capital. 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 cooperative do, to encourage its members to maintain their memberships. VJRC also has affiliate 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 amounts of deposits and the outstanding loans from affiliate members are still small.

VJRC has loan concentration risk due to sizable loans lent to other savings cooperatives, which accounted for 87.6% of total loans at the end of FY2016. At the end of March 2017, the loans made to the 10 largest cooperatives which have borrowed from VJRC comprised 40.7% of the total amount lent to other cooperatives. Loans made to other cooperatives are expected to yield returns higher than the returns from the investment portfolio. However, the concentration risk has been mitigated by the conservative underwriting criteria VJRC uses.

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Although loans made to members have low risk but due to risk management and internal control, VJRC has limited its exposure for loans made to each member. As a result, VJRC has an excess of deposits, and the excess funds have been lent to other cooperatives. VJRC has a relatively low level of non-performing loans (NPLs, or loans more than 90 days overdue). NPLs stood at 0.2% of total loans at the end of FY2016.

VJRC's financial profile is moderate. Return on average assets (ROAA) ranged from 2.4%-2.7% during the past five years while return on average equity (ROAE) improved from 6.9% in FY2012 to around 8% in the past three years. The improvement in ROAE was mainly due to the more aggressive use of external borrowings. VJRC's leverage ratios are weaker than the ratios of traditional savings cooperatives. Traditional savings cooperatives typically use equity and deposits from members as their primary sources of funds. VJRC has delivered acceptable performance, which enables the cooperative to pay annual dividends exceeding 5% of paid-up equity.

VJRC has liquidity risk from a mismatch in asset and liability structures. VJRC draws funds within the realm of savings cooperative societies, both from its own members and other cooperatives. VJRC also draws funds from commercial banks in the form of short-term borrowings, and pledges its investment securities as collateral. At the end of FY2016, short-term borrowings from commercial banks comprised 23.1% of VJRC's sum of total liabilities and equity but only 3.9% of total assets were short-term assets. TRIS Rating holds the view that wholesale funding from external lenders is a less stable source of funding than funding through members' deposits or 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, a large or rapid liquidation of the investment portfolio may cause VJRC to incur losses in liquidation.

TRIS Rating holds the view that the recent and planned regulatory changes are positive factors for the overall industry. For example, regulatory changes will mandate better risk control measures, which will in turn strengthen the operations and financial profiles of the savings cooperatives. The regulatory changes may also constrain the opportunities for growth and result in weaker financial performance in the near term. However, rapid growth and high profits are not the main objectives of the savings cooperatives. Any regulatory changes that reduce the privileges that the savings cooperatives currently enjoy, such as tax benefits and priorities of claims on member's monthly income, will negatively impact the rating of VJRC.

Rating Outlook

The "stable" outlook reflects the expectation that VJRC will be able to maintain its member and deposit bases, as well as deliver satisfactory returns and benefits to all its stakeholders.

The upside possibilities for the credit rating are limited, based on the existing institutional framework for savings cooperatives. However, the conservative asset and liability managements on a consistent basis may enhance the rating. In contrast, more aggressive operating or financial policies, or any regulatory changes that reduce privileges for savings cooperatives, might impact the rating of VJRC.

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Company Rating:

BBB+

Rating Outlook:

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Financial Statistics

Unit: Bt million

	Year Ended 30 September				
	2016	2015	2014	2013	2012
Total assets	15,145	12,949	11,160	9,560	8,455
Total loans	9,233	8,021	7,193	5,965	5,167
Total investment in securities	5,714	4,680	3,815	3,471	3,195
Allowance for doubtful accounts	13	13	3	1	0
Deposits	7,237	5,707	4,800	3,720	3,304
Borrowings	3,498	3,302	2,824	2,650	2,187
Cooperative's equity	4,354	3,913	3,512	3,165	2,940
Net interest and dividend income	344	358	294	247	205
Bad debts and doubtful accounts	0	10	2	1	(1)
Non-interest income	20	0	2	3	3
Operating expenses	31	30	19	16	13
Net income	333	328	277	234	194

Key Financial Ratios

Unit: %

	Year Ended 30 September				
	2016	2015	2014	2013	2012
Profitability					
Net-interest and dividend income/average assets	2.45	2.97	2.84	2.75	2.65
Non-interest income/average assets	0.14	0.00	0.02	0.03	0.04
Operating expenses/total income	4.73	4.79	3.67	3.66	3.75
Return on average assets	2.37	2.72	2.67	2.60	2.52
Return on average equity	8.06	8.83	8.30	7.67	6.85
Asset Quality					
Non-performing loans/total loans	0.17	0.21	0.12	0.07	0.03
Bad debts and doubtful accounts/average loans	0.15	0.17	0.05	0.02	0.01
Allowance for doubtful accounts/total loans	0.14	0.16	0.04	0.02	0.01
Allowance for doubtful accounts/non-performing loans	84.68	76.49	34.78	26.23	23.77
Capitalization					
Cooperative's equity/total assets	28.75	30.21	31.47	33.10	34.77
Cooperative's equity/total loans	47.16	48.77	48.82	53.05	56.87
Liquidity					
Total loans/total adjusted deposits*	67.65	68.34	70.60	67.85	66.44
Total loans/total assets	60.96	61.94	64.45	62.40	61.12
Liquid assets**/total adjusted deposits	38.11	42.50	41.06	38.26	40.22
Liquid assets**/total assets	34.88	38.30	37.22	34.93	37.00

* Total adjusted deposit = deposits from members + deposits from other cooperatives + borrowings + paid up share capital

** Liquid assets = cash + deposits at banks + deposits at other cooperatives + investments in securities

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