

Issuer Credit Rating Update:

VietCredit Finance Joint Stock Company's 'BBB-' Ratings Placed On CreditWatch Negative Amidst Challenging Operating Conditions Stemming From Covid-19 Pandemic

**Long-term Issuer Credit Rating (ICR*): BBB-
CreditWatch: Negative**

Hanoi, 26 January 2022

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* This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to a debt instrument such as a bond that it may issue.

The rating scale used by FiinRatings is national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

This document is prepared in both English and Vietnamese. The English translation is for reference only and the Vietnamese version will prevail in the event of any inconsistency between the English version and the Vietnamese version.

Hanoi, 26 January 2022

CreditWatch with Negative Implications on VietCredit Finance Joint Stock Company (“VietCredit”) reflects FiinRatings’ opinion that the risks associated with challenging operating conditions stemming from the Covid-19 pandemic have increased. Economic conditions have turned adverse for non-bank financial companies during the fourth outbreak of Covid-19 in Vietnam which resulted in a sharp economic contraction. In particular, credit risks remain significant for less diversified medium and small-sized finance companies like VietCredit. Massive lockdowns in major cities have prevented collection activities and customers with weaker credit profiles, like the ones VietCredit focuses on, would have endured job losses and disruptions in income generation. As a result of these heightened operating challenges, VietCredit’s asset quality has deteriorated beyond the industry average. The company’s non-performing loan ratio (“NPL”) stood at 9.6% for the nine months ended September 30, 2021 compared to the industry average of 7.9% during the same period.

While the economy has reopened since the beginning of the fourth quarter of 2021, we believe the uncertain operating conditions related to the Covid-19 pandemic and the recovery prospects of VietCredit related to the forbearance loans (i.e., loan maturity restructuring and delays in NPL reclassification) remain to be seen in the upcoming periods. Hence, we will monitor:

- The recovery of VietCredit in the next three to six months and assess the level of non-performing loans relative to our expectations and the industry performance.
- The ability of the company to demonstrate the resilience of its business model by expanding its loan book and maintaining profitability by managing its expenses and diversifying its funding base amidst the difficulties posed by the Covid-19 pandemic.

We will remove the CreditWatch with Negative implications and affirm the rating if VietCredit demonstrates its ability to mitigate the credit risk and improve the asset quality in term of non-performing loans, sustain access to resources and maintain liquidity to sufficiently meet its obligations. We will also observe the company's ability to improve its collections and raise necessary external funds which are key credit factors.

Alternatively, we could lower the rating of VietCredit or change the outlook of the Company, as appropriate, if there is continued deterioration in VietCredit credit fundamentals including a spike in NPL leading to higher loan loss provisions which weigh on the Company’s profitability, capital, and liquidity position and thereby lowering its ability to service debt beyond our expectations.

RATING RATIONALE

The ‘BBB-‘ long-term rating on VietCredit reflects the company’s modest albeit growing market position in the consumer finance industry. VietCredit’s declining capital buffer, improving profitability, modest asset quality metrics relative to peers which are likely to deteriorate further, and adequately managed funding and liquidity risks are also considered in the assessment of its credit profile. The rating on VietCredit is also driven by the company’s niche focus on maintaining its competitive position in the consumer finance sector of Vietnam by specializing in card loan products.

During the first 9 months of 2021, VietCredit has surpassed its forecasted net profit for 2021 due to lower selling expenses (cost to income ratio reduced to 40.6% during this period from 48.1% during the same period in 2020) and higher non-interest income from the extension of credit limits for customers. Furthermore, the low interest rate environment has posted a positive effect on VietCredit’s cost of funds, 12months certificate of customer deposit (“CDs”) cost of funds fell to 7.9% compared to 8.5% in 2020 which points to the stabilized financing conditions supported by ample liquidity of Vietnam Capital market. To some extent, this offset the increase in interest costs that resulted from the lengthening of its liability maturity process. The Company has re-balanced its liabilities structure by issuing a higher portion of medium and long-term debts, reducing the portion of short-term debts on total liabilities to 64% from 84% at end of 2020.

However, low mobility in the South of Vietnam in Q2 & Q3 2021 has constrained the disbursement activities of VietCredit, with only 10% growth in loan book size at end of Q3 2021. Covid restrictions on the mobility of people cause operational challenges which have impinged on the Company’s collection efficiency and eventually put negative pressure on asset quality. The Company’s asset quality has been affected significantly with its non-performing loan ratio of 9.6% at end of Q3 2021. VietCredit has adjusted and tightened underwriting criteria by focusing on customers who have good credit history and filtering through its electronic Know Your Customer (“eKYC”) process in its online lending platform. While these initiatives have resulted in lower selling expenses including commission fees and staff costs, we believe the company’s asset quality will remain under pressure in the near term due to its focus on low-income segment which would be impacted more during the pandemic.

RATING SCALE AND DEFINITIONS

We employ the below rating scale in assigning ratings for all issuers across industries and sectors that we cover in Vietnam. The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

Definition and explanation	Rating scales	Grading Scale	
Group 1: Extremely strong capacity to meet financial obligation	AAA	Investment Grade	
	AA+		
Group 2: Very strong capacity to meet financial obligation	AA		
	AA-		
Group 3: Strong capacity to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances	A+		
	A		
	A-		
Group 4: Adequate capacity to meet financial commitments but more vulnerable to adverse developments and economic conditions	BBB+		
	BBB		
	BBB-		
Group 5: Moderate capacity to meet financial obligations but less vulnerable than other speculative issuers	BB+		
	BB		
	BB-		
Group 6: Weak capacity to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	B+		Speculative Grade
	B		
	B-		
Group 7: Very weak capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk.	CCC+		
	CCC		
	CCC-		
	CC		
Group 8: Default. Payments on an obligation are not made on the date due or the issuer becomes insolvent. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action.	C		
	D	Default Grade	

OWNERSHIP DISCLOSURE

At the time of the publication, the following information is provided as required by current regulations and as a part of our compliance policies in providing credit ratings:

- VietCredit’s percentage of equity ownership at FiinGroup: *none*
- FiinGroup’s percentage of equity ownership at VietCredit’s: *none*
- FiinGroup’s other employee percentage of equity ownership at VietCredit’s: *none*
- VietCredit’s investment value of bond(s) issued by FiinGroup: *none*
- FiinGroup’s investment value of bond(s) issued by VietCredit’s: *none*
- VietCredit’s investment value of other debt instruments issued by FiinGroup: *none*
- FiinGroup’s investment value of other debt instruments issued by VietCredit’s: *none*

FiinGroup aforementioned includes Credit Rating Agency (FiinGroup JSC.), its directors, Credit Rating Committee members, and analysts of FiinGroup engaged in this rating action. The information above was examined during client acceptance process and before the signing date of Credit Rating Agreement with the Company and was updated on the issue date of this report.

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FiinGroup Joint Stock Company

Credit Rating Report No.: 02-C01-2022



Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 26 January 2022

RATING METHODOLOGY

The rating methodology explains FiinRatings approach to assessing credit risk of non-financial corporates in Vietnam. This methodology is intended as a general guidance to help companies, investors, and other market participants to understand how FiinRatings looks at quantitative and qualitative factors significant in explaining rating outcomes in this sector.

In addition, ratings are forward-looking opinions about an issuers’ future capacity and willingness to honor its obligations to creditors, but the scorecard uses historical data. As a result, the assigned rating may deviate from the scorecard-indicated rating range in such cases, where a rating committee deems this to be appropriate. The related criteria and methodology are shown in more detail:

- [Rating Methodology for Financial Institutions](#)

or visit the link below for further information about general rating methodology:

- [Rating Methodologies](#)

CONTACT US

This rating announcement is intended for general public audience and therefore it provides rating summary and credit highlights only. Complete rating information or a full rating report would be available for purchase on request to FiinRatings with specific terms and conditions.

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