

RATING ACTION COMMENTARY

Fitch Upgrades Ideal Finance to 'AA-(Ika)'; Rating Watch Removed; Outlook Stable

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Fitch Ratings - Colombo - 26 Jul 2021: Fitch Ratings has upgraded Sri Lanka-based Ideal Finance Limited's National Long-Term Rating to 'AA-(Ika)' from 'BB-(Ika)' and removed the rating from Rating Watch Positive (RWP). The Outlook is Stable.

The upgrade follows the completion of the progressive acquisition of a 58.2% stake in Ideal by India's Mahindra & Mahindra Financial Services Limited (MMFSL) in July 2021.

KEY RATING DRIVERS

Ideal's National Long-Term Rating reflects Fitch's expectation of extraordinary support from the parent, MMFSL, based on our assessment of MMFSL's ability to provide support, if needed. The rating also takes into consideration MMFSL's majority stake in Ideal, and potential for closer alignment of branding.

Fitch assesses Ideal to be of limited importance to MMFSL due to the nascent role in the group that is yet to be tested and still limited integration. Furthermore, Fitch believes that reputational damage to MMFSL could be contained, considering the different jurisdictions of the entities. MMFSL's investment has diluted the stake of former major shareholder Ideal Motors, but the stake remains sizeable.

MMFSL is a 52%-owned subsidiary of Mahindra & Mahindra Limited (M&M) and is the largest financier for M&M's vehicles. MMFSL's investment in Ideal is also aimed at supporting the sales of M&M vehicles in the Sri Lankan market.

Ideal's intrinsic financial strength is assessed to be significantly weaker than its support-driven rating (please see "Fitch Maintains Ideal Finance on Rating Watch Positive", dated 7 June 2021, at www.fitchratings.com/site/pr/10165038)

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of Ideal's National Long-Term Rating would most likely result from a higher propensity of support from MMFSL through increased integration, or the evolution of its role in the group, which could raise Ideal's strategic importance to its parent.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Ideal's National Long-Term Rating could be downgraded if MMFSL's ability to provide support were to weaken, as signalled through a weakening of MMFSL's credit standing. Any perceived weakening in MMFSL's propensity to support Ideal could also be negative for Ideal's rating. This could arise from a reduced importance to MMFSL as reflected in a decrease in the shareholding, Ideal's inability to fulfil its intended role, or a sustained weak performance and prospects undermining its ability to support the majority shareholder's objectives.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Ideal Finance Limited	Natl AA-(Ika) Rating Outlook Stable LT	Upgrade BB-(Ika) Rating Watch Positive

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Rukshana Thalgodapitiya**

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APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Ideal Finance Limited

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Sri Lanka
