

## RATING ACTION COMMENTARY

# Fitch Affirms Mahindra Ideal Finance at 'AA-(Ika)'; Outlook Stable

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Fitch Ratings - Colombo - 15 Mar 2022: Fitch Ratings has affirmed Sri Lanka-based Mahindra Ideal Finance Limited's (Ideal) National Long-Term Rating at 'AA-(Ika)'. The Outlook is Stable.

## KEY RATING DRIVERS

Ideal's National Long-Term Rating reflects Fitch's expectation that Ideal's parent, Mahindra & Mahindra Financial Services Limited (MMFSL), would provide extraordinary support to Ideal, if required. This is based on our assessment of MMFSL's ability and propensity to provide support, if needed. MMFSL is a 52%-owned subsidiary of India-based Mahindra & Mahindra Limited (M&M) and is the largest financier for M&M's vehicles.

The rating also takes into consideration the increased integration since MMFSL acquired the majority 58.2% stake in Ideal in 2021 and closer alignment of branding after changing its name to include the "Mahindra" brand in 2022.

Ideal is of limited importance to MMFSL, in Fitch's view. This is because of Ideal's nascent role in the group that has yet to be proven and a limited performance record since the acquisition. MMFSL's investment in Ideal aims to support the sales of M&M in the Sri Lankan market as part of M&M's international expansion strategy, but Ideal's near- to medium-term performance and prospects are likely to remain muted in the challenging operating environment.

Fitch believes that reputational damage to MMFSL resulting from Ideal's default could be contained considering the different jurisdictions of the entities, and former major shareholder, Ideal Motors, remains a significant minority shareholder with a sizeable stake.

Ideal's intrinsic financial strength is assessed to be significantly weaker than its support-driven rating. This stems from its small market share, limited history of operations and high risk profile given its targeted customer segments are more susceptible to the challenging operating environment.

Ideal met the regulatory requirement of LKR2.5 billion minimum core capital by 31 March 2021 before the end-2021 deadline, and its capital adequacy ratios remain well above the regulatory requirements. We expect leverage in terms of debt/equity to rise in the medium term as a result of the planned expansion. Ideal's deposit base has increased, but we expect the reliance on wholesale funding will remain high in the medium term.

Ideal's loan growth aspirations and focus on high-margin products could support its medium-term profitability buffers against potentially high credit and operating costs. Ideal's regulatory gross non-performing loan (NPL) ratio (greater than 180 days overdue) remained below the sector average at 3.4% as of end-September 2021, although we believe asset quality risk would persist in the near- to medium-term, due mainly to the difficult operating environment.

## **RATING SENSITIVITIES**

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

Positive rating action on Ideal's National Long-Term Rating appears unlikely unless there is a positive change in Fitch's view of MMFSL's propensity to provide support. Specifically, enhancement of Ideal's role in the group, demonstrated by sustained increase in share of M&M sales financed by Ideal, increased importance of the Sri Lankan market to overall M&M business and higher contribution to the group through improving profitability performance could be positive for Ideal's National Long-Term Rating.

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

MMFSL's weakening ability to provide support, as signalled through a deterioration of its credit profile, could result in a downgrade of Ideal's National Long-Term Rating. Any perceived weakening in the parent's propensity to support Ideal could also be negative for Ideal's rating. This could arise from Ideal's decreased strategic importance to the

group, meaningful reduction in MMFSL's shareholding, or Ideal's sustained weak performance and prospects in terms of fulfilling its intended role 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.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Ideal's National Long-Term Rating is directly linked to the credit quality of MMFSL, the parent.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Mahindra Ideal Finance Limited	Natl LT AA-(Ika) Rating Outlook Stable Affirmed	AA-(Ika) Rating Outlook Stable

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**APPLICABLE CRITERIA**

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

[Non-Bank Financial Institutions Rating Criteria \(pub. 01 Feb 2022\) \(including rating assumption sensitivity\)](#)

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Sri Lanka

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