



RATING ACTION COMMENTARY

Fitch Places Mahindra Ideal's Rating of 'AA-(Ika)' on Rating Watch Negative

Wed 08 Mar, 2023 - 9:35 AM ET

Fitch Ratings - Colombo/Mumbai - 08 Mar 2023: Fitch Ratings has placed Sri Lanka-based Mahindra Ideal Finance Limited's (MID) National Long-Term rating of 'AA-(Ika)' on Rating Watch Negative (RWN).

MID's parent is Mahindra & Mahindra Financial Services Limited (MMFL), which in turn is a 52%-owned subsidiary of India-based Mahindra & Mahindra Limited (M&M).

KEY RATING DRIVERS

High Downside Risks: The RWN reflects the potential for deterioration in MID's creditworthiness relative to other entities on the Sri Lankan National Ratings scale amid sustained pressure on the domestic operating environment due to the stressed sovereign fiscal position.

We see the funding and liquidity conditions of domestic finance and leasing companies (FLCs) as tied to those of the banks, and any signs of funding or liquidity stress in the banking sector would carry contagion risk for FLCs. The RWN on MID's rating reflects our view that MID is not immune to these system-wide stresses, which could constrain its access to parental support.

Shareholder Support Underpins Rating: MID's rating reflects Fitch's expectation that MID's parent, MMFL, would provide extraordinary support to MID, if required. This is based on our assessment of MMFL's ability and propensity to provide support, if needed. MMFL is a 52%-owned subsidiary of M&M and is the largest financier for M&M's vehicles sales. The rating also takes into consideration the increased integration since MMFL acquired the majority 58.2% stake in MID in the financial year ended March 2022 (FY22) along with closer alignment of branding.

Limited Importance to Parent: MID is of limited importance to MMFL, in Fitch's view. This is because of MID's nascent role in the group and a limited performance record since the acquisition. MMFL's investment in MID aims to support M&M's sales in Sri Lanka as part of its international expansion. Still, MID's near- to medium-term performance and prospects are likely to remain muted in the challenging operating environment.

Fitch believes the reputational damage to MMFL resulting from MID's default could be contained considering the different jurisdictions of the entities, and Ideal Motors, the previous dominant shareholder in MID, remains a significant minority shareholder.

Standalone Credit Profile Weaker: MID's intrinsic financial strength is assessed as significantly weaker than its support-driven rating, given a small market share, evolving business model and high-risk profile as its targeted customer segments are more susceptible to the challenging operating environment. MID's core segment, vehicle financing, is constrained amid high borrowing rates and a weakened economy. The standalone profile remains subject to significant asset quality, profitability and liquidity risks amid the unfavourable economic outlook, even though MID has low leverage.

RATING SENSITIVITIES

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

MID's rating is sensitive to changes in MMFL's credit profile, as well as Fitch's opinion around MMFL's ability and propensity to extend timely extraordinary support. Developments that could lead to negative rating action, including the possibility of a multiple-notch downgrade, include:

- insufficient or delayed liquidity support from MMFL relative to MID's needs that hinders MID's ability to meet its obligations in a timely manner;
- intervention by authorities that constrains MID's ability to service its obligations;

- meaningful reduction in the parent's ownership, control or influence in MID that could weaken MMFL's perceived propensity to support MID

- MID's sustained weak performance and prospects in terms of fulfilling its intended role to support the majority shareholder's objectives.

The resolution of the RWN is contingent upon developments in the operating environment and the evolution of the finance company's funding and liquidity position, which may take more than six months to emerge.

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

There is limited scope for upward rating action because of the RWN. The resolution of the Rating Watch with an affirmation could be driven by our view that risks from funding stresses have abated in the sector, to the extent that we believe MID's ability to service its obligations is not hindered.

Significant increase in MID's role in the group over the longer term, demonstrated by sustained increase in share of M&M sales financed by MID, increased importance of the Sri Lankan market to the overall M&M business and higher contribution to the group through improving profitability performance could be positive for MID's National Long-Term Rating.

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

MID's rating is driven by the parent's credit profile.

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Mahindra Ideal Finance
Limited

Natl LT

AA-(lka) Rating Watch Negative

Rating Watch On

AA-
(lka) Rating
Outlook
Stable

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APPLICABLE CRITERIA

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

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

ADDITIONAL DISCLOSURES

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Mahindra Ideal Finance Limited

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Non-Bank Financial Institutions Asia-Pacific Sri Lanka
