

Mr Duminda Weerasekare
CEO/Director
Ideal Finance Ltd,
299, Union Place Colombo02.
Sri Lanka.

October 01, 2015

Dear Sir,

Re: Initial Rating Letter for Ideal Finance Ltd

Fitch (see definition below) assigns the following ratings:

National Long-Term Rating of B+(lka)/Stable.

Key rating drivers

Ideal Finance Ltd.'s (IFL) National Long-Term Rating, assigned at B+(lka)/Stable reflects its still small but developing domestic franchise and limited track record as a recent entrant to the non-bank financial institution space in Sri Lanka. The rating also reflects potential pressure on asset quality due to an unseasoned loan book, small deposit base compared to higher rated peers and its expected high exposure to real estate investments. The rating also factors IFL's high capitalization and improving profitability metrics.

The company provides financing to the consumer and SME segments, that are seen by Fitch as being more vulnerable to economic downturns. IFL's gross regulatory NPL ratio is low at just 1.3% of total advances at end June 2015, better than the higher rated peers, reflecting a sharply expanded loan base and its unseasoned loan book. Fitch believes that the aggressive expansion of the IFL's loan book could also put pressure on its asset quality

As IFL is still in the early stages of growth, the proportion of equity, although decreasing, is a major component of its funding base (64% of total assets at end June 2015). Customer deposits accounted for 16% of total assets, reflecting its small deposit base owing to its short operating history.

Fitch expects capitalisation to decline due to its expanding operations but to remain satisfactory for its rating. IFL's Fitch core capital to risk weighted assets stood at 66% at end1Q16 which remains better than the higher rated peers.

IFL returned to profitability in the financial year March 2014 and since then has managed to remain profitable. IFL's profitability is constrained by its high cost structure, although net interest margins benefit from a high proportion of equity funded assets.

IFL has an appetite for real estate investments although currently such exposures are limited, accounting for only 3% of equity at end June 2015. Fitch believes that real-estate based investments generally tend to be pro-cyclical in nature and sharp increase in such investment may elevate volatility in profitability.

Having commenced operations in 2012, IFL accounted for less than 1% of total LFC sector asset at end June 2015. IFL's core business entails the disbursement of leases and HP facilities for vehicles (96% of the total gross loans) with the balance consisting of auto loans. Three wheelers and small commercial truck accounted for 63% of total asset financed at end June 2015.

Approximately 72% (effective) of IFL is owned by two individuals namely Aravinda De Silva and Nalin Welgama.

Rating sensitivities

An increase in IFL's scale of operations without significant compromise to asset quality and capitalization, as well as sustained improvement in the company's core profitability relative to its peers, could lead to an upgrade.

Deterioration in asset quality in combination of a notably reduced loss absorption buffer could lead to a rating downgrade. An increase in risk appetite through for instance the aggressive expansion of loan book could place downward pressure on IFL's rating.

You should notify Fitch within 10 business days if you wish to publish the rating. Fitch will then publicly disseminate the resulting rating and the rating will be monitored. Should you not request that the rating be made public, the rating will be monitored on a non-public basis.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be

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You recognize the need to supply Fitch with all information relevant to evaluating this private rating. You further recognize the importance to the ratings of keeping Fitch informed of all material changes in the information provided to Fitch, potential material events and the overall financial condition of [Issuer], which may require communication of non-public information to Fitch. You recognize that Fitch reserves the right in its sole discretion to raise, lower, place on Rating Watch or withdraw any rating at any time

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In this letter, "Fitch" means Fitch Ratings Limited and any subsidiary or successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at 2541 900.

Sincerely,

Fitch

By:

Jonathan Lee
Oct 1, 2015