

## RATING ACTION COMMENTARY

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

Thu 07 Mar, 2024 - 2:29 AM ET

Fitch Ratings - Mumbai/Colombo - 07 Mar 2024: Fitch Ratings has affirmed Sri Lanka-based Mahindra Ideal Finance Limited's (MID) National Long-Term rating of 'AA-(Ika)'. The Outlook is Stable.

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

## KEY RATING DRIVERS

**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 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 2021 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. Fitch believes that the reputational damage to MMFL resulting from MID's default could be contained. This is due to the different jurisdictions of the entities. In addition, 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 due to a small market share, evolving business model and high-risk profile. The customer segments MID targets are more susceptible to the challenging operating environment. MID's core segment, vehicle financing, was constrained amid a weakened economy and restriction on vehicle imports. However, vehicle financing is likely to pick up in near to medium term, in line with the stabilising economy.

**Stabilising Economic Outlook:** We expect the operating environment for Sri Lankan finance and leasing companies (FLCs) to continue to stabilise following the inflation and interest-rate shocks over the past two years. Easing inflation and interest-rate pressures should provide steadier conditions for FLC sector performance. Some headwinds linger, as higher taxes will continue to weigh on household

finances in 2024. Investor confidence will also take time to recover. Still, we expect economic activity in Sri Lanka to improve in the financial year ending March 2025 as GDP growth recovers.

**Improving Performance:** MID's recent performance has shown signs of improvement, in line with the stabilising economy. This is reflected in the improvement in its 90-day past due loans ratio and funding costs. The performance is likely to improve further as loan growth picks up, the net interest margin recovers, and operational and credit costs remain controlled. The liquidity profile is likely to remain stable due to sustained momentum in deposit growth. Even so, the low debt/tangible equity of 2.3x at end-December 2023 will increase with higher business growth.

## 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;
- meaningful reduction in the parent's ownership, control or influence in MID that could weaken MMFL's perceived propensity to support MID;
- MID's weak performance and prospects in terms of fulfilling its intended role to support the majority shareholder's objectives on a sustained basis.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Significant increase in MID's role in the group over the longer term, demonstrated by a sustained increase in the 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, could lead to an upgrade of the 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 parent MMFL's credit profile.

## RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

PRIOR ⇅

Mahindra Ideal Finance  
Limited

Natl LT AA-(Ika) Rating Outlook Stable

AA-(Ika) Rating  
Outlook Stable

Affirmed

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## **APPLICABLE CRITERIA**

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

[Non-Bank Financial Institutions Rating Criteria \(pub. 18 Jan 2024\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

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Mahindra Ideal Finance Limited

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