

RATING ACTION COMMENTARY

# Fitch Affirms AMW Capital Leasing And Finance PLC at 'AA-(Ika)'; Outlook Negative

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Fitch Ratings - Colombo - 01 Mar 2021: Fitch Ratings Lanka has affirmed AMW Capital Leasing And Finance PLC's (AMWCL) National Long-Term Rating at 'AA-(Ika)'. The Outlook is Negative.

## KEY RATING DRIVERS

AMWCL's National Long-Term Rating is driven by Fitch's expectation that Associated Motorways Private Limited (AMW), which owns 90% of AMWCL, will extend extraordinary support, if needed. The Outlook reflects pressures at AMW driven by a ban on auto imports.

We believe the finance company is strategically important to AMW, which is a large importer of motor vehicles in Sri Lanka. This is largely based on AMWCL's role as a captive finance company in the group, with AMW setting up AMWCL in 2006 with the objective of supporting its core business. We also see that synergies between the two companies are high, because a large share of AMWCL's advances are provided to clients to purchase AMW products.

The companies share a common AMW brand, which means there could be reputational damage to AMW should AMWCL default. We see meaningful integration, largely through board representation from both AMW and its ultimate parent, Al Futtaim.

We see AMWCL's intrinsic credit profile as being weaker than its support-driven rating. Its franchise benefits from its linkages to AMW, but its market share among finance and leasing companies remains small. Its performance has been pressured by the challenging operating environment, which has been exacerbated by the Covid-19 pandemic, while it remains exposed to customer segments that are more vulnerable during economic downturns.

AMWCL's business model is wholly reliant on vehicle financing, with its loan book continuing to contract up to end-September 2020. Asset quality has deteriorated, but its six-month regulatory gross non-performing loan ratio at end-September 2020 remained better than the ratio for the industry. Profitability in terms of pre-tax return on assets declined to 4.9% in the nine months to September 2020 from 6.5% in 2019, largely due to higher loan impairment charges and slower growth.

Leverage, as measured by debt to tangible equity, decreased to 2.2x by end-September 2020 from 2.5x at end-2019, with subdued balance-sheet expansion and profit retention. AMWCL also maintained its capital position above the minimum requirements. Financial flexibility decreased by end-September 2020 alongside its dependence on non-deposit sources.

## **RATING SENSITIVITIES**

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

An improvement in AMW's ability to provide support would most likely result in an upgrade, but this is currently not expected in the current environment.

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

AMWCL's National Long-Term Rating could be downgraded if AMW's ability to provide support were to weaken, as signalled through a weakening of AMW's credit standing alongside relative size of support considerations. A decrease in AMW's propensity to provide support, likely due to a reduction in AMWCL's strategic importance or a significant dilution of AMW's shareholding, would also lead to a reassessment of its propensity to provide support to its subsidiary.

A deterioration in AMWCL's intrinsic credit profile is unlikely to affect its National Rating due to the support-driven nature of the rating, unless weak performance leads to a reduction in its importance to the group.

## 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
AMW Capital Leasing And Finance PLC	Natl AA-(lka) Rating Outlook Negative LT	Affirmed AA-(lka) Rating Outlook Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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## APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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

## ADDITIONAL DISCLOSURES

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## ENDORSEMENT STATUS

AMW Capital Leasing And Finance PLC

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