

RATING ACTION COMMENTARY

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

Fri 28 Feb, 2025 - 2:58 AM ET

Fitch Ratings - Colombo - 28 Feb 2025: Fitch Ratings has affirmed Sri Lanka-based Mahindra Ideal Finance Limited's (MID) National Long-Term rating at 'AA-(Ika)'. The Outlook is Stable.

India-based Mahindra & Mahindra Financial Services Limited (MMFL) is the parent company of MID and is a subsidiary of Mahindra & Mahindra Limited (M&M), which owns 52% of MMFL.

KEY RATING DRIVERS

Support-Driven 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 capacity and willingness to provide such support. MMFL is the largest financier for M&M's vehicles sales. The rating also reflects MID's closer brand alignment and enhanced integration with MMFL, since MMFL acquired a majority 58.2% stake in MID in 2021, including the appointment of two senior MMFL executives as MID's managing director and CEO, and chief financial officer.

Limited Role in Group: MID holds limited importance to MMFL because of MID's emerging role within the group and its limited record since being acquired, in our view. MMFL's investment in MID is intended to bolster M&M's sales in Sri Lanka as part of M&M's global expansion strategy, but the contribution of domestic market remains low to M&M's overall footprint. Fitch believes that any reputational harm to MMFL from a potential default by MID would be mitigated, given the entities operate in different jurisdictions.

Weaker Intrinsic Credit Profile: We assess MID's standalone financial profile as significantly weaker than its support-driven rating. This is due to its limited market share, evolving business model and high-risk profile. Its core segment - vehicle financing - faced limitations due to a

sluggish economy and restrictions on vehicle imports. Even so, we expect vehicle financing to recover in the near to medium term, aligning with the stabilising economy and recent removal of restriction on import of vehicles.

Stabilising Economic Outlook: We expect the operating environment for Sri Lankan finance and leasing companies (FLCs) to continue stabilising following the inflation and interest-rate shocks of the past two years. Easing inflation and interest-rate pressures should create steadier conditions for FLC sector performance. Sri Lanka's economy expanded by 5.2% in 9MFY25 (financial year ends March 2025), against a 4.5% contraction in 9MFY24. We expect economic activity in Sri Lanka to continue improving as GDP expands.

Improved Performance, Lower Funding Costs: We expect MID's performance to continue improving as loan growth accelerates and operational and credit costs are kept in check. MID's recent performance is consistent with the improving macroeconomic variables. This is evident in the significant reduction of its 90-day past due loan ratio and funding costs.

We expect the liquidity profile to remain stable on MID's continued access to bank lines and deposits. That said, the debt/tangible equity ratio rose to 3.8x by end-9MFY25 from 3.2x at end-FY24, because of business expansion amid increasing credit demand.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

MID's rating will be affected by changes in MMFL's credit profile, as well as Fitch's assessment of MMFL's ability and propensity to provide timely extraordinary support. Factors that could lead to a negative rating action, potentially including a multi-notch downgrade, include:

- inadequate or delayed liquidity support from MMFL relative to MID's needs that impairs MID's capacity to fulfil its obligations promptly;
- a significant reduction in the parent's ownership, control, or influence over MID, which might diminish MMFL's perceived propensity to support MID;
- weak performance and prospects in terms of consistently achieving MID's intended role in supporting the major shareholder's objectives.

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

A considerable enhancement in MID's role within the group over the long term, evidenced by an increasing significance of the Sri Lankan market to the overall M&M business, MID's contribution rising to support M&M sales, and a greater contribution to the group through improved profitability, could result in 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.

ESG CONSIDERATIONS

Not applicable.

RATING ACTIONS

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

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issuer's available public disclosure.

APPLICABLE CRITERIA

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

[Non-Bank Financial Institutions Rating Criteria \(pub. 01 Feb 2025\) \(including rating assumption sensitivity\)](#)

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Mahindra Ideal Finance Limited

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