



RATING ACTION COMMENTARY

Fitch Downgrades AMW Capital Leasing And Finance to 'A(Ika)'; Outlook Negative

Mon 09 Aug, 2021 - 1:06 AM ET

Fitch Ratings - Colombo - 09 Aug 2021: Fitch Ratings has downgraded AMW Capital Leasing And Finance PLC's (AMWCL) National Long-Term Rating to 'A(Ika)', from '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), a large importer of motor vehicles in Sri Lanka that owns 90% of AMWCL, will extend extraordinary support to AMWCL, if needed. However, we have downgraded the rating as we believe AMW's ability to extend support has weakened due to the country's continued ban on vehicle imports, which has disrupted its core business. In addition, the amount of required support for AMWCL could remain high relative to AMW's ability to provide it as Sri Lanka's operating environment continues to be challenging. The Negative Outlook reflects the potential for further downside to AMWCL's rating due to pressure at AMW caused by the prolonged vehicle import ban.

We believe the finance company remains strategically important to AMW based on its role in the group. It continued to provide a significant, albeit declining, share of advances to support AMW's sales and its performance contributes a healthy profit to the group. AMW and AMWCL share a common 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 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, and it remains exposed to customer segments that are more vulnerable during economic downturns.

RATING SENSITIVITIES

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

AMWCL's 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. AMWCL's rating is also sensitive to a change in Fitch's opinion around the propensity of AMW to extend extraordinary support in a timely manner, likely due to a reduction in AMWCL's strategic importance.

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.

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 we do not expect this in the current environment.

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

The National Rating of AMWCL is directly linked to the credit quality of AMW, the parent.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
AMW Capital Leasing And Finance PLC	Natl A(lka) Rating Outlook Negative LT	Downgrade AA-(lka) Rating Outlook Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)

[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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Non-Bank Financial Institutions Asia-Pacific Sri Lanka
