Fitch Ratings

AMW CAPITAL LEASING & FINANCE PLC

National Long Term Rating - BBB + (lka)

Key Rating Drivers

Parent Support Drives Rating: AMW Capital Leasing And Finance PLC's (AMWCL) rating reflects Fitch Ratings' view that support would be forthcoming from parent Associated Motorways Private Limited (AMW), given the finance company's strategic importance to the parent.

This is based on AMWCL's role in the group, the common AMW brand and the existence of common creditors, which contribute to high reputational risk for AMW if AMWCL were to default. AMW, a large domestic importer of motor vehicles in Sri Lanka, set up AMWCL in 2006 with the objective of supporting its vehicle-financing business.

Strong Linkages with Parent: AMW holds 90% of AMWCL, and is involved in the strategic direction of AMWCL through board representation. Fitch sees the synergies between the two companies as high, with AMWCL's advances accounting for a substantial share of vehicle-finance facilities that are provided to AMW's clients (end-September 2016: 60% and end-2015: 74%). AMWCL also benefits from business referrals from AMW's branch network.

Predominantly Funded by Parent: AMW continues to provide funding support to AMWCL; 78% of AMWCL's total funding at end-2016 was either borrowed directly from or guaranteed by AMW. AMWCL's deposit base remains small (20% of total funding at end-2016), and has resulted in its loan/deposit ratio being much higher than that of similarly rated domestic peers.

Modest Loan Expansion: AMWCL's loan portfolio expanded by 18% in 2016, lower than the industry average of 21%. Loan growth was driven mainly by small motor-car financing in the form of leases, which are provided mainly to AMW clients. However, Fitch expects loan growth to moderate in the medium term. This is mainly due to high import tariffs for cars, and the central bank's drive to lower the loan-to-value ratio for unregistered motor cars, a segment to which AMW has significant exposure.

Rising NPLs: Fitch believes Sri Lanka's challenging operating environment will push AMWCL's net incremental NPLs higher in the medium term but expects asset quality to compare favourably with that of the sector. AMWCL reported a regulatory gross NPL ratio of 1.87% at end-2016, against 5.26% for the sector. The company's provision against NPLs over six months overdue is much higher than most similarly rated peers, covering more than half of its NPLS at end-2016.

Capitalisation to Remain Satisfactory: Fitch expects AMWCL's capitalisation to deteriorate in the medium term alongside loan growth, but to remain satisfactory for its current rating – given steady internal capital generation supported by low dividend payouts. Its Fitch Core Capital ratio and Tier 1 capital ratios stood at 15.4% and 13.8%, respectively, at end-2016.

Sound Profitability: Fitch expects a potential increase in credit costs to put pressure on profitability, but to remain comparable with similarly rated domestic peers. AMWCL's pre-impairment ROA improved to 6.1% in 2016 from 5.6% in 2015, owing to streamlining of its operating cost base.

Rating Sensitivities

Changes in Support Assumptions: AMWCL's rating is sensitive to changes in its parent's ability and propensity to provide support, which the agency does not expect to change in the short- to medium-term.

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