

RATING ACTION COMMENTARY

Fitch Maintains AMW Capital Leasing And Finance's 'BBB+(Ika)' National Rating on Watch Negative

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Fitch Ratings - Colombo - 21 Nov 2022: Fitch Ratings has maintained the Rating Watch Negative (RWN) on AMW Capital Leasing And Finance PLC's (AMWCL) National Long-Term Rating of 'BBB+(Ika).

KEY RATING DRIVERS

RWN Maintained: The RWN reflects heightened downside risks to AMWCL's rating from the potentially weaker ability of its parent, Associated Motorways Private Limited (Pvt) Ltd (AMW), to provide timely liquidity support to the subsidiary should there be a liquidity crunch in the financial system. The risks are heightened by AMWCL's considerable size relative to the parent.

We believe AMWCL, similar to peers in the sector, is prone to the risk of a change in creditor and market sentiment due to deposit concentration and reliance on wholesale funding. This, in turn, could pressure the parent to provide timely liquidity support, which is likely to be challenging in the weak operating environment and the stresses building up in the banking system. Should financial system stress rise further, we will reassess our assumptions around the likelihood of timely shareholder support.

Shareholder Support Drives Rating: AMWCL's rating is driven by our expectation that it will receive extraordinary support from its parent in times of need. The finance company is strategically important to its parent, given its role in supporting AMW's sales and its high contribution to the group's profitability. This is despite the decreasing share of advances to finance AMW's sales amid a decline in auto sales stemming from the country's import ban. Our support assessment also factors in AMW's 90% shareholding, the shared brand name and integration, largely through board representation.

Weak Intrinsic Credit Profile: We regard AMWCL's intrinsic credit profile as weaker than its support-driven rating. Its franchise benefits from linkages to AMW, but its market share remains small, at just 0.6% of Sri Lanka's total finance and leasing sector assets at end-June 2022. AMWCL's risk profile reflects its exposure to customer segments that are more susceptible to the challenging operating environment.

RATING SENSITIVITIES

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

AMWCL's rating is sensitive to changes in AMW's credit profile, as well as Fitch's opinion around AMW's ability and propensity to extend timely extraordinary support.

Developments that could lead to a downgrade include:

- insufficient or delayed liquidity support from AMW relative to AMWCL needs that hinders AMWCL's ability to meet its obligations in a timely manner
- intervention by authorities that constrain AMWCL's ability to service its obligations

An increased size relative to the parent that makes extraordinary support more onerous for the parent may result in the removal of parental support and lead to a downgrade.

AMWCL's rating would then be reassessed based on its standalone credit profile, which is multiple notches below its support-driven rating.

The resolution of the RWN is contingent upon developments in the operating environment, the parent's credit profile and the evolution of the finance company's funding and liquidity position, which may take more than six months to emerge.

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

There is limited scope for upward rating action given the RWN.

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 AMWCL's rating is directly linked to the credit profile of AMW, the parent.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
AMW Capital Leasing And Finance PLC	Natl LT	BBB+
	BBB+(Ika) Rating Watch Negative	(Ika) Rating Watch
	Rating Watch Maintained	Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

[Non-Bank Financial Institutions Rating Criteria \(pub. 01 Feb 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Solicitation Status](#)

ENDORSEMENT STATUS

AMW Capital Leasing And Finance PLC

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Non-Bank Financial Institutions Asia-Pacific Sri Lanka
