



RATING ACTION COMMENTARY

Fitch Affirms AMW Capital Leasing and Finance at 'BBB(lka)'; Outlook Remains Negative

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Fitch Ratings - Colombo - 07 Mar 2024: Fitch Ratings Lanka has affirmed AMW Capital Leasing And Finance PLC's (AMWCL) National Long-Term Rating at 'BBB(lka)'. The Outlook remains Negative.

KEY RATING DRIVERS

Shareholder Support Drives Rating: AMWCL's rating reflects our expectation that its parent, Associated Motor Ways (Pvt) Limited (AMW), would provide extraordinary support to the finance subsidiary, if required. Our assessment takes into account AMW's 90% ownership, shared branding and integration in setting the strategic agenda for AMWCL.

Weakening Parental Ability to Support: The Negative Outlook on AMWCL's rating reflects the pressure stemming from its parent's credit profile. A prolonged ban on vehicle imports continues to impede AMW's core business of vehicle importation and sales, weakening its earnings capacity and liquidity position. AMW was one of Sri Lanka's largest vehicle importers prior to the curbs. Sri Lanka has gradually rolled back import restrictions limited vehicle classes, but curbs remain on AMW's primary segment - passenger cars.

Relative Size a Constraint: AMWCL's rating is constrained by our view that any required support from the parent could be considerable relative to AMW's ability to provide it - given the strain on AMW's credit profile from challenges to its core business. AMWCL has a sizeable large balance sheet relative to that of its parent.

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Greater Back-End Coordination: We believe the parent has an influence on AMWCL's business strategy and maintains oversight of its execution beyond the board level. The company has broadened its operational integration to several support functions that coordinate with the group back-office hub as well as increased management integration via senior management secondments.

Weak Standalone Credit Profile: We believe AMWCL's standalone credit strength is weaker than its support-driven rating. This stems from its small market share, at less than 1% of total finance and leasing company industry assets, as well as lingering asset quality and profitability risks, as the economy emerges from a highly challenging few years. That said, we expect asset quality pressure to recede, supported by a resumption in economic activity and focused recoveries.

Profitability to Recover: We expect profitability to pick up in the near- to medium-term as lending resumes. AMWCL reported a pre-tax profit to average assets ratio of 1.3% in 2023, down from 4.4% in 2022, due to a thinner net interest margin, high operating costs and a shrinking loan book.

Leverage to Increase: We expect leverage to rise in the near- to medium-term along with anticipated loan book growth. Nonetheless, debt/tangible equity remained among the lowest of Fitch-rated peers, at 0.8x, at end-2023 (end-2022: 1.4x), as the company released excess deposits amid muted lending prospects.

Improved Standalone Liquidity: Liquid asset holdings more than doubled to 35.8% of total assets in 2023 (2022: 15.3%), as loan growth remained subdued. We expect the share of liquid assets to diminish as lending resumes. That said, AMWCL's unsecured debt/total debt ratio remains among the lowest of Fitch-rated finance and leasing companies, due to its moderate appetite for deposit funding relative to wholesale funding.

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 the parent's ability and propensity to extend timely extraordinary support.

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- a worsening in AMW's liquidity position that reduce its flexibility to provide timely support to AMWCL
- reduced ownership, control or influence of AMWCL that weakens AMW's propensity to support the subsidiary
- insufficient or delayed liquidity support from AMW that hinders AMWCL's ability to meet its obligations in a timely manner

A significant weakening in AMW's perceived ability or propensity to support AMWCL could result in Fitch rating the subsidiary based on its standalone credit profile, which would lead to a multiple notch downgrade.

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

A significant improvement in the parent's credit profile could lead to an upgrade at AMWCL, assuming other support factors remain intact. We may also upgrade the rating if AMWCL's strategic contribution to its parent increases significantly, through improving synergies, such as cross-selling with the parent's core motor-vehicle business, or a sustainable improvement in profitability. However, we do not expect such changes in the near term.

We may revise the Outlook to Stable should pressure on AMW's credit profile ease and make any extraordinary support less onerous for the parent.

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

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

RATING ACTIONS

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AMW Capital Leasing
And Finance PLC

Natl LT

BBB(Ika) Rating
Outlook
Negative

BBB(Ika) Rating Outlook Negative

Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

[Non-Bank Financial Institutions Rating Criteria \(pub. 18 Jan 2024\) \(including rating assumption sensitivity\)](#)

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AMW Capital Leasing And Finance PLC

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