

Fitch Places Ideal Finance on Rating Watch Positive

Fitch Ratings-Colombo-03 October 2019: Fitch Ratings Lanka has placed Ideal Finance Limited's National Long-Term Rating of 'B+(lka)' on Rating Watch Positive (RWP). This follows an announcement that India's Mahindra & Mahindra Financial Services Limited (MMFSL) will progressively invest LKR2 billion (approximately USD11 million) to acquire a 58.2% stake in Ideal.

KEY RATING DRIVERS

The RWP reflects Fitch's belief that Ideal's rating could benefit from the change in shareholding and increased probability of support once MMFSL's effective control of Ideal is established in light of MMFSL's potentially stronger credit profile.

The RWP also reflects the introduction of new capital and possible improvement in Ideal's company profile, which could strengthen the company's standalone profile.

MMFSL plans to invest the equity in three tranches up to 2021, with an initial investment of LKR700 million. Fitch expects the minimum regulatory capital requirement of LKR2.5 billion by 1 January 2021 to be met at the end of the transaction, at which point we expect MMFSL to have acquired effective control of Ideal.

RATING SENSITIVITIES

Fitch expects to resolve the RWP once we have concluded our assessment of MMFS's ability to provide support to Ideal, and have greater clarity on the linkages between Ideal and MMFSL.

Fitch will maintain the RWP beyond the typical six-month horizon, with parental support likely to be factored into the rating at the point when MMFSL has acquired effective control of Ideal. Fitch's view of support would include an assessment the level of strategic importance of the Sri Lankan market and Ideal to MMFSL, the extent of integration, branding and provision of broader funding support.

The RWP also reflects potential upside to Ideal's rating in terms of its stand-alone profile which could benefit from improved capitalisation and business profile due to MMFSL's investment.

Fitch will remove the RWP if the investment does not take place. The rating would then continue to

be driven by Ideal's intrinsic credit profile.

Issuer Disclosure on Regulatory Action

The Central Bank of Sri Lanka has imposed a cap of LKR700 million on total deposits due to Ideal's non-compliance with the interim minimum capital requirement of LKR1.5 billion.

The 'Issuer Disclosure on Regulatory Action' heading was provided by the issuer and is included pursuant to applicable regulatory requirements. Fitch Ratings Lanka is not responsible for the contents of such information.

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Applicable Criteria

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 12 Oct 2018\)](#)

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