



## RATING ACTION COMMENTARY

# Fitch Affirms Indonesia's Adira Finance at 'BBB'; Outlook Stable

Thu 03 Jun, 2021 - 5:26 AM ET

Fitch Ratings - Singapore/Jakarta - 03 Jun 2021: Fitch Ratings has affirmed Indonesia-based PT Adira Dinamika Multi Finance Tbk's (Adira Finance) Long-Term Issuer Default Rating (IDR) at 'BBB'. The Outlook is Stable.

## KEY RATING DRIVERS

Adira Finance's ratings are driven by Fitch's expectation of likely support from its parent, PT Bank Danamon Indonesia Tbk (Danamon, BBB/Stable/bb), and ultimate parent, Mitsubishi UFJ Financial Group, Inc. (MUFG, A-/Stable/a-), in times of need. Adira Finance is roughly 92% owned by Danamon, which is, in turn, 92.5% held by MUFG; for details about Danamon's and MUFG's ratings, please see [Fitch Affirms Indonesia's Bank Danamon at 'BBB'/'AAA\(idn\)'; Outlook Stable](#) and [Fitch Affirms Ratings on MUFG Group and Affiliates; Outlook Stable](#).

Adira Finance's IDRs are equalised with those of Danamon, as we deem it to be a core subsidiary of the parent bank. This view is underpinned by Adira Finance's significant contribution to Danamon's overall business, accounting for about 32% of end-2020 consolidated gross loans and approximately 47% of consolidated pretax profit over 2017-

1Q21. Adira Finance is one Indonesia's largest vehicle financiers and accounted for close to 80% of Danamon's total consumer loans at end-2020.

The ratings also take into account Adira Finance's close management coordination with Danamon, its adherence to the parent's integrated corporate governance and risk-management frameworks, the high level of balance-sheet integration with Danamon providing joint-financing for close to 45% of Adira Finance's managed receivables at end-March 2021, and the parent's ability to provide any required support to Adira Finance, taking into account additional backing from MUFG's considerable financial resources. Adira Finance's equity base comprised a significant 19% or so of Danamon's consolidated equity, but less than 1% of MUFG's.

Adira Finance's standalone credit profile does not drive its ratings, but the coronavirus pandemic has placed considerable pressure on industry loan growth and asset quality, including for Adira Finance. Fitch expects a gradual recovery in Indonesia's economy to 5.3% GDP growth in 2021 (2020: -2.1%), which should support sector performance if achieved. However, any improvement appears likely only towards the latter part of the year and the ongoing pandemic continues to pose downside risks to our forecasts.

We regard Adira Finance's borrower segment as more economically sensitive than the retail customers of banks, and more than a third of customer receivables were granted temporary loan relief in 2020. Much of these have since returned to normal repayment terms, but past-due receivables remained above historical norms at end-1Q21, suggesting continued elevated new impairments in the near term. The non-performing financing ratio rose to 3.0% of net managed receivables in 1Q21, from 1.9% at end-2020, although Fitch believes the company has managed the asset quality pressure from the pandemic acceptably overall.

Adira Finance's high lending yields support its capacity to absorb higher-than-usual loan losses. Pretax profit of about 4.6% of average assets in 2020 remained comfortably above the industry average of 2.0%, despite higher loan impairment costs of 7.0% of average on-book financing (2019 pretax profit/average assets: 8.6%; loan impairment costs/average on-book financing: 5.7%). Leverage also eased to approximately 1.8x debt/tangible equity in 1Q21, as declining loan balances allowed for lower borrowings (end-2019: 3.1x).

## RATING SENSITIVITIES

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

Any negative action on Danamon's support-driven IDRs would prompt similar action on the ratings of Adira Finance. Such changes would hinge on Fitch's assessment of MUFG's ability and propensity to support Danamon.

Moreover, any material weakening in ties between Danamon and Adira Finance may lead Fitch to lower its expectations for extraordinary support from the parent in times of need - potentially resulting in a multi-notch downgrade of Adira Finance's Long-Term IDR. Examples include a dilution in Danamon's ownership of Adira Finance, together with a wind-down of joint-financing activities, a change in the parent's strategy away from the subsidiary's core consumer-finance product lines, or persistent underperformance by Adira Finance that starts to undermine its contribution to the parent, although Fitch does not expect any such scenarios in the near term.

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

Any positive action would hinge on an upward revision of Indonesia's Country Ceiling of 'BBB', which constrains the Long-Term IDR of Danamon and, by extension, Adira Finance. Fitch does not expect any such change in the near term.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **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 ratings of Adira Finance are driven by our view of the likelihood of extraordinary support from parent Danamon and ultimate parent MUFG in times of need.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

[www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
PT Adira Dinamika Multi Finance Tbk	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	Support	2	Affirmed	2

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**APPLICABLE CRITERIA**[Non-Bank Financial Institutions Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

PT Adira Dinamika Multi Finance Tbk

EU Endorsed, UK Endorsed

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