

RATING ACTION COMMENTARY

Fitch rates NFM “AAA(mex)”; Stable Outlook

Mexico Wed 19 Oct 2022- 14:28 ET

Fitch Ratings - Monterrey - 19 Oct 2022: Fitch Ratings assigned to Navistar Financial, S. A. de C. V., a Financial Company with Multiple Corporate Purposes, Regulated Entity (NFM) short- and long-term ratings of ‘AAA(mex)’ and ‘F1+(mex)’, respectively. The outlook is Stable.

KEY RATING DRIVERS

Support Capacity of the Parent Company: The NFM’s ratings are based on Fitch’s appraisal of the high capacity and propensity of Traton SE (Traton) to support the Mexican subsidiary, if required. Traton’s support capacity can be observed in its credit profile with a relative strength better than the one observed in other issuers in Mexico and where the support required would not be relevant given the small size NFM represents with respect to Traton’s international operations. As of June 2022, the NFM’s total assets represented 1.1% of its parent company’s total assets.

Gradual Integration with Traton: Fitch also takes into account, with high importance, the operating synergy and integrated administrative processes NFM has with its parent

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company. NFM maintains a high integration with Navistar International Corporation (NIC), which is a Traton subsidiary since July 2021; still, the agency expects that the integration of NFM and Traton gradually increases, since these processes have already started with the USA subsidiaries.

Strategic Role Relevant for Traton: Traton's propensity to support also reflects Fitch's appraisal of the strategic role, with moderate importance, NFM plays for its parent company. Traton's strategy to become a sector-leading global company involves Mexico as a strategically important jurisdiction for Traton's growth in the region; Fitch considers this a long-term plan.

As of June 2022, the participation of the brand in the heavy-duty transport industry in Mexico was 23.2%, while the NFM's participation in the brand funding was 22%. The NFM's business model is specialized in granting International transport equipment loans and leases and, to a lesser extent, offering embodied telemetry services and insurance coverages.

Financial Profile with Moderate Importance: The NFM's financial profile, even though it has no direct impact on NFM's ratings, it is deemed as of moderate importance in Fitch's appraisal of Traton's propensity to support in case such support may be required. The NFM's financial performance has improved despite the local and international challenges of the heavy-duty transport industry.

Pressured Asset Quality and Good Profitability: As of June 2022, the indicator of the non-performing portfolio was 7.9%, when considering the 8.4% outstanding balance of the operating lease, which are higher than those registered in 2021 at 5.6% and 7.1%, respectively. This is the result of the implementation of the International Financial Reporting Standards (IFRS). Moreover, the requirement for loan allowance was directly taken from capital, so it did not affect the entity's income. On the same date, the indicator of pre-tax profit/average asset was 8.1%, a level higher than those obtained in

the past four years, prompted by better operational efficiency and a reduction in loan loss provision expenses.

Stable Leverage and Enhanced Funding: The tangible leverage has improved compared to the past four years and the agency expects it to be sustainable, given the portfolio expected growth and reinvested earnings. As of June 2022, the indicator of total debt to tangible equity was 1.4 times (x) (average 2018-2021: 2x). Fitch considers that the acquisition of NFM by Traton has improved the Mexican subsidiary's funding in terms of flexibility. As of June 2022, the indicator of unsecured debt on total debt was 39.5% (average 2018-2021: 11.7%). Additionally, NFM has a line of credit provided by Traton amounting to USD 50 million, which is consistent with Fitch's opinion on the support of the parent company.

RATING SENSITIVITIES

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

--the NFM's ratings are at the highest level on the national scale, so they cannot be upgraded.

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

--the NFM's rating might be downgraded if Fitch's appraisal of NFM's strategic importance for its parent company deteriorates.

--a deterioration in Traton's credit profile would also pressure downwards the NFM's ratings.

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SUMMARY OF FINANCIAL ADJUSTMENTS

The expenses paid in advance and other differed assets were classified as intangible assets and they were deducted from total capital to reflect the low loss-absorbing capacity of such assets.

SOURCES OF INFORMATION

The financial figures are according to the criteria of Mexico's National Banking Securities Commission (CNBV). The figures for the second quarter of 2022 include recent accounting modifications to the convergence process of the International Financial Reporting Standards (IFRS). The previous years do not include these modifications and the agency considers that they are not directly comparable.

NATIONAL SCALE CRITERIA

-- Non-Bank Financial Institutions Rating Criteria (March 28, 2022);

-- National Scale Rating Criteria (December 22, 2020).

REGULATORY INFORMATION

DATE OF THE LATEST RATING UPDATE: N.A.

SOURCES OF INFORMATION: The information used in this rating analysis was provided by the rated entity or obtained from external information sources.

IDENTIFICATION OF THE INFORMATION USED: Audited and non-audited financial statements, issuer submissions, strategic purposes, and expenses budget, among others.

FINANCIAL INFORMATION REPORTING PERIOD: 31/ December /2018 to 30/ June /2022

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DATE OF RELEVANT COMMITTEE

23 September 2022

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
	ENac LP	F1+(mex)	New Rating	
Navistar Financial, S. A. de C. V., Financial Company with Multiple	ENac CP	AAA(mex)	New Rating	NR

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Purposes,
Regulated
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APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)
- [Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)
- [Metodología de Calificación de Instituciones Financieras no Bancarias \(pub. 28 Mar 2022\)](#)

ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)

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Navistar Financial, S. A. de C. V., Financial Company with Multiple Purposes, Regulated Entity

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