

HONDA LEASING (THAILAND) CO., LTD.

No. 243/2023
12 December 2023

FINANCIAL INSTITUTIONS

Issue Ratings:

Guaranteed	AAA
Outlook:	Stable

Last Review Date: 15/12/22

Issue Rating History:

Date	Rating	Outlook/Alert
19/10/21	AAA	Stable
29/05/20	AAA	Negative
20/02/20	AAA	Stable

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RATIONALE

TRIS Rating affirms the ratings on the guaranteed debentures issued by Honda Leasing (Thailand) Co., Ltd. (HLTC or the “issuer”) at “AAA” with a “stable” rating outlook. The debentures are guaranteed by the issuer’s parent company, Honda Automobile (Thailand) Co., Ltd. (HATC or the “guarantor”). HATC is a subsidiary of Honda Motor Co., Ltd. (HMC), a company rated “A-” with a “stable” outlook by S&P Global Ratings (S&P Global).

KEY RATING CONSIDERATIONS

Unconditional, irrevocable guarantee

The ratings on HLTC’s debentures reflect the unconditional and irrevocable guarantee by HATC, whose creditworthiness is enhanced by the keepwell agreement provided by its ultimate parent company, HMC. Under the guarantee terms, HATC covers all amounts due under the terms of the debentures of up to 110% of face value, including the principal, plus any accrued interest, and other related expenses. The guarantee agreement is governed by Thai law.

According to the keepwell agreement between HATC and HMC, which is governed by Japanese law, HMC, the ultimate parent company of HATC, shall:

- (1) own and hold, directly and indirectly, the legal title to and beneficial interest in, at least 80% of all the issued and outstanding shares of stock of HATC;
- (2) cause HATC to have a positive consolidated tangible net worth;
- (3) ensure that HATC has sufficient liquidity and funds to punctually meet its payment obligations associated with the debt described in the keepwell agreement.

Also, any claims on HMC arising from any funds provided by HMC to HATC are subordinated to the claims of the debentureholders. So long as any debt shall be outstanding, the agreement shall not be modified, amended, or terminated in any manner which may have any adverse effect upon the debentureholders unless the debentureholders and the representatives of the debentureholders have consented thereto in writing.

Although the keepwell agreement is not a guarantee, TRIS Rating is of the view that given the high credit quality of HMC and HATC’s status as a core subsidiary of HMC, it is highly likely that HMC will provide sufficient financial support to HATC to ensure that all of HATC’s obligations are met.

HATC: Core subsidiary of HMC

In our view, HATC’s creditworthiness is tied to its status as a core member of HMC, which holds a 64% stake in the company. HATC has obtained business and financial support from HMC. We anticipate this to continue in the foreseeable future.

In terms of business, HATC’s production plans, marketing strategy, and risk management policies are integrated with those of HMC’s overall group strategy. For example, HMC provides technological knowhow as well as advice about new products to HATC to meet the global standards of the Honda Group. HATC also operates as a strategic production base for HMC’s overseas expansion efforts, especially in the production of hybrid cars and automobile parts. HATC also plans to support battery electric vehicles (BEVs) production, which potentially begin within the next few years.

HATC has received financial support as shown by the keepwell agreement between HATC and HMC. On a stand-alone basis, HATC has a strong financial profile with stable cash flow and low level of debt.

We expect HATC's business position to remain strong over the next two to three years. HATC's solid market position also underpins its group status as a core member of HMC. HATC has maintained a leading market share in passenger car sales in Thailand. Its market share has stood at 10%-12% over the past few years. We expect HATC's business position to remain strong over the medium term, supported by HATC's continual launching of new car models including hybrid models. The proportion of hybrids will increase in the next few years to reflect market receptions.

HLTC, Captive finance arm of HATC

We consider that HLTC will continue to receive strong business and funding supports from HATC given its status as a captive finance arm set up to provide financial services for HATC's clients. HLTC has supported HATC in its business expansion and synchronized marketing strategies to help sell "Honda" cars through referrals from HATC's dealers. HLTC's loan portfolio stood at THB66.9 billion as of March 2023, decreasing 17% year-on-year (y-o-y). This was mainly due to a decrease in car sale units and lower penetration rate. The penetration rate, the number of HATC's customers being financed by HLTC, has decreased to around 20% in the fiscal year 2023 (FY2023: April 2022-March 2023), compared to an average 50 % in the last two years. This was due to the company's cautious growth strategy, caused by higher funding costs and pressure on loan yields amid intense competition.

HLTC's risk position remains strong

In TRIS Rating's view, HLTC's risk position will likely remain sound despite some deterioration in asset quality, impacted by the weak economy. We believe this should remain manageable and is supported by its conservative underwriting policy. The ratio of stage-3 loans to total loans (NPL ratio) of HLTC increased slightly to 0.4% at the end of March 2023, compared to 0.2% y-o-y, lower than the industry.

HLTC maintains adequate liquidity and financial profile

HLTC's asset-liability duration gap has remained positive. HLTC has various sources of funds including loans from large Thai and Japanese financial institutions and the Honda Group, which help provide additional financial flexibility. At the end of September 2023, the company had credit facilities from various financial institutions totaling THB119 billion, 68% of which were undrawn. HLTC also receives financial support from HATC, as illustrated by the letter of guarantee provided to HLTC's debentureholders.

BASE-CASE ASSUMPTIONS

- The ratings on HMC as assigned by S&P Global to remain unchanged over the forecast period.
- The unconditional and irrevocable guarantee by HATC, whose creditworthiness is enhanced by the keepwell agreement provided by HMC, will remain in full force.

RATING OUTLOOK

The "stable" outlook for HLTC's guaranteed debentures reflects our expectation that the profitability of HATC's keep-well provider, HMC, will recover. This is due to improvements in productivity and the launch of new automobile models as well as a sound financial position over the next one to two years.

RATING SENSITIVITIES

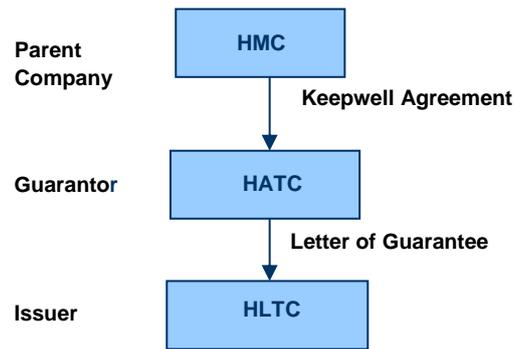
The ratings on HLTC's guaranteed debentures could be downgraded if the rating on HMC is downgraded.

COMPANY OVERVIEW

HATC was established in 2000 following the merger between Honda Cars (Thailand) Co., Ltd. (HCT), a sales and distribution company of the Honda Group in Thailand, and Honda Cars Manufacturing (Thailand) Co., Ltd. (HCMT), an automobile manufacturer. Currently, HMC remains the largest shareholder of HATC with an 89% stake (both direct and indirect).

HLTC is an automobile financing company, established in 2002 as a captive finance subsidiary of its parent companies, HATC and Asian Honda Motor Co., Ltd. (ASH). HLTC was founded to support the sales and marketing activities of its parent companies. At present, HLTC's shareholders are HATC (holding 51.2%) and ASH (holding 48.8%). The company's entire portfolio comprises loans for Honda-branded automobiles, products produced by the parent companies.

Chart 1: Support Structure of Honda Group



Source: HLTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

**Honda Automobile (Thailand) Co., Ltd. (HATC)
(Guarantor)**

Unit: Mil. THB

	-----Year Ended 31 March -----				
	2023	2022	2021	2020	2019
Total operating revenues	157,320	150,317	138,571	205,070	237,951
Earnings before interest and taxes (EBIT)	7,368	5,591	4,108	13,737	13,455
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,971	9,305	7,752	17,211	17,350
Funds from operations (FFO)	9,636	8,211	7,517	15,455	16,607
Adjusted interest expense	45	44	34	263	39
Total assets	86,237	81,936	86,373	93,722	102,581
Adjusted debt	0	0	0	0	0
Adjusted equity	47,621	46,742	51,218	53,395	54,559
Adjusted Ratios					
EBITDA margin (%)	6.97	6.19	5.59	8.39	7.29
Pretax return on permanent capital (%)	14.29	10.46	7.24	23.73	23.69
EBITDA interest coverage (times)	245.73	213.25	225.60	65.40	444.13
Debt to EBITDA (times)	0	0	0	0	0
FFO to debt (%)	0	0	0	0	0
Debt to capitalization (%)	0	0	0	0	0

* Consolidated financial statements

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Honda Leasing (Thailand) Co., Ltd. (HLTC)

Issue Ratings:

HLTC242A: THB2,000 million guaranteed debentures due 2024	AAA
HLTC252A: THB3,000 million guaranteed debentures due 2025	AAA

Rating Outlook:Stable

TRIS Rating Co., Ltd.

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