

HONDA LEASING (THAILAND) CO., LTD.

No. 222/2021
17 December 2021

FINANCIAL INSTITUTIONS

Issue Ratings:

Guaranteed	AAA
Outlook:	Stable

Last Review Date: 19/10/21

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 rating on the guaranteed debentures issued by Honda Leasing (Thailand) Co., Ltd. (HLTC or the “issuer”) at “AAA” with a “stable” rating outlook. At the same time, TRIS Rating assigns the “AAA” rating with a “stable” outlook to HLTC’s proposed guaranteed debentures of up to THB3 billion due within three years.

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 and irrevocable guarantee

The rating on HLTC’s debentures reflects 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 provides a guarantee to cover 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.

In addition, 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, HMC will provide sufficient financial support to HATC to ensure that all of HATC’s obligations are met.

HATC is a core subsidiary of HMC

HATC’s creditworthiness reflects its status as a core member of HMC which holds a 64% stake in HATC. We expect HMC will continue to provide support to maintain HATC’s business and financial profile.

HATC has obtained business and financial support from HMC. In terms of business cooperation, 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.

We anticipate HATC's business position to remain strong over the next 2-3 years. HATC has maintained a leading market share in passenger car sales in Thailand, ranking first among automakers in Thailand. In 2020, its market share stood at about 28% and for the first 10 months of 2021 at 31%. We expect its strong market position to be retained, supported by HATC's continual launching of new car models included hybrid models, such as "The All New HR-V e:HEV" introducing in November 2021. 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 has a strong financial profile with a stable cash flow and low level of debt. In terms of financial cooperation, HATC has received financial support as shown by the keepwell agreement between HATC and HMC. TRIS Rating believes HMC's support and commitments to HATC will continue into the foreseeable future.

HATC continues to support HLTC as a captive finance arm

We believe that HLTC will continue to receive strong business and funding support 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 cooperated in marketing strategies to support sales of Honda cars through referrals from HATC's dealers. The average penetration rate, i.e., the number of HATC's customers being financed by HLTC, has been maintained at around 40% over the past few years.

HLTC is also one of the market leaders in automobile financing in Thailand. Its loan portfolio increased slightly to THB81.1 billion as of March 2021, a 3% growth from March 2020. This resulted from the recovery in sales growth at HATC. In our view, HLTC's risk position will likely remain healthy due to the generally good credit profiles of its clients and its conservative underwriting policy. The ratio of non-performing or stage-3 loans to total loans (NPL ratio) of HLTC remained at 0.2% at the end of March 2021, lower than those of peers. Even though its asset quality may be potentially impacted after the end of the debt relief programs, we believe it should remain manageable.

We expect HLTC to maintain an adequate liquidity and financial profile. HLTC's asset-liability duration gap has remained positive. HLTC has various sources of funds from large financial institutions and loans from the Honda Group in Thailand, which help provide additional financial flexibility. At the end of September 2021, the company had credit facilities from various financial institutions totaling THB119 billion, 50% of which were undrawn. HLTC also receives financial support from HATC, as shown by the letter of guarantee provided to HLTC's debentureholders.

BASE-CASE ASSUMPTIONS

- Credit 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 the company's keepwell provider, HMC, will recover due to improvements in productivity and the launch of new automobile models as well as a sound financial position over the next 1-2 years.

RATING SENSITIVITIES

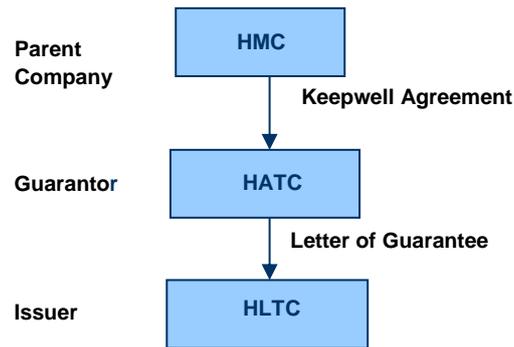
The ratings on HLTC's guaranteed debentures could be downgraded if HMC's rating is downgraded.

COMPANY OVERVIEW

HATC was established in 2000 as a result of 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 continues to be 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, the 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 -----				
	2021	2020	2019	2018	2017
Total operating revenues	137,498	205,070	237,951	232,984	196,034
Earnings before interest and taxes (EBIT)	4,108	13,737	13,455	8,898	6,682
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,752	17,211	17,350	13,030	11,023
Funds from operations (FFO)	7,294	15,122	16,680	12,151	10,137
Adjusted interest expense	34	263	39	30	25
Total assets	86,373	93,722	102,581	100,147	88,326
Adjusted debt	0	0	0	0	0
Adjusted equity	51,218	53,395	54,559	52,443	46,158
Adjusted Ratios					
EBITDA margin (%)	5.64	8.39	7.29	5.59	5.62
Pretax return on permanent capital (%)	7.24	23.73	23.69	17.04	14.44
EBITDA interest coverage (times)	225.60	65.40	444.13	438.09	438.82
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

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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

Issue Ratings:

HLTC233A: THB3,000 million guaranteed debentures due 2023	AAA
HLTC242A: THB2,000 million guaranteed debentures due 2024	AAA
Up to THB3,000 million guaranteed debentures due within 3 years	AAA

Rating Outlook:Stable

TRIS Rating Co., Ltd.

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