

# HONDA LEASING (THAILAND) CO., LTD.

No. 229/2022  
15 December 2022

## FINANCIAL INSTITUTIONS

### Issue Ratings:

|            |        |
|------------|--------|
| Guaranteed | AAA    |
| Outlook:   | Stable |

Last Review Date: 17/12/21

### Issue Rating History:

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

### Contacts:

Siriwan Weeramethachai  
siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM  
sithakarn@trisrating.com

Jittrapan Pantaleard  
jittrapan@trisrating.com

Taweekoch Jiamsakunthum  
taweekoch@trisrating.com

Narumol Charnchanavivat  
narumol@trisrating.com



WWW.TRISRATING.COM

## 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 and 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 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, 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 reflects its status as a core member of HMC, which holds a 64% stake in the company. HATC has received business and financial support from HMC. We expect this to continue in the foreseeable future.

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. HATC also operates as a strategic production base for HMC’s overseas expansion efforts, especially in the production of hybrid cars and automobile parts. In terms of financial cooperation, 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.

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. We anticipate HATC's business position to remain strong over the next 2-3 years, backed by HATC's continuous launching of new car models including hybrid models, such as "New CIVIC e:HEV" and "All New BR-V" launched in 2022. In 2021, its market share rose to about 31% from 28% in 2020. This was mainly due to the recovery in car sales following the relaxation of the Coronavirus Disease 2019 (COVID-19) control measures. However, HATC's market share dropped to 23% for the first nine months of 2022. This was due to the production constraints resulting from semiconductor shortages that led to delays in car production and delivery.

#### **HLTC remains captive finance arm of HATC**

We believe 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 THB80.3 billion as of March 2022, flat year-on-year (y-o-y). The average penetration rate, the number of HATC's customers being financed by HLTC, has been maintained at around 40% over the past few years.

#### **HLTC's risk position remains strong**

In our view, HLTC's risk position will likely remain healthy due to the sound 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 2022, lower than those of peers. Though its asset quality may be potentially impacted by the uncertain economic environment, we believe it should remain manageable.

#### **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 financial institutions in Thailand and the Honda Group, which help provide additional financial flexibility. At the end of September 2022, the company had credit facilities from various financial institutions totaling THB120 billion, 57% 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**

- 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 the company's keepwell 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 1-2 years.

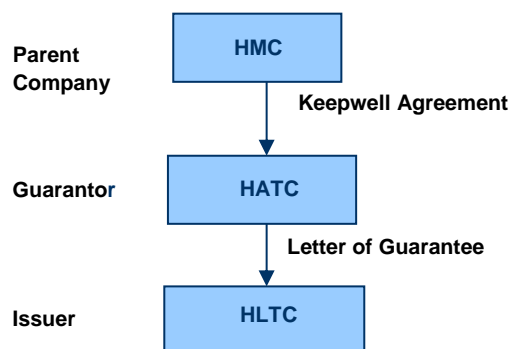
#### **RATING SENSITIVITIES**

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, 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 ----- |         |         |         |         |
|--|--------------------------------|---------|---------|---------|---------|
|  | 2022                           | 2021    | 2020    | 2019    | 2018    |
| Total operating revenues   | 150,317                        | 138,571 | 205,070 | 237,951 | 232,984 |
| Earnings before interest and taxes (EBIT)                                | 5,591                          | 4,108   | 13,737  | 13,455  | 8,898   |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 9,305                          | 7,752   | 17,211  | 17,350  | 13,030  |
| Funds from operations (FFO)  | 8,211                          | 7,517   | 15,455  | 16,607  | 12,556  |
| Adjusted interest expense  | 44                             | 34      | 263     | 39      | 30      |
| Total assets   | 81,936                         | 86,373  | 93,722  | 102,581 | 100,147 |
| Adjusted debt  | 0                              | 0       | 0       | 0       | 0       |
| Adjusted equity  | 46,742                         | 51,218  | 53,395  | 54,559  | 52,443  |
| <b>Adjusted Ratios</b>   |                                |         |         |         |         |
| EBITDA margin (%)  | 6.19                           | 5.59    | 8.39    | 7.29    | 5.59    |
| Pretax return on permanent capital (%)                                   | 10.46                          | 7.24    | 23.73   | 23.69   | 17.04   |
| EBITDA interest coverage (times)   | 213.25                         | 225.60  | 65.40   | 444.13  | 438.09  |
| 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**

- Group Rating Methodology, 7 September 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020
- Rating Methodology – Corporate, 26 July 2019

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

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**Issue Ratings:**

|   |     |
|---|-----|
| HLTC233A: THB3,000 million guaranteed debentures due 2023 | AAA |
| HLTC242A: THB2,000 million guaranteed debentures due 2024 | AAA |
| HLTC252A: THB3,000 million guaranteed debentures due 2025 | AAA |

**Rating Outlook:**Stable

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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