

HONDA LEASING (THAILAND) CO., LTD.

No. 228/2024

6 December 2024

FINANCIAL INSTITUTIONS

Issue Rating:

Guaranteed	AAA
Outlook:	Stable

Last Review Date: 12/12/23

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

Taweechok Jiamsakunthum

taweechok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

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.

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

HLTC is guaranteed by HATC

The guarantee provided by HATC to HLTC is unconditional and irrevocable. At the same time, HATC’s 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

HATC’s creditworthiness is closely linked to its status as a core member of HMC, which directly and indirectly owns an 89% stake in the company. HATC has consistently received business and financial support from HMC, a trend we expect to continue in the foreseeable future.

From a business perspective, HATC’s production plans, marketing strategies, and risk management policies are aligned with HMC’s overall group strategy. For instance, HMC provides technological expertise and advice on new products to HATC, ensuring compliance with the global standards of the Honda

Group. Also, HATC serves as a strategic production base for HMC's overseas expansion, particularly in the production of hybrid cars and automobile parts. HATC also supports the production of battery electric vehicles (BEVs), which may expand 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 anticipate that HATC's business position will remain robust over the next two to three years. Its solid market position reinforces its status as a core member of HMC. HATC has maintained a leading market share in passenger car sales in Thailand, consistently ranking second with a of 10%-13% market share over the past few years. Despite the slow recovery in automobile demand due to weak economic conditions, declining used car prices, and the introduction of BEVs in Thailand, we expect HATC's business position to remain strong in the medium term. This resilience is supported by HATC's continuous launch of new car models, including hybrids, with the proportion of hybrids expected to increase in the coming years to meet stronger demand in the market.

HLTC: Captive finance arm of HATC

We believe that HLTC will continue to receive substantial business and funding support from HATC due to its role as a captive finance arm established to provide financial services for HATC's clients. HLTC has played a crucial role in supporting HATC's business expansion and aligning marketing strategies to facilitate the sale of "Honda" cars through referrals from HATC's dealers.

At the end of March 2024, HLTC's loan portfolio was THB55.6 billion, reflecting a 17% year-on-year (y-o-y) decrease. This decline was primarily attributed to a reduction in car sales units, a cautious growth strategy driven by higher funding costs, and a more stringent underwriting policy due to concerns over asset quality amid weak economic conditions. The penetration rate, which measures the proportion of HATC's customers financed by HLTC, dropped to around 20% in the fiscal year 2024 (FY2024: April 2023-March 2024), compared to an average of 50% over the previous two years. However, the penetration rate increased by 20% y-o-y in the first half of the fiscal year 2025 (April 2024-September 2024).

HLTC's risk position remains strong

TRIS Rating expects HLTC's risk position to remain sound despite some deterioration in asset quality due to the weak economy. This is supported by HLTC's prudent underwriting policy. The ratio of stage-3 loans to total loans (NPL ratio) for HLTC increased slightly to 0.4% at the end of FY2023-FY2024, compared to a lower 0.2% in previous years, which is still significantly below the industry average.

HLTC maintains adequate liquidity and financial profile

HLTC has maintained a positive asset-liability duration gap. The company benefits from diverse funding sources, including loans from major Thai and Japanese financial institutions, as well as the Honda Group, which enhances its financial flexibility. At the end of September 2024, HLTC had credit facilities totaling THB111 billion from various financial institutions, with 67% of these facilities remaining undrawn. Also, HLTC receives financial support from HATC, exemplified 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 HATC's keep-well provider, HMC, will maintain profitability by keeping costs under control. Also, HMC will sustain a solid financial position.

RATING SENSITIVITIES

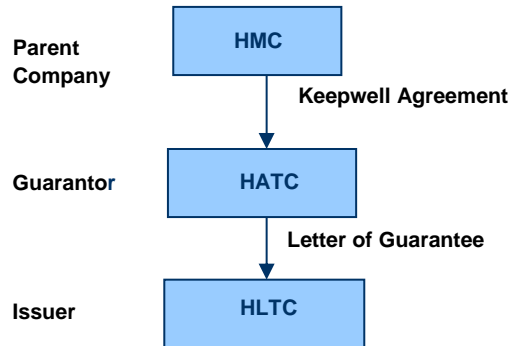
The rating on HLTC's guaranteed debentures could be downgraded if the rating on HMC is downgraded.

COMPANY OVERVIEW

HATC was established in 1992 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 -----				
	2024	2023	2022	2021	2020
Total operating revenues	173,493	157,320	150,317	138,571	205,070
Earnings before interest and taxes (EBIT)	6,987	7,368	5,591	4,108	13,737
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,204	10,971	9,305	7,752	17,211
Funds from operations (FFO)	8,014	9,636	8,211	7,517	15,455
Adjusted interest expense	41	45	44	34	263
Total assets	90,926	86,237	81,936	86,373	93,722
Adjusted debt	0	0	0	0	0
Adjusted equity	47,418	47,621	46,742	51,218	53,395
Adjusted Ratios					
EBITDA margin (%)	5.9	7.0	6.2	5.6	8.4
Pretax return on permanent capital (%)	13.6	14.3	10.5	7.2	23.7
EBITDA interest coverage (times)	247.2	245.7	213.2	225.6	65.4
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, 25 September 2024
- 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 Rating:

HLTC252A: THB3,000 million guaranteed debentures due 2025

AAA

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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

© Copyright 2024, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria