MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns (P)Ba3 ratings to Iochpe-Maxion and its proposed sustainability-linked notes; stable outlook

22 Apr 2021

New York, April 22, 2021 -- Moody's Investors Service, ("Moody's") has today assigned a provisional (P)Ba3 corporate family rating to Iochpe-Maxion S.A. (Iochpe-Maxion). At the same time, Moody's assigned a (P)Ba3 rating to the proposed up to $400 million senior unsecured sustainability-linked notes due in 7 years to be co-issued by Iochpe-Maxion Austria GmbH and Maxion Wheels de Mexico, S. de R.L. de C.V., and fully and unconditionally guaranteed by Iochpe-Maxion. The outlook for the ratings is stable.

The proposed issuance is part of Iochpe-Maxion's liability management strategy, and proceeds will be used to pay down debt instruments maturing in the next few years. The proposed sustainability-linked notes include coupon step up clauses in case the company does not achieve certain sustainability performance targets. The rating of the proposed notes assumes that the final transaction documents will not be materially different from draft legal documentation reviewed by Moody's to date and assume that these agreements are legally valid, binding and enforceable.

The provisional designation for ratings will be removed once the notes have been issued and assuming no material changes have occurred to the draft documentation reviewed by Moody's.

This is the first time Moody's assigns ratings to Iochpe-Maxion.

Ratings assigned:

Issuer: Iochpe-Maxion S.A.

---Corporate Family Rating: (P)Ba3

Outlook stable

Co-issuers: Iochpe-Maxion Austria GmbH and Maxion Wheels de Mexico, S. de R.L. de C.V.

- Proposed Gtd senior unsecured notes due in 7 years: (P)Ba3

-Outlook stable

The outlook for the ratings is stable.

RATINGS RATIONALE

Iochpe-Maxion S.A.'s ("Iochpe-Maxion") (P)Ba3 rating reflects the company's size, scale and position as a leading global supplier of steel and aluminum wheels for light and commercial vehicles and a major provider of structural components in the Americas, as well as its good geographic diversity and long-standing relationship with OEMs. The rating also incorporates Iochpe-Maxion's adequate corporate governance standards, its experienced management team and its strengthened financial policies.

Iochpe-Maxion's adequate liquidity profile pro forma to the proposed issuance and to the other initiatives carried-out by the company since the beginning of 2021 also support its ratings, with pro forma cash position covering all debt maturities until the end of 2022, compared to a cash coverage of short term debt of 0.8x at the end of 2020. Additionally, the ratings reflect Iochpe-Maxion's ability to expand market share and post robust revenue growth historically, even under times of a tough environment for the global automotive industry, and Moody's expectations that credit metrics will return to pre-pandemic levels in the next 12 to 18 months.

Conversely, Iochpe-Maxion's ratings are constrained by its prospects of limited free cash flow generation arising from the industry's thin margins and capital intensity. Additional rating constraints include the company's growth history through leveraged acquisitions, although it will likely be focused on organic growth in the medium term, its exposure to the cyclicality of the automotive industry and the volatile nature of its raw materials, namely steel and alumina. Finally, the company's exposure to a commoditized product offering and to the bargaining power of large OEMs is an additional credit negative, as it increases price pressure and limits margin expansion.

In 2020, Iochpe-Maxion's total sales declined 13% compared to 2019, hurt by the stoppage of OEMs production during the first half of the year because of the coronavirus pandemic. The company's profitability also declined based on less fixed cost dilution and a less favorable sales mix, with a lower share of sales related to commercial vehicles. To respond to the steep decline in sales, Iochpe-Maxion reduced production output in 70% of its facilities, announced cost saving initiatives and raised new credit lines to strengthen its liquidity position during the pandemic. Although these measures eased the cash burn during the weakest months of auto production, the company generated negative free cash flow of BRL369 million and leverage peaked at 10.3x in 2020 (up from 3.2x in 2019). We expect adjusted gross leverage to decline to around 3.5-4.5x in the next 12-18 months, supported by the payment of BRL1 billion in short-term debt and gradual recovery in the global automotive sector.

Historically, Iochpe-Maxion operated with a tight liquidity profile, based on a weak cash coverage of short term debt, prospects for limited free cash flow generation and a significant amount of debt maturing in the short-term. However, since the beginning of 2021, the company has announced several liability management initiatives to improve liquidity, including: (1) replacement of BRL940 million in short-term and medium-term debt by a new BNDES line with 2 years of grace period and final maturity in 2027, (2) the proposed issuance of up to $400 million notes with maturity in 2028 with proceeds directed at prepayment of debt maturing in the next few years and (3) use excess cash of up to BRL1 billion to pay short term debt. On a pro forma basis, cash position will be sufficient to cover all debt maturities until 2022 year-end.

After all transactions are concluded, Iochpe-Maxion will still have BRL1 billion in debt maturing in 2022-23, mostly related to debentures issued in the Brazilian market. Although we expect that the company will continue to have access to the debt market to refinance these maturities, we still see some residual refinancing risk in case the company does not proactively roll-over its debt on a timely manner.

RATING OUTLOOK

The stable outlook reflects our expectations that Iochpe-Maxion's profitability and leverage will return to levels before the coronavirus outbreak in the next 12 to 18 months, and that the company will prudently manage debt refinancing, capital spending and dividend distributions to preserve its liquidity profile, especially during periods marked by volatility and uncertainties in the industry.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating could be upgraded if Iochpe-Maxion's profitability further improves, along with adjusted leverage below 3.0x, and its interest coverage ratio of EBITA to interest expense approaching a sustainable 3.5x. For an upgrade, we would also require that Iochpe-Maxion maintain an adequate liquidity profile, keeping cash coverage of short-term debt sustainably above 1.0x, as well as positive free cash flow generation, which provides Iochpe-Maxion with more buffer to withstand the volatility in its end markets.

The rating could be downgraded if Iochpe-Maxion's profitability deteriorates, with EBITA margins below 8%, while its adjusted leverage is maintained above 4x and its free cash flow generation remains negative without prospects of improvement. A deterioration in the company's liquidity profile could also trigger a rating downgrade. Finally, weaker financial policies, as evidenced by funding concentrated on short term facilities, a sizeable, debt-funded acquisition or large shareholders distribution would also put negative pressure on the rating. Finally, an increase in the proportion of secured debt compared to unsecured debt could lead us to downgrade the unsecured ratings of its notes.

COMPANY PROFILE

Headquartered in Cruzeiro, Brazil, Iochpe-Maxion S.A. is the largest global producer of steel wheels for light and commercial vehicles, the 9th largest global producer of aluminum wheels for light vehicles and a leading producer of side rails and chassis in the Americas. The company has 32 plants located in 14 countries in Europe, South America, North America, Asia and Africa with a total production capacity of 62 million of steel wheels and 17 million of aluminum wheels per year. Iochpe-Maxion also has a 19.50% interest in an associated company that produces freight cars, railway wheels and castings, as well as industrial castings in Brazil. In 2020 the company generated BRL8.8 billion ($1.7 billion) in net revenues and BRL566 million ($110 million) in EBITDA.

The principal methodology used in these ratings was Automotive Supplier Methodology published in January

2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170606 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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