CREDIT OPINION

5 February 2025

Update

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RATINGS

Iochpe-Maxion S.A.

Domicile	Cruzeiro, Brazil
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Iochpe-Maxion S.A.

Annual update

Summary

Iochpe-Maxion S.A.'s Ba3 ratings reflect the company's size, scale and position as a leading global supplier of steel and aluminum wheels for light and commercial vehicles, and as a major provider of structural components in the Americas; its good geographic diversification; and its long-standing relationships with automakers. The ratings also factor in Iochpe-Maxion's adequate corporate governance standards, experienced management team and strengthened financial policies.

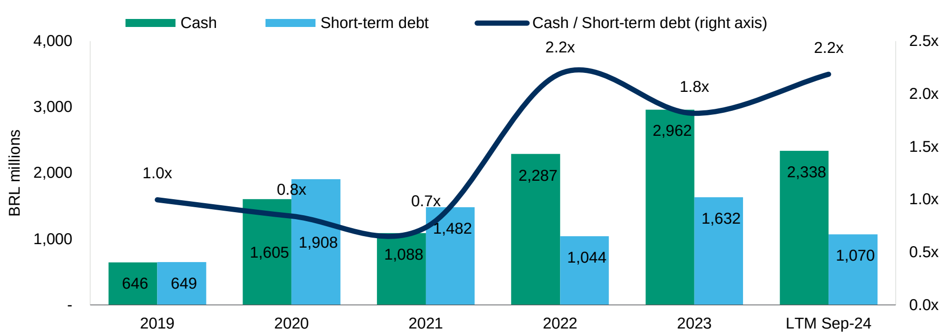
Improved liquidity following several liability management initiatives since the beginning of 2021 also supports the company's ratings, with its cash position covering all short-term debt maturities.

The ratings also reflect Iochpe-Maxion's ability to expand its market share and its track record of robust revenue growth even amid a difficult operating environment for the global automotive industry; and its adequate credit metrics, with Moody's-adjusted leverage of 3.0x-4.0x through economic cycles.

Iochpe-Maxion's ratings are constrained by its limited free cash flow (FCF) generation as a result of the industry's thin margins and capital intensity. Additional rating constraints include the company's history of growth through leveraged acquisitions, although it is likely to focus on organic growth over the next few years; and its exposure to the cyclicality of the automotive industry and the volatility in the prices of raw materials (steel and aluminum). The company's exposure to a commoditized product offering and the bargaining power of large original equipment manufacturers (OEMs) are also credit negative because they increase pricing pressure and limit margin expansion.

Exhibit 1

Liability management initiatives improved liquidity



All figures and ratios are based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» Size and scale as a leading global supplier of wheels and structural components

» Good geographic diversification and long-standing relationships with OEMs

» Adequate corporate governance and strengthened financial policies

» Adequate liquidity following liability management initiatives since the beginning of 2021

» Adequate credit metrics

Credit challenges

» Exposure to the cyclicality of the automotive industry

» Commoditized product offering and volatility in the prices of raw materials

» Acquisitive growth history

Rating outlook

The stable rating outlook reflects our expectations that Iochpe-Maxion's profitability and leverage will remain adequate in the next 12-18 months despite potential market volatility; and that the company will prudently manage debt refinancing, capital spending and dividend distributions to preserve its liquidity.

Factors that could lead to an upgrade

We could upgrade Iochpe-Maxion's ratings if its profitability improves, with Moody's-adjusted leverage below 3.0x, and interest coverage ratio (EBITA/interest expense) approaches 3.5x on a sustained basis. For an upgrade, Iochpe-Maxion would have to maintain adequate liquidity, with cash coverage of short-term debt above 1.0x on a sustained basis; and positive FCF generation, which would help the company withstand the volatility in its end markets.

Factors that could lead to a downgrade

We could downgrade Iochpe-Maxion's ratings if its profitability deteriorates, with an EBITA margin below 8%, while its adjusted leverage remains above 4.0x and FCF generation stays negative without any prospect of improvement. A deterioration in the company's liquidity could also lead to a rating downgrade. Weaker financial policies — reflected in funding concentrated in short-term facilities, a sizable debt-funded acquisition or a large shareholder distribution — would also strain the ratings. Finally, an increase in the proportion of secured debt compared with unsecured debt would also lead to a downgrade of the rating of the unsecured notes.

Key indicators

Exhibit 2
Iochpe-Maxion S.A.

(in $ billions)	2019	2020	2021	2022	2023	LTM Sep-24	Moody's 12-18 month forward view
Revenue	2.5	1.7	2.5	3.3	3.0	2.9	3.0 - 3.2
EBIT Margin %	6.7%	0.1%	7.9%	7.5%	6.3%	7.6%	8.7% - 9.3%
Debt / EBITDA	3.3x	10.3x	3.7x	3.9x	5.0x	4.0x	3.1x - 3.5x
EBITDA / Interest Expense	4.7x	2.1x	4.2x	2.4x	2.0x	2.5x	2.6x - 3.0x
RCF / Net Debt	21.9%	1.1%	16.1%	12.4%	7.7%	16.5%	27.4% - 31.5%

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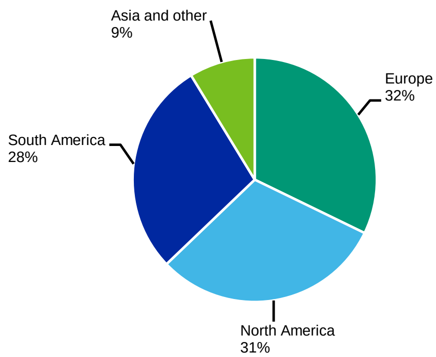
The forecasts are our opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

Headquartered in Cruzeiro, Brazil, Iochpe-Maxion S.A. is the largest global producer of steel wheels for light and commercial vehicles. It is among the top 10 global producers of aluminum wheels for light vehicles, and is a leading producer of side rails and chassis in the Americas. The company has 33 plants located in 14 countries in Europe, South America, North America, Asia and Africa, with around 50 million wheels produced per year.

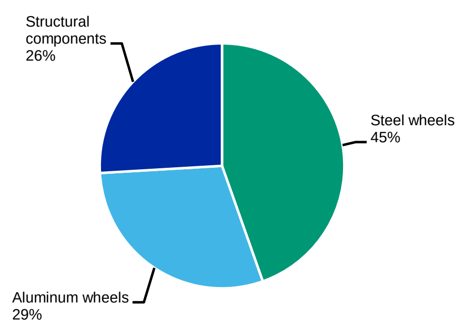
Iochpe-Maxion also has a 19.5% interest in an associated company that produces freight cars, railway wheels and castings, and industrial castings in Brazil. In the twelve months that ended in September 2024, the company generated BRL14.9 billion (around $2.7 billion) in net revenue and BRL1.6 billion (around $297 million) in Moody's-adjusted EBITDA.

Exhibit 3
Net revenue by geography
Year-to-date as of September 2024



Source: Company filings

Exhibit 4
Net revenue by product
Year-to-date as of September 2024



Source: Company filings

Detailed credit considerations

Size and scale as a leading supplier of wheels globally and of structural components in the Americas

Iochpe-Maxion is the largest global supplier of steel wheels for light and commercial vehicles, is among the top 10 global suppliers of aluminum wheels for light vehicles and is a major provider of structural components in the Americas. The company currently holds around 17% of the global market share for steel wheels for light vehicles and 19% for heavy vehicles while it holds 4% of the market for aluminum wheels. The company has a market share of 61% for frame rails and 34% for chassis in South America, and about 49% for frame rails in North America.

Scale and market position are important determinants of business strength in the auto supplier industry because they usually reflect a company's ability to withstand the effects of changes in product demand, and its bargaining strength with customers and suppliers. In this context, the company is better positioned than its smaller competitors to withstand pricing pressure from OEMs, raw material price increases and technological changes. However, the company is not fully insulated from any of those risks.

Good geographic diversification and long-standing relationships with OEMs

Iochpe-Maxion's wide geographic footprint with 33 production sites in 14 different countries, located close to OEMs' facilities, helps reduce client transportation costs and delivery lead time, which is a key competitive factor in this industry. The company has a geographically diversified revenue base, with 32% of total revenue coming from Europe, followed by North America (31%), South America (28%), and Asia and others (9%) in the first nine months of 2024, which reduces risks related to regional downturns in the automotive industry.

The company's long-standing relationships with OEMs, and its proven track record of timely and high-quality deliveries are credit positive. OEMs' wheel purchase orders take into consideration the auto supplier's engineering capability, quality, price and performance, making proven operational capabilities a differentiator during the customer's decision-making process. Engineering and performance tests for wheel programs increase switching costs for OEMs, mitigating business disruption risks. Finally, pass-through clauses for raw material price increases exist for both aluminum and steel wheels. In this context, Iochpe-Maxion's global relationships with OEMs facilitate negotiations and give the company an edge over smaller, regional competitors.

Commoditized product offering and volatility in the prices of raw materials

Around 74% of Iochpe-Maxion's revenue comes from sales of wheels for light and commercial vehicles, with a particularly large exposure to steel wheels for light and commercial vehicles (45% of total revenue year-to-date as of September 2024). Aluminum wheels represented 29% of total revenue, with the remaining 26% coming from the sale of structural components, such as chassis and side rails. The fierce competition and bargaining strength of OEMs increase pricing pressure in all of these segments and limit margin expansion for Iochpe-Maxion on a sustained basis. Furthermore, the company is exposed to the volatility in the prices of steel and aluminum, the two key raw materials in the production of wheels and structural components, and to potential changes in existing import tariffs in its key markets.

Steel wheels are facing competition from other technologies because OEMs are prioritizing vehicles' performance and lower carbon emission, and better design. In mature markets, such as the US (Aaa negative), only around 20% of light vehicles and light-duty trucks have steel wheels, compared with 50% in developing economies such as Brazil (Ba1 positive). However, steel wheels still represent a cheap solution for entry-level cars and spare wheels, and continue to offer greater resistance than aluminum wheels for commercial vehicles. Furthermore, the introduction of new technologies that reduce steel wheels' weight and new products that mix steel and aluminum will benefit the segment, potentially slowing the migration of steel wheels to aluminum wheels. The penetration rate of steel wheels in mature markets will remain close to the current levels in the next few years, providing some stability to Iochpe-Maxion's business model despite the pricing pressure.

China's (A1 negative) large production capacity for aluminum wheels results in pricing pressure for this segment and China has been increasing its production of electric vehicles. Currently, Europe has anti-dumping measures in place to prevent increased imports from China. In Brazil, the end of Inovar-Auto incentive program at year-end 2017 removed the tax benefits for OEMs that used locally produced auto parts, but so far, there has been no significant increase in the import of auto parts because of the depreciation of the local currency. The Brazilian government is also planning to introduce import tariffs on electric vehicles. While we recognize that any change in the current regulation could strain Iochpe-Maxion's profitability, the company has competitive production costs that ensure the viability of its operations globally, even with fiercer competition from imports.

The volatility in the prices of Iochpe-Maxion's main raw materials, steel and aluminum, is an additional credit negative. However, this volatility is an inherent risk for this industry. Raw materials represent about 60% of the company's total operating costs. Aluminum and steel prices have been highly volatile. This volatility can lead to a temporary deterioration in Iochpe-Maxion's profitability, in case the company is not able to pass through price increases to OEMs in a timely manner, although we recognize its track record of margin stability coming from the existence of pass-through clauses with a maximum time lag of 90 days in contracts with OEMs.

Exposure to the cyclicality of the automotive industry

Iochpe-Maxion is exposed to the cyclicality of the automotive industry in its key markets such as Europe, the US and Brazil. Additionally, Iochpe-Maxion has a concentrated client base, with its five largest clients representing nearly 51% of revenue, which exposes the company to business disruption risks. We estimate global light vehicle production to grow by 1.4% in 2025, with the recovery to pre-pandemic levels taking longer than expected, given the difficult global macroeconomic environment in which growth is still stifled by higher borrowing costs and tighter lending, along with a slowdown in Chinese production.

Through economic cycles, we expect Iochpe-Maxion to continue to outgrow the market by expanding its market share. However, the company is likely to remain exposed to regional downturns in the automotive industry, particularly in its European operations as a result of the Russia-Ukraine war. The company's main operation in Europe is located in Turkiye (B1 positive), where it produces light vehicle wheels to export to other European markets. However, Iochpe-Maxion has heavy vehicle wheel operations in Germany and remains exposed to potential volatility in industrial output and sales in Europe in case of an escalation of the ongoing military conflict.

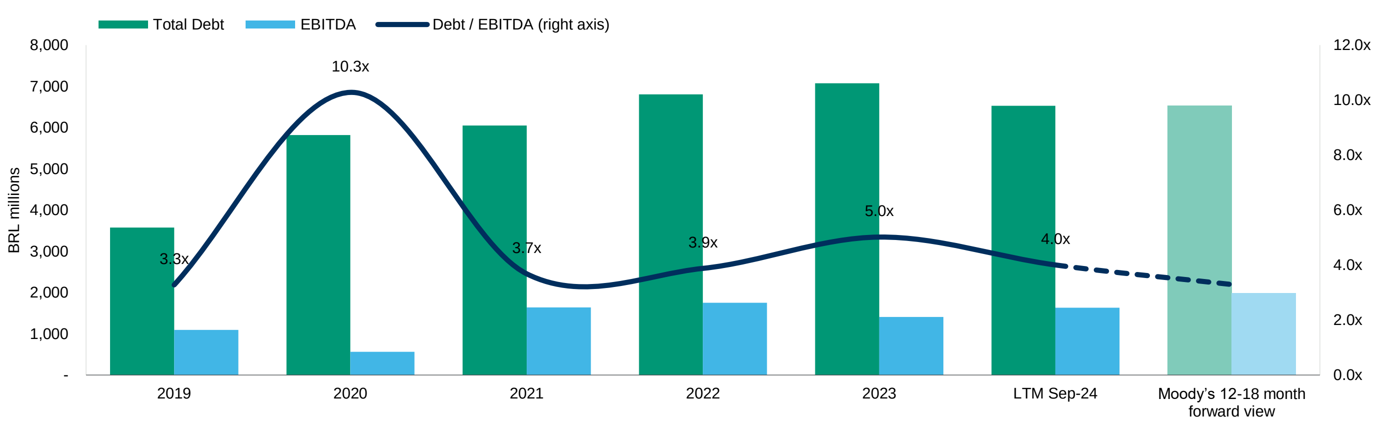
Credit metrics remained stable at adequate levels since the pandemic slump

Iochpe-Maxion was able to improve its profitability and leverage consistently since 2015, even as the Brazilian automotive market deteriorated. The company's global footprint helps mitigate regional downturns in the automotive industry and reduces exposure to currency volatility.

In the 12 months that ended in September 2024, Iochpe-Maxion's revenue declined to BRL14.9 billion from BRL15 billion in 2023, reflecting a reduction in the global production of light and commercial vehicles. Over the same period, the company's profitability rose substantially, with Moody's-adjusted EBITDA margin climbing to 10.9% from 9.4% in 2023. Leverage decreased to 4.0x over the same period, compared with 5.0x in 2023; we expect it to gradually decrease in the next 12-18 months as Iochpe-Maxion's operating performance recovers following a pickup in commercial vehicle production in Brazil. We expect Iochpe-Maxion's revenue to increase to BRL15.5 billion-BRL16.0 billion in 2025 and 2026, with the EBITDA margin recovering to 11.0%-12.0% in the same period. Adjusted gross leverage will improve to 3.5x-4.0x, with stable debt levels and higher EBITDA.

Despite the volatility in the operating environment, we expect the company to maintain its conservative approach to leverage and liquidity during future crises, proactively adjusting costs, cash outflows and capital structure to reduce cash burn and liquidity risks. A longer-than-expected period of weak sales or a significant increase in liquidity risks would also constrain the rating.

Exhibit 5
Improved profitability will support leverage reduction
Moody's-adjusted metrics

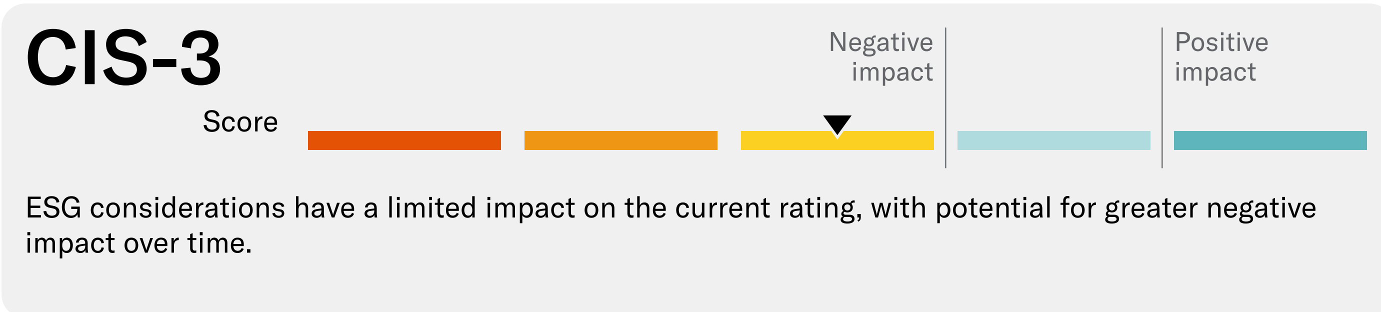


Source: Moody's Ratings estimates

ESG considerations

Iochpe-Maxion S.A.'s ESG credit impact score is CIS-3

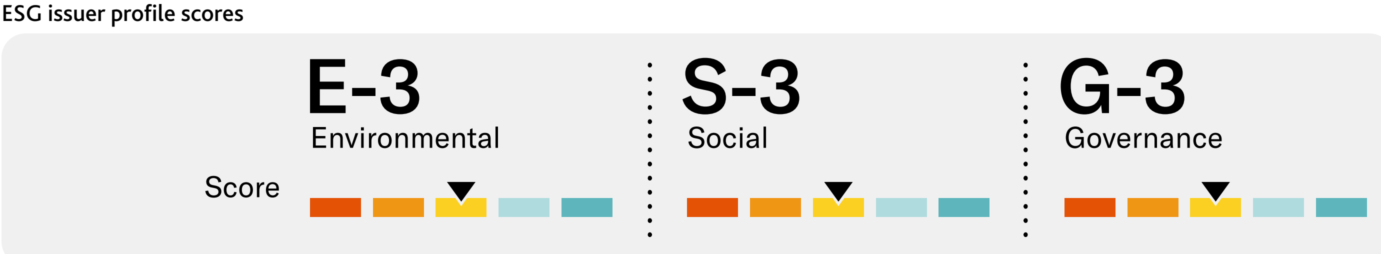
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Iochpe-Maxion's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. Environmental risks relate directly to the customers' ability to reduce vehicle weight and increase efficiency to meet increasing emissions regulations. However, lack of product substitution for wheels limits Iochpe-Maxion's exposure to the automotive electrification trends. Social risks incorporate managing customer relations, responsible production, and health and safety requirements. Governance aspects are incorporated in the rating, and include strengthened financial policies and our expectations of more conservative financial and liquidity management.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Iochpe-Maxion's environmental risks relate directly to customers' ability to reduce vehicle weight and increase efficiency to meet increasing emissions regulations. The company has pledged that it will reduce its greenhouse gas emissions by 30% until December 2025, by 70% by December 2030 and by 100% by 2040.

Social

Iochpe-Maxion is exposed to risks related to customer relations, health and safety and responsible production given the nature of the manufacturing operations.

Governance

Iochpe-Maxion is a publicly traded company, with shares listed on the B3 stock exchange since 1984, currently as part of Novo Mercado, the level with the highest standards of corporate governance in Brazil. Its largest shareholder is the Ioschpe family with 14.1% of total shares, followed by Alaska Investimentos Ltda (9.9%) and Vokin-VKN Administração de Recursos Ltda. (4.83%); 2.5% are treasury shares. The remaining shares are freely traded in the market by domestic and international investors. The company's board of directors comprises nine members, of which four are members of the Ioschpe family. The company has audit, finance and compensation committees in place. The finance and compensation committees are composed of independent board members, while the audit committee has two members appointed by the company's board of directors and one independent member. The members of the Ioschpe family vote together based on a shareholders' agreement valid through October 2028, extendable for another 5 years. There are no family members in the company's management team, which is composed of experienced professionals with many years of experience in the Brazilian and international markets. Currently, the company has formal financial policies regarding target leverage, dividend distribution and cash management, and is in the process of implementing policies related to minimum cash and cash coverage of short-term debt. The company's leverage target accommodates eventual M&A activity, but existing financial covenants limit the risk of any sizable debt-funded acquisition in the medium term. The company's bylaws have a poison pill, establishing that any shareholder acquiring or becoming a holder of 15% or more of Iochpe-Maxion's total shares has to make a public offering for the acquisition of all shares issued by the company, which limits risks related to change in control. Iochpe-Maxion's corporate governance standards are in line with those of other public companies in Brazil listed under B3's Novo Mercado, but could improve with the continued implementation of more conservative liquidity policies. The balanced risks and improvements in corporate governance, including the significant improvement in the company's financial policies and liquidity since the beginning of 2021, are incorporated into the rating.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

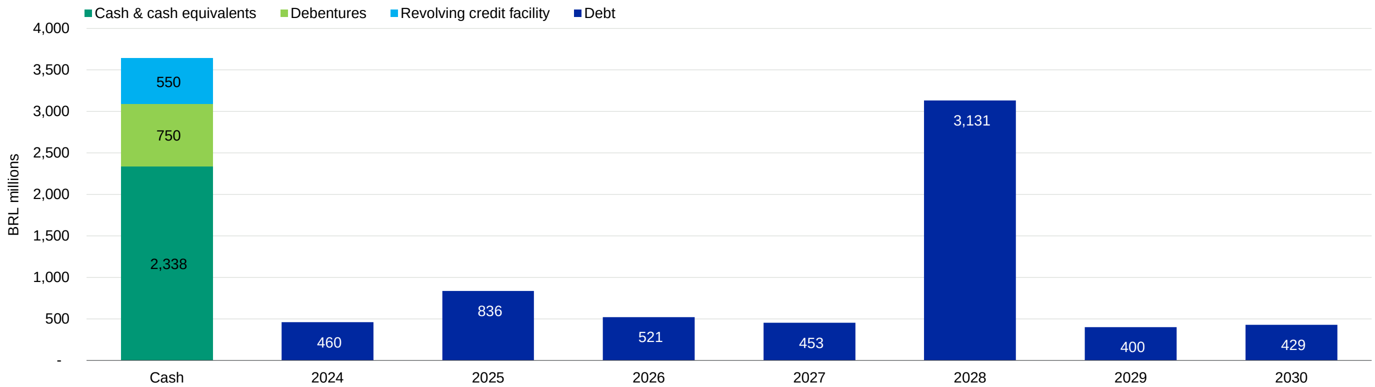
Liquidity analysis

Iochpe-Maxion has adequate liquidity. The company's cash position of around BRL2.4 billion as of the 12 months that ended September 2024 is sufficient to cover all short-term debt maturities by 2.2x. Additionally, the company still has BRL550 million in an undrawn revolving credit facility maturing within three years and BRL210 million (with Agência Especial de Financiamento Industrial S.A. – FINAME) maturing in seven years, with a two-year grace period. Iochpe-Maxion continues to work on additional refinancing initiatives to lengthen its debt amortization schedule further, such as the latest issuance of debentures on October 10th 2024 in the amount of BRL750 million to refinance upcoming debt amortization.

The company's liquidity has improved since the beginning of 2020, reflecting several initiatives carried out by the company to improve its debt amortization schedule. We expect Iochpe-Maxion to generate positive FCF in the next few years despite a capital spending of about BRL550 million per year, but its internal cash generation will remain limited by the industry's thin margins and capital intensity. In addition, we estimate that the company will likely have to invest around 30% of EBITDA in capital spending annually to maintain its operations and meet the growing demand for aluminum wheels in the upcoming years, after having concluded its expansion in India (Baa3 stable) and investments in China, which started to ramp up in H2 2022.

The company's bylaws have established a dividend payout of 37% of net income, above the 25% payout required by Brazilian laws. For 2024, it announced a dividend distribution of BRL58.3 million. Historically, Iochpe-Maxion has maintained an adequate buffer under incurrence financial covenants applicable to part of its total outstanding debt, setting a maximum reported net leverage of 3.5x measured semiannually (2.4x as of the 12 months that ended in September 2024). Iochpe-Maxion grew through leveraged acquisitions and, although we expect the company to focus on organic growth in the next few years, we see risks related to additional debt-funded acquisitions in the long term, when the company is able to improve its balance sheet further.

Exhibit 8
Pro forma debt amortization schedule as of December 2024



Source: Company filings

Methodology and scorecard

Iochpe-Maxion's scorecard-indicated rating under our Automotive Supplier Industry rating methodology maps to Ba3. Our 12-18-month forward-looking scorecard-indicated rating maps to Ba2, reflecting our expectation that profitability and leverage will improve with a rebound in the global commercial and light vehicle production.

Exhibit 9
Rating factors
Iochpe-Maxion S.A.

Automotive Supplier Industry Scorecard	Current LTM Sep-24		Moody's 12-18 month forward view	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ billions)	$2.9	B	$3 - $3.2	B
Factor 2 : Business Profile (15%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability (25%)				
a) EBIT Margin	7.6%	Baa	8.7% - 9.3%	Baa
b) Free Cash Flow Stability	Ba	Ba	Ba	Ba
Factor 4 : Leverage & Coverage (30%)				
a) Debt / EBITDA	4.0x	B	3.1x - 3.5x	Ba
b) EBITDA / Interest Expense	2.5x	Caa	2.6x - 3x	B
c) RCF / Net Debt	16.5%	Ba	27.4% - 31.5%	Baa
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba3		Ba2
b) Actual Rating Assigned				Ba3

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The forecasts are our opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Ratings

Exhibit 10

Category	Moody's Rating

IOCHPE-MAXION S.A.	
Outlook	Stable
Corporate Family Rating	Ba3
IOCHPE-MAXION AUSTRIA GMBH	
Outlook	Stable
Bkd Senior Unsecured	Ba3

Source: Moody's Ratings

Appendix

Exhibit 11
Peer comparison

	Iochpe-Maxion S.A. Ba3 Stable			Nemak, S.A.B de C.V. Ba2 Stable			Superior Industries International, Inc. B3 Stable		
	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM
(in $ millions)	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24
Revenue	3,288.2	2,996.4	2,892.3	4,666.9	4,993.4	4,838.4	1,639.9	1,385.3	1,265.6
EBITDA	340.5	282.6	316.4	463.4	472.3	477.5	198.6	127.2	94.9
Total Debt	1,289.6	1,457.1	1,198.5	1,714.2	1,955.8	2,098.6	751.0	742.0	618.1
Cash & Cash Equivalents	433.2	609.8	429.3	416.6	322.6	266.4	213.0	201.6	24.3
EBIT Margin %	7.5%	6.3%	7.6%	4.0%	3.3%	3.0%	6.4%	2.3%	0.3%
EBITDA / Interest Expense	2.4x	2.0x	2.5x	7.4x	4.9x	4.2x	3.6x	1.8x	1.3x
Debt / EBITDA	3.9x	5.0x	4.0x	3.7x	4.1x	4.4x	3.8x	5.8x	6.5x
Net Debt / Net Capitalization	51.0%	50.2%	47.4%	44.7%	49.9%	48.6%	72.7%	76.6%	92.8%
RCF / Debt	8.2%	4.5%	10.6%	21.8%	17.0%	18.0%	15.5%	7.9%	2.8%

Source: Moody's Ratings

REPORT NUMBER 1436461

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