Iochpe-Maxion S.A.

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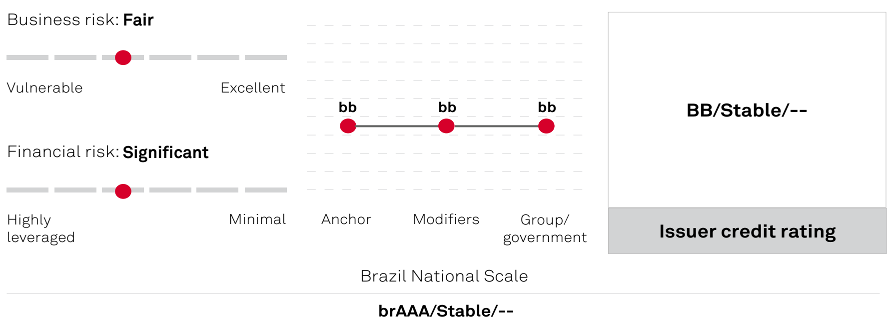
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Among the world's largest wheel manufacturers.	Weaker global demand amid geopolitical tensions.
A wide geographic footprint provides cash-flow protection.	U.S. tariffs might jeopardize volumes and margins in the North American division.
Comfortable liquidity position with an extended debt profile and available revolving credit facility (RCF).	High interest rate in Brazil could weaken volume expectations.

We currently forecast smoother revenue expansion in the coming years from weaker volumes globally. Our forecast assumes the production of light vehicles in Brazil will expand by about 8% in 2025, while the production of heavy vehicles will remain stable versus last year. This aligns with the Brazilian National Association of Automotive Vehicle Manufacturers (ANFAVEA), which released the January-February 2025 production data indicating a growth of 15.1% in light vehicles production and 10.5% of heavy vehicles versus the same period last year.

We believe the sustained high interest and inflation rates domestically could pose risks to such growth expectations, but a recovery of exports to other Latin American countries would balance it. Altogether considering Iochpe's mix of commercial and light vehicles exposure should translate in modest revenue growth at its Brazilian operations of about 1.5% in 2025, and for 2026-2027 we expect 3.0%-3.5%, considering easing of interest and inflation rates supporting stronger vehicles sales.

In North America, we expect mild recovery in light vehicles volume with the easing of interest rates, but it will be weaker than historical levels due to macroeconomic uncertainties and the trade tariffs. On the other hand, we expect the volume of commercial vehicles in the U.S. to remain constrained, and pre-buy movements are expected for 2026 due to regulatory changes to become effective in 2027.

With a weaker 2024 as a starting point to our current forecast, we believe volumes in Europe will recover modestly in 2025, also considering Iochpe's exposure to Türkiye, which should maintain good growth prospects. Still, the company may benefit from higher volumes in the market due to capacity closure in Germany from a competitor.

We expect continued focus on cost management and pricing efforts to result in gradual margin expansion in the coming years. Iochpe generated an EBITDA margin of 10% in 2024, in line with our previous expectations, reflecting operational efficiencies, pricing strategies, and a stabilization of raw material prices last year. We continue expecting margins above 10% over the next three years, from demand recovery, commercial strategies, and cost management. Key risks stem from raw-material price swings, as pass-through takes two to three months to be implemented and especially because of the U.S. tariffs, which will directly impact Iochpe's North American operations due to lower volumes.

We expect controlled leverage and comfortable liquidity in the coming years. Iochpe posted debt to EBITDA of 3.3x at the end of 2024, higher than our previous expectations of 2.8x, but mainly due to the Brazilian real's depreciation. We expect this metric to reach 2.5x by the end of 2025--although slower than we initially expected due to the real's deep depreciation and the weaker cash generation from international operations. We expect Iochpe to continue balancing debt position and cash generation among regions, to reduce currency mismatch risks.

Moreover, as seen in the beginning of this year with the issuance of 15th senior unsecured debentures of R$500 million (proceeds and existing cash position were used to paydown the 12th debentures of R$700 million), we expect further liability management and debt reduction with internal cash generation. As of December 2024, Iochpe had a cash position of R$2.5 billion and short-term debt of R$614.7 million.

S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the new U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As the situation evolves, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

Outlook

The stable outlook reflects our view that Iochpe will continue benefiting from its broad geographic diversification, balancing various industry dynamics in the coming years. We expect continued efforts to improve profitability and cash generation will offset the impact of persistently high interest rates in Brazil. In turn, we forecast controlled leverage in the coming years with debt to EBITDA of about 2.5x by year-end 2025 and free operating cash flow (FOCF) to debt of 15%-20% in the next two years.

Downside scenario

A negative rating action is unlikely in the short to medium term. But it could occur if the company fails to improve profitability and reduce leverage because of tougher global industry dynamics, with lower demand and higher inflation weighing on costs and expenses. Moreover, this could result from elevated interest rates globally, crimping credit availability and household income. In this scenario, we would see debt to EBITDA consistently close to 3.5x and negative free cash flow.

Upside scenario

A positive rating action is also unlikely in the next 12-18 months, since in our view it will depend on the company having a comfortable liquidity cushion and less volatile credit metrics through the cycles. In this scenario, we would have to see debt to EBITDA consistently below 2.0x and FOCF to debt above 15%.

Our Base-Case Scenario

Assumptions

- Average foreign exchange (FX) rate of R$5.87 per US$1 in 2025, and R$5.85 per US$1 in 2026 and 2027.
- Brazil's inflation rate of 5.2% in 2025, 4.7% in 2026, and 3.8% in 2027.
- Brazil's GDP growth of 1.9% in 2025 and 2.0% in 2026-2027.
- Brazil's average basic interest rate of 14.6% in 2025, 13.1% in 2026, and 10.4% in 2027.
- U.S. inflation of 2.8% in 2025, and 2.2%-2.3% in 2026-2027.
- U.S. GDP growth of 1.6% in 2025 and 1.9% in 2026-2027.
- EU's inflation of 1.4% in 2025 and 1.7% in 2026-2027.
- EU's GDP growth of 1.4% in 2025, and 1.7% in 2026 and 2027.
- We expect consolidated revenue growth of 8.5%-9.5% in 2025-2026, as the depreciation of the real offsets the still depressed volumes in North America and Europe, while volumes in Brazil to expand in line with the market.
- Continued efforts on cost management and pricing initiatives to support EBITDA margin above 10% in the coming years.
- Capex of about R$540 million in 2025, and R$700 million – R$750 million in 2026-2027, of which we estimate 50% for maintenance of operations, and 50% for expansion of production and operational improvements.
- Expansion in capex is related to Turkiye's new facility for aluminum wheels for heavy vehicles.
- Dividend payout at 37% of previous year's net income (in line with company's bylaws) and R$100 million – R$150 million annually to minority shareholders of Turkish and Indian operations.

Key metrics

Iochpe-Maxion S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028

Iochpe-Maxion S.A.--Forecast summary

(Mil. BRL)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	13,688	16,948	14,955	15,332	16,796	18,223	19,223	19,804
Gross profit	2,264	2,300	1,979	2,324	2,741	3,011	3,257	3,462
EBITDA (reported)	1,841	1,737	1,253	1,524	1,797	2,048	2,234	2,403
Plus/(less): Other	(290)	(81)	(26)	(13)	(34)	(34)	(34)	(34)
EBITDA	1,551	1,656	1,227	1,511	1,762	2,013	2,199	2,369
Less: Cash interest paid	(282)	(443)	(597)	(553)	(501)	(410)	(360)	(334)
Less: Cash taxes paid	(206)	(255)	(74)	(51)	(73)	(114)	(145)	(169)
Funds from operations (FFO)	1,063	958	556	908	1,188	1,489	1,694	1,866
EBIT	1,027	1,257	923	1,181	1,311	1,547	1,777	1,978
Interest expense	293	528	645	569	557	456	400	371
Cash flow from operations (CFO)	1,020	1,879	1,469	2,134	1,262	1,457	1,739	1,996
Capital expenditure (capex)	485	489	505	591	540	702	741	763
Free operating cash flow (FOCF)	535	1,390	964	1,543	722	754	999	1,233
Dividends	166	236	158	96	141	167	260	331
Share repurchases (reported)	--	13	14	7	7	7	7	7
Discretionary cash flow (DCF)	369	1,142	792	1,440	574	580	732	895
Debt (reported)	5,532	6,477	6,766	6,389	5,560	5,549	5,549	5,549
Plus: Lease liabilities debt	53	47	74	103	108	111	115	120
Plus: Pension and other postretirement debt	407	305	280	315	315	315	315	315
Less: Accessible cash and liquid Investments	(1,088)	(2,287)	(2,962)	(2,463)	(2,105)	(2,658)	(3,360)	(4,224)
Plus/(less): Other	--	--	524	587	450	450	450	450
Debt	4,904	4,542	4,681	4,930	4,327	3,767	3,070	2,210
Equity	4,398	4,293	4,085	5,071	5,376	5,904	6,532	7,239
Adjusted ratios								
Debt/EBITDA (x)	3.2	2.7	3.8	3.3	2.5	1.9	1.4	0.9
FFO/debt (%)	21.7	21.1	11.9	18.4	27.4	39.5	55.2	84.4
EBITDA interest coverage (x)	5.3	3.1	1.9	2.7	3.2	4.4	5.5	6.4
CFO/debt (%)	20.8	41.4	31.4	43.3	29.2	38.7	56.7	90.4
FOCF/debt (%)	10.9	30.6	20.6	31.3	16.7	20.0	32.5	55.8
DCF/debt (%)	7.5	25.1	16.9	29.2	13.3	15.4	23.8	40.5
Annual revenue growth (%)	56.2	23.8	(11.8)	2.5	9.6	8.5	5.5	3.0
Gross margin (%)	16.5	13.6	13.2	15.2	16.3	16.5	16.9	17.5
EBITDA margin (%)	11.3	9.8	8.2	9.9	10.5	11.0	11.4	12.0
Return on capital (%)	12.0	13.9	10.5	12.6	13.3	16.0	18.4	20.8
Debt/debt and equity (%)	52.7	51.4	53.4	49.3	44.6	39.0	32.0	23.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

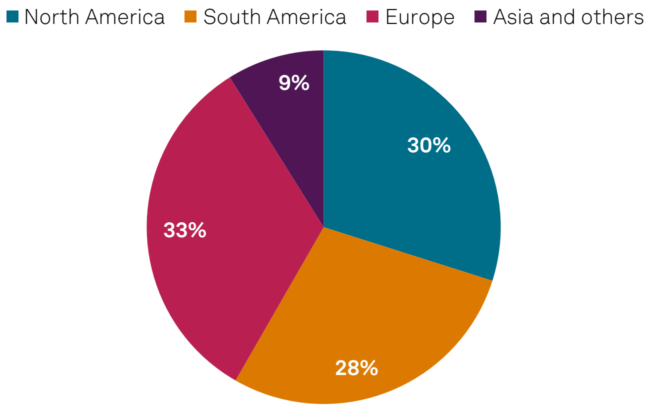
Company Description

Founded in 1918, Iochpe is a global manufacturer of steel wheels for light and commercial vehicles and agricultural machinery. It also manufactures aluminum wheels for light vehicles; side rails, crossmembers, and full frames for commercial vehicles; and structural components for light and commercial vehicles.

Iochpe currently has 33 manufacturing facilities across 14 countries. The company operates its core business through Maxion Wheels and Maxion Structural Components in the auto segment, and through AmstedMaxion, which produces railway equipment in Brazil and other countries.

Iochpe's net revenues by region

FY 2024 figures



Source: S&P Global Ratings.

Peer Comparison

We view Tupy S.A. (global scale: BB+/Stable/--; national scale: brAAA/Stable/--) as Iochpe's main peer among Brazilian auto suppliers, although the companies are not competitors. Tupy is the leader in the production and commercialization of cast-iron engine blocks and cylinder heads in the Americas and Europe. It also operates in the hydraulic segment, producing pipe fittings and iron bars. Compared to Iochpe, Tupy has limited production based on a lower number of plants worldwide. However, Tupy has increased its product, services, and client diversification following recent mergers and acquisitions.

Iochpe's portfolio consists of two segments: wheels and structural components, while Tupy has power generators, maritime engines, increased aftermarket exposure, assembly of engines, beside producing and commercializing cast-iron engine blocks and cylinder heads. Both companies have similar scales and profitability. On the other hand, Tupy has historically maintained much lower leverage with debt to EBITDA consistently below 2.5x.

Both Nemak S.A.B. de C.V. (BB+/Negative/--) and Metalsa S.A. de C.V. (BB+/Stable/--) are Mexican auto suppliers, with Metalsa's portfolio similar to that of Iochpe. It manufactures structural components in nine countries through 12 facilities, including chassis and side rails, but given greater portfolio of services, it enjoys higher average margins. Both Mexican peers have demonstrated lower leverage than Iochpe in the past years.

Iochpe-Maxion S.A.--Peer comparisons

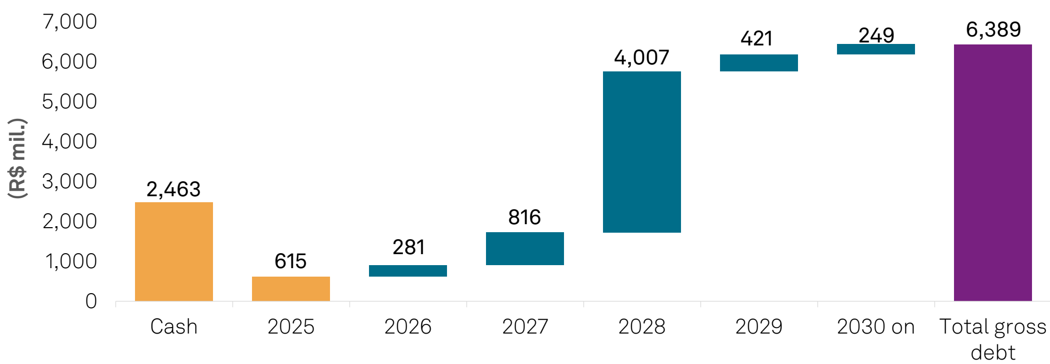
	Iochpe-Maxion S.A.	Tupy S.A.	Nemak S.A.B. de C.V.	Dana Inc.
Foreign currency issuer credit rating	BB/Stable/--	BB+/Stable/--	BB+/Negative/--	BB-/Stable/NR
Local currency issuer credit rating	BB/Stable/--	BB+/Stable/--	BB+/Negative/--	BB-/Stable/NR
Period	Annual	Annual	Annual	Annual
Period ending	2024-12-31	2023-12-31	2024-12-31	2023-12-31
Mil.	R$	R$	R$	R$
Revenue	15,332	11,368	30,348	51,214
EBITDA	1,511	1,167	3,938	3,969
Funds from operations (FFO)	908	876	2,743	2,518
Interest	569	292	695	912
Cash interest paid	553	114	693	733
Operating cash flow (OCF)	2,134	829	2,333	2,513
Capital expenditure	591	570	2,232	2,431
Free operating cash flow (FOCF)	1,543	259	101	82
Discretionary cash flow (DCF)	1,440	111	25	(247)
Cash and short-term investments	2,463	1,604	2,116	2,567
Gross available cash	2,463	1,593	2,116	2,567
Debt	4,930	2,414	9,617	13,602
Equity	5,071	3,328	10,241	8,870
EBITDA margin (%)	9.9	10.3	13.0	7.7
Return on capital (%)	12.6	16.0	4.8	8.3
EBITDA interest coverage (x)	2.7	4.0	5.7	4.4
FFO cash interest coverage (x)	2.6	8.7	5.0	4.4
Debt/EBITDA (x)	3.3	2.1	2.4	3.4
FFO/debt (%)	18.4	36.3	28.5	18.5
OCF/debt (%)	43.3	34.3	24.3	18.5
FOCF/debt (%)	31.3	10.7	1.0	0.6
DCF/debt (%)	29.2	4.6	0.3	(1.8)

Financial Risk

Debt maturities

Iochpe's debt amortization schedule

As of Dec. 31, 2024



Source: S&P Global Ratings.

Iochpe-Maxion S.A.--Financial summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	10,016	8,761	13,688	16,948	14,955	15,332
EBITDA	1,043	414	1,551	1,656	1,227	1,511
Funds from operations (FFO)	737	156	1,063	958	556	908
Interest expense	173	205	293	528	645	569
Cash interest paid	174	163	282	443	597	553
Operating cash flow (OCF)	658	113	1,020	1,879	1,469	2,134
Capital expenditure	484	336	485	489	505	591
Free operating cash flow (FOCF)	174	(223)	535	1,390	964	1,543
Discretionary cash flow (DCF)	62	(369)	369	1,142	792	1,440
Cash and short-term investments	646	1,605	1,088	2,287	2,962	2,463
Gross available cash	646	1,605	1,088	2,287	2,962	2,463
Debt	2,849	3,983	4,904	4,542	4,681	4,930
Common equity	3,497	3,803	4,398	4,293	4,085	5,071
Adjusted ratios						
EBITDA margin (%)	10.4	4.7	11.3	9.8	8.2	9.9
Return on capital (%)	9.9	(2.3)	12.0	13.9	10.5	12.6
EBITDA interest coverage (x)	6.0	2.0	5.3	3.1	1.9	2.7
FFO cash interest coverage (x)	5.2	2.0	4.8	3.2	1.9	2.6
Debt/EBITDA (x)	2.7	9.6	3.2	2.7	3.8	3.3

Iochpe-Maxion S.A.--Financial summary

FFO/debt (%)	25.9	3.9	21.7	21.1	11.9	18.4
OCF/debt (%)	23.1	2.8	20.8	41.4	31.4	43.3
FOCF/debt (%)	6.1	(5.6)	10.9	30.6	20.6	31.3
DCF/debt (%)	2.2	(9.3)	7.5	25.1	16.9	29.2

Liquidity

Iochpe's liquidity is adequate, in our view. We expect Iochpe to sustain a comfortable liquidity position with sources of cash to exceed uses by about 2.3x in the next 12 months, and sources minus uses to remain positive even if EBITDA were to decline by 15% from our current forecast. We believe the company has sound relationship with banks in all the regions where it operates, proven by its long relationship with large Brazilian banks and BNDES, and satisfactory standing in the domestic credit market with a long track record of issuing debentures.

We expect Iochpe will maintain a comfortable cash position in the coming years, and we believe it will continue partly pre-paying its receivables, improving its working capital generation. Moreover, it has a RCF of $550 million, which provides greater liquidity comfort.

Principal liquidity sources

- Cash position of about R$2.5 billion as of December 2024.
- Undrawn committed credit lines of $550 million, maturing in 2027.
- Forecasted funds from operations of about R$1.2 billion in 2025
- The issuance of 15th senior unsecured debentures of R$ 500 million.
- Recently signed R$357.3 million Finep credit line, available to be disbursed.

Principal liquidity uses

- Short-term debt of R$614.7 million as of December 2024.
- Pre-payment of the 12th debentures totaling R$700 million in March 2025.
- Working capital needs of about R$150 million in 2025.
- Capex of about R$540 million in 2025.
- Dividend payment of about R$140 million in 2025.

Covenant Analysis

Requirements

The company can't incur additional debt or distribute dividends above 37%, if net debt to EBITDA is above 3.5x. This incurrence covenant is present on the sustainability-linked notes. The company has no debt-payment-acceleration financial covenant.

Compliance expectations

We forecast the company will have a cushion of over 50% on the covenant for the next two years.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Iochpe. This is because the global auto industry is significantly exposed to environmental risks, given that electrification and the transition to carbon-dioxide-neutral mobility are disruptive forces that will shape the industry. Iochpe has been working on weight-reduction technology to meet original equipment manufacturers' needs. Nevertheless, the company is the global leader in wheel manufacturing, which is less vulnerable to the global regulatory push. Iochpe has been reporting progress toward its carbon neutrality goals, reducing approximately 38% of the intensity of greenhouse gas emissions in Scopes 1 and 2, compared to the base year of 2019. In addition, the company reached 75% of the use of electricity from renewable sources. The goal is to scale up the use of renewable electricity to 90% by 2030 and reduce CO_2 emissions by 70%.

Issue Ratings--Recovery Analysis

Key analytical factors

- The recovery rating on Iochpe's senior unsecured debentures is '4', with a recovery expectation of 35%. The recovery rating on company's senior unsecured notes is '3', with a recovery expectation of 65%. The higher recovery expectation on the senior notes issued by Iochpe-Maxion Austria GmbH and Maxion Wheels de Mexico reflects our view that this debt would rank superior in the event of default versus the debt at the parent level.
- We assess recovery prospects using a simulated default scenario, with an EBITDA multiple valuation approach.
- Our simulated default scenario assumes a payment default in 2030 because of a severe global economic slowdown, sharply lower consumer discretionary income, and higher competition, all of which would reduce its cash flow.
- We analyze recovery prospects under a going concern basis and use a 5x multiple to our projected emergence EBITDA because we believe the company would likely be restructured instead of being liquidated in the event of default. This gives its strong position among auto suppliers and its solid operations that should generate consistent cash flows.
- In such a scenario, we estimate that EBITDA would decline about 40% from 2024 reported EBITDA and wouldn't sufficiently cover the company's maintenance capex and interest expenses, triggering a payment default.

Simulated default assumptions

- Simulated year of default: 2030
- Emergence EBITDA: R$953.5 million
- EBITDA multiple: 5x
- Estimated gross enterprise value (EV): R$4.8 billion
- Jurisdiction: Brazil

Simplified waterfall

- Consolidated net EV after 5% administrative costs: R$4.6 billion

- Net EV of its subsidiaries: R$2.7 billion
- Unsecured debt of the subsidiaries: R$2.9 billion (bank loans, senior notes)
- Recovery expectations of senior unsecured notes: 65% (jurisdiction cap)
- Net EV of Iochpe-Maxion S.A. (parent company): R$1.8 billion
- Secured debt: R$990 million (Finame and BNDES)
- Unsecured debt: R$2.7 billion (bank loans and debentures at the level of the parent)
- Recovery expectations of Iochpe-Maxion's debentures: 35%

All debt amounts include six months of prepetition interest.

Rating Component Scores

Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Fair**
Country risk	Low
Industry risk	Moderately High
Competitive position	Fair
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb**

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016

- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of March 28, 2025)*

Iochpe-Maxion S.A.		
Issuer Credit Rating		BB/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured		
Brazil National Scale		brAAA
Issuer Credit Ratings History		
04-Mar-2024		BB/Stable/--
19-Aug-2021		BB-/Positive/--
22-Apr-2021		BB-/Negative/--
04-Mar-2024	*Brazil National Scale*	brAAA/Stable/--
19-Aug-2021		brAA+/Positive/--
24-Aug-2020		brAA+/Negative/--
31-Mar-2020		brAAA/Watch Neg/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.