MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Grupo Antolin to B3; stable outlook

19 Sep 2022

Frankfurt am Main, September 19, 2022 -- Moody's Investors Service ("Moody's") has today downgraded Grupo Antolin-Irausa, S.A.'s (Grupo Antolin) corporate family rating to B3 from B2 and the probability of default rating to B3-PD from B2-PD. Concurrently, Moody's downgraded Grupo Antolin's guaranteed senior secured notes to B3 from B2. The outlook remains stable.

"The rating downgrade was driven by Grupo Antolin's inability to improve profitability and credit metrics to the extent expected for the B2 rating category, driven by a challenging environment for the global auto parts suppliers, in particular those with a high focus on Europe, considering ongoing cost inflation and only moderate pricing power," said Falk Frey, a Moody's Senior Vice President and lead analyst for Grupo Antolin. "The solid liquidity profile provides some cushion, but we expect a gradual improvement in operating performance over the next quarters to support credit metrics required for the B3 rating category", Mr. Frey continues.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

Grupo Antolin's margin and leverage have been below the requirements for the previous B2 rating category for quite some time and we do not expect the company to be able to recover these key credit metrics within the next 12-18 months to become more adequate for the B2 rating level given the current inflationary environment with high raw material, energy and logistics costs and a weakened consumer confidence. Grupo Antolin's LTM EBITA margin of -0.1% is way below the 2.5% - 3.5% range for the B2 rating category. We anticipate Grupo Antolin to improve its EBITA margin to around 1% at the end of 2022 with little further improvement in 2023.

In addition, Grupo Antolin has burned a sizable amount of cash in the first half of the year. Reported FCF was -€29 million in Q2 and -€145 million in the first half of FY22. The negative FCF was driven by weak operating performance and seasonally high working capital investments offset by lower capex (4.2% of sales vs 5% target for 2022). Although, management expects a substantial release of working capital in H2 2022, Grupo Antolin will burn cash over the next three years in our Moody's base case scenario.

At the same time a positive operating impact from the realization of negotiated price adjustments should improve cash generation ability in the second half. Moody's notes that Grupo Antolin's solid liquidity profile provides some cushion against moderate negative free cash flow generation over the next years. However, a timely turnaround of profitability and free cash flow generation is required given Grupo Antolin's highly leveraged capital structure.

The B3 rating balances Grupo Antolin's (1) strong position in the market for automotive interior products, (2) size and scale as a tier 1 automotive supplier, and (3) adequate liquidity.

The rating also reflects (1) Grupo Antolin's exposure to the cyclicality of the global automotive industry; (2) a highly competitive market environment for interior products, with relatively little growth prospects and high pricing pressure, reflected by a EBITA margin of 0.6% in 2021 (breakeven on LTM06/2022) which was already weak in 2019 (1.9%) pre-Covid impact; (3) its high gross leverage of 7.1x in 2021 and 7.4x on an LTM06/2022 basis; and (4) its low free cash flow (FCF), a negative of around €150 million over the last five years and a negative €123 million in H1 2022, given its high capital spending and low operating profit margin.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our expectation of continued progress in Grupo Antolin's financial recovery that should lead to financial metrics becoming more adequate for the B3 rating level over the next quarters e.g. EBIT margin improvement to around 1% and leverage below 6x. Nonetheless, in the absence of material debt maturities we anticipate Grupo Antolin's liquidity profile to remain adequate.

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

Grupo Antolin's ratings could become under upward pressure in case of (1) a sustainable reduction in leverage

(Debt/Ebitda) to below 5.5x; (2) an EBITA margin exceeding 2.5% sustainably; (3) interest cover (EBITA/interest expense) to clearly exceed 1.0x as well as (4) a positive free cash flow on a sustainable basis.

The B3 rating could be downgraded in case of (1) Grupo Antolin's inability to improve its EBITA margin sustainably above 1.0%, or (2) leverage (Debt/Ebitda) remaining above 6.5x; (3) interest cover not to materially improve towards 1.0x and (4) a material negative FCF beyond the expected double digit amounts for the next two years or (5) a weakening of Grupo Antolin's liquidity profile.

LIQUIDITY

As of the end of June 2022, the company's cash balance was around €273 million in addition to the availability of its €194 million revolving credit facility (RFC) with sufficient headroom under its maintenance covenants. Test levels of net debt/adjusted EBITDA are gradually being tightened from 4.5x (in Q3 2022) to less than 3.5x from Q1 2023 onwards.

Grupo Antolin has no major debt maturities until 2025 and only minor amounts of short-term debt falling due, most of which are renewable credit facilities that are typically rolled over. Against previous assumptions, we expect the group to generate a negative free cash flow in an amount of above €100 million for 2022 and a high double digit negative amount thereafter.

LIST OF AFFECTED RATINGS

..Issuer: Grupo Antolin-Irausa, S.A.

Downgrades:

.... LT Corporate Family Rating, Downgraded to B3 from B2

.... Probability of Default Rating, Downgraded to B3-PD from B2-PD

....Senior Secured Regular Bond/Debenture, Downgraded to B3 from B2

Outlook Actions:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automotive Suppliers published in May 2021 and available at https://ratings.moodys.com/api/rmc-documents/72204 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Burgos, Spain, Grupo Antolin is a family-owned tier 1 supplier to the automotive industry. It focuses on the design, development, manufacturing and supply of components for vehicle interiors, which includes cockpits, overheads (headliners), door trims, and interior lighting and electronic components. In 2021, Grupo Antolin generated revenues of almost €4.1 billion.

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 on https://ratings.moodys.com/rating-definitions.

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The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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