TEKNIA MANUFACTURING GROUP SOCIEDAD LIMITADA

B48984090 CORPORATE

BB+ ISSUER RATING
Long term

OUTLOOK
Stable

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Contacts

Lead analyst
Luis Mesa García
luis.mesa@ethifinance.com

Committee chair
Thomas Dilasser
thomas.dilasser@ethifinance.com

Rating Action y Rationale

- EthiFinance Ratings affirms Teknia Manufacturing Group, S.L.'s rating at "BB+," maintaining its Stable outlook.
- The company's rating is supported by its operation in a sector characterized by high entry barriers. Teknia has demonstrated effective management of the negative sector environment in recent years, which strengthens its credit quality. Additionally, the group maintains a solid financial profile, highlighted by a controlled Adjusted Net Financial Debt/Adjusted EBITDA ratio (2.2x in 2023; 2.5x including the IFRS-16 impact) and a high level of interest coverage via EBITDA, despite the deterioration recorded in 2023 (Adjusted EBITDA/Interest ratio: 9.5x; 8.3x including the IFRS-16 impact). Furthermore, the company receives favorable recognition for its adoption of ESG (Environmental, Social, and Governance) policies.
- However, the rating is constrained by a business profile impacted by its limited size within the industry and a highly concentrated ownership structure. Despite this, Teknia's financial fundamentals and proven management capabilities are expected to sustain its credit quality, considering the current environment, which explains the Stable outlook of the rating.
- In line with our methodology, the automotive components manufacturing sector presents a medium-high ESG risk (sector heatmap between 3.5 and 4.0) due to its environmental impact. This assessment results in a sector rating that is downgraded by one notch.

Issuer description

Teknia Manufacturing Group, S.L. is a multinational group operating as a TIER 2 and TIER 1 supplier in the manufacturing of metal and plastic components for the automotive sector. The group specializes in a range of technologies, including tube forming, stamping, aluminum injection, plastic injection, and machining. Teknia operates 23 production plants across 13 countries and employs a workforce of 3,587 people. In 2023, the group achieved consolidated revenue of €459.5 million and an Adjusted EBITDA of €48.8 million, resulting in an adjusted EBITDA margin of 10.6%. Additionally, the Adjusted Net Financial Debt/Adjusted EBITDA ratio stood at 2.2x at the end of 2023. When considering the impact of the IFRS-16 accounting standard, the Adjusted EBITDA margin would be approximately 11.8%, and the Adjusted Net Financial Debt/Adjusted EBITDA ratio would be 2.5x as of December 2023.

Fundamentals

Business Profile

Industry Risk Assesment

- **Industry characterized by high barriers to entry, although impacted by the current macroeconomic environment, which limits visibility regarding its future evolution.**

Teknia operates in a sector primarily defined by the creation of high barriers to entry, driven by the significant investment requirements needed to maintain the high technological and quality standards demanded. Following the recovery in production and demand in recent years, after a period (especially in 2020) marked by the effects of the pandemic, the future growth prospects of the automotive industry are now influenced by the current macroeconomic environment. This environment is shaped by the impact of ongoing conflicts in Europe, high inflation, and rising financing costs, among other factors. Additionally, the lack of visibility related to the implementation of new trends, particularly the adoption of new technologies (e.g., the transition to electric vehicles), further complicates the investment plans of industry players.

- **The automotive components industry has medium to high ESG risks according to our methodology (sector heatmap score between 3.5 and 4.0).**

This results in a one-notch downgrade in the sector rating due to ESG considerations related to the industry. The sector has a moderate climate impact linked to Original Equipment Manufacturers (OEMs), but with a lighter production process that generates fewer GHG emissions than automakers. It is also a significant user of resources, particularly raw materials, which increases with electrification. Additionally, the impact on pollution remains substantial as the production process generates a significant amount of waste, leading to a moderate impact on biodiversity. The industry has a high impact on suppliers due to the strong interdependence of actors in the supply chain. As for the impact on consumers, it is mainly indirect, except for the aftermarket.

The industry is important for states due to its contribution to economic growth, as it is a significant source of employment. The impact of sustainability regulation remains moderate for the players, except for certain components related to combustion engines.

Company's competitive positioning

- **Adequate positioning as a TIER 2 supplier in the automotive sector, although penalized by a small size within the industry on a global level.**

Teknia holds a strong position as an automotive components supplier, with a long-standing presence in the industry that strengthens its commercial relationships with major players in the automotive sector. Its portfolio, consisting of reputable and highly solvent OEMs and TIER 1 suppliers, provides visibility and consistency in the company's fund generation. However, despite its steady growth over time, the group remains small compared to the major global operators.

- **Diversified business model from both an operational and market perspective.**

Teknia's extensive multi-technology offering is a key differentiator that enhances the group's competitive capacity. Additionally, Teknia demonstrates strong geographical diversification, supported by a pronounced international presence (85% of sales in 2023 were outside of Spain), with operations in key automotive markets, which bolsters its positioning in the industry. This international approach is further reinforced by production plants in its three primary markets (EMEA, NAFTA, and LATAM). On the other hand, the company shows higher concentration in terms of clients (Top 5 and Top 1: 43% and 20%, respectively, of total revenue in 2023), which is somewhat mitigated by the significant prestige within the industry and the high solvency of its main customers. Moreover, the company's compliance with the stringent quality standards required by these operators helps establish strong and stable commercial relationships, while also serving as a significant barrier to entry for potential competitors.

Governance

- **Shareholding concentrated around its founding partner. Financial policy characterized by prudence in terms of leverage.**

The ownership structure is concentrated in the hands of its founding partner, who holds 100% of the capital. The management team supports the execution of a strategic plan focused on continuing to increase the group's profitability, alongside the gradual adaptation of its offering to new forms of mobility. The company follows a conservative financial policy, which is reflected in maintaining leverage at controlled levels despite the significant presence of inorganic growth within its business model, in line with the strategy pursued by major companies in the sector.

- **Positive ESG Policy.**

The group receives a favorable assessment from EthiFinance Ratings across all three ESG dimensions (Environmental, Social, and Governance). Notable aspects include the presence of ISO 9001 and 14001 certifications covering all its activities, independent members on the board of directors, and the separation of the roles of CEO and chairman of the board. This positive assessment results in a favorable impact on the group's financial profile (+1 notch).

Financial Profile

Sales and Profitability

- **Maintaining a favorable trajectory in terms of revenue, within an environment of operational margins positioned at appropriate values within the sector.**

After being adversely affected in 2020 due to the impact of Covid-19, the company has shown positive growth in its activity over recent years, reaching a revenue of €459.5 million in 2023 (+19.5% YoY), setting a new record. Additionally, operating margins were boosted by a stabilization of inflation rates in the last fiscal year, with an adjusted EBITDA margin of 11.8% in 2023 (9.5% in 2022), considering the impact of IFRS-16. However, the significant increase in financing costs negatively impacted the final results in 2023, leading to a 12.5% YoY decline in EBT, which stood at €19.4 million. Although a gradual normalization of rates is expected, they are anticipated to remain at high levels in the short term.

Leverage and Coverage

- **Stable and controlled leverage levels in recent years, highlighting the reduction in the Net Financial Debt/EBITDA ratio in 2023.**

Maintaining the leverage ratio within manageable thresholds in recent years, considering the investment requirements associated with Teknia's business model and its potential impact on debt, which has been offset by operational returns. The improvement in this aspect led to a reduction in the Adjusted Net Financial Debt/Adjusted EBITDA ratio in the last fiscal year, which stood at 2.5x in 2023 (2.2x excluding the impact of IFRS-16). Additionally, the company has a high interest coverage ratio, with an Adjusted EBITDA/Interest ratio of 8.3x in 2023 (9.5x excluding the impact of IFRS-16). However, this indicator experienced significant deterioration in the last fiscal year due to increased financial expenses associated with the rising interest rate environment. The interest coverage ratio is expected to remain constrained in the short term due to high financing costs.

Cash Flow

- **Ability to generate Operating Cash Flow on a recurring basis.**

The group consistently generates funds from its operations, with its performance over recent years benefiting from effective working capital management. On the other hand, the group's intensified investment policy aimed at driving both organic and inorganic growth has negatively impacted free cash flow, which recorded negative values in 2023 (-€9.2 million vs €15.4 million in 2022). This aspect has been more pronounced in internal cash generation (-€15.5 million vs €9.6 million in 2022), largely due to cash outflows from dividends. As a result, Teknia's reliance on external resources increased in the last fiscal year to maintain liquidity levels, highlighting the financial flexibility demonstrated by the company in recent years.

Solvency

- **Adequate Financial Autonomy.**

Progressive strengthening of its equity structure and controlled leverage levels result in adequate financial autonomy, with net equity representing 61% of adjusted total financial debt at the end of 2023 (74.5% excluding the impact of IFRS-16). However, it is worth noting that net equity is somewhat affected by exchange rate fluctuations in the markets where the company operates, primarily the Brazilian market, leading to a translation difference impact of -€4.6 million in 2023 (-€8.1 million in 2022 and -€10.2 million in 2021), although this impact has been decreasing in recent years.

Liquidity

- **High Liquidity.**

Teknia reports a ratio of its sources of funds (cash, liquid assets, and expected FFO) to uses of funds (primarily short-term debt and maintenance investment) of over 2x, which is considered high. This is supported by a strong financial profile, resulting in a liquidity rating of Good.

Modifiers

Country Risk

- **No country-specific risk has been identified as a limiting factor, considering the markets in which the company operates.**

ESG Factors

- **No significant risks related to ESG controversies have been detected.**

Main financial figures

Main financial figures (1). Thousands of €.	2021	2022	2023	23vs22
Turnover	323,753	384,568	459,463	19.5%
Reported EBITDA (2)	32,845	40,549	48,785	20.3%
Reported EBITDA margin	10.1%	10.5%	10.6%	0.1pp
Adjusted EBITDA (3)	37,412	36,610	54,191	48.0%
Adjusted EBITDA margin	11.6%	9.5%	11.8%	2.3pp
EBIT	16,934	23,912	27,217	13.8%
EBIT margin	5.2%	6.2%	5.9%	-0.3pp
EBT	14,279	22,212	19,446	-12.5%
Total Assets	264,090	322,399	357,857	11.0%
Equity	79,856	91,944	102,984	12.0%
Total Reported Financial Debt	95,567	104,700	123,596	18.0%
Net Reported Financial Debt	76,892	72,828	92,146	26.5%
Total Adjusted Financial Debt (4)	129,309	151,245	168,470	11.4%
Net Adjusted Financial Debt (4)	110,634	119,373	137,020	14.8%
Equity/Total Adjusted Financial Debt	61.8%	60.8%	61.1%	0.3pp
Reported NFD/Reported EBITDA	2.3x	1.8x	1.9x	0.1x
Adjusted NFD/Adjusted EBITDA	3.0x	3.3x	2.5x	-0.7x
Funds From Operations	31,845	28,255	44,313	56.8%
FFO/Adjusted NFD	28.8%	23.7%	32.3%	8.7pp
Adjusted EBITDA/Interests	14.8x	13.0x	8.3x	-4.6x

(1) Includes adjustment resulting from the application of IFRS-16. Regarding EBITDA, TFD y NFD reported, no IFRS effect is included as these are reported figures by the company. (2) EBIT - Depreciation and amortization - Allocation of non-financial fixed asset grants - Excess provisions. (3) EBIT - Depreciation and amortization - Allocation of non-financial fixed asset grants - Excess provisions +/- Impairments and gains/losses from asset disposals +/- Business combination differences +/- Other results. (4) Includes non-recourse factoring and provisions for employee compensation (pensions), according to EthiFinance Ratings methodology.

Credit Rating

Credit Rating	
Business Risk Profile	**BB-**
Industry risk assessment	*BB*
Industry's ESG	*Yes*
Competitive Positioning	*BB-*
Governance	*BB-*
Financial Risk Profile	**BBB**
Cash flow and leverage	*BBB*
Solvency	*BB*
Company's ESG	Yes
Anchor Rating	**BB+**
Modifiers	*No*
Rating	**BB+**

Rating Sensivity

Factors That May (Individually or Collectively) Impact the Rating:

- **Positive Factors (↑)**

Gradual normalization of the current economic and geopolitical context, leading to an intensification of the growth trajectory in business generation and, consequently, a greater presence in the global industry, which would result in an improvement in the business profile (currently rated BB-). Improvement in operational profitability, exceeding industry benchmark thresholds (recurring EBITDA margin: approximately 13%; EBIT margin: approximately 8%). Reduction in leverage levels, leading to an improvement in the Adjusted Net Financial Debt/Adjusted EBITDA ratio (approximate benchmark value: 1x, considering the effect of IFRS-16). Increase in financial autonomy, and consequently, in the solvency ratio (Equity/Net Financial Debt; approximate benchmark value: 90%, considering the effect of IFRS-16).

- **Negative Factors (↓)**

Intensification of the current situation, leading to a deterioration in the group's key financial ratios, such as the Adjusted Net Financial Debt/Adjusted EBITDA ratio (benchmark value: 4x, considering the effect of IFRS-16). Continued deterioration of the interest coverage ratio (approximate benchmark value for the Adjusted EBITDA/Interest ratio: 6x, considering the effect of IFRS-16).

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.