

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades HELLA's ratings to Ba1 from Baa3; outlook stable

16 Dec 2024

Frankfurt am Main, December 16, 2024 -- Moody's Ratings (Moody's) has today downgraded the senior unsecured ratings of German auto parts supplier HELLA GmbH & Co. KGaA ("HELLA" or "group") to Ba1 from Baa3. Concurrently, we have withdrawn HELLA's Baa3 long-term issuer rating and assigned a Ba1 long-term corporate family rating (CFR) and a Ba1-PD probability of default rating (PDR) to the group. We downgraded the group's short-term issuer rating to Not Prime (NP) from Prime-3 (P-3). Previously, HELLA's ratings were placed on review for downgrade. The outlook is stable.

Today's rating action concludes the review on HELLA's rating that we initiated on 17 October 2024.

RATINGS RATIONALE

The downgrade of HELLA's ratings to Ba1 reflects the weakened credit profile of its majority owner FORVIA SE (FORVIA), whose CFR was downgraded to Ba3 with a stable outlook from Ba2 on 17 October. With today's action, we reposition HELLA's rating two notches above that of FORVIA, in line with our previous differentiation between both companies' ratings since FORVIA's acquisition of a 81.6% stake in HELLA in 2022.

We continued to consider the two notches difference between HELLA's and FORVIA's ratings as appropriate, reflecting HELLA's much stronger credit metrics versus those of FORVIA and the requirement of HELLA to continue to act also in the interest of significant minority shareholders. We also expect no changes in the financial policies of HELLA and FORVIA and the current shareholder structure of HELLA to remain unchanged in the foreseeable future.

The downgrade concludes our review of HELLA's ratings, during which we also reassessed other relevant factors of HELLA's credit profile and the position of its rating vis-à-vis that of FORVIA, including its financial performance in an environment of declining volumes, volatile demand and increased restructuring efforts.

Factors that continue to support HELLA's Ba1 CFR include the group's stand-alone credit profile, that remains of solid investment-grade quality; the absence of a domination agreement and existence of significant minority shareholders that make a deeper integration of HELLA into the operations of FORVIA difficult; HELLA's leading position in the lighting technology and original equipment electronics markets; large and more stable aftermarket activities than the original equipment business; conservative financial policy, including limited shareholder distributions and a large cash balance; and stand-alone credit metrics at investment-grade levels, including a Moody's adjusted gross debt/EBITDA ratio of 2.2x for the last 12 months (LTM) ended September 2024 (compared with FORVIA's consolidated 6.5x leverage as of LTM June 2024).

Factors constraining the rating include HELLA's dependency on the automotive end market, which is highly cyclical; significant research and development (R&D) costs of around 11% of revenue; expected limited profitability improvements over the next 12-18 months, due to increased restructuring costs; and execution risks associated with an extensive competitiveness program initiated in 2024. The current industry conditions are characterized by a weakening volume trend and rising pricing pressure for automotive suppliers.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects the stable outlook of FORVIA and our expectation of a continuation of HELLA's existing ownership structure, dividend policy, and credit metrics around the current levels, including, for instance, a Moody's adjusted leverage ratio of below 3.5x. The stable outlook also assumes that HELLA will maintain a strong liquidity profile, that we currently consider as excellent.

ESG CONSIDERATIONS

As to governance considerations, the downgrade incorporates the sustained high financial leverage of FORVIA, who failed to materially reduce the ratio as we had anticipated since its acquisition of a majority stake in HELLA in 2022.

STRUCTURAL CONSIDERATIONS

HELLA has an investment-grade-like, senior unsecured funding structure. The group's €500 million senior unsecured notes due January 2027 are rated Ba1, in line with the CFR. We have not applied a notching of the group's unsecured debt rating in the context of significant non-debt financial obligations at the level of operating entities pertaining to pensions, trade payables and operating leases. We may reconsider this approach should the ratings of HELLA be further downgraded, which does not appear likely in the short term, given the group's stable outlook.

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

Given HELLA's ownership structure with a 81.59% stake-holding of FORVIA, a change in its credit rating is strongly linked to a possible change in the credit risk of FORVIA. Under the current ownership structure, we regard a two notches higher long-term rating for the credit quality of HELLA to be the limit, despite its stronger credit profile on a stand-alone basis.

An upgrade of HELLA's ratings is, therefore, largely dependent on an upgrade of FORVIA.

A rating downgrade could result from a downgrade of FORVIA, or FORVIA acquiring incremental shares in HELLA, allowing it to initiate a squeeze out process, or a change in HELLA's financial policy, including a more aggressive dividend payout policy.

Downward pressure on the rating would further build, if HELLA's profitability in terms of Moody's adjusted EBIT margin fell sustainably below 3%, its Moody's adjusted leverage exceeded 3.5x, or Moody's adjusted FCF turned negative.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automotive Suppliers published in December 2024 and available at <https://ratings.moodys.com/rmc-documents/434124>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Lippstadt, Germany, HELLA GmbH & Co. KGaA (HELLA) is one of the leading automotive lighting and electronics components suppliers with a strong position in the European aftermarket. The group's Lighting and Electronics segments supply components to the automotive industry for the production of cars and light vehicles, and generated around 87% of group revenue in 2023. The remaining 13% comes from HELLA's Lifecycle Solutions segment. The segment includes aftermarket activities for spare parts sold to dealers and independent workers, and provides sales and service support to customers. It also includes original equipment for special vehicles and non-automotive industries such as the agriculture, mining and marine sectors. The Lighting business manufactures headlamps, small lamps, interior lamps, rear combination lamps and lighting electronics. The Electronics business produces body electronics, energy management, driver assistance, electric power steering, sensors and actuators.

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

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/research/docid--PBC_1415191.

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