Grammer AG

Federal Republic of Germany, Automotive Suppliers

Issuer
B+

Outlook
Stable

Rating composition

Business Risk Profile		
Industry risk profile	BB	BB-
Competitive position	BB-	
Financial Risk Profile		
Credit metrics	B	B
Liquidity	+/-0 notches	
Standalone credit assessment		**B+**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**B+**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	3.4x	2.2x	3.7x	4.2x
Scope-adjusted debt/EBITDA	4.7x	8.7x	5.6x	5.1x
Scope-adjusted funds from operations/debt	10%	5%	10%	11%
Scope-adjusted free operating cash flow/debt	-1%	-15%	-3%	-5%
Liquidity	~75%	~50%	>200%	~100%

Rating sensitivities

The upside scenarios for the rating and Outlook are (individually):

- Debt/EBITDA improving to around 4.0x on a sustained basis
- Return to positive FOCF
- EBITDA margin sustained at around 8%

The downside scenarios for the rating and Outlook are (individually):

- Deteriorating liquidity caused by delays in the refinancing process for debt maturities due in 2027
- Debt/EBITDA significantly above 5.0x on a sustained basis

**All credit metrics refer to Scope-adjusted figures.*

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Related methodologies

General Corporate Rating Methodology, February 2025
Automotive Suppliers Rating Methodology, April 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Good market position in the commercial vehicles product area (approx. 35% of total revenues), especially in the market for driver's seats for off-road vehicles and trucks • Global presence in all major automotive markets, with a good position in the Chinese automotive market, which enables growth with local OEM manufacturers • Good profitability in the commercial vehicles product area and good overall profitability in the APAC region • Expected improvement in leverage thanks to increased profitability beyond 2024 from recent restructuring measures and lower restructuring charges	• Strong exposure to highly cyclical automotive OEM industry and relatively small size, as measured by EBITDA of EUR 70m–EUR 140m • Weak financial risk profile reflected by high debt/EBITDA ratio and very weak cash flow cover • Cluster risk in 2027 when total debt of EUR 560m comes due • Relatively low profitability, as measured by EBITDA margin below 8%, due to weak profitability in the automotive segment • Very weak internal cash flow generation with FOCF in negative territory since 2019 • Customer concentration, with the three largest customers accounting for around 40% of revenue; relatively concentrated product portfolio and low share of the aftermarket business

2. Rating Outlook

The **Stable Outlook** reflects the recent refinancing measures, which ensure that there are no major maturities in 2025-26, and the restructuring measures from 2024, which, in combination with the lower restructuring costs, should improve Grammer's profitability in 2025. It also reflects our expectation that, supported by the improved profitability, debt/EBITDA will improve to around 5.0x in 2026. Furthermore, this reflects our expectation that Grammer will present a refinancing solution for the large loans maturing in 2027 by June 2026 at the latest.

3. Corporate profile

Supplier to automotive OEMs and commercial vehicle manufacturers

Headquartered in Ursensollen, Germany, Grammer AG is an automotive supplier specialised in the development and production of headrests, armrests, and centre console systems for passenger car OEMs and their Tier 1 suppliers (Automotive division) as well as driver and passenger seats for trucks, driver seats for offroad vehicles (tractors, construction machinery and forklifts), and seats and seating systems for trains and buses (Commercial Vehicles division). Grammer has more than 14,000 employees and operates in 19 countries around the world. In 2024, Grammer had revenue of around EUR 1.9bn and EBITDA of EUR 74m.

Automotive is Grammer's dominant business, accounting for around 65% of total revenue. Commercial vehicles make up about 35% of total revenue. Roughly 45% of the Commercial Vehicles division's revenue is generated from customers from the agricultural and construction industries such as AGCO, Caterpillar, John Deere and Liebherr, followed by truck manufacturers such as Daimler, MAN and PACCAR (around 30%), as well as manufacturers of forklift trucks and turf vehicles such as Kion and Jungheinrich (around 20%). The remaining 10% of revenue is generated from customers from the rail and bus sector. In North America, Grammer operates primarily through Gramag, a joint venture established in 1998 between Grammer AG and Magna Seating, in which Grammer holds a 50% stake. Gramag is the exclusive supplier to Paccar.

Since 2018, Grammer has been owned by Jiye Auto Parts GmbH, an indirect subsidiary of Ningbo Jifeng Auto Parts Co. (NBJF), the ultimate parent company of Grammer AG. Jiye Auto Parts GmbH currently holds 86.20% of the shares. The free float currently stands at around 11.63%.

4. Rating history

Date	Rating action	Issuer rating & Outlook
26 June 2025	New	B+/Stable

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	4.6x	3.4x	2.2x	3.7x	4.2x	4.6x
Debt/EBITDA	5.1x	4.7x	8.7x	5.6x	5.1x	4.7x
Funds from operations/debt	10%	10%	5%	10%	11%	12%
Free operating cash flow/debt	-3%	-1%	-15%	-3%	-5%	-4%
Liquidity	106%	77%	48%	>200%	102%	2%
EBITDA						
Reported EBITDA	117	124	81	135	154	170
less: capitalised expenses	-7	-7	-7	-7	-7	-7
add: recurring dividends from associates	0	1	1	1	1	1
EBITDA	**111**	**117**	**74**	**128**	**148**	**163**
Funds from operations (FFO)						
EBITDA	111	117	74	128	148	163
less: interest	-24	-35	-33	-34	-35	-35
less: cash tax paid	-11	-17	-15	-9	-14	-18
Other non-operating charges before FFO[1]	-20	-14	7	-10	-20	-18
Funds from operations	**55**	**52**	**33**	**74**	**79**	**92**
Free operating cash flow (FOCF)						
Funds from operations	55	52	33	74	79	92
Change in working capital	21	62	33	-11	-22	-24
Non-operating cash flow	-1	-24	-81	0	0	0
less: capital expenditures (net)	-70	-75	-62	-66	-76	-74
less: lease amortisation	-21	-22	-20	-20	-20	-20
Free operating cash flow	**-16**	**-6**	**-97**	**-23**	**-39**	**-27**
Interest						
Net cash interest per cash flow statement	21	29	28	29	30	30
add: 50% of interest paid on hybrid debt	-	-	1	1	1	1
add: interest expenses, pensions	3	5	5	5	5	5
Interest	**24**	**35**	**33**	**34**	**35**	**35**
Debt						
Reported financial (senior) debt	536	525	567	524	619	633
add: subordinated (hybrid) debt (net of equity credit)	10	19	43	42	42	42
add: shareholder loans (net of equity credit)	-	-	130	130	-	-
less: cash and cash equivalents	-109	-131	-220	-112	-42	-33
add: non-accessible cash	10	14	5	5	5	5
add: pension adjustment	117	117	118	118	118	118
add: other debt-like items[2]	-	1	2	2	2	2
Debt	**565**	**546**	**644**	**710**	**744**	**766**

[1] Provisions and retirement benefit provision + other non-cash changes

[2] Liabilities to associated companies

6. Environmental, social and governance (ESG) profile[3]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Automotive suppliers generally face some material ESG-related challenges

The key industry-wide ESG factors are energy and resource efficiency (e.g. water, raw materials and energy) and the reduction of emissions. Automotive customers award contracts based on criteria such as compliance with environmental standards and the existence of climate protection measures as part of a company-wide climate strategy.

We assess these factors as credit-neutral for Grammer. In view of the measures already implemented and the targets achieved, we do not expect any major investments or disadvantages compared to other suppliers.

The reduction of global CO_2 emissions in relation to annual sales is one of the ESG criteria used to determine target bonus schemes. Each region has its own energy manager, and the plants are supported by energy management officers. In order to manage its energy consumption worldwide, Grammer is working with an ISO 50001-certified energy management system, which will be introduced at all Grammer production sites by the end of 2026. This will allow energy consumption to be controlled, analysed, and reduced using targeted measures. As electricity is the source of most CO_2 emissions, Grammer also intends to increase the share of green electricity globally to 100% by the end of 2026.

In terms of product innovation, Grammer aims to contribute to climate protection by reducing the weight of its products and by using renewable or recycled materials. It also intends to improve the durability, reusability and disposal of products and materials.

We consider key person risk to be limited given the organisational structure of the company. The Grammer Group is managed by three members of the Executive Board. Since 2020, responsibility for the operating business has been decentralised to the three main regions EMEA (Europe, Middle East and Africa), AMERICAS (North, South and Central America) and APAC (Asia-Pacific). Due to the significantly increased financial commitment of Grammer's parent NBJF in the context of the completed refinancing in 2024, we expect NBJF to gain more influence through the new appointments to the Supervisory Board.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

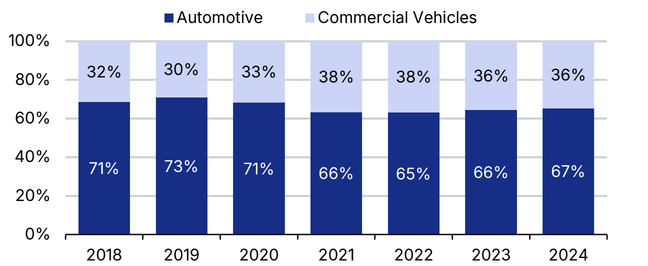
7. Business risk profile: BB-

Grammer's business risks are largely mitigated by: i) its good position in commercial vehicles; ii) its global presence in all major automotive markets; and iii) its good profitability in the commercial vehicles product area and good overall profitability in the APAC region. However, business risks are amplified by: i) the cyclicality of global automotive markets; ii) Grammer's relatively small size, as measured by EBITDA of EUR 70m–EUR 140m ; iii) modest overall profitability; iv) a very modest position in the dominant automotive sector; and v) moderate product diversification, in particular very low exposure to the aftermarket business.

Product portfolio is exposed to automotive supplier industry, industry risk profile of BB

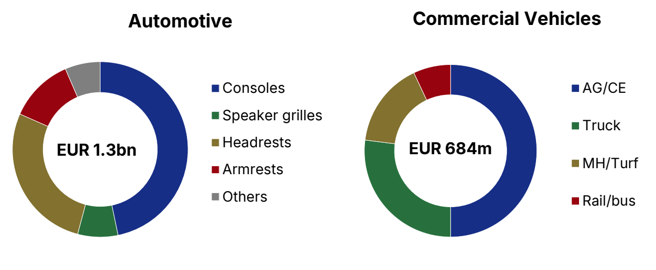
Grammer is a supplier of headrests, armrests, and centre console systems for passenger cars as well as driver and passenger seats to the global commercial vehicle industry as well as for trains and buses. We therefore classify the company as an automotive supplier, with an industry risk profile assessed BB. The BB- business risk profile assessment reflects Grammer's relatively small size, which indicates economies of scale and bargaining power in negotiations with OEMs, as well as its very low exposure to the aftermarket business, which generally provides strong protection against the industry's cyclicality

Figure 1: Automotive is Grammer's dominant business



Sources: Grammer, Scope

Figure 2: Consoles, headrests and seats for off-road vehicles are Grammer's main products



AG/CE = agriculture/construction, MH = material handling

Sources: Grammer, Scope

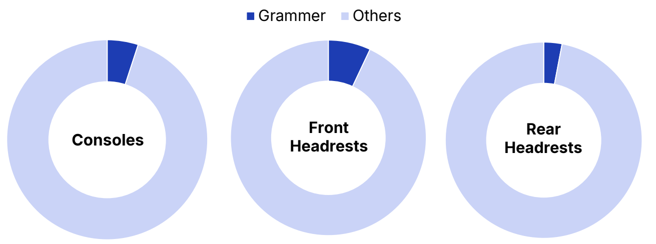
Very modest position in automotive restrains overall market position

In our view, Grammer's moderate market positioning is held back by the very modest position it holds in its major product categories (consoles and headrests) in the automotive segment, which is the most important segment in terms of revenue. The global markets for consoles and headrests are both highly fragmented and Grammer's relatively weak profitability, as measured by reported EBIT of less than 5%, indicates low bargaining power in negotiations with OEMs.

Good market position in commercial vehicles

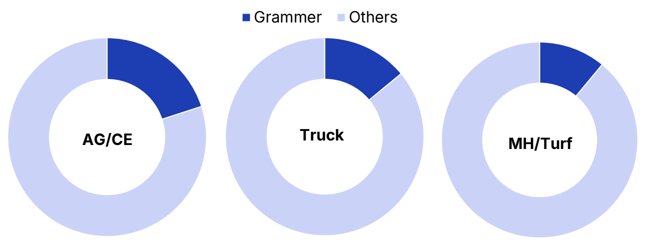
This is somewhat offset by Grammer's good position in the commercial vehicles product area, especially in the markets for driver's seats for off-road vehicles and trucks, which supports its overall market position. With a global market share of around 20%, Grammer is the largest supplier of driver's seats for agricultural and construction vehicles (approx. 50% of the division's sales), and ranks among the top five suppliers of truck seats (about 25% of the segment's revenue) with a global market share of around 15%. The relatively consolidated market structure, in particular in EMEA and North America with three to five dominant companies, makes the commercial vehicles product area more profitable than the automotive sector.

Figure 3: Weaker position in the Automotive division's product categories



Sources: Grammer, Scope

Figure 4: Good position in seats for commercial vehicles



Sources: Grammer, Scope

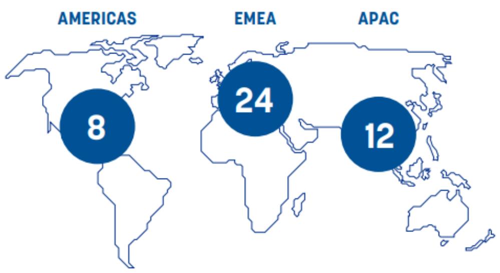
Moderate overall diversification

We assess Grammer’s diversification as moderate, supported by its global presence in all major automotive markets but constrained by a relatively concentrated product portfolio and a relatively concentrated customer exposure. We also note the low aftermarket exposure, which is generally a more stable and higher-margin revenue stream.

Globally active company with 44 production and logistics sites in 20 countries

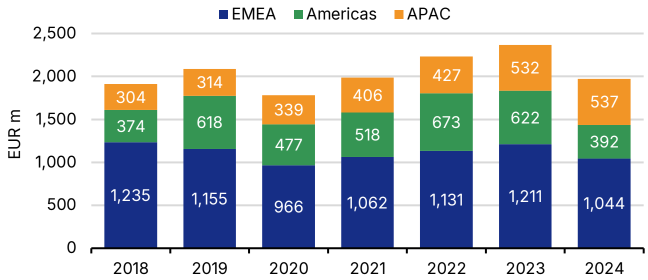
Grammer is a globally active company. It has 44 production and logistics sites in 20 countries with varying degrees of vertical integration. In terms of revenue, EMEA is Grammer’s largest region, contributing around 55% of revenue, followed by the Americas (about 20%) and APAC (around 25%). The significant shift in the regional revenue distribution, in particular from the Americas in 2024, is due to the divestment of the TMD Group in North America.

Figure 5: Grammer is present in all major automotive markets



Sources: Grammer, Scope

Figure 6: EMEA is Grammer's dominant revenue region



Sources: Grammer, Scope

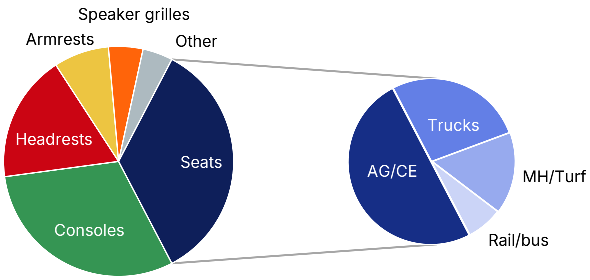
Revenue is concentrated in just a few product categories

Grammer’s entire product portfolio can be broadly divided into six product groups: i) seats; ii) consoles; iii) headrests; iv) armrests; v) speaker grilles; and vi) other. Revenue is concentrated in just a few product categories: seats for commercial vehicles is the largest product group accounting for around 35% of total revenue, followed by consoles (approx.30%) and headrests (approx. 20%) for car manufacturers. Regarding seats, we note that further diversification is achieved through the offering of seats for various segments of the commercial vehicle market, such as driver and passenger seats for trucks, driver seats for offroad vehicles (tractors, construction machinery and forklifts), as well as seats and seating systems for trains and buses.

Relatively concentrated customer base

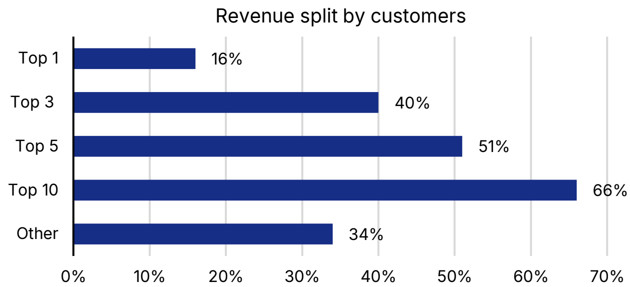
As is typical in the automotive supply industry, customer concentration is high. This is particularly the case in the dominant automotive business, where Grammer's largest customer accounts for approx. 25% of the division's revenue and the top three customers generate more than 60% of the division's revenue. In contrast, the Commercial Vehicles division has a more diversified customer portfolio with only one customer exceeding 10% of revenue, and the top three customers accounting for approx. 25% of the division's revenue. This is due to Grammer’s exposure to different subsegments of the commercial vehicles market, such as trucks, offroad vehicles (tractors, construction machinery and forklifts), trains and buses. At group level, the less concentrated customer structure in the Commercial Vehicles division means that the top three customers account for around 40% of revenue.

Figure 7: Seats for commercial vehicles and car consoles are Grammer's largest product groups



Sources: Grammer, Scope

Figure 8: Top three customers account for around 40% of revenue



Sources: Grammer, Scope

Relatively modest operating profitability, with a EBITDA margin of around 5% in the past five years, is the weakest factor within Grammer's business risk profile. Although the company's revenues recovered significantly post-Covid, achieving two consecutive all-time highs in 2022 and 2023, the EBITDA margin remained below pre-Covid levels amid deteriorating profitability in the Americas.

Profitability is weakest link in business risk profile assessment

We flag the margin gap of approx. 400 basis points between the dominant and less profitable automotive business and the commercial vehicle business. We attribute this difference to the more competitive market structure in the automotive sector, affording less bargaining power than the commercial vehicle sector, and the cost pressure that auto OEMs typically pass on to their suppliers. This makes product mix an important driver of Grammer's overall profitability.

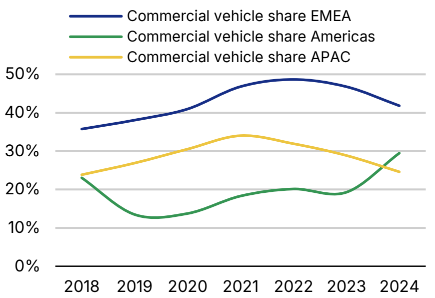
Commercial vehicle business more profitable than automotive business

In addition to product mix, cost structure differences between regions impact Grammer's overall profitability. There are some very significant differences in margins between the reporting regions. The EBIT margin in APAC, Grammer's most profitable region, is twice as high as in EMEA, the second most profitable region. We attribute this gap to the higher price level in China than in Europe, labour cost advantages as well as the purchasing benefits provided by a joint procurement agreement with Grammer's mother company NBJF. The Americas are Grammer's weakest region, with a significantly negative and deteriorating EBIT margin since 2020. This is the result of overcapacity in the US automotive product plants following the stoppage of a product line by a customer during the Covid-19 pandemic and subsequent restructuring costs. The improved profitability in the Americas in 2023–24 reflects lower restructuring costs and the sale of the loss-making TMD (which contributed a negative EBIT of around EUR -20m) as part of the 'Top 10 Measures' restructuring programme, which was implemented at the end of 2023.

APAC is Grammer's most profitable region thanks to lower cost structure

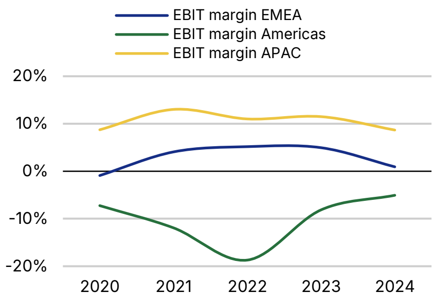
The central services, which comprise higher-level general corporate functions, represent a significant cost, with a negative EBIT of around EUR -30m per year in 2023–24.

Figure 9: Commercial vehicle share highest in EMEA



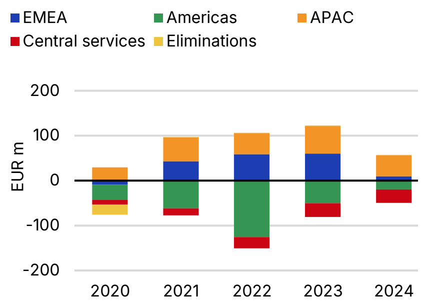
Source: Grammer, Scope

Figure 10: APAC historically most profitable region



Source: Grammer, Scope

Figure 11: Profitability is weighed down by Americas and central services



Source: Grammer, Scope

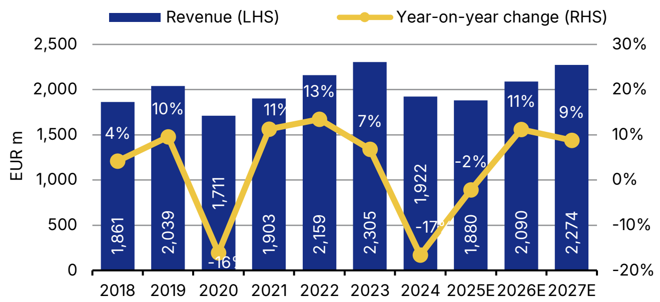
In 2024, the EBITDA margin was 3.8%, down from 5.1% in 2023. In order to calculate the EBITDA margin, we have adjusted reported EBITDA for capitalised R&D expenses. The decrease in profitability has several reasons: i) the unfavourable product mix (lower share of the more profitable commercial vehicles product area); ii) expenses for restructuring measures totalling EUR 36m (2023: EUR 4m); iii) increased costs due to volatile plant utilisation in EMEA; iv) ramp-up costs for the new commercial vehicles plant in North America; and v) the changed customer and product mix in APAC. With regard to the latter, we understand that the share of local OEMs in China increased to over 50% in 2024, and that the profitability of Chinese OEMs is lower than that of global OEMs. At around EUR 74m, EBITDA in 2024 was significantly below EUR 117m in 2023 (around EUR 130m excluding the TMD Group), weighed down by lower revenue and lower profitability.

Significant YoY decline in EBITDA in 2024 due to lower profitability and revenue

Grammer's overall revenue declined by around 17% YoY to EUR 1.9bn in 2024 from EUR 2.3bn in 2023, mainly reflecting the divestment of TMD Group in September 2024 to APC Parent LLC. Like-for-like revenue fell by 6.5%, as a result of the 23% YoY revenue drop in the Commercial Vehicles division, particularly in EMEA due to the lower general demand from OEM customers we have

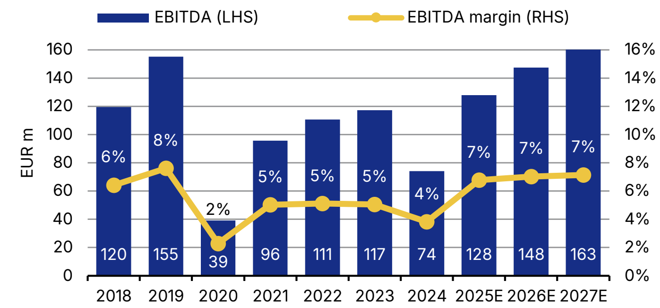
TMD divestment and decline in commercial vehicles caused revenue to fall in 2024 observed across the industry. In contrast, like-for-like revenue in the Automotive division decreased only slightly, by 1%, supported by APAC (up 7% YoY) due to the growth of local OEMs combined with Grammer's shift in China from global OEMs to Chinese OEMs. Chinese OEMs now account for more than 50% of Grammer's automotive revenue in China. We see this as a strategic reorientation, with the help of the main shareholder, in view of the fact that American and European OEMs are losing market share to local OEMs.

Figure 12: Historically volatile revenue expected to recover in 2026, assuming a recovery in the commercial vehicle business



Sources: Grammer, Scope estimates

Figure 13: Expected higher EBITDA post-2024 thanks to restructuring measures and lower restructuring costs



Sources: Grammer, Scope estimates

Revenue growth not expected until 2026

Grammer's revenue is particularly dependent on car and commercial vehicle production, as it does not have material aftermarket business, which is generally more resilient. In 2025, we have factored in revenue of around EUR 1.88bn (down 2% YoY), which is roughly in line with Grammer's guidance of EUR 1.9bn provided in March 2025. We expect a relatively stable development in the Automotive division supported by business expansion with local OEMs in China and the acquisition of 100% of Jifeng Automotive Interior Group (JAI), the European business of NBJF, the parent company of Grammer. JAI generates annual revenue of around EUR 100m through the production of headrests, armrests and other interior decorative and functional components at its five European sites. In contrast, we anticipate lower revenue in the Commercial Vehicle division, since we believe that the Trump administration's trade policy will result in postponed investments. The direct risk from the US tariffs for Grammer, which has a production plant in Mexico, should be limited as Grammer estimates that only revenue of under EUR 20m would be exposed to tariffs. Developments in Q1 2025 support this expectation: total revenue fell by 2.2% YoY to around EUR 407m, as the commercial vehicles segment posted a 7.5% YoY decline due to weak global demand. In contrast, revenue in the automotive sector rose slightly by 0.9% to around EUR 314m, with growth in the APAC and EMEA regions and a decline in the Americas. For 2026, we have factored in revenue of around EUR 2.09bn (up 11% YoY), based on the assumed recovery, in particular in the commercial vehicle business.

Restructuring measures drive higher profitability, likely improving EBITDA in 2025–26

Supported by restructuring initiatives, Grammer is forecasting better profitability, with operating EBIT (excluding currency translation effects and restructuring expenses) set to increase to around EUR 60m in 2025, up from EUR 42m in 2024. This development can already be seen in Q1 2025, with the reported EBIT margin up to 4.0% from 2.2% in Q1 2024, driven by the improvement in EMEA (up to 4.6% from 2.3% in Q1 2024). Grammer sees further cost-saving potential, in particular in central departments, HQ and the EMEA region, and plans to transfer administrative functions from the high-cost country of Germany to the service center in Serbia. We also expect profitability after 2024 to be supported by significantly reduced restructuring costs (under EUR 10m vs. EUR 36m in 2024).

Given the subdued outlook for the commercial vehicle sector, we do not anticipate any positive impact from the product mix in 2025. We expect the shift in China from global to Chinese OEMs to negatively impact profitability in APAC, as Chinese customers offer lower margins for comparable products than premium car manufacturers such as Audi, BMW and Mercedes. Overall, we expect a slightly improved EBITDA margin of 7.0% and EBITDA of around EUR 130m in 2025. In 2026, we expect an EBITDA margin of 7.0%, which translates into EBITDA of around EUR 150m.

8. Financial risk profile: B

Grammer's financial risk profile reflects a combination of weak leverage, moderate-to-good debt protection, and very weak cash flow coverage due to sustained negative FOCF. It is also constrained by debt cluster risk in 2027.

Successful debt reorganisation in 2024

In 2024, Grammer successfully reorganised its entire financing structure with the support of its parent company NBJF, which provided hybrid and shareholder loans as well as guarantees for bank debt raised in the Chinese banking market. This bank debt includes a bilateral credit line of EUR 197m and a EUR 150m 'Chinese' syndicated term loan provided by five lenders, with Shanghai Pudong Development Bank acting as lead bank. In December 2024, Grammer also raised a EUR 80m 'German' syndicated revolving credit facility, which can be drawn upon either as a bank overdraft or in the form of fixed-rate loans with interest periods of up to six months.

50% equity credit to the hybrid loans

Grammer has four hybrid loans totaling CNY 646.6m (EUR 84.5m at year-end 2024) granted by its parent company NBJF to its Chinese subsidiaries Grammer Interior (Shanghai) Co., Ltd., GRAMMER (China) Holding Co., Ltd., Grammer Vehicle Interiors (Hefei) and Grammer Vehicel Parts (Changzhou) Co. The two hybrid loans granted in December 2024 in the amount of around EUR 45m were provided to finance the acquisition of JAI. We have provided a 50% equity credit to the hybrid loans due to: i) deep structural subordination; ii) coupon deferability; and iii) long dated tenor. A higher equity credit is prevented by no mandatory conversion of hybrid loans into equity.

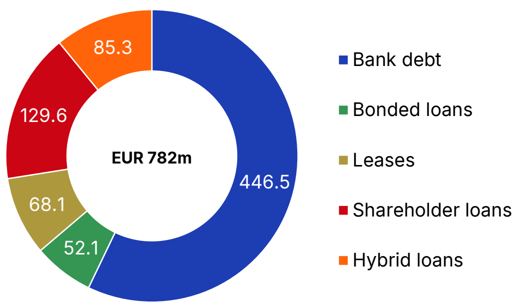
No equity credit for shareholder loans due to the loans' contractual structure

In 2024, Grammer raised two shareholder loans from the main shareholder, totalling EUR 130m. Due to the contractual structure of the shareholder loans, in particular the fixed maturities, we have not provided an equity credit for these loans.

High debt cluster risk in 2027

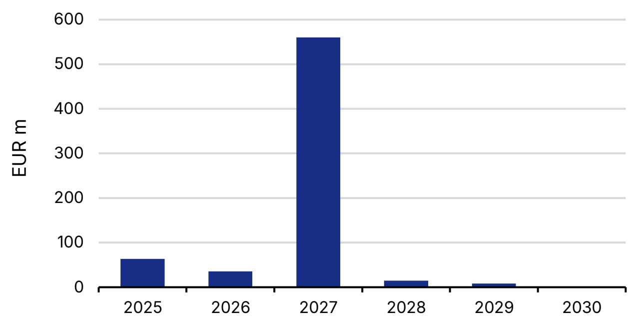
Following the debt reorganisation in 2024, Grammer faces high debt cluster risk, with all the loans raised in 2024 (including shareholder loans) maturing in 2027 in the amount of EUR 560m. Regarding shareholder loans, negotiations to extend these loans have already been initiated by Grammer. We also note that the debt maturity profile includes currently undrawn credit lines at year-end 2024, such as the EUR 80m syndicated loan.

Figure 14: Funding structure at YE 2024, bank debt is Grammer's largest source of debt



Sources: Grammer, Scope

Figure 15: Debt maturities concentrated in 2027 represent a cluster risk



Source: Grammer, Scope

Debt reached its preliminary peak in 2024

We have adjusted reported financial debt by adding the pension deficit (net of deferred tax assets/liabilities) and deducting unrestricted cash and cash equivalents. Overall, we calculate debt of EUR 644m at YE 2024, representing a substantial increase from EUR 546m at YE 2023 and a preliminary peak. The YoY increase reflects the negative FOCF in 2024 and two loans totalling EUR 62m, which Grammer provided to its parent company, NBJF as part of the refinancing transaction in 2024. The proceeds of EUR 39.5m from the sale of the TMD Group and an inflow of EUR 4.6m from the capital increase by minority shareholders had a positive impact.

Substantial volatility in leverage

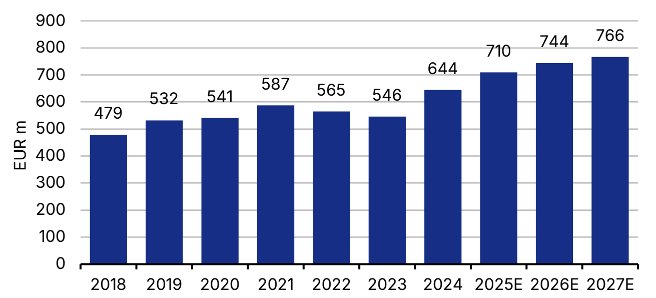
Leverage, as measured by debt/EBITDA, has been rather volatile over the last five years, reflecting the cyclical nature of Grammer's business as well as structural issues in the Americas. After peaking in 2020, debt/EBITDA improved in every year between 2021 and 2023 to 4.7x in 2023, thanks to both a slight decline in debt and EBITDA growth. In 2024, lower EBITDA combined with higher debt, increased the ratio to 8.7x.

Higher projected EBITDA to improve leverage after 2024

We expect FOCF to remain negative in 2025-26 and cash outflow for the JAI acquisition of EUR 46.5m in 2025. Consequently, we anticipate that debt will increase to around EUR 710m at YE 2025 and about EUR 745m at YE 2026. That said, we expect debt/EBITDA to improve from the 2024 level to around 5.5x in 2025 and 5.0x in 2026, thanks to the higher projected EBITDA.

Figure 16: Expected moderate increase in debt

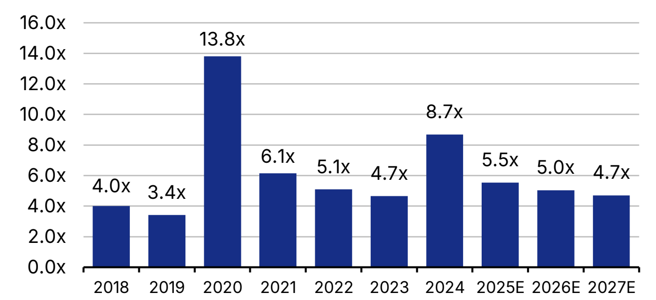
Debt



Sources: Grammer, Scope estimates

Figure 17: Leverage expected to improve after peaking in 2024

Debt/EBITDA



Sources: Grammer, Scope estimates

Interest coverage has deteriorated over the last three years

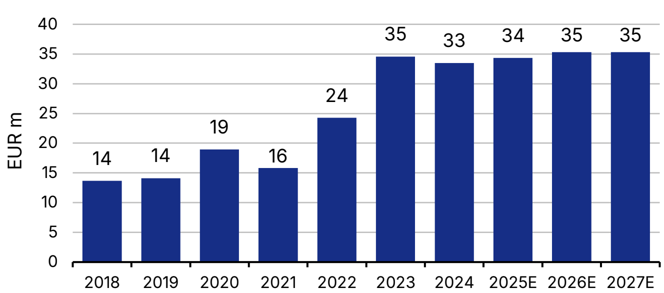
Since 2021, debt protection, as measured by EBITDA interest cover, has deteriorated, reaching a low of 2.2x in 2024. This is due to higher interest costs resulting from rising benchmark rates as well as lower overall profitability. In particular, Grammer's high volume tranche A and C loans (replaced with a new financing package in 2024) were subject to variable interest rates and thus reflected rises in the base interest rate. Moreover, Grammer's economic situation has also increased the applicable interest margins.

Expectation of improved moderate to good interest cover in 2025-26

In 2024, interest of EUR 34m was roughly unchanged compared to EUR 35m in 2023, as higher interest payments were offset by a rise in interest received. Interest received is mainly generated in the APAC region: i) where a large part of Grammer's cash is located; and ii) from loans provided to its parent company. Following the refinancing in 2024, around 95% of Grammer's total debt has a fixed coupon. We expect interest post debt refinancing to settle at around EUR 35m in 2025-26 per year. Based on higher projected EBITDA, we anticipate improved interest cover at a moderate to good level of around 3.5x in 2025 and 4.0x in 2026.

Figure 18: Interest at around EUR 35m post debt refinancing in 2024

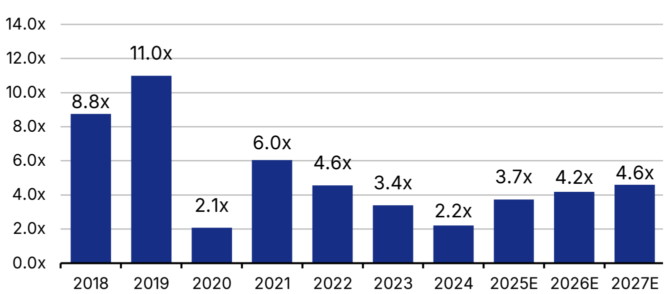
Interest



Sources: Grammer, Scope estimates

Figure 19: Debt protection metric expected to recover from its low in 2024

EBITDA/interest cover



Sources: Grammer, Scope estimates

Negative FOCF makes cash flow cover Grammer's weakest credit metric

Funds from operations (FFO) have failed to keep pace with revenue growth from 2020 onwards. This is due to structural issues in Grammer's automotive business in the Americas, coupled with restructuring costs and mounting interest expenses. The result has been negative FOCF since 2019, making cash flow coverage Grammer's weakest credit metric. In 2024, FFO of EUR 33m was well below the EUR 52m recorded in 2023 due to restructuring costs of EUR 36m and weak operating performance. FOCF decreased significantly to -EUR 97m in 2024, compared to -EUR 6m in 2023, as negative cash flow from discontinued operations of around EUR 31m was added to the lower FFO.

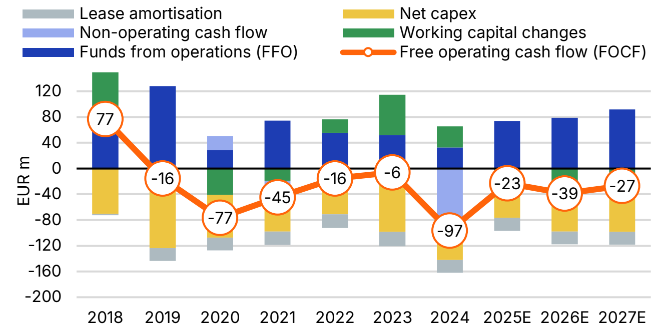
Compared to other automotive suppliers, relatively little capital is tied up in net working capital (NWC), with a revenue share below 10% in 2023–24. This is partly due to the use of non-recourse factoring and a relatively high level of trade payables, which have averaged around 19% of revenue in 2023-24, reflecting favourable payment terms. We understand that Grammer intends to renew and possibly extend its two factoring lines, which expire in 2025. That said, we expect NWC-related outflows to have a negative impact on Grammer's cash flow of around EUR 10m in 2025 and around EUR 20m in 2026.

Capex has been in the EUR 70-85m range over the last five years, with a capex/revenue ratio of around 4.0%, a ratio we have also assumed in our forecast.

FOCF expected to remain negative after 2024

We expect FFO to increase to EUR 70-80m per year in 2025-26, driven by the anticipated rise in EBITDA thanks to restructuring initiatives. As this will not be high enough to cover the anticipated cash outflows realted to NWC and capex, we expect that FOCF will remain negative, at around -EUR 25m in 2025 and -EUR 40m in 2026.

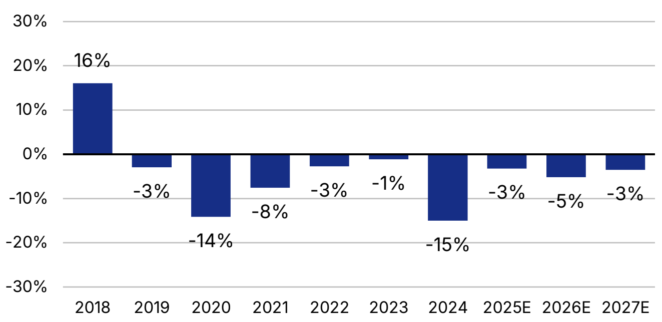
Figure 20: Negative FOCF due to continued weakness in FFO



Sources: Grammer, Scope estimates

Figure 21: Very weak cash flow cover expected to persist

FOCF/debt



Sources: Grammer, Scope estimates

Adequate liquidity

We consider Grammer's liquidity profile to be adequate. The successful debt reorganisation in 2024 has led to low maturities in 2025-26, which available cash sources cover by over 100%. Having said that, the maturities of the new financing structure are highly concentrated in 2027 (total debt of EUR 560m matures in 2027), representing a cluster risk in that year. We understand that refinancing in 2027 will be based on prevailing market conditions in 2026-27 and will largely depend on Grammer's financial performance in 2025. We expect Grammer to have made progress in stretching its maturity profile by our next rating review in H1 2026 at the latest.

Table 1. Liquidity sources and uses (in EUR m)

	2025E	2026E	2027E
Unrestricted cash (t-1)	215	107	37
Open committed credit lines (t-1)	84	50	0
FOCF (t)	-23	-39	-27
Short-term debt (t-1)	89	115	560
Liquidity	**>200%**	**~100%**	**2%**

Sources: Grammer, Scope estimates

Cash sources

Principal cash sources comprised:

- Bank balances amounted EUR 220m at year-end 2024 (EUR 154m at end-March 2025), of which EUR 5m is trapped cash. A significant proportion of Grammer's cash is held in China (EUR 108.7m at the end of 2024) and is subject to Chinese foreign exchange control regulations. As long as there are no conflicting regulatory changes in China, Grammer can dispose of the cash via the cross-border cash pool as well as via dividend distributions in China. That said, the majority of Grammer's debt has also been raised in China.

- Unutilised credit facilities of EUR 84m, for which all the conditions required for drawing had been met
- Expected FFO of around EUR 75m in 2025 and around EUR 80m in 2026

Cash uses

We expect the following cash uses:

- NWC related cash outflow of around EUR 10m in 2025 and about EUR 20m in 2026
- Net capex (excluding capitalised R&D) of approx. EUR 66m in 2025 and roughly EUR 76m in 2026
- Short-term debt (excluding leases) at year-end 2024 of EUR 63m; a further EUR 35m is due for repayment in 2026

Full covenant compliance expected going forward, but...

The EUR 150m syndicated credit line with the Chinese banks, the syndicated credit line with the German banks in the amount of EUR 80m and other bank loans totalling EUR 40m are subject to covenants relating to gross margin ratio, leverage and gearing. It is worth mentioning that, contrary to our calculations, hybrid debt and shareholder loans receive 100% equity credit when covenants are calculated. All three covenants have been fulfilled at the end of Q1 2025 with an ample margin. Based on our projections, particularly our forecast of higher EBITDA driven by restructuring initiatives and revenue growth, we expect Grammer to comply with its covenants in 2025 to 2026. That said, since the leverage covenant will be adjusted in line with the contractual terms, we expect the headroom to the covenant to decrease in the coming quarters, thereby reducing leeway for any operational disappointments.

...covenant adjustment in the coming quarters reduces room for operational disappointments

9. Supplementary rating drivers: +/- 0 notches

Neutral view on capital allocation

We have a neutral view on Grammer's capital allocation. There have been no share buy-backs in the past and, given Grammer's very low free float and projected cash flow generation, share buy-backs are also unlikely in the future.

Suspension of dividend distribution

Dividend payments were suspended during the three-year term of the tranche C of the syndicated loan raised in 2020. The new syndicated loan, which was raised in 2024 and replaced tranche C, does not permit any dividend payments during the term either.

With only a few acquisitions in the last 10 years, Grammer is rarely active in the M&A market.

No rating uplift for parent support despite strong track record of financial assistance

In recent years, Grammer's main shareholder, NBJF, which holds around 86% of the shares, has demonstrated its willingness to support Grammer in times of financial stress by providing substantial financial assistance. Given NBJF's solid standing in the Chinese banking market, the vast majority of Grammer's bank debt is currently provided directly by the parent company – through hybrid debt and shareholder loans – or raised from banks with parent company guarantees. Furthermore, an equity contribution of EUR 8.1m and EUR 4.6m respectively was made at the level of Grammer Vehicle Parts (Harbin) Co., Ltd. in 2023 and 2024. Although we assess the strategic importance of Grammer to its parent as significant, we refrain from granting any uplift to Grammer's standalone credit assessment, as there is no name equality and it is our understanding that the debt guarantees provided by the parent are temporary. Furthermore, we refrain from providing an uplift for parent support, as we consider NBJF's capacity to support Grammer during any period of financial stress to be low. This is because Grammer is by far NBJF's most important asset, and financial stress at Grammer would also have a severe impact on NBJF.

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