CRIF Ratings downgrades Iacobucci HF Aerospace S.p.A. to 'B-' and places the rating on Credit Watch Evolving

Bologna-Italy, 14 November 2017 – 11:15AM local time

CRIF Ratings ('Agency') has downgraded the Long Term issuer rating of Iacobucci HF Aerospace S.p.A. ('IHFA' or 'Company') to 'B-' from 'B'. At the same time, CRIF Ratings has placed the rating on Credit Watch Evolving ('CWE').

The rating action reflects IHFA's current liquidity pressure due to the upcoming debt maturity of EUR 3.5m in December 2017 (final repayment of the EUR 5m bond issued in 2013), compared to EUR 0.6m of available cash on balance as of July 2017. Therefore, IHFA needs to raise by year-end new financial resources to cover the shortfall, estimated by CRIF Ratings around EUR 3m. Furthermore, in April 2018 the Company will face the bullet maturity of the EUR 7.5m bond, bringing the total liquidity shortfall to around EUR 10-12m.

CRIF Ratings understands that IHFA is currently evaluating two alternative options in order to face the next bond maturities: (i) a tout-court debt refinancing through new financial debt provided by debt funds or (ii) a possible equity disposal of a material part of the Company's shares to a new financial investor, which after the transaction closing would inject the sufficient financial resources to repay the outstanding financial debt (EUR 19m as of July 2017). As a result of this dual track, the refinancing process is proceeding more slowly than originally expected. In the Agency's opinion, this significantly heightens the refinancing risk in the short-term. In addition, it limits the flexibility of the Company to find new financial resources, despite IHFA is expected to show a satisfactory profitability (EBITDA margin above 27% compared to c. 34% in FY16) and an acceptable leverage (below 3x on EBITDA and FFO basis) in FY17.

The CWE reflects the current uncertainty regarding the ongoing dual track process and its potential outcome: in case of a successful completion, it should cover a full repayment of IHFA's bonds. On the other hand, the non-completion of the transaction would significantly increase the liquidity pressure and the Company would only have a very tight timeframe to raise new financial resources to timely repay the EUR 3.5m bond maturity due on December 20, 2017. CRIF Ratings plans to resolve the credit watch shortly as soon as the visibility on the ongoing processes about the sale of a significant share of the Company's capital and the debt refinancing improves.

Key Rating Factors

Imminent refinancing risk – IHFA is facing two significant debt maturities including the last tranche payment (EUR 3.5m) of the EUR 5m bond issued in 2013 (maturity in December 2017) and the EUR 7.5m bullet maturity in April 2018. CRIF estimates the Company's total liquidity shortfall around EUR 10-12m. Notwithstanding the improved credit metrics compared to 2015, the decision to postpone the refinancing due to the ongoing sale process could jeopardize IHFA's ability to timely obtain the new resources to cope with the debt maturities in the event of a negative outcome of the cited transaction.

The refinancing risk linked to the EUR 7.5m bullet bond is somehow mitigated by the existence of a warrant providing bondholders the option to swap the notes into equity (with a strike price in line with the bond nominal value). Whilst the current economic performance of the Company could make convenient the exercise of the warrant, in absence of a defined and certain exit for the bondholders, such an outcome remains uncertain.

As of July 2017, IHFA's financial debt slightly declined to EUR 19m from EUR 20m at YE16 (EUR 25m at YE15) and included the two bonds (EUR 11m), bank debt (EUR 2m) and overdue trade, tax and social security payables (EUR 4.7m). After normalizing the financial relationships with its suppliers, during FY16 and FY17, IHFA still incurred into a moderate deferral of tax and social security payables with repayment plans agreed with the relevant Authorities. The compliance with the standard payment terms of social and tax payables has been postponed to 2018. CRIF Ratings highlights that the amount of total liabilities (in excess of EUR 30m at YE16) and the priority ranking of social and tax debts, constrain the bonds' recovery prospects in a case of default.

Volatile operating performance – Starting from the second half of 2015, IHFA's management decided to shift the business strategy, refocusing on profitable products, in particular on the GAIN business unit, and on aftermarket sales (c. half of the turnover). These actions, coupled with significant cost saving measures, enabled in FY16 a +12.4% revenues increase to EUR 31m and an EBITDA margin improvement to 34.3% in FY16 from 9.2% in FY15.

Based on the performance recorded in the first seven months of 2017 and the existing backlog, CRIF Ratings expects a revenue drop in the range of 30% for FY17, mostly attributable to the postponement of orders coming from some of IHFA's largest customers. Whilst this negatively affects the current performance, the existing backlog of c. EUR 32m over the next years increases the medium term visibility on IHFA's revenue flow. EBITDA margin (adjusted by CRIF Ratings to exclude non recurrent items) is expected to remain healthy also in FY17 at around 28% (compared to 34.3% in FY16), but below the Agency's previous expectation due to a lower absorption of fixed and overhead costs linked to the revenue decrease.

Credit metrics and capital structure – The economic performance improvement of the Company enabled the generation of a positive free cash flow ('FCF') in FY16, above EUR 6m compared to a negative FCF for EUR 5m in FY15. As a consequence, the net debt decreased to EUR 16.7m at YE16 from EUR 23m at YE15, permitting a deleverage to 1.6x on EBITDA and FFO basis, from 9.2x and 11.5x in FY15 respectively.

In FY17, the expected EBITDA decline and the impact of extraordinary cash outflows of about EUR 3m, mainly related to the corporate restructuring (including 'Cassa Integrazione Guadagni Straordinari'), is likely to result in a broadly nil FCF in FY17, with net debt stable around EUR 17m and a slight leverage increase to around 3x on EBITDA and FFO basis.

The capital structure remains currently unbalanced due to the heavy net losses reported in the FY13-FY15 period (amounting in total to EUR 16m) leading the net worth to EUR 1.6m at YE15. The net profit in FY16 (EUR 1.6m) has only partially strengthened the equity, with a Debt/Equity ratio above 5x at YE16 (from 14.8x at YE15). CRIF Ratings estimates this ratio to remain stable at YE17. In addition, the Agency highlights the presence among IHFA's assets of the shareholding in the subsidiary MGS Gmbh and the intercompany loan granted to the latter, booked for an overall amount of EUR 9.1m, despite a negative book value of MGS' net worth. Any impairment on these assets would negatively affect the Company's net worth.

Liquidity profile

IHFA's liquidity profile is vulnerable as the current available financial resources do not fully cover the next debt bond maturities, namely EUR 3.5m in December 2017 and EUR 7.5m in April 2018. After repaying the two EUR 0.5m installments of the first bond in March 2017 and June 2017, the available cash on balance declined to EUR 0.6m in July 2017 (down from EUR 2.2m in December 2016). The lack of available credit lines and CRIF Ratings' expectations regarding the neutral FCF generation in FY17, further constrains IHFA's financial flexibility.

In order to secure the repayment of the short-term bank debt (equal to c. EUR 2m in July 2017) IHFA maintains a cash collateral of EUR 0.9m.

Rating Sensitivities

Future events that can lead to a positive outcome of the credit watch are closely linked to the successful closing of the sale of a significant share of the Company's capital and/or of the debt refinancing processes.

On the opposite, the inability to close the sale process in a timely fashion or to raise sufficient financial resources to repay the debt maturities will trigger a rating downgrade.

Company Profile

IHFA, based in Ferentino (FR), operates in the Civil Aviation sector (mainly Commercial and Business Aviation) as a manufacturer and distributor of electrical and mechanical components for aircraft interior fittings. The product lines are divided into three Business Units: (i) GAIN (84% of FY16 turnover), which mainly comprises Espresso and Cappuccino Makers, Coffee and Tea Makers, Trash Compactors and Induction Ovens; (ii) SEAT (8% in FY16), comprising seats; and (iii) NELI (8% in FY16), which mainly includes trolleys.

The products offering targets almost exclusively a market niche characterized by clients with high budgets. The production is carried out mainly in Italy, while from a commercial perspective the company has also an overseas branch in the US.

In FY16, IHFA reported a turnover of EUR 31m, of which around 80% outside Europe (US, Asia, North Africa and Middle East), with an EBITDA margin of 34.3%.

IHFA, whose shareholders are Lucio Iacobucci through Filacapital S.r.l. (65.15%) and Idea Capital (34.85%), issued two bonds in 2013 and 2015 for EUR 5m and EUR 7.5m, maturing in December 2017 and April 2018 respectively. Due to operating and financial difficulties occurred in 2015, in 2016 the Company has agreed with its bondholders the rescheduling of EUR 1m of installments on the first bond (due in December 2016) to March 2017 and June 2017. The Company has duly repaid these installments during the first semester of 2017.

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Rating history	Date of first issue 05/11/2013 Date of last update 14/11/2017 List of rating actions (https://www.crifratings.com/en/rating-list/iacobucci-hf-aerospace/)
Methodology, rating category and historic default rates	Methodological information used for the rating, including the meaning of the each rating category and default definition, is available in the Corporate Rating Methodology document (www.crifratings.com). Information concerning historic default rates and their interpretation can be consulted on the CEREP website (https://cerep.esma.europa.eu/). CRIF Ratings states that the Outlook indicates the most probable direction of the rating over a time period of 12-24 months.
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