



News & Types: Client Advisories

Marelli Files for Chapter 11

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1. Introduction

Marelli Holdings Co., Ltd. and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware on June 11, 2025. The group's total liabilities are reported to be approximately \$4.9 billion, the majority of which is financial debt.

Approximately 80% of Marelli's creditors have executed a Restructuring Support Agreement (RSA). [1] In addition, the company has reportedly secured \$1.1 billion in debtor-in-possession (DIP) financing. [2] Marelli expects that, with court approval, this DIP financing—combined with ongoing operational cash flows—will provide sufficient liquidity throughout the Chapter 11 process.

2. Background: Turnaround ADR and Civil Rehabilitation

Marelli is an automotive parts manufacturer established in May 2019 through the merger of Calsonic Kansei (a Nissan Motor subsidiary) and the Italian firm Magneti Marelli. Following the merger, Marelli's financial condition deteriorated, ultimately leading to a debt burden of approximately ¥1.1 trillion, the largest in Japanese manufacturing history. This prompted the company to seek relief under Japan's "Turnaround ADR" procedures.

Under the Turnaround ADR, Marelli selected KKR, its parent, as sponsor and proposed a restructuring plan seeking approximately ¥450 billion in debt forgiveness from financial creditors.

Turnaround ADR is a rule-based, out-of-court workout process in Japan, where attorneys and certified public accountants appointed by third-party institutions mediate between the company and its creditors. The process is notable for focusing almost exclusively on financial institution claims (financial debt), while trade claims are generally excluded. The objective is to rehabilitate financially distressed companies through voluntary agreements on debt relief, reduction, or modification—primarily for financial debt—without resorting to formal court proceedings such as corporate reorganization or civil rehabilitation, which could impair business value and hinder recovery.

Unanimous creditor consent is required for the completion of a Turnaround ADR. In Marelli's case, with over 20 targeted financial institutions, certain foreign financial institutions did not consent, preventing the ADR from being finalized. As a result, in July 2022, Marelli filed for simplified rehabilitation proceedings in the Tokyo District Court. Notably, in the ADR creditors' meeting, consent was obtained from creditors holding over 95% of total claims.

Simplified rehabilitation is a special procedure under Japan's Civil Rehabilitation Act, designed to permit more rapid rehabilitation than ordinary court-led processes. Civil rehabilitation is generally analogous to Chapter 11.

Because simplified rehabilitation is still a form of civil rehabilitation, trade claims are generally subject to the proceedings, unlike Turnaround ADR. However, Marelli minimized the impact on trade creditors by obtaining court approval for the payment of small claims under Article 85, Paragraph 5 of the Civil Rehabilitation Act. This allowed Marelli to continue normal payments for matured trade claims and to submit an early rehabilitation plan that provided for 100% protection of trade creditors (excluding them from debt reduction). Marelli also explained to trade creditors that their claims would be fully protected. Further, since only Marelli Holdings Co., Ltd. (the holding company) filed for civil rehabilitation, there were relatively few trade claims subject to the proceedings.

For a rehabilitation plan to be approved in simplified rehabilitation proceedings, consent from creditors holding at least three-fifths of total claims by amount is required. Given that most financial institutions had already consented to the restructuring plan under the Business Rehabilitation ADR, Marelli's rehabilitation plan was approved in August 2022.

Marelli's simplified rehabilitation was the first case in Japan to transition from Turnaround ADR to simplified rehabilitation[3]. The total debt was ¥1.1856 trillion, the largest in Japanese manufacturing history, with financial debt reduction of approximately ¥450 billion.

However, after the simplified rehabilitation proceedings, approximately ¥650 billion in debt remained. It seems that the cash flow did not stabilize, leading to the current Chapter 11 filing.

A key distinction between the current Chapter 11 filing and the previous Turnaround ADR and civil rehabilitation procedures is the identity of the filing entities. Under ADR, the debtors were five companies: Marelli Holdings Co., Ltd., Marelli Corporation (formerly Calsonic Kansei), and three other group companies. Under civil rehabilitation, only Marelli Holdings Co., Ltd. filed. In contrast, the current Chapter 11 filing involves 76 companies, including Marelli Holdings Co., Ltd.

3. Protections for Trade Creditors in Chapter 11

Chapter 11 provides several protections for trade creditors. First, claims arising after the Chapter 11 petition ("post-petition claims") generally have administrative expense status, allowing payment even while payments on pre-petition debts are stayed.

Pre-petition trade claims could also be paid in the ordinary course of business without waiting for treatment under a reorganization plan, under certain circumstances. The concept of "critical vendors" is particularly important. Critical vendors are creditors whose goods or services are essential to the debtor's business, such that termination of the relationship would make Chapter 11 reorganization impossible. The debtor or trustee may seek court approval to pay both pre-petition and post-petition debts to such vendors as administrative expenses.

As of this writing, it is unclear which trade creditors have been designated as critical vendors. However, on June 11, 2025, Marelli filed a Critical Vendor Motion with the court, seeking interim approval to pay critical

vendors a total of approximately \$110 million. According to the motion, Marelli will designate critical vendors based on the following factors:

- **Absence of alternative suppliers or difficulty in substitution**
- **Importance of the vendor in terms of supply volume or quality**
- **Substitution limited by regulatory or contractual constraints**
- **Significant business disruption due to the cost or time required for substitution**
- **High risk of post-petition transaction cessation if payments are withheld**

Chapter 11 also protects reclamation rights under state law pursuant to Section 546(c) of the Bankruptcy Code, allowing suppliers to demand the return of identifiable goods provided within a certain period before the petition date.

According to Teikoku Databank, Marelli has stated that, following the Chapter 11 filing, it plans to continue fulfilling its obligations to key stakeholders, including continuing to pay suppliers for goods and services under customary terms.

Trade creditors holding pre-petition claims that are not protected by the special provisions described above cannot receive ad hoc payments and must await treatment under the reorganization plan. Such trade creditors typically become general unsecured creditors and are treated similarly to other general unsecured creditors. The treatment of trade creditors in the reorganization plan that Marelli will propose is currently unknown.

Given that the current Chapter 11 filing appears aimed at business continuation, and considering the historical background described above, the impact on trade creditors is likely to be relatively smaller than on financial institutions, even though many operating subsidiaries are among the filing entities.

Trade creditors with dealings in the Marelli Group are advised to:

1. **Identify their pre-petition claims against the debtor entities and prepare to file proofs of claim.**
2. **Confirm whether such claims qualify for payment as administrative expenses or otherwise.**
3. **Evaluate their post-petition transactions with the company**

If you have any questions about the contents of this publication, please contact Koichiro Sato or any other member of Masuda Funai's Commercial, Competition and Trade Group.

[1] A Restructuring Support Agreement (RSA) is a contract entered into between a debtor and creditors in connection with a restructuring proceeding under Chapter 11. Through this agreement, the debtor and the consenting creditors establish in advance the agreed terms regarding the treatment of bankruptcy claims and the reorganization plan.

The primary purpose of an RSA is to reduce the uncertainty, cost, and duration typically associated with Chapter 11 bankruptcy proceedings. By binding creditors to support the restructuring plan, the debtor increases the certainty that the proposed plan will be approved within the bankruptcy process, thereby enabling a more efficient and streamlined restructuring process.

[2] DIP financing or "Debtor-in-Possession Financing" is a loan provided to a company that has filed for a restructuring-type legal insolvency proceeding, such as Chapter 11 in the U.S. or civil rehabilitation in Japan, in order to secure the working capital necessary to continue its business operations during the proceeding.

[3] For an excellent overview of the process, see

<https://www.morihamada.com/sites/default/files/newsletters/newsletters/pdf/202211.pdf>

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