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Ratings

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Localiza Rent a Car S.A.

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This report does not constitute a rating action.

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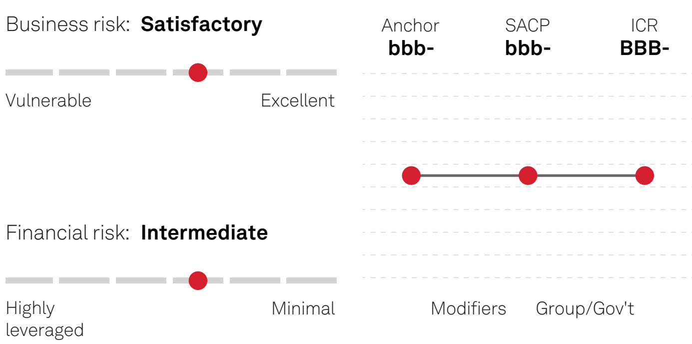
Ratings Score Snapshot



Issuer credit rating
BBB-/Stable/--

ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Leading position in Brazilian car rental industry	Persistently high domestic interest rates that pressure cash flow and credit metrics
Long history of solid execution and profitability, with controlled leverage	Capital-intensive nature of fleet renewal and expansion
Strong liquidity position	Ratings capped at two notches above those on Brazil

High base interest rates and depreciation have pressured Localiza's interest coverage, but we expect an improvement as the company maintains prudent leverage. We lowered our EBIT margin forecast to around 22% for 2026 (from 23% in 2025) because of the higher depreciation amid an influx of new Chinese original equipment manufacturers. With lower EBIT, combined with our forecast of base interest rates at 14.3% in 2026 and 13.4% in 2027, we project EBIT interest coverage of 1.8x in 2026 and 1.9x in 2027.

This coverage is weaker than our previous expectations but still reflects an improvement from 1.5x in 2025, thanks to increasing EBIT with revenue growth and continued operating efficiencies such as improved vehicle utilization and an optimized fleet mix. We expect the funds from operations (FFO)-to-debt ratio to remain at or above 30%.

Localiza benefits from proactive liability management and sound liquidity. It recently refinanced approximately Brazilian real (R$) 7 billion of debt, which extended maturities into 2032 and beyond and reduced the average cost of debt. The company's liquidity position remains strong, with R$10.1 billion in cash at the end of second-quarter 2026, sufficient to cover all debt maturities for the next two years. Additionally, the company's fleet provides liquidity flexibility, given management can manage cash flow by adjusting capital expenditure or accelerating vehicle sales if required.

Fleet rejuvenation is a key component of the company's strategy. To manage residual value risks and optimize its fleet, Localiza is accelerating used car sales, targeting an average fleet cycle of 15 months. This strategy is already yielding results, with a reduction in the average age of the rent-a-car (RaC) operating fleet to 8.2 months in second-quarter 2026. This also allows for lower maintenance costs per vehicle, supporting profitability.

By increasing the frequency of vehicle sales--reaching 92,500 units in second-quarter 2026--the company aims to more rapidly convert fleet assets into cash. We expect this focus on volume and pricing discipline to propel a recovery in absolute earnings, with EBIT projected to grow to R$11.0 billion in 2026 from R$9.5 billion in 2025 and EBIT margin to remain 22%-23% in the next few years.

Outlook

The stable outlook reflects S&P Global Ratings' view that Localiza will maintain sound operating cash flow over the next two years. We believe inflation-aligned tariff adjustments and efficiency gains will support leverage reduction, with EBIT interest coverage of 1.8x-2.0x and FFO to debt at or above 30% until 2027, alongside a strong liquidity position.

Downside scenario

We could lower the ratings if we expected continued weaker cash flow or higher leverage, with EBIT interest coverage below 1.7x and FFO to debt below 20% consistently. That could occur if demand slumped and used car sales plummeted--potentially amid falling customer purchasing power due to high base interest rates, unemployment, or inflation.

We would also lower the ratings if we lowered the sovereign credit rating, since we cap the ratings on Localiza at two notches above those on Brazil.

Upside scenario

An upgrade is unlikely in the next 12-24 months because it would depend on revising up the stand-alone credit profile (SACP) and on taking a similar action on the sovereign, given the current cap at two notches above the sovereign rating.

We could revise up Localiza's SACP to 'bbb' if the company delivered much stronger profitability and cash flow in the next few years, leading to EBIT interest coverage close to 3.0x and FFO to debt consistently above 30%.

In the longer term, a positive rating action could occur if the company expanded outside Brazil, further diversifying its revenue sources. That could strengthen Localiza's competitive position.

Our Base-Case Scenario

Assumptions

- GDP growth in Brazil of 1.8% in 2026, 1.7% in 2027, and 2.2% in 2028
- Average inflation in Brazil of 4.7% in 2026, 4.1% in 2027, and 3.7% in 2028, affecting the company's cost structure and tariff adjustments for fleet leasing contracts
- Average base interest rates of 14.3% in 2026, 13.4% in 2027, and 10.8% in 2028, affecting funding costs and contract rates for new fleet leases
- Total fleet of 670,000 cars at the end of 2026 (from fleet optimization and increased used car sales), with 2% annual growth in subsequent years amid a focus on improving fleet utilization (addition of about 12,000 cars per year)
- Purchases of about 380,000 new vehicles in 2026, 400,000 in 2027, and 410,000 in 2028
- Average new car prices at R$93,000-R$100,000 in 2026-2028
- Used vehicle sales of about 366,000 units in 2026, 384,000 in 2027, and 395,000 in 2028
- Average rented fleet of about 483,000 vehicles in 2026, 494,000 in 2027, and 505,000 in 2028
- Average utilization rate in RaC segment of 74%-75%
- Average utilization rate in fleet management (GTF) segment of 92%-93%
- Tariffs in both GTF and RaC segments to continue growing closer to inflation
- Net capex of about R$6.2 billion in 2026, R$7.8 billion in 2027, and R$7.6 billion in 2028
- Dividend payout of 40% of previous year's net income in the next couple of years
- Continued debt refinancing, keeping financial debt relatively stable at around R$43.5 billion

Key metrics

Localiza Rent a Car S.A.--Forecast summary

(Mil. R$)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	21,592	28,902	37,272	41,782	49,257	53,599	57,016	60,423
Gross profit	12,416	12,740	14,720	16,919	18,823	20,294	21,693	23,014
EBITDA (reported)	6,593	10,523	11,915	13,753	15,318	16,508	17,673	18,761
Plus/(less): Other	1,583	214	86	100	103	103	103	103
EBITDA	8,176	10,737	12,001	13,854	15,421	16,611	17,776	18,863
Less: Cash interest paid	(2,912)	(4,886)	(5,396)	(5,557)	(6,150)	(6,397)	(5,383)	(5,041)
Less: Cash taxes paid	(103)	(130)	(487)	(477)	(671)	(954)	(1,412)	(1,778)
Plus/(less): Other	--	1,119	1,447	1,682	1,466	1,636	1,786	1,901
Funds from operations (FFO)	5,161	6,839	7,565	9,502	10,066	10,896	12,766	13,945
EBIT	8,081	7,109	7,463	9,548	11,026	12,262	13,450	14,522
Interest expense	3,585	5,120	5,348	6,199	6,146	6,394	5,380	5,039

Localiza Rent a Car S.A.--Forecast summary

(Mil. R$)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Cash flow from operations (CFO)	4,040	5,445	7,765	9,344	9,516	10,666	12,358	13,502
Capital expenditure (capex)	14,470	11,394	7,785	6,411	6,170	7,792	7,575	8,059
Free operating cash flow (FOCF)	(10,431)	(5,949)	(20)	2,933	3,346	2,874	4,783	5,442
Dividends	1,528	1,342	1,294	1,756	1,464	1,761	3,026	3,556
Share repurchases (reported)	(5)	320	799	--	--	--	--	--
Discretionary cash flow (DCF)	(11,954)	(7,611)	(2,114)	1,178	1,882	1,113	1,757	1,886
Debt (reported)	33,271	40,608	44,767	43,595	43,503	43,495	43,261	42,034
Plus: Lease liabilities debt	912	1,228	1,337	1,305	1,366	1,422	1,475	1,524
Less: Accessible cash and liquid Investments	(4,726)	(9,477)	(11,426)	(10,593)	(12,288)	(13,247)	(14,630)	(15,050)
Plus/(less): Other	355	209	116	76	65	65	65	65
Debt	29,812	32,568	34,793	34,383	32,647	31,736	30,171	28,573
Equity	20,571	25,398	26,343	25,539	27,838	30,581	33,710	37,370
Adjusted ratios								
Debt/EBITDA (x)	3.6	3.0	2.9	2.5	2.1	1.9	1.7	1.5
FFO/debt (%)	17.3	21.0	21.7	27.6	30.8	34.3	42.3	48.8
CFO/debt (%)	13.6	16.7	22.3	27.2	29.1	33.6	41.0	47.3
FOCF/debt (%)	(35.0)	(18.3)	(0.1)	8.5	10.2	9.1	15.9	19.0
DCF/debt (%)	(40.1)	(23.4)	(6.1)	3.4	5.8	3.5	5.8	6.6
Annual revenue growth (%)	98.1	33.9	29.0	12.1	17.9	8.8	6.4	6.0
Return on capital (%)	24.4	13.1	12.5	15.8	18.3	20.0	21.3	22.4
EBIT interest coverage (x)	2.3	1.4	1.4	1.5	1.8	1.9	2.5	2.9
Debt/debt and equity (%)	59.2	56.2	56.9	57.4	54.0	50.9	47.2	43.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Company Description

Localiza is Brazil's leading car rental company, with a total fleet of about 675,000 vehicles and net revenue of R$46.4 billion in the 12 months ended June 2026. It operates in the rent-a-car, long-term fleet management, and used car sales segments. In 2022, Localiza merged with Companhia de Locacao das Americas S.A. (Locamerica)--at the time the second-largest industry player in Brazil and the leader in fleet management.

Localiza is controlled by two shareholder blocs, consisting of the four founding shareholders of Localiza and the founding shareholders of Locamerica. The remaining shares are traded on B3's Novo Mercado.

Liquidity

We view Localiza's liquidity as strong, with sources of cash exceeding uses by close to 2.0x in the next 12-24 months and remaining above 1.0x even if EBITDA declined 30% from our forecast. We expect the company to rely on its operating cash flow and ability to access long-term funding to renew its fleet. It has well-established relationships with banks and a generally high standing in domestic credit markets, with frequent issuances of debentures and other debt instruments at relatively low costs.

Principal liquidity sources	Principal liquidity uses
• Cash position of R$10.1 billion as of June 2026 • FFO of about R$9.8 billion in the next 12 months after June 2026 • Ability to contract uncommitted secured financing of up to 70% of the purchase value of new vehicles	• Short-term debt of R$4.7 billion as of June 2026 • Working capital outflows of about R$400 million in the next 12 months • Net capex of about R$5 billion, assuming the company can reduce it from our base-case expectations, if needed • Dividend distributions of about R$1.7 billion in the next 12 months

Covenant Analysis

Requirements

Localiza is subject to debt payment acceleration covenants under some of its debt, including all the debentures, which require the maintenance of net debt to EBITDA below 4.0x and EBITDA interest coverage above 1.5x.

Compliance expectations

We expect Localiza to maintain headroom above 40% through 2028 for both covenants.

Environmental, Social, And Governance

Environmental, social, and governance factors have an overall neutral influence on our credit rating analysis of Localiza. In 2020, the company became the first in Brazil's car rental industry to be included in the B3 Carbon Efficient Index to encourage monitoring of greenhouse gas emissions. The company has several environmental initiatives, including for solar power usage, waterless car washing, and reverse logistics programs for vehicle spare parts to mitigate waste.

Rating Above The Sovereign

The ratings on Localiza are two notches above our 'BB' foreign currency rating on Brazil, reflecting our view that the company wouldn't default upon a hypothetical sovereign default. We consider the auto sale and rental industries to be highly sensitive to a sovereign default: These business lines are closely correlated to economic activity, consumer purchasing power, inflation, and credit availability. As a result, we can rate companies in the sector only up to two notches above the sovereign rating.

To evaluate whether we can rate Localiza above Brazil, we apply a stress test to the company's cash flow and liquidity. In our stress scenario, we consider a GDP contraction of 10% and a doubling of inflation and interest rates. We also apply a 10% haircut to the company's cash and bank deposits and a 70% haircut to short-term investments. In this stress scenario, inflation would increase the company's operating costs, and the company would have a limited ability to adjust service prices, thus lowering EBITDA about 35% from our base-case scenario.

We believe Localiza would reduce capex and maximize vehicle sales to maintain adequate liquidity. This, combined with the company's cash position, leads to our view that the company's liquidity sources will remain above its uses over the next 12 months with an adequate cushion.

Rating Component Scores

Foreign currency issuer credit rating	**BBB-/Stable/--**
Local currency issuer credit rating	**BBB-/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb-**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign-, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011