FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Light's IDRs to 'D' on Judicial Reorganization Filing

Mon 15 May, 2023 - 16:50 ET

Fitch Ratings - São Paulo - 15 May 2023: Fitch Ratings has downgraded the Local Currency and Foreign Currency Long-Term Issuer Default Ratings of Light S.A. (Light) and its wholly owned subsidiaries Light Servicos de Eletricidade S.A. (Light Sesa) and Light Energia S.A. (Light Energia) to 'D' from 'C'. It also downgraded the Long-Term National Scale Ratings of these entities and their unsecured debentures to 'D(bra)' from 'C(bra)'. Fitch has also affirmed the ratings of the unsecured bonds at 'C'/'RR4'.

The downgrade follows a court's decision to grant bankruptcy protection for Light S.A. on May 15, 2023, extending the protection to its subsidiaries.

KEY RATING DRIVERS

Bankruptcy Protection: Light filed a petition for bankruptcy protection after unsuccessful negotiations with bondholders. The holding company filed for protection under the judicial reorganization regime and requested the protection to be extended to the subsidiaries.

Recovery Limited by Credit Environment: Fitch caps the recovery ratings of Light's debt instruments at 'RR4', resulting in 'C' rating for the bonds. This cap reflects concerns over the enforceability of creditor rights in certain jurisdictions, where average recoveries tend to be lower. Without the cap, recovery rates of Light's debt instruments would be 'RR1' for secured debts and 'RR3' for unsecured debts, resulting in 'CCC+' and 'CCC-' ratings, respectively, according to Corporates Recovery Ratings and Instrument

Ratings Criteria. The above-average recovery prospect, not incorporated in the instruments' ratings, reflects Light Sesa's right to receive around BRL10.1 billion from the government, as indemnity for unamortized assets in case of non-renewal concession.

KEY ASSUMPTIONS

The recovery analysis assumes that the undergoing financial stress could impair Light Sesa's regulatory leverage ratios and even exert some negative impact on its operations, to an extent of making the concession renewal less likely. In this bankruptcy -like scenario, Fitch considered a BRL10 billion indemnity due to the concessionaire with 80% advance rate, less 10% administrative claims. The liability waterfall indicates a 'RR1' recovery for the group's secured debt, mostly comprised of Light Sesa's FIDC (BRL323 million at March 2023) and 'RR3' for the group's unsecured debt (BRL10.6 billion). The 'RR1' and 'RR3' Recovery Ratings reflect recovery prospects ranging from 91%-100% and 51%-70%, respectively.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Success in completing a debt restructuring with creditors that strengthens Light's liquidity and capital structure.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Negative rating actions are not possible as the company is the lowest level of the rating scale.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Liquidity Compromised: The group's current financial situation heavily reduces its ability to raise new debt. The company's adjusted debt was BRL10.9 billion at the end of March 2023, mostly concentrated in Light Sesa (BRL9.1 billion). Cash was BRL1.6 billion, down from BRL2.1 billion at December 2022, and covered 1.4x the short-term adjusted debt.

ISSUER PROFILE

Light Sesa is the fourth largest power concession in Brazil, serving more than 70% of Rio de Janeiro's consumption and accounts for about 60% of the group's EBITDA. Its concession expires on June, 2026. Light Energia has 511 MW of assured energy, from concessions expiring in 2028.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Light Servicos de Eletricidade S.A.	LT IDR	D	Downgrade		C
	LC LT IDR	D	Downgrade		C
	Natl LT	D(bra)	Downgrade		C(bra)

senior unsecured	LT	C	Affirmed	RR4	C
senior unsecured	Natl LT	D(bra)	Downgrade		C(bra)
Light Energia S.A.	LT IDR	D	Downgrade		C
	LC LT IDR	D	Downgrade		C
	Natl LT	D(bra)	Downgrade		C(bra)
senior unsecured	LT	C	Affirmed	RR4	C
senior unsecured	Natl LT	D(bra)	Downgrade		C(bra)

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Light Energia S.A.	EU Endorsed, UK Endorsed
Light S.A.	EU Endorsed, UK Endorsed
Light Servicos de Eletricidade S.A.	EU Endorsed, UK Endorsed

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