FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Light's IDRs at 'D'/'D(bra)'

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Fitch Ratings - São Paulo - 07 May 2024: Fitch Ratings has affirmed Light S.A. (Light) and its wholly owned subsidiaries Light Servicos de Eletricidade S.A. (Light Sesa) and Light Energia S.A. (Light Energia)'s Local Currency and Foreign Currency Long-Term Issuer Default Ratings at 'D' and Long-Term National Scale Ratings at 'D(bra)'. Fitch has also affirmed the ratings of Light Sesa and Light Energia senior unsecured bonds at 'C'/'RR4'.

The ratings affirmation reflects the fact that Light remains under bankruptcy protection, granted on May 15, 2023, whose effects extend to its subsidiaries.

KEY RATING DRIVERS

Ongoing Judicial Recovery: Light remains under bankruptcy protection. Fitch expects the judicial recovery plan (JRP) to be voted by creditors in May 2024. After the potential debt restructuring, the agency will review Light's ratings based on the new capital structure, updated assumptions for operating performance and expectations in terms of financial flexibility going forward. Given the utilities nature of Light's businesses, the group's operations have not yet been critically affected by the credit default, despite cuts in expenses and investments.

Debt Restructuring: Under Fitch's base case, assuming the JRP's proposed capital structure, the group's net leverage would average 2.9x in the 2024-2027 period, or 2.6x, excluding off-balance debt of BRL700 million related to guarantees provided for non-consolidated companies. The estimates assume some increase in the regulatory limit for Light Sesa's energy losses. Light's JRP includes equity injection of at least BRL1.0 billion and requires a debt conversion of BRL2.2 billion as the minimum amount to avoid explicit haircut.

Light Sesa's debt restructuring is necessary to adequate leverage metrics on a regulatory basis, thus avoiding losing the concession right and making room for its renewal, under conditions yet to be established by the government. Fitch's base case considers both the debt exchange and the equity injection to occur in 2024, after the expected concession renewal. Light Sesa's concession expires in June, 2026.

Credit Environment Limits Recovery: 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 the group's unsecured debt instruments would be 'RR2' for debts issued by Light Energia and 'RR3' for Light Sesa, resulting in 'CCC-' and 'CC' ratings, respectively, according to Corporates Recovery Ratings and Instrument Ratings Criteria. The recovery prospects, not incorporated in the instruments' ratings, reflect the beneficial treatment for Light Energia's debts and Light Sesa's right to receive around BRL10.1 billion from the government, as indemnification for unamortized assets in case of non-renewal concession.

DERIVATION SUMMARY

Light's ratings reflect the fact that the company has filed for bankruptcy protection on May 12, 2023, which was granted by the court on May 15, 2023.

KEY ASSUMPTIONS

--Capital increase of BRL3.2 billion in 2024: equity injection of BRL1.0 billion plus debt conversion of BRL2.2 billion;

--Interest accrual totaling BRL405 million since the standstill was granted;

--Issuance of BRL3.4 billion, with eight years-term, at IPCA + 5% per annum, with first instalment due 2028;

--Issuance of BRL3.0 billion, with 13 years-term, at IPCA + 3% per annum, with first instalment due 2028;

--Issuance of BRL670 million, with 10 years-term, at CDI + 0.5% per annum, with first instalment due 2028;

--Existing debt instruments: BRL77 million of debts issued by Light Energia, to be paid according to original terms, after interest accrual;

--Upfront payment of BRL300 million for small creditors in 2024.

Assumptions for Light Sesa's operations:

--Increase in the regulatory limit for energy losses, as proposed by ANEEL's technical department in September 2023;

--Effective energy losses flat at 60% of the reference market;

--Zero market growth as of 2024;

--Annual capex of BRL1.3 billion in 2025-2027.

RECOVERY ANALYSIS

Disregarding any debt restructuring, Fitch's recovery analysis considers that the group's liquidation value, based on the expected indemnification for Light Sesa's regulatory asset base (BRL10 billion), after an advance rate of 80%, would be greater than the enterprise value as a going concern (BRL7.3 billion). The enterprise value estimate assumes an enterprise value/EBITDA multiple of 3.5x and a going concern EBITDA of around BRL2.1 billion, already considering some increase in the regulatory limit for Light Sesa`s energy losses.

The liability waterfall indicates a 'RR2' recovery for Light Energia's outstanding debt and 'RR3' for Light Sesa's debt, after administrative claims of 10%. The group's outstanding debt in December 2023 (BRL10.6 billion) was fully comprised of unsecured instruments. The 'RR2' and 'RR3' Recovery Ratings reflect recovery prospects ranging from 71%-90% and 51%-70%, respectively. Nevertheless, the cap for issuers in Brazil is 'RR4', with recovery prospects between 31% and 50%.

RATING SENSITIVITIES

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

--Success in completing a debt restructuring and Light exiting the bankruptcy protection.

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

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

LIQUIDITY AND DEBT STRUCTURE

Liquidity Compromised: Fitch considers that Light's ability to raise new debt after the debt restructuring will be limited. If the company succeeds in implementing the JRP's proposed capital structure, Fitch believes it would be fully funded over the projection horizon (2024-2027), assuming minimum cash balance of BRL1.5 billion on a consolidated basis and some increase in the regulatory limit for Light Sesa's energy losses.

Light SESA's debt (BRL9.8 billion, including partial interest accrual since the stay period was granted) would be exchanged by tranches with first instalments due 2028, while debts issued by Light Energia (BRL1.9 billion, with partial interest accrual, or BRL1.3 billion, disregarding debts that have already been excluded from the JRP) would not be restructured, provided that certain conditions are met.

At the end of 2023, Light had BRL2.1 billion in cash and short-term debt of BRL11.3 billion, mostly concentrated in Light Sesa (BRL9.8 billion). The group's adjusted consolidated debt of BRL12.0 billion was composed by debentures (62%), bonds (25%), swaps (6%), bank loans (2%) and off-balance debt (6%), related to Light's proportional guarantee in favor of Norte Energia S.A., owner of Belo Monte hydropower plant.

ISSUER PROFILE

Light is a publicly-traded holding company in Brazil. It fully controls Light Sesa, the fourth largest power concession in Brazil, which serves more than 70% of Rio de Janeiro's consumption, and Light Energia, a power generation company with 511 aMW of assured energy, from concessions expiring in 2028. Light Sesa accounts for about 60% of the group's EBITDA and its concession expires on June, 2026.

SUMMARY OF FINANCIAL ADJUSTMENTS

Fitch excluded revenues and costs related to construction from income statements.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Light Servicos de Eletricidade S.A.	LT IDR	D	Affirmed		D
	LC LT IDR	D	Affirmed		D
	Natl LT	D(bra)	Affirmed		D(bra)
senior unsecured	LT	C	Affirmed	RR4	C
Light Energia S.A.	LT IDR	D	Affirmed		D
	LC LT IDR	D	Affirmed		D
	Natl LT	D(bra)	Affirmed		D(bra)
senior unsecured	LT	C	Affirmed	RR4	C
Light S.A.	LT IDR	D	Affirmed		D

LC LT IDR	D	Affirmed	D

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

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

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

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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