

Research Update:

# Brazilian Infrastructure Group Invepar Downgraded To 'CCC' From 'CCC+' On Higher Liquidity Risks; Outlook Negative

January 24, 2023

## Rating Action Overview

- Brazil-based transportation infrastructure group Investimentos e Participacoes em Infraestrutura S.A. – Invepar (Invepar) continues depending on events it does not control--including the reauctioning process of BR-040 S.A. (Via 040, not rated) and the judicial dispute of Linha Amarela S.A. (Lamsa, not rated)--in order to pay the significant maturities of Via 040 (October 2023), and at the holding level (August 2024). That significantly increases the risks of a liquidity crisis in the upcoming months.
- As a result, on Jan. 24, 2023, S&P Global Ratings lowered its global scale issuer credit rating on Invepar to 'CCC' from 'CCC+' and the national scale rating to 'brB-' from 'brBB'. We also lowered the issue-level ratings on Invepar's third and fifth debentures to 'brCCC' from 'brB+', and kept the recovery rating at '6'.
- The negative outlook on Invepar incorporates the risk that the reauction of Via 040 won't conclude before the maturity of its debt in October 2023, which ultimately could result in debt acceleration.

### PRIMARY CREDIT ANALYST

**Bruno Ferreira**  
Sao Paulo  
+ 55 11 3039 9798  
Bruno.Ferreira  
@spglobal.com

### SECONDARY CONTACT

**Marcelo Schwarz, CFA**  
Sao Paulo  
+ 55 11 3039 9782  
marcelo.schwarz  
@spglobal.com

## Rating Action Rationale

**The downgrade reflects increased liquidity risks and Invepar's reliance on events out of its control.** Invepar faces significant maturities in the next few years, including Via 040's R\$978 million debt due in October 2023, which Invepar guarantees, and R\$960 million in August 2024 from the third and fifth debenture issuances at the holding level.

In order to pay these maturities, Invepar has to rely on favorable conditions of two events that are outside its control:

- A successful conclusion of Via 040's reauction process by August 2023 or an extension of the amendment contract to reauction the concession, which depends on Brazil's Federal Audit Court (TCU)'s approval. The concession was auctioned in 2013. Given negative operational and

financial conditions, Invepar adhered in 2017 to a newly enacted law to terminate this concession. We expect the conclusion to give right to indemnities in favor of Via 040 for the investments already made, and that the group would use the proceeds to pay down Via 040's debt. In our view, there are two main risks related to this process. The first is that if the reauction process is further delayed beyond the end of Via 040's debt tenor in October 2023, it could result in an event of default of the company's debt if lenders don't provide a waiver. The second is that assuming the reauction concludes, if indemnities related to the concession's termination are lower than we expect, they wouldn't be enough to cover Via 040's debt. In this scenario, Invepar would have to inject some of its own cash position.

- A favorable conclusion of Lamsa's judicial dispute with the municipality of Rio de Janeiro, which has been ongoing since Sept. 17, 2020. Despite recent outcomes in favor of LAMSA that suspended the concession termination and allowed the company to operate for additional 15 years, the discussions might continue for several months because there will be new conciliation hearings to define the fair value of the toll tariffs, and the parties might appeal. This dispute could continue throughout 2023. This would increase liquidity risks for Invepar because the conclusion of the debt restructuring agreed to with its creditors entails transferring Invepar's ownership in Lamsa in exchange for the debt payment at the holding level, which is due in August 2024.

**Invepar's subsidiaries have been distributing limited cash dividends, squeezing its liquidity.**

Invepar ended the third quarter of 2022 with cash balances of R\$303 million, which is enough to cover the holding's expenses for the next 12 months, which are between R\$30 million and R\$40 million annually, limited to headcount and administrative expenses. Nevertheless, the holding doesn't generate cash flows and its subsidiaries have been distributing limited cash dividends, either due to accumulated losses at the subsidiaries' level, still poor operating performance due to pandemic, or because they have restrictions on doing so. As a result, if any of its subsidiaries requires a cash injection, it would consume the holding's cash balance, further worsening the group's liquidity, which is already under pressure.

## **Outlook**

The negative outlook on Invepar incorporates the risk that Via 040's reauction process won't conclude before the maturity of its debt in October 2023, which ultimately could lead creditors to accelerate its debt.

## **Downside scenario**

We could lower the ratings on Invepar to 'CC' in the next 12 months if Via 040's creditors accelerate the entity's debt--which Invepar guarantees--following the non-conclusion of the reauction process. In addition, we could lower the rating of Invepar to 'CCC-' if, despite a favorable conclusion of Via 040's reauction, the dispute involving Lamsa continues into the end of 2023 without resolution, and we believe a default on the obligations at the holding level will be inevitable.

## **Upside scenario**

We could revise the outlook on Invepar to stable if, all else being equal, the reauction process of Via 040 concludes successfully and Invepar pays down the debt due in October 2023 mostly with

proceeds from the indemnities. We could raise the ratings if Via 040's reauction successfully concludes and the debt restructuring at the holding level also concludes, following the asset transfer to Invepar's debtholders in exchange for amortizing the rest of the debentures at the holding level, therefore easing refinancing needs for the next several years.

## **Company Description**

Invepar has the concession to operate Concessionária do Aeroporto Internacional de Guarulhos S.A. (GRU Airport, not rated), Brazil's largest airport, in the metropolitan area of São Paulo, which is the group's main asset. In addition, the company manages toll roads and urban mobility assets: Concessionária Litoral Norte S.A. – CLN (CLN, not rated) and Lamsa (which is accounted as held for sale), as well as Via 040, the 936.8 kilometer toll road concession that connects 35 municipalities, from Brasília, Brazil's capital, to the state of Minas Gerais. Via 040 is currently reported as a discontinued operation due to the ongoing reauction process.

The three major local pension funds--Previ, Funcef, and Petros--are in aggregate the majority shareholders and control 75% of Invepar's shares. An investment fund called Yosemite holds the remaining shares.

## **Issue Ratings - Recovery Analysis**

### **Key analytical factors**

We kept our recovery ratings on Invepar's third and fifth debentures issuances at '6' as a result of the negligible recovery for the debt at the holding level. Although the recovery rating remains the same, considering that we lowered the national scale issuer credit rating to 'brB-', we also lowered the issue-level ratings on the debentures to 'brCCC'.

Our hypothetical default scenario would occur in 2024, assuming that Invepar wouldn't be able to conclude the debt exchange by transferring Lamsa to the debentures' creditors, Via 040's reauctioning process would continue until 2024, and Invepar would face contingent obligations on this debt considering the guarantee it provides. Therefore, Invepar would face a liquidity crunch and its subsidiaries wouldn't be able to upstream excess value to the holding company.

### **Simulated default assumptions**

- Simulated default year: 2024
- Emergence EBITDA: R\$420 million
- EBITDA multiple: 5.0x
- Gross enterprise value: R\$2.1 billion

### **Simplified waterfall**

- Net recovery value after administrative expenses (5%): R\$2.0 billion
- Unsecured debt claims under subsidiaries: R\$2.8 billion
- Recovery prospects: 0%

- Recovery rating: 6

## ESG credit indicators: E-2, S-3, G-5

### Related Criteria

- 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
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Ratings List

#### Downgraded

	To	From
<b>Investimentos e Participacoes em Infraestrutura S.A. – Invepar</b>		
Senior Unsecured	brCCC	brB+

#### Downgraded; CreditWatch/Outlook Action

	To	From
<b>Investimentos e Participacoes em Infraestrutura S.A. – Invepar</b>		
Issuer Credit Rating	CCC/Negative/--	CCC+/Stable/--
Brazil National Scale	brB-/Negative/--	brBB/Stable/--

#### Ratings Affirmed

<b>Investimentos e Participacoes em Infraestrutura S.A. – Invepar</b>		
Senior Unsecured		
BRL0 mil fltg rate deb due 08/31/2024	brCCC	

Recovery Rating	6(0%)
BRL2 bil fltg rate deb due 08/31/2024	brCCC
Recovery Rating	6(0%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.