

## RATING ACTION COMMENTARY

### Fitch Downgrades Azul's Ratings to 'D'

Wed 28 May, 2025 - 16:49 ET

Fitch Ratings - Rio de Janeiro - 28 May 2025: Fitch Ratings has downgraded Azul S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'D' from 'CCC-', and its National Scale Rating to 'D(bra)' from 'CCC-(bra)'. Fitch has also downgraded Azul Secured Finance LLP's senior secured notes to 'C' with a Recovery Rating of 'RR4' from 'CCC-/RR4' and Azul Investments LLP's unsecured notes affirmed at 'C'/RR6'.

The downgrades to 'D' follow Azul's announcement that it has initiated a restructuring of its debt under Chapter 11 in the United States and the appropriate process in Brazil. Once the airline exits the administration proceedings, Fitch will assess its new strategy and restructured financial profile and re-rate Azul accordingly.

## KEY RATING DRIVERS

**Chapter 11 Announcement:** Azul announced on May 28, 2025 that it has entered into Restructuring Support Agreements with its key stakeholders, including its existing bondholders; largest lessor AerCap, representing the majority of the company's lease liability; and strategic partners United Airlines, Inc. (BB/Positive) and American Airlines, Inc. (B+/Stable) to effectuate a full capital structure reorganization process under the Chapter 11 Process in U.S.

**Restructuring Process:** Azul aims to improve its capital structure, and the announcement already includes a commitment of approximately USD1.6 billion in debtor-in-possession (DIP) financing throughout the process, elimination of over USD2.0 billion of debt, and contemplates further equity financing of up to USD950 million upon emergence. From the DIP financing amount, USD670 million of which will go to bolster liquidity. This financing will be addressed through exit debt and includes a USD650 million backstopped Equity Rights Offering and up to USD300 million in equity from United and American Airlines, subject to the satisfaction of certain conditions.

**Unsustainable Capital Structure:** Azul's high interest and rental expenses burden as a result of several restructuring processes since Covid amid of a scenario of high interest

rates in Brazil and foreign exchange volatilities has resulted in a recurring cash flow burn and an unsustainable capital structure. In its original base case, Fitch has Azul's adjusted EBITDA at around BRL7 billion during 2025. Fitch also has the lease rental, interest, and capex projected to total BRL8 billion in 2025. As of March 31, 2025, Azul's total debt was BRL35.8 billion per Fitch's calculations.

## **PEER ANALYSIS**

The rating has been downgraded to 'D' as the company has entered voluntary administration.

## **KEY ASSUMPTIONS**

The recovery analysis assumes that Azul would be considered a going concern in bankruptcy and that the company would be reorganized rather than liquidated. Fitch has assumed a 10% administrative claim.

### **Going Concern Approach**

Azul's going concern EBITDA is BRL2.5 billion, which incorporates the low-end expectations of Azul's EBITDA post-pandemic, adjusted by lease expenses, and a discount of 20%. The going concern EBITDA estimate reflects Fitch's view of a sustainable, post-reorganization EBITDA level on which we base the valuation of the company. The enterprise value (EV)/EBITDA multiple applied is 5.5x, reflecting Azul's strong market position in Brazil.

Fitch applies a waterfall analysis to the post-default EV, based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt as of March 31, 2025. These assumptions result in a recovery rate for the first-lien and superpriority secured bonds within the 'RR1' range and second-lien secured notes within the 'RR2' range. However, due to the soft cap of Brazil at 'RR4', Azul's senior secured notes are rated at 'C'/'RR4'. For the unsecured notes, the recovery is in the 'RR6' range, resulting in a rating of 'C'/'RR6'.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--The company is rated 'D', and therefore, there can be no negative rating action on the IDR.

## Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Fitch will rate AZUL following its exit from the administration proceedings based on its new strategy and financial profile.

### LIQUIDITY AND DEBT STRUCTURE

Azul's short-term maturities totaled BRL4.9 billion (BRL0.8 billion of financial debt and BRL4.1 billion of leasing obligations) as of March 31, 2025. Azul's readily available cash, per Fitch's criteria, declined to BRL0.5 billion from BRL1.3 billion at the end of December 2024. According to Fitch's estimates, Azul would not be able to generate enough cash flow and lacks sufficient liquidity to fulfill those obligations without new money.

Total debt was BRL35.8 billion, and primarily consists of BRL18.8 billion of leasing obligations, BRL185 million of cross-border senior unsecured notes due 2026, and BRL10.1 billion of secured issuances due 2028, 2029 and 2030.

### ISSUER PROFILE

Azul is one of Brazil's largest airlines, dominating the regional market and serving as the sole carrier on 82% of its routes. In 2024, 93% of its revenues came from passengers, while 7% came from cargo and other sources.

### 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.

### MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

### 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 ⚡
AZUL Investments LLP					
senior unsecured	LT	C	Affirmed	RR6	C
Azul S.A.	LT IDR	D	Downgrade		CCC-
	LC LT IDR	D	Downgrade		CCC-
	Natl LT	D(bra)	Downgrade		CCC-(bra)
Azul Secured Finance LLP					
senior secured	LT	C	Downgrade	RR4	CCC-
super senior	LT	C	Downgrade	RR4	CCC-
Senior Secured 2nd Lien	LT	C	Downgrade	RR4	CCC-
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## [VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

### **APPLICABLE CRITERIA**

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 03 Mar 2023\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 02 Aug 2024\)](#)  
(including rating assumption sensitivity)

[Corporate Rating Criteria \(pub. 06 Dec 2024\)](#) (including rating assumption sensitivity)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 06 Dec 2024\)](#)

### **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

### **ENDORSEMENT STATUS**

AZUL Investments LLP

EU Endorsed, UK Endorsed

Azul S.A.

EU Endorsed, UK Endorsed

Azul Secured Finance LLP

EU Endorsed, UK Endorsed

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