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**Research Update:**

## **Brazilian Infrastructure Group Invepar Downgraded To 'CCC+' On Unsustainable Capital Structure, Still On Watch Negative**

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## Research Update:

# Brazilian Infrastructure Group Invepar Downgraded To 'CCC+' On Unsustainable Capital Structure, Still On Watch Negative

## Rating Action Overview

- Brazil-based infrastructure operator Invepar still faces short-term refinancing risks at the holding level because the company is still set to rollover approximately R\$1 billion of debt maturing on March 11, 2019, after several attempts to refinance, indicating its weak access to both banking and capital markets.
- At this point, we don't expect a permanent solution in the next few months to address the company's currently unsustainable capital structure because dividends received by the holding company aren't enough to service its sizable debt. The group now depends on positive outcomes of events that it doesn't control, including reducing debt with the proceeds from fresh equity or asset sales.
- On Feb. 11, 2019, S&P Global Ratings downgraded Invepar and its subsidiaries to 'CCC+' from 'B' on the global scale and to 'brBB-' from 'brA-' on the Brazilian national scale.
- The ratings remain on CreditWatch with negative implications, reflecting the risk of a multiple-notch downgrade if the company doesn't avoid a debt acceleration at subsidiary CART's level that could be triggered if it doesn't obtain a waiver from its debenture holders.

## Rating Action Rationale

The downgrade of Invepar reflects our view that its capital structure is unsustainable. Since mid-2018, the company has attempted to refinance about R\$1 billion of debt issued by the holding company Invepar, which matures on March 11, 2019. Even assuming that the group will manage to extend this debt, a permanent solution would depend on deleveraging using fresh equity or asset sales, options with outcomes outside the company's control. Although its consolidated cash position was R\$1.4 billion as of September 2018, only R\$400 million was at the holding level and the rest was liquidity at subsidiaries that the holding company doesn't have full access to. Moreover, the amount of dividends received isn't enough to service its sizable debt, and we don't expect this to change in the near future.

Historically, the group has ultimately relied on the indirect support of some of its shareholders - Previ, Petros and Funcef - to overcome liquidity pressures. This happened in 2015, when these pension funds (shareholders)

acquired about 75% of R\$2 billion debentures issued by Invepar. Although the holding debt maturity is approaching and the company is struggling to access the banking and capital markets without shareholder support, we still expect Invepar to be able to refinance it. In October 2018, the company planned to issue three-year \$650 million notes in the international markets to repay its third and fourth debenture issuances, but it didn't succeed. Subsequently, Invepar obtained a 90-day extension of the debt that was maturing on Dec. 11, 2018, from existing debtholders. In early January 2019, we assigned a rating to the company's proposed issuance of three-year R\$2 billion local debentures, which also was unsuccessful. In our view, this lack of financial flexibility increases the risk of a default of the group's obligations, which could ultimately be in the form of a conventional default, or a distressed debt exchange or a similar de-facto restructuring.

In addition, the group may be further affected if it isn't able to avoid the acceleration of two series of debentures issued by its subsidiary Concessionaria Auto Raposo Tavares S.A. (CART; brBB-/Watch Neg/--), which totals R\$1 billion as of September 2018. These debentures contain an early acceleration clause triggered by a downgrade to below 'brA-'. Even though this is a non-automatic event of acceleration, a waiver depends on a 75% approval and executing this may be challenging. In our view, CART counts on support from the holding company to be able to comply with its financial covenants (the 1.2x debt service coverage ratio and especially the 20% capitalization ratio). For these reasons, we equalize both ratings, and the downgrade of Invepar results in the downgrade of CART.

The downgrade of Metrobarra S.A.'s debentures mirrors the rating action taken on Invepar, reflecting the existence of a cross-default clause linking its credit quality to that of its guarantor Invepar, until financial completion is reached. Should Invepar default, we expect Metrobarra's debt to accelerate as well.

## **CreditWatch**

The negative CreditWatch listing reflects the risk of multiple downgrades in the case of a debt acceleration, considering that the debt documents of CART's two series of debentures--totaling R\$1 billion as of September 2018--contain a clause stating that a downgrade to below 'brA-' is a non-automatic acceleration. The downgrade of CART to 'brBB-' will require a waiver by at least 75% of the debenture holders, and as mentioned above, we believe executing this may be difficult.

The CreditWatch also reflects the default risk if Invepar is required to make unforeseen payments because of cross-default clauses, if it's unable to refinance the holding company's debt that matures on March 11, 2019, or if it performs an exchange that we believe is distressed.

## Upside scenario

We may remove the ratings from the negative CreditWatch listing and assign a stable outlook over the next 30 days if the group obtains a waiver with CART's creditors in order to avoid a debt acceleration.

We could also raise the ratings if the company manages to find a permanent solution to its capital structure at the holding level, which could be in the form of fresh equity or asset sales, and uses the proceeds to repay debt.

## Liquidity

Considering the short-term refinancing risks and our view of its limited financial flexibility, especially after several unsuccessful initiatives to rollover debt, we now assess Invepar as having weak liquidity.

Aside from the significant deficit over the next few months since the holding company has insufficient resources to cover the amortization of its debentures, we believe that an improved liquidity position depends on positive developments that the company does not control, such as an equity injection or asset sales. We also believe that Invepar's access to credit markets and support from shareholders have weakened.

## Related Criteria

- 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 - Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors

For Corporate Entities And Insurers, Nov. 13, 2012

- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Investimentos e Participacoes em Infraestrutura S.A. - Invepar		
Issuer Credit Rating		
Global Scale	CCC+/Watch Neg/--	B/Watch Neg/--
Brazil National Scale	brBB-/Watch Neg/--	brA-/Watch Neg/--
Senior Secured		
Recovery Rating	brBB-/Watch Neg 3(60%)	brA-/Watch Neg
Senior Unsecured		
Foreign Currency	CCC+/Watch Neg	B/Watch Neg
Recovery Rating	3(65%)	
Local Currency	brBB-/Watch Neg	brA-/Watch Neg
Recovery Rating	3(65%)	
Concessionaria Auto Raposo Tavares S.A.		
Issuer Credit Rating		
Brazil National Scale	brBB-/Watch Neg/--	brA-/Watch Neg/--
Senior Secured	brBB-/Watch Neg	brA-/Watch Neg
Recovery Rating	4(45%)	
Metrobarra S.A.		
Senior Secured	brBB-/Watch Neg	brA-/Watch Neg
Recovery Rating	2(85%)	

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.

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