

Research Update:

Raizen S.A. Downgraded To 'BBB-' From 'BBB' On Delayed Deleveraging Prospects; Outlook Remains Negative

December 15, 2025

Rating Action Overview

- Brazil-based fuel distributor and sugarcane processor Raízen S.A. continues to struggle to reduce leverage, amid sizable nominal debt and cash burn.
- Debt to EBITDA reached 5.6x in the 12 months ended Sept. 30, 2025, and we expect it to be between 4.5x and 5.0x by the end of fiscal years 2026 and 2027, absent material nonrecurrent cash inflows.
- While management and shareholders continue to be vocal on their target to reduce debt through asset sales and a capitalization, the delay in concluding larger transactions will keep leverage pressured for longer than we initially expected. In addition, the timing, amounts, and effect on EBITDA and cash flow of such transactions are unclear at this point.
- On Dec. 15, 2025, S&P Global Ratings lowered its ratings on Raízen to 'BBB-' from 'BBB'. We also lowered our issue-level ratings on the senior unsecured notes issued by Raízen Fuels Finance to 'BBB-' from 'BBB'.
- The negative outlook continues to reflect the possibility of another downgrade in the next six months if further delay in a capital injection and other material asset sales prevent Raízen from reducing its leverage to close to 3.0x in fiscal 2027 and below that in the following years.

Rating Action Rationale

Raízen's leverage will remain close to or above 4.0x for longer than we previously expected, absent additional nonrecurrent cash inflows. We expect cash generation to improve in the second half of fiscal 2026 (which ends on March 31, 2026), supported by higher sales volumes, favorable ethanol and sugar prices (considering existing hedged positions), and a stronger performance in fuel distribution, particularly in Brazil. Cash inflows from announced asset sales yet to be received, totaling approximately Brazilian real (R\$) 4.0 billion, will also boost cash flow.

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We project leverage will reach close to 4.5x by the end of fiscal 2026, following the peak of 5.6x in September 2025. Nevertheless, we see limited operational improvements in fiscal 2027 because of a depressed sugar price future curve and our view that a \$5 reduction in Brent oil price will interfere in domestic ethanol prices. This, coupled with about R\$9.3 billion of interest and R\$7.0 billion of capital expenditures (capex) in 2027, will keep leverage at 4.5x-5.0x, much higher than Raízen's historical leverage, which has typically been around 2.0x.

Current free cash flow deficits hinder Raízen's ability to lower leverage. The company has been focused on optimizing its costs and expenses by selling nonprofitable assets, focusing on core businesses, and optimizing corporate structure. However, the nonrecurrent impact of these actions and lower crushing volumes will be only partly mitigated by still supportive prices in hedged sugar and spot ethanol, along with improving margins and volumes in fuel distribution. These factors should keep EBITDA and profitability fairly stable. We forecast nominal EBITDA of R\$12.9 billion and EBITDA margin of 5.3% in fiscal 2026, compared with R\$12.8 billion and 5.0%, respectively, in fiscal 2025.

Raízen's strategy to reduce its reverse factoring and clients' advanced payments had a cash outflow impact of R\$11.2 billion in 2026, highly concentrated in the first quarter. This outflow, coupled with more than R\$18 billion of capex and interest, will drain its cash in fiscal 2026. We project a free operating cash flow (FOCF) deficit of R\$13.8 billion (or R\$16 billion after lease payments).

Our base case assumes marginal EBITDA improvement in fiscal 2027. However, large cash consumption mostly intrinsic to its sugar and ethanol business will continue to hinder FOCF in the year (we project negative FOCF of R\$5.6 billion after lease payments), which we assume will return to positive only by fiscal 2028. Nevertheless, we recognize that the company's efforts to optimize and simplify its operating structure (by reducing trading activity, selling energy distribution assets and cash-consuming mills) and the potential for debt payments, which could come from further sales and the capitalization, could soften cash outflows and help cash generation.

The credit rating hinges on the timely execution of the capital injection and material asset sales. The proceeds from any further cash inflow are key to reducing nominal debt, as well as capex, interest, and working capital, but could also reduce EBITDA, especially if the potential sale of Raízen's Argentine operations goes through. In this scenario, we believe the announced intended capital injection is fundamental to materially improve leverage and enable us to maintain the 'BBB-' rating on the company.

However, the complexity of these transactions introduces high uncertainty regarding their timing and execution. Also, given Raízen's sizable nominal debt of about R\$68.6 billion as of September 2025, those potential alternatives could still fail to materially reduce leverage to close to historical levels. We will account for the above in our forecast, including any potential change in ownership, if and once the company announces any transaction.

Liquidity remains comfortable. The new debt raised by Raízen in the last few quarters have strengthened its cash position but also helped to improve its debt maturity profile, which now is 7.7 years, and its financial flexibility to avoid short-term refinancing pressures for forfeiting deals. The company recently renewed its revolving credit facilities of US\$1 billion, which also supports its liquidity. We believe Raízen's current working capital strategy will also help reduce its

exposure to short-term lines and consequently benefit its liquidity cushion, allowing it to continue to be rated two notches above the Brazilian sovereign rating.

However, if conditions deteriorate more than we expect and the company continues to have significant cash burn, this could strain its liquidity, which could eventually pose additional pressure on the rating.

Raízen's solid competitive position and track record of financial policy adherence continue to underpin the 'BBB-' rating. Raízen is still the largest sugarcane processor in the world, with an overall crushing capacity close to 75 million tons. We believe the recent simplification of its portfolio, with the sale of less profitable mills and potential lower idle capacity, combined with its ongoing efforts to optimize costs and expenses, should allow for additional gains in productivity and profitability in the sugar, ethanol, and energy (EAB) segment.

Although the potential sale of its operations in Argentina would reduce its geographic diversification, Raízen continues to be one of the three largest fuel distributors in Brazil, with a nationwide presence. It also benefits from operating with a well-established brand (Shell). Progress in taxation in Brazil, with the recently approved single-phase tax on ethanol, and more strict surveillance from governmental bodies have also led to a fairer competitive landscape in the country. These factors, coupled with Raízen's plan to grow its network of fuel stations and focus on higher value-added products, should allow for continuous growing volumes and margins in the fuel segment.

The company's history of sustaining strict financial policies with a track record of leverage at or below 2.0x, along with maintaining robust liquidity, also supports the rating.

Outlook

The negative outlook continues to reflect a one-in-three chance of another downgrade in the next six months if Raízen is unable to reduce its adjusted leverage to around 3.0x in fiscal 2027 via further asset sales, operational improvements, and, more importantly, a capital injection. Worsening business conditions that further depress volumes and productivity, lower-than-expected prices, or weaker working capital management could also keep leverage high. A downgrade could also reflect mounting strains on liquidity given lower-than-expected cash generation, high interest burden, and persistently large cash outflows, impairing the company's ability to be rated above the Brazilian sovereign.

Downside scenario

We could lower our ratings on Raízen in the next six months if a capital injection and further material asset sales stall, preventing it from reducing leverage, with debt to EBITDA staying close to or above 4.0x for a prolonged period with a still significant FOCF shortfall amid sizable capex and interest burden. Weaker-than-expected operational performance, with lower profitability and high cash consumption, could also keep leverage high. We could also downgrade Raízen if its liquidity deteriorates because of lower-than-expected cash flow or mismanagement of working capital, affecting our ability to rate it two notches above Brazil.

Upside scenario

We could revise the outlook to stable if Raízen is able to deleverage in coming quarters through asset sales, a capital injection, and/or a better operating performance. We would also need to

see a conservative approach toward working capital management, capex, and dividends, while Raízen reduces its interest burden. In this scenario, we would expect debt to EBITDA to approach 3.0x or below by the end of fiscal 2027 and fall below that in the following years, turning FOCF positive.

Company Description

Raízen operates in Brazil's sugar and ethanol and fuel distribution industries. It is the country's largest player in the sugar and ethanol industry, with 24 operational crushing mills (already excluding announced divestments), and the capacity to process more than 75 million tons of sugarcane per year. However, it has operated below capacity because of lagging agricultural yields.

Raízen has also diversified into energy cogeneration and is investing in second generation ethanol (E2G) and biogas and biomethane. The company is Brazil's second-largest fuel distributor, with close to 7,000 gas stations and consolidated sales volumes of nearly 28 million cubic meters per year. Raízen also operates Shell's fuel distribution business in Argentina, where it's the second-largest player in the country. Its operations in Argentina include the use of Shell's brand, the commercialization of other oil products, the retail operation of more than 800 stations, and an oil refinery in Buenos Aires. In addition, Raízen holds Shell's lubricant business in Brazil.

Raízen is controlled by Shell PLC (A+/Stable/A-1) and Cosan S.A. (BB/Stable/--), and 12% of its shares were sold through an equity IPO in August 2021.

Our Base-Case Scenario

Assumptions

- Brazil's GDP growth of 2.3% in 2025, 1.7% in 2026, and 2.1% in 2027, affecting domestic demand for fuel;
- Argentina's GDP growth of 4.7% in 2025, 3.0% in 2026, and 2.7% in 2027, influencing local demand for fuel;
- Brazil's inflation of about 5.1% in 2025, 4.4% in 2026, and 3.5% in 2027;
- Argentina's inflation of about 42% in 2025, 25% in 2026, and 17.5% in 2027;
- Average exchange rate in Brazil of R\$5.65-R\$5.75 per \$1 in the next few years;
- Average Brent crude oil price of \$69 per barrel in 2025 and our price deck assumptions of \$60 per barrel in 2026 and \$65 per barrel in the following years, which along with foreign currency exchange rates and new tax policies, should influence fuel-price adjustments in Brazil;
- Average very high polarization (VHP) sugar prices of close to R\$2,353 per ton in fiscal 2026, considering the company's current hedged volumes, R\$2,193 in fiscal 2027, and R\$2,031 in fiscal 2028;
- Average prices of R\$2.9 per liter for ethanol in fiscal 2026 and R\$2.8-R\$3.0 per liter in the following years, reflecting international oil prices and foreign-exchange rates and assuming that state-owned oil company Petrobras will maintain some correlation to international parity;

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- Consolidated crushing levels of about 72 million tons of sugarcane in fiscal 2026, about 65 million tons in fiscal 2027, and 68 million tons in fiscal 2028, already accounting for the recent divestments;
- Fuel distribution volumes of 35 million cubic meters in fiscal 2026 and 36 million-37 million cubic meters in the following years;
- Annual capex of about R\$8.75 billion-R\$ 9.0 billion in fiscal 2026, declining to R\$7.0 billion in fiscal 2027 and R\$6.5 billion in fiscal 2028, as the company reduces its expansion investments to focus on deleveraging;
- No dividend payments in the next three years;
- Cash inflows close to R\$4.9 billion from the asset sales already announced but yet to be received in fiscal 2026; and
- No material increase in gross debt from the Sept. 30, 2025, position.
- We don't incorporate proceeds from potential additional asset sales, given the uncertainties on timing for their conclusion.

Key metrics

Raizen S.A.--Forecast summary

Period ending	Mar-31-2022	Mar-31-2023	Mar-31-2024	Mar-31-2025	Mar-31-2026	Mar-31-2027	Mar-31-2028	Mar-31-2029
(Mil. BRL)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	191,270	245,832	220,454	255,268	243,553	233,150	250,715	256,398
Gross profit	18,068	23,921	24,929	21,189	18,895	18,816	21,418	22,352
EBITDA (reported)	12,603	16,870	17,384	13,873	12,999	13,507	16,153	16,968
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	180	(3,300)	(1,057)	(457)	--	--	--	--
EBITDA	12,783	13,570	16,327	13,416	12,999	13,507	16,153	16,968
Less: Cash interest paid	(1,220)	(3,805)	(5,134)	(6,394)	(9,705)	(9,300)	(8,333)	(7,542)
Less: Cash taxes paid	(806)	(1,131)	(311)	(470)	--	--	--	(197)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	10,757	8,634	10,881	6,552	3,294	4,207	7,821	9,228
EBIT	6,836	5,349	7,544	3,326	6,076	6,301	8,369	8,978
Interest expense	1,880	3,856	5,603	6,759	10,227	9,375	8,387	7,518
Cash flow from operations (CFO)	14,260	12,198	19,225	3,136	(4,956)	2,756	8,195	8,145
Capital expenditure (capex)	7,309	11,426	12,657	12,016	8,750	7,000	6,500	7,000
Free operating cash flow (FOCF)	6,951	772	6,569	(8,880)	(13,706)	(4,244)	1,695	1,145
Dividends	2,741	2,437	1,828	174	--	--	--	--

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Raizen S.A.--Forecast summary

Share repurchases (reported)	40	185	--	--	--	--	--	--
Discretionary cash flow (DCF)	4,170	(1,851)	4,741	(9,054)	(13,706)	(4,244)	1,695	1,145
Debt (reported)	22,275	29,455	35,600	57,970	67,616	67,167	67,167	68,667
Plus: Lease liabilities debt	10,425	10,815	11,565	10,446	10,032	8,653	7,657	8,105
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(8,353)	(8,777)	(15,008)	(22,131)	(20,433)	(12,990)	(11,805)	(11,540)
Plus/(less): Other	(94)	733	(163)	(835)	--	--	--	--
Debt	24,252	32,225	31,994	45,450	57,215	62,830	63,018	65,232
Equity	22,259	22,904	22,126	18,176	14,024	10,950	10,931	11,997
FOCF (adjusted for lease capex)	5,560	(1,869)	3,786	(11,091)	(15,942)	(5,615)	(188)	(2,214)
Interest expense (reported)	1,880	3,856	5,603	6,759	10,227	9,375	8,387	7,518
Capex (reported)	6,243	10,657	12,076	11,457	8,750	7,000	6,500	7,000
Cash and short-term investments (reported)	10,602	10,017	15,592	22,743	20,433	12,990	11,805	11,540
Adjusted ratios								
Debt/EBITDA (x)	1.9	2.4	2.0	3.4	4.4	4.7	3.9	3.8
FFO/debt (%)	44.4	26.8	34.0	14.4	5.8	6.7	12.4	14.1
FFO cash interest coverage (x)	9.8	3.3	3.1	2.0	1.3	1.5	1.9	2.2
EBITDA interest coverage (x)	6.8	3.5	2.9	2.0	1.3	1.4	1.9	2.3
CFO/debt (%)	58.8	37.9	60.1	6.9	(8.7)	4.4	13.0	12.5
FOCF/debt (%)	28.7	2.4	20.5	(19.5)	(24.0)	(6.8)	2.7	1.8
DCF/debt (%)	17.2	(5.7)	14.8	(19.9)	(24.0)	(6.8)	2.7	1.8
Lease capex-adjusted FOCF/debt (%)	22.9	(5.8)	11.8	(24.4)	(27.9)	(8.9)	(0.3)	(3.4)
Annual revenue growth (%)	66.9	28.5	(10.3)	15.8	(4.6)	(4.3)	7.5	2.3
Gross margin (%)	9.4	9.7	11.3	8.3	7.8	8.1	8.5	8.7
EBITDA margin (%)	6.7	5.5	7.4	5.3	5.3	5.8	6.4	6.6
Return on capital (%)	17.5	10.5	13.8	5.6	9.0	8.7	11.3	11.9
Return on total assets (%)	8.2	5.0	6.3	2.5	4.4	4.8	6.5	6.8
EBITDA/cash interest (x)	10.5	3.6	3.2	2.1	1.3	1.5	1.9	2.2

Raizen S.A.--Forecast summary

EBIT interest coverage (x)	3.6	1.4	1.3	0.5	0.6	0.7	1.0	1.2
Debt/debt and equity (%)	52.1	58.5	59.1	71.4	80.3	85.2	85.2	84.5
Debt fixed-charge coverage (x)	6.8	3.5	2.9	2.0	0.9	1.2	1.7	2.0
Debt/debt and undepreciated equity (%)	52.1	58.5	59.1	71.4	80.3	85.2	85.2	84.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Liquidity

We continue to view Raizen's liquidity as adequate. Besides reinforcing its cash position, the recent longer-term issuances also extended its weighted average maturity, which is currently above seven years. The higher cash position has also been supporting higher financial flexibility for the company to focus on improving its operations and deleveraging strategy. Moreover, management intends to continue to finance itself with these long-term issuances, reducing its exposure to short-term lines.

Raizen has no financial covenants on its debt agreements. It also has sound access to capital markets and historically prudent risk management. It's committed to maintaining robust liquidity, and we forecast its sources of cash will continue to exceed uses by 20% for the next 12 months, even if EBITDA declines by 15%.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Unrestricted cash and cash equivalents of R\$18.6 billion as of Sept. 30, 2025 Expected funds from operations of about R\$2.9 billion in the next 12 months Undrawn revolving credit facilities of \$1 billion (about R\$5.7 billion) Remaining proceeds from asset sales already signed of about R\$4 million in the next 12 months from Sept. 30, 2025 New contracted debt maturing beyond 12 months of about R\$425 million after Sept. 30, 2025. 	<ul style="list-style-type: none"> Debt maturing in the next 12 months of about R\$7.4 billion as of Sept. 30, 2025 Working capital outflows of about R\$6.7 billion for the next 12 months from Sept. 30, 2025, already accounting for seasonal peak requirements Capex of R\$7.9 billion in the next 12 months from Sept. 30, 2025 No dividend payment.

Covenants

Raizen has no covenants on its debt.

Environmental, Social, And Governance

Environmental factors are a negative factor in our analysis of Raízen, considering its operations in the sugarcane and ethanol and the fuel distribution industries. Apart from intense water use, we think climate-related risk could lead to significant crop losses and generate profit volatility in the sugar and ethanol segment.

On the other hand, Raízen could benefit from the transition to a low-carbon economy, given that it produces ethanol--which is replacing fossil fuels--and the company produces renewable energy from sugarcane bagasse. The company also develops and applies new technologies, such as second-generation ethanol (E2G), biogas, and biomethane. We also incorporate risks related to the potential long-term impact of the transition away from fossil fuels.

Group Influence

We view Raízen as an insulated subsidiary from both parent companies. Moreover, we consider that Raízen has no obligation to support either of its parent companies through an extraordinary dividend stream, for instance, given that:

- The company follows a strict dividend approach;
- The board of directors is equally divided; and
- Consensus must be reached about this matter.

Raízen is the ultimate parent and consolidates all businesses. Therefore, we view Raízen as the driver of the rating.

Ratings Above The Sovereign

We limit our ratings on Raízen to up to three notches above our 'BB' sovereign rating on Brazil, because we believe the company has a moderate sensitivity to country risk. The offsetting factors are large sugar exports (about 75% of total output) and offshore revenue through trading activity. This allows the rating on the company to align with its 'bbb-' stand-alone credit profile.

We estimate that the Argentine operations represent 15%-20% of the company's EBITDA. Therefore, we test Raízen's ability to continue paying its obligations under a hypothetical sovereign default scenario in Brazil by stressing the company's cash flows and liquidity. The high revenue stream from sugar exports and ethanol, along with solid liquidity thanks to part of its cash position and undrawn revolving credit facilities in hard currency, allows the company to pass the stress scenario with a liquidity cushion above 1.0x in the stressed year. The stress test includes the following assumptions:

- Brazil's GDP contracts 10%, hurting fuel distribution volumes and domestic ethanol sales, while sugar exports remain unchanged;
- Lower fuel distribution and trading activity margins due to weak consumption and high competition;
- Brazil's inflation at about 10%, raising costs;
- International sugar prices at 10 cents per pound;
- A 50% depreciation of the Brazilian real, doubling the company's interest and short-term dollar-denominated debt volume;
- The weaker currency increasing export revenue and the availability of the dollar-denominated committed facility;

- A 100% hike in domestic interest rates;
- No haircut in cash maintained in foreign countries, a 10% haircut in bank deposits in Brazil, and a 70% haircut in the short-term investments in Brazil;
- No dividend distribution; and
- Maintenance capex of about R\$6.5 billion, including capex in Argentina.

Issue Ratings--Subordination Risk Analysis

Capital structure

Raizen's capital structure mainly consists of senior unsecured notes due 2027, 2032, and 2037; green notes due in 2034, 2035, and 2054; international loans (term loan); local bonds (agricultural receivables certificates and debentures); export finance credit lines; and loans from domestic banks (including from the Brazilian Development Bank).

Analytical conclusions

We rate Raízen Fuels Finance's international senior unsecured notes at the same level as the issuer credit rating, given that these notes are predominantly unsecured and are guaranteed by Raízen and [Raízen Energia S.A.](#)

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Negative/--
Local currency issuer credit rating	BBB-/Negative/--
Business risk	Satisfactory
Country risk	Moderately high risk
Industry risk	Intermediate risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-

Modifiers

Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [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
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings List

Downgraded

	To	From
<u>Raizen S.A.</u>		
Issuer Credit Rating	BBB-/Negative/--	BBB/Negative/--
Foreign Currency	BBB-/Negative/--	BBB/Negative/--
<u>Raizen Fuels Finance S.A.</u>		
Senior Unsecured	BBB-	BBB

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