November 04, 2021

Mr. Moacir Marcos Junior
Investor Relations Director
Inpasa Agroindustrial S/A
Rod BR 163 Km 817, S/N - Zona Rural
Sinop,MT,78559-899
Brazil

Dear Mr. Junior:

Re: Fitch rating action affecting the rating of Inpasa Agroindustrial S/A

Fitch (see definition below) has taken the following Rating Action(s):

Inpasa Agroindustrial S/A	LC LT IDR	BB-	(Previous: B)	Upgrade
	LT IDR	BB-	(Previous: B)	Upgrade
	Natl LT	A+(bra)	(Previous: BBB-(bra))	Upgrade

RATINGS KEY	OUTLOOK	WATCH
Positive		
Negative		
Evolving		
Stable		

Applicable Criteria: Corporate Rating Criteria, National Scale Rating Criteria

The upgrade reflects the stronger than anticipated cash flow generation and expectation that Inpasa will report low leverage and satisfactory liquidity during the investment cycle over the next two years. The ratings incorporate Inpasa's large-scale operations and low production cash cost in the volatile Brazilian ethanol industry. The high volatility of Brazil's corn and ethanol prices and the lack of meaningful short-term price correlation between these two commodities remain as key considerations. This risk is mitigated by a business model that benefits from sale of high value-added animal nutrition products, hefty corn storage capacity and well-established commercial agreements with corn producers.

The positive rating action also incorporates the expectation that Inpasa's cash flow generation should improve over the rating period, as the company increases its crushing capacity to 5.3 million tons and annual ethanol production capacity to 2.5 billion liters by the end of 2022. The company just concluded investments in capacity expansion at the Sinop plant and is now building a third plant in Dourados, State of Mato Grosso do Sul, expected to become operational in March 2022. The investment in Sinop added 1 million tons of corn crushing capacity and 470 million litres of ethanol volumes per year, while investments in Dourado will add another 2 million tons of crushing capacity and 900 million litres of ethanol volumes annually, placing Inpasa as Brazil's largest corn-based ethanol producer.

Inpasa is exposed to price volatility from both raw material and product price perspectives. Spot corn prices adjust rapidly to supply and demand imbalances and follow parity with Chicago Board of Trade (CBOT) corn prices over the long run. The short-term correlation between corn and ethanol prices in Brazil is weak, as Brazilian ethanol prices depend largely on local gasoline price levels, which move in tandem with international oil prices and the Brazilian FX rate. Ethanol prices are also indirectly influenced by sugar prices, as near 90% of all Brazilian ethanol produced comes from sugar cane processors, which typically shift a portion of production between ethanol and sugar depending on prevailing price parity with sugar.

Inpasa's business model benefits from its sizable 1.5 billion liters of ethanol production capacity. The company's cash cost structure is in line with some of the most efficient sugar cane producers and is the most efficient corn-based ethanol producer in the country, able to deliver a yield of 460 liters of ethanol per ton of processed corn. The company produces and sells corn co-products used in animal nutrition whose prices tend to correlate with corn prices, helping to reduce the inherent exposure to price volatility. Fitch expects that revenues from animal nutrition products will provide Inpasa with a satisfactory 64% coverage over corn costs in the long term, which is high by industry standards. The company's location in the State of Mato Grosso, Brazil's largest corn producing state with the lowest cash cost in the world, reduces its logistics costs and attenuates corn origination risks, and the establishment of a new plant in Mato Grosso do Sul will reduce logistics costs and facilitate the company's access to Southern Brazil.

Inpasa has Brazil's largest corn storing capacity, which enables the company to purchase corn up to two years ahead of the beginning of the crop season, avoiding short-term volatilities of spot corn prices. The long-term purchase agreements with corn suppliers are fixed on a BRL per bag price basis and referenced to CBOT corn prices in BRL when the agreements are closed. These agreements significantly reduce the company's exposure to short-term price volatility. Inpasa already hedged 100% of its expected corn needs for 2021/2022 at average price of BRL50/bag and 52% for the corn needed for the 2022/2023 season at BRL54/bag, which mitigates the impact of a 90% increase in average spot corn prices in Mato Grosso observed in 2021 compared to 2020.

Brazilian ethanol producers should continue to benefit from elevated domestic prices. The ethanol market in 2021 will remain tight, as sugar cane crushed volumes fall and historically high sugar prices reduce the availability of ethanol in the market. The combination of high oil prices and a depreciated local currency in a tight market will keep ethanol prices at elevated levels in 2021. Fitch raised its 2021 projections for average Brent prices to USD63/bbl from USD58/bbl and to USD55/bbl from USD53/bbl in 2022. Hydrous ethanol prices at the mill are currently trading at BRL3.26/litre at the mill in Sao Paulo, which is 59% higher than early 2021 and 85% above the same period of 2020.

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Inpasa is expected to generate EBITDA and CFFO of BRL2.2 billion and BRL1.0 billion, respectively, in 2021, comparing favourably with EBITDA of BRL767 million and CFFO of BRL377 million in 2020. Higher sales volume should offset most of the expected decline in ethanol prices in 2022 and contribute with EBITDA of BRL2.9 billion and CFFO of BRL1.6 billion. Inpasa is expected to generate negative FCF of BRL262 million in 2021 and BRL288 million in 2022 as it advances with its expansionary investments. Base case projection incorporates total investments of BRL1.3 billion in 2021 and BRL1.5 billion in 2022, with dividends equivalent to 25% of its net profit from 2022 on. The company is expected to generate meaningful FCF of nearly BRL1 billion as from 2023 once the new plant is concluded.

Fitch expects Inpasa to preserve net leverage at low levels during its new investment cycle. Inpasa's net debt/EBITDA should reduce to 0.7x in 2021 and 2022, and to 0.3x in 2023, as volume from the new plant kicks in. This compares well with 1.7x in 2020. The company's growth in Brazil has been largely financed by the Group, which reduces the refinancing risks of Inpasa's debt. Inpasa reported total debt of BRL2.2 billion as of Sep 30 2021, of which bank debt and related party loans amounted to BRL1.3 billion and BRL904 million respectively. The former includes a BRL600 million 4.5-year syndicated debenture and short-term borrowings secured by corn inventories.

Inpasa's liquidity improved, but the company remains challenged to increase bankability and access to the capital markets with long-term credit facilities to finance working capital and investments on a sustainable basis. As of Sep 30 2021, the company reported cash and marketable securities of BRL281 million and total debt of BRL2.2 billion, of which BRL574 million is due in the short-term. Fitch forecasts Inpasa to report cash of BRL840 million and short-term debt of BRL1.3 billion, including related party loans, as of Dec 31 2021. Readily marketable inventories and offtake contracts with large fuel distributors reduce refinancing risks and improve financial flexibility; inventories can be easily monetized and accounts receivables can be used as collateral under new credit facilities, if required. Fitch estimates corn inventories of BRL600 million at market value as of the 3Q21, bringing the coverage ratio to about 1.5x.

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

--Longer track record in different cycles of ethanol and corn prices;

--FCF consistently positive, with the maintenance of conservative capital structure;

--Improved liquidity and positive track record in accessing the banking and capital markets.

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

--Deterioration in liquidity and/or difficulties refinancing short-term debt;

--Combined EBITDA margins below 20% on a sustainable basis;

--Combined net leverage above 3.0x on a sustainable basis.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact Claudio Miori, Director at +55 11 4504 2207.

Sincerely,

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