

Brazil Car Rental

Government Announces Changes to IPI Tax For Vehicles

Potentially Negative ST Depreciation Impact For Listed Car Rental Companies

The government announced new rules for vehicle IPI tax calculation in Brazil. We expect the new measure to cause additional depreciation pressure to Localiza and Movida (although we see a positive future impact from a lower price of cars purchased), as (i) adjusted to its fleet mix, we estimate a net reduction to IPI tax charges, which is likely to be passed through to new (and used) car prices; and (ii) it was the case after 2023's IPI tax reduction, the tax incentive may foster additional reduction in car prices.

Understanding the announcement. In complement to 2024's new law from "Mover program", the government is now regulating/detailing two previously announced plans: (i) "IPI Verde", in which IPI tax increases/decreases as the following criteria are met/not met: (a) energy efficiency, (b) propulsion technology, (c) power, (d) security, and (e) recyclability; and (ii) "Carro Sustentável", in which IPI is reduced to zero for cars that have (a) low CO2 emissions, (b) 80% of recyclable material, (c) local production, and (d) a compact profile. Both are valid until YE2026.

We expect additional pressure to depreciation. Assuming OEM's pass through the lower costs to new-car prices and used-car prices follow, car rental companies' asset base decreases in value. We expect this negative impact based on:

- Our calculation of a net reduction in IPI tax (and D&A addition) for vehicles in the mix-adjusted fleet of Localiza (-0.7% to -4.0%) and Movida (+0.5% to -3.2%) – see page 2 for the complete analysis; and
- The new tax incentive may foster additional reduction in new (and used) car prices. This was the case from mid-2023, when the government announced a temporary IPI tax reduction, through 2024 when Localiza booked a major impairment along with 2Q24 results. Today, immediately after the measure became public, VW announced major vehicle discounts to capture the likely hyped demand, including models not participating in the IPI tax incentive (click [here](#) for the link to the local news report – Portuguese only).

Net profit potential impact is relevant. Our analysis (detailed on page 2) indicates a relevant potential downside to net profit of listed names of as much as: (i) ~40% in Localiza; and (ii) ~200% in Movida. This conclusion adds to our cautious view towards potential earnings revision risks in the sector, as shown in our last sector update: "[Hiding From a Tough Macro In The Infrastructure Space](#)".

Pedro Bruno

Transportation
pedro.bruno@xpi.com.br

Matheus Sant'Anna

Transportation
matheus.r.santanna@xpi.com.br

João Ramiro


Transportation
joao.ramiro@xpi.com.br

Company	Ticker	Current Price	Target Price	Upside	Rec.	EBITDA (R\$ mn)		P/E	EV/EBITDA		Mkt. Cap (R\$ mn)
						2025E	2026E		2025E	2026E	
Localiza	RENT3	R\$ 38.25	R\$ 39.00	2%	Buy	R\$ 13,767	R\$ 14,950	13.4x	12.7x	5.5x	R\$ 45,524
Movida	MOVI3	R\$ 6.91	R\$ 5.70	-18%	Buy	R\$ 5,280	R\$ 5,519	n.m.	12.2x	3.6x	R\$ 2,377

We Expect Additional Pressure to Depreciation


As a Consequence, Net Profit Potential Impact Is Relevant

Figure 01: Localiza's IPI Reduction Impact on Net Income



	Bull	Base	Bear
Additional D&A (%)	0.7%	2.4%	4.0%
Additional D&A (R\$m)	356	1,187	1,956
Earnings Downside (R\$m)	235	784	1,291
'25E Earnings Impact (%)	-7%	-23%	-38%

Figure 02: Movida's IPI Reduction Impact on Net Income



	Bull	Base	Bear
Additional D&A (%)	-0.5%	1.7%	3.2%
Additional D&A (R\$m)	-100	331	632
Earnings Downside (R\$m)	-66	219	417
'25E Earnings Impact (%)	+32%	-104%	-199%

Understanding our scenarios:

To estimate the impact on the Rental Cos. invested capital, we calculated the new IPI tax rates on a car-to-car basis and adequated it to RENT/MOVI's sold retail fleet mix. The calculations are made considering the running IPI rate (including Rota 2030 incentives) vs. the tax increase/decrease guidelines on the "IPI Verde" and "Carro Sustentável" programs. In our view, there are clear values for criteria #1, #3 and #4, and we are sensibilizing harder-to-estimate criteria #2 and #5.

Bull: (i) 0 points on criteria #2 and #5; and (ii) no models receiving a zero IPI tax rate

Base: (i) -1 points on criteria #2 and #5; and (ii) only Mobi and Kwid models receiving a zero IPI tax rate

Bear: (i) -2 points on criteria #2 and #5; and (ii) all entry-level models receiving a zero IPI tax rate

Detailed IPI tax impact from each criteria can be found in today's government announcement by [clicking here](#) (Portuguese only).

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