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Rating Action: Moody's downgrades the third issuance of senior debentures issued by MGI -- Minas Gerais Participacoes

Global Credit Research - 01 Jul 2016

Sao Paulo, July 01, 2016 -- Moody's America Latina has downgraded to B1 (sf) from the Ba3 (sf) (global scale rating, local currency) and to Baa3.br (sf) from A3.br (sf) (national scale rating) of the third issuance of senior debentures backed by re-performing ICMS taxes issued by MGI- Minas Gerais Participacoes (MGI).

The rating action follows Moody's decision to downgrade the rating of the State of Minas Gerais to B1 from Ba3 (global scale, local currency), negative outlook.

Issuer: MGI - Minas Gerais Participações S.A. third issuance of debentures backed by re-performing ICMS taxes

-Senior Debenture, Downgraded to B1 (sf) from Ba3 (sf) (global scale, local currency) and to Baa3.br (sf) from A3.br (sf) (national scale).

The senior debentures are backed by the right to receive 60% of collections resulting from monthly payments of renegotiated ICMS taxes (Imposto sobre Operações Relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação) originally owed to the State of Minas Gerais.

MGI is a public limited company almost wholly owned (99.8%) by the State of Minas Gerais (B1, negative outlook).

RATINGS RATIONALE

The rating of the State of Minas Gerais were downgraded as a result of the rapid and ongoing deterioration of the state's fiscal position. Continuing revenue decline and a rigid cost structure has translated into weak credit metrics that no longer compare favorably with rated peers.

Although MGI is the sole obligor under the debentures and investors have no recourse to the State of Minas Gerais under the transaction, MGI and the State of Minas Gerais are closely related given the extent of the state's ownership of MGI and the portion of the transaction's subordinated debt it holds. Moody's views this transaction linked to the State of Minas Gerais' rating.

The transaction has performed within expectations, with an average debt service coverage ratio (DSCR) of 2.30x over the last 12-months ending April 2016, above the minimum requirement of 1.8x. The asset coverage ratio as of April 2016 was 299%, higher than the 200% trigger level.

Moody's notes that a non-automatic event of default was triggered, related to MGI failing to timely deliver audited financial statements. A debt holder's meeting was called in May 2016, however, the 33% of debt holders that attended and voted towards the event of default, were insufficient quorum to trigger the event.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS:

Factors that would lead to a downgrade include a deterioration of the collateral performance and a further downgrade of the rating of the State of Minas Gerais.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Future Receivables Transactions," published in June 2015. Please see the Rating Methodologies page on www.moodys.com.br for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full

universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_189530.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

This transaction is considered as structured finance product in accordance with Instrução CVM nº 521.

Moody's did not receive or take into account a third party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of this transaction in the past six months.

Moody's did not use any models, or loss or cash flow analysis, in its analysis.

Moody's did not use any stress scenario simulations in its analysis.

Information sources used to prepare the rating are the following: parties involved in the ratings, and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Please see the ratings disclosure page on www.moodys.com.br for general disclosure on potential conflicts of interests.

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The date of the last Credit Rating Action was 11/05/2016.

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