MOODY'S INVESTORS SERVICE

Rating Action: Moody's assigns a B1/Baa2.br rating to Inpar

Global Credit Research - 11 May 2010

Sao Paulo, May 11, 2010 -- Moody's Investors Service has assigned first-time B1 local currency and a Baa2.br Brazil national scale corporate family ratings to Inpar S.A. ("Inpar"). The outlook for the ratings is stable.

Inpar's B1 corporate family rating reflects its strong brand name in the homebuilding industry, where the company is one of the market leaders in the southeast region of Brazil, as well as the ownership by Paladin Prime Residential Investors (Brazil), LLC ("Paladin"), a company with long experience in real-estate in many emerging markets. The ratings also reflect the strengthened capital structure following the issuance of BRL 180 million in new equity in 2009 and an additional BRL 280 million in 2010, the good liquidity in the company's assets, which enabled the company to raise BRL 200 million from June 2008 to April 2009 and the company's solid track record of more than BRL 7.0 billion in units launched and 15,000 units delivered (equivalent to around BRL 5.0 billion in PSV) since 1995.

The B1 rating is further supported by the benefits of pent-up housing demand in Brazil, especially among the lower-income market, the segment that will represent the vast majority of the future launches (83%), with units priced below BRL 350,000. The government support and incentives toward lower-income housing, management and corporate governance enhancements after the takeover by Paladin in 2008 as well as the committed lines for construction that Inpar has available with commercial banks and are funded by SFH ("Sistema Financeiro de Habitação") are seen as rating positives.

However, Inpar's B1 corporate family rating is constrained by the company's relatively small size when compared to its international peers and certain local competitors, and its poor financial strategy track record under the previous controlling group. Other factors constraining Inpar's rating include limited internal cash flow generation, given the stage of the projects that were launched after the IPO in 2007, and its dependence on Caixa Econômica Federal ("CEF") (A3/STA) or other commercial banks for financing a large portion of its sales and the homebuyer's credit quality at the end of the construction process especially with the shift in focus towards the lower income segments.

Furthermore, the ratings consider Inpar's geographic concentration of its landbank in the southeast region of Brazil and in the lower income segment, and execution risks associated with its strategy of growing in the low-income housing market, given the large number of competitors, some of which have a high level of expertise in this segment. The risk of operating in the lower-income segment is partially mitigated by Inpar's experience in operating in this segment since 2006 through joint ventures ("JVs"), and through its low and mid-income brand ViVer that has delivered 5,000 units valued at approximately BRL 1.5 billion, and by the smaller size of many of its competitors which diminish their bargaining power with suppliers, land owners, banks and homebuyers.

At the end of December, 2009 the company had BRL 109 million of cash on balance sheet and BRL 189 million of ST debt, although we have to take in account that the company raised BRL 280 million in new equity in March, 2010 increasing the cash balance and at same time secured an additional BRL 300 million in SFH lines supplementing the previously signed BRL 700 million, of which BRL 167 million had already been disbursed. It is also important to note that most of the loans, including working capital and SFH are linked to construction and should in theory be automatically extinguished when the units are finally sold and the homebuyer's mortgage is approved by the financing institution at the end of the construction process.

Inpar has a land bank with a potential sales value of BRL 11.6 billion of which BRL 3.6 billion (31%) can be launched during 2010, 2011 and 2012 according the company's current operating capacity. It is important to note that the company already has signed 100% of the financing to launch and build all the BRL 3.6 billion.

Ratings Assigned:

-Corporate Family Rating: B1 (global scale) / Baa2.br (Brazilian national scale)

Outlook: stable

A corporate family rating is an opinion on the expected loss associated with the debt obligations of a group of companies assuming that it had one single class of debt and is a single consolidated legal entity. Specific debt instruments for the same corporate family may be rated differently, depending on their seniority and guarantors, as compared to other debt instruments issued by the group.

Inpar's B1 local currency corporate family rating reflects its global default and loss expectation, while the Baa2.br national scale rating reflects the standing of its credit quality relative to other domestic issuers. Moody's National Scale 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 in Brazil are designated by the ".br" suffix. Issuers or issues rated Baa2.br demonstrate average creditworthiness relative to other domestic issuers. NSRs differ from global scale ratings in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

The stable outlook assumes that the demand for lower income housing and financing to homebuyers will remain steady and Inpar will be able to execute its planned launches until 2012, and that the returns on cash invested in the construction of projects since 2007 will materialize in 2011 improving the company's cash flow based debt protection metrics. The stable outlook also assumes that the company will maintain the minimum cash balance of BRL 200 million as to preserve healthy liquidity and a cushion to face eventual weaker economic environment and more difficult capital market conditions.

Although unlikely in the near term Inpar's rating or outlook could experience upward pressure if the company improves its cash-flow based credit metrics through reduced working capital requirements over time. Mortgage availability at an earlier point in the construction cycle, which is more common in the lower income and middle-income segments in which the company is increasing its presence, are an important factor in Inpar's ability to reduce its sizable investments in working capital. Quantitatively, positive pressure could arise from sustainable positive cash flow from operations, total debt/capitalization maintained below 40% (44.3% at the end of December, 2009) and interest coverage (EBIT / Interest) above 6 times (1.3 times in the last twelve months ended in December, 2009) on a sustainable basis.

Inpar's ratings or outlook would likely suffer downward pressure if Total Debt to Capitalization ratio is sustained above 50% or if the company were to face a significant deterioration in the quality of its receivables, especially in a more adverse macro-economic scenario. A downgrade could also be triggered by a deterioration in Inpar's liquidity profile due to a reduction in the availability and timeliness of disbursements from SFH credit lines that the company has actually available with CEF and commercial banks.

The principal methodology used in rating Inpar was Moody's Global Homebuilding Industry rating methodology, published in March 2009, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Sao Paulo, Brazil, and founded in 1992, Inpar is an integrated homebuilder historically focused in high-rise construction for the middle and mid-high income families. Inpar has a solid track record of operations having delivered 15,000 units since 1995. Concentrated in the southeast region, mainly in São Paulo, Inpar has changed its main focus towards the middle and low income segments, the company although is also involved in commercial, tourism and land development segments spread across 17 states targeting all income brackets. Inpar had net revenues of BRL 488 million during the fiscal year of 2009.

Sao Paulo
Ricardo Kovacs
Vice President - Senior Analyst
Corporate Finance Group
Moody's America Latina Ltda.
55-11-3043-7300

New York
Brian Oak
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653