



Moody's Investors Service

## Rating Action: **Moody's assigns Aa2.br rating to Autovias's debentures; outlook stable**

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Global Credit Research - 05 Mar 2010

### **Approximately BRL 300 million of debt instruments affected**

Sao Paulo, March 05, 2010 -- Moody's América Latina Ltda (Moody's) assigned a Ba1 rating on the global scale and Aa2.br rating on the Brazilian National scale to the 5 to 7-year BRL 300 million senior secured debentures to be issued by Autovias S.A. (Autovias). At the same time, Moody's withdrew Autovias' corporate family ratings of Ba1 on the global scale and Aa2.br on the Brazilian national scale and assigned to Autovias issuer ratings of Ba1 on the global scale and Aa2.br on the Brazilian national scale. The outlook is stable for all ratings.

The current debentures are guaranteed by a security package that includes the pledge of the concessionaire's common stocks, future receivables of its tolled revenues and the indemnification rights over the concession assets. The regulator ARTESP approved the guarantee package but an eventual change of control would be subject to further approval of the concession authority in accordance with the current legislation.

The proceeds of the debentures will be mostly used to pay off the BRL 195 million promissory notes issued last November and to strengthen its cash position to help meet the payment of existing short-term debt by the end of the year estimated at BRL 70 million.

The Ba1 and Aa2.br issuer ratings of Autovias reflect the mature and essential nature of the concession, as evidenced by its solid performance serving a relatively small but wealthy region with virtually no comparable competition from alternative routes foreseen during the remaining life of the concession. The rating is further supported by relatively strong credit metrics for the rating category and growth in vehicular traffic over the past three years following the concession's poor traffic track record from 2000 through 2006.

The risks associated with the huge cash needs of Autovias' controlling shareholder, Obrascon Huarte Lain Brasil S.A. (OHL Brasil), constrain the rating. OHL Brasil is forecasted to demand sizeable dividends and inter-company loans from its well-performing state concession subsidiaries in order to meet the large capital expenditure requirements of its other concession subsidiaries.

The Ba1 issuer rating is lower than the toll roads methodology outcome to reflect the implied corporate family rating of OHL Brasil on a consolidated basis.

The existing early maturity clauses in the debentures comprise a cross default provision with the parent company. In the event that OHL Brasil goes bankrupt or files for reorganization under the Brazilian bankruptcy law, the debenture holders could call an early maturity event and execute their rights derived from the debentures' guarantees.

Further credit enhancements include a sinking fund provision to meet interest and principal payments of the debentures that will be kept on an escrow account at Itau bank, and restrictive financial covenants that limit the maximum amount of net debt to 3.5 times EBITDA over the preceding twelve months and require cash coverage of short term debt obligations higher than 1.2x. According to Moody's projections these covenant levels should be comfortably achievable throughout the duration of the debentures.

The stable outlook reflects Moody's opinion that Autovias' operational performance will be satisfactory during the remaining life of the concession in light of strong credit fundamentals boosted by expected growth in the Brazilian GDP. Moody's expects that the payment of dividends and extension of inter-company loans are likely to continue for the next years but are expected to be prudently managed so that credit metrics remain within the proposed financial covenants.

The rating or the outlook could be upgraded if the company were to steadily improve its liquidity profile and produce sustained credit metrics in line with historical performance so that FFO to debt ratio remains in the high twenties and interest coverage stays above 3.5x on a consistent basis.

The rating or the outlook could be downgraded if there is a significant and sustained deterioration in credit metrics so that FFO to debt ratio falls below 20% and interest coverage ratio remains below 2.5 x on a consistent basis. A deterioration in the credit quality of OHL Brasil could also prompt a downgrade rating action

The last rating action for Autovias was on December 15, 2009, when Moody's assigned a Ba1 global scale corporate family rating and Aa2.br corporate family rating on the Brazilian National Scale to Autovias, and a BR-1 rating to Autovias' 150- day BRL 195 million promissory notes issued on November 30, 2009.

The principal methodology used in rating Autovias was the Operational Toll Roads Rating Methodology (December 12, 2006), which can be found at [www.moodys.com](http://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.

Autovias is a full subsidiary of OHL Brasil, which is a holding company with interests in the toll roads business, as it has four state and five federal toll road concessions.

Autovias has a 20-year concession to operate the toll road services of five small adjacent roads in the interior of the state of São Paulo, which the state regulatory agency ARTESP granted under a single concession in 1998. The five roads consist of 316 kilometers and 5 toll plazas and have an estimated annual traffic of 37 million of equivalent vehicles. The region covered by the concession comprises eighteen cities with an estimated population of around 1.6 million people.

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