

Rating Action: Moody's rates Tavex Modal FIDC II senior and subordinated mezzanine shares, a Brazilian trade receivables securitization

Global Credit Research - 15 Jul 2010

Approximately R\$85 million of senior shares and R\$10 million of mezzanine shares rated

Sao Paulo, July 15, 2010 -- Moody's America Latina (Moody's) has assigned provisional ratings of (P)Aa3.br (Brazilian National Scale) and (P)Ba2 (Global Scale, Local Currency) to the Senior Shares, and (P)Ba2.br (Brazilian National Scale) and (P)B3 (Global Scale, Local Currency) to the Mezzanine Shares to be issued by Tavex Modal Recebíveis Performados II Fundo de Investimento em Direitos Creditórios ("Tavex Modal FIDC II"), a securitized transaction backed by a pool of trade receivables originated by Tavex Brasil S.A. ("Tavex").

The ratings are based on the following factors, among others:

- Target and minimum subordination for the Senior Shares of 15% and 12%, respectively, to mitigate losses, dilution and potential interest rate mismatches;
- Target subordination of 5% for the Mezzanine Shares to mitigate losses, dilution and potential interest rate mismatches;
- The strict provisioning methodology to be employed by Banco Modal S.A., the trustee of the transaction, whereby receivables 90 days past due will be 100% provisioned;
- Maximum individual concentration limit of 5% per obligor, where the top ten clients cannot represent more than 25% of the fund's net assets and the remaining balance is distributed in at least 100 separate clients;
- The ability of Banco Bradesco S.A. (A1 Long-term Bank Deposit Rating in the Global Local Currency Scale & Aaa.br in the Brazilian National Scale) to act as master and back-up servicer for the transaction; and
- The legal structure of the transaction, including the bankruptcy remoteness of the issuer.

The originator and seller of the trade receivables is Tavex Brasil S.A. (formerly Santista Textil), a subsidiary of the Spain-based Tavex Group that resulted from the 2006 merger of Santista Textil (founded in 1929) and Tavex Algodonera (founded in 1846). Approximately 49.7% of Tavex Group's shares (voting / total) are owned by Camargo Correa, a large Brazilian industrial group (not rated by Moody's).

The transfer of receivables from the originators to the issuer is structured as a true sale and a definitive assignment of the contracts as set forth in the assignment of transferred credits under the Brazilian civil code.

Tavex Modal FIDC II will have a tenor of 24 months with an optional 6 month extension period. Extension occurs automatically if any senior and/or mezzanine shares remain outstanding at the end of the amortization period in month 24. The senior and subordinated mezzanine shares will accrue interest over the first 12 months of the transaction, and will be amortized in 12 monthly installments from month 13 to month 24. Principal and interest payments during the amortization period will be done pari-passu as long as no early liquidation event has occurred and subordination of senior shares is above 15%.

In order to rate the transaction, Moody's has received pool performance data covering the time period April 2007 through March 2010 from Tavex and audited by KPMG. Key data reviewed by Moody's included dilutions, delinquencies, losses, receivable turnover and volume of eligible receivables.

Moody's observed a historical average of BRL 130 million for monthly outstanding receivables balance over this period, 2.15% monthly dilutions, 0.61% monthly losses and an average turnover of 109 days. For Moody's modeling input assumptions, a central stressed mean of 4.30% monthly dilutions and 1.22% monthly losses over outstanding balance was used.

Further details of Moody's analysis of the Tavex Modal FIDC II can be found in the Presale Report to be published in Moody's website, www.moody's.com.

The principal methodology used in rating this transaction is "Moody's Approach to Rating Trade Receivables Backed Transactions", published in July 2002 and available on www.moody's.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 transaction can also be found in the Rating Methodologies subdirectory on Moody's website. In addition, Moody's publishes a weekly summary of structure finance credit, ratings and methodologies available to all registered users of our website, at www.moody's.com/SFQuick Check.

The complete rating action is as follows:

Issuer: Tavex Modal Recebíveis II Fundo de Investimento em Direitos Creditórios

Senior Shares -- rated (P)Aa3.br (National Scale) & (P)Ba2 (Global Scale, Local Currency)

Mezzanine Shares -- rated (P)Ba2.br (National Scale) & (P)B3 (Global Scale, Local Currency)

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