



Moody's Investors Service

Rating Action: Moody's assigns BR-1 rating to Intervias' promissory notes; outlook stable

Global Credit Research - 15 Dec 2009

Approximately BRL 245 million in debt securities affected

Sao Paulo, December 15, 2009 -- Moody's assigned a Baa3 issuer rating on the global scale and Aa1.br on the Brazilian National scale to Concessionaria de Rodovias do Interior Paulista S.A. ("Intervias"). At the same time, Moody's assigned a BR-1 rating to Intervias' 150-day BRL 245 million promissory notes issued on November 30, 2009. The outlook is stable for all ratings. This is the first time Moody's has assigned a rating to Intervias.

The proceeds of the promissory notes will be used to pay off existing short-term debt, originally borrowed to extend an inter-company loan to its holding company, Obrascon Huarte Lain Brasil S.A. ("OHL Brasil") Intervias expects to issue long-term debentures with tenor of five years, to take out these promissory notes. The debentures amount could eventually be higher than the promissory notes to complement internal cash generation to meet cash outlays, which Moody's forecast to mostly consist either of dividend payments or inter-company loans. According to management, Intervias already has a firm commitment from a group of local banks for placement of these debentures.

The Baa3 global issuer rating reflects the strong credit fundamentals of the Intervias toll road concession as shown by the relatively long track record of stable operating performance since 2000. Growth in vehicular traffic and the supportive and stable regulatory environment over the past nine years, as well as strong credit metrics for the rating category, also support the rating.

The Baa3 rating reflects the mature and essential nature of the concession, as evidenced by its solid performance serving a relatively small but wealthy region. Virtually no comparable competition from alternative routes is foreseen during the remaining life of the concession.

Moody's notes that the user profile consists largely of freight traffic, the behavior of which is more volatile than commuter traffic. Heavy trucks, which represent close to 60% of Intervias' road traffic in terms of equivalent vehicles, tend to be more volatile than commuter traffic and correlate more highly with GDP performance. The rating is further supported by the rather long remaining life of the concession, which expires in eighteen years.

The risks associated with the huge cash needs of Intervias' controlling shareholder also constraint the rating. OHL Brasil is forecasted to demand sizeable dividends and occasionally inter-company loans from its state concession subsidiaries in order to meet the large capital expenditure requirements of its other concession subsidiaries.

Moody's notes that Intervias' distribution of dividends and the extension of inter-company loans will be limited by a covenant restriction embedded in the promissory notes. These limit the maximum amount of net debt to 3.5 times EBITDA calculated over the preceding twelve months.

The Baa3 rating is lower than the global toll road rating methodology outcome. This reflects the potential for increasing leverage and also some refinancing needs that may arise leading to additional borrowing over the medium term. Total debt, however, is expected to remain within existing financial covenants.

Intervias has strong credit metrics for the rating category. Intervias has steadily posted strong cash flow over the past four years as evidenced by its FFO, which has consistently been above 28% over total debt, while the interest coverage ratio has averaged 5.6x during the same period.

Despite healthy cash generation and also a healthy capital structure, liquidity is Intervias' weakest financial factor. Intervias carries sizeable short-term debt. This mostly stems from the practice of borrowing short term funds to meet the cash needs of its shareholders, either through distributing dividends or through extending inter-company loans. If the current promissory notes are taken out by long-term debentures as planned, liquidity should return to satisfactory levels.

The debt structure offers investors adequate debt protection by limiting the maximum level of debt to the equivalent of 3.5 times EBITDA for the prior 12-month period. Moody's projections show this level being comfortably achieved throughout the projection period.

Assuming that these promissory notes will be taken out by long-term debentures, the major credit risk will be further borrowings, which will not necessarily take place when capital markets are favorable.

The stable outlook reflects Moody's opinion that Intervias' 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 planned long-term debentures will contain sufficient structural provisions to protect debentures holders such as: restrictive financial covenants that are in line with or stronger than those in the promissory notes, lack of cross default provisions, liquidity reserves, and pari passu conditions for new borrowings.

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 25% and interest coverage ratio remains below 3.0x on a consistent basis.

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 above 30% and interest coverage stays above 4.5x on a consistent basis.

The principal methodology used in rating Intervias was the Operational Toll Roads Rating Methodology (December 12, 2006), which can be found at www.moody.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.

Intervias 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.

Intervias has a 28-year concession to operate the toll road services of seven small adjacent roads in the interior of the state of São Paulo, which the state regulatory agency ARTESP granted under a single concession in 2000. The seven roads consist of 376 kilometers and 9 toll plazas and have an estimated annual traffic of 52 million of equivalent vehicles. The region covered by the concession comprises nineteen cities with an estimated population of around 1.7 million people.

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