MOODY'S
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Rating Action: Moody's confirms the ratings of the third issuance of senior debentures issued by MGI -- Minas Gerais Participacoes

Global Credit Research - 03 Nov 2015

Sao Paulo, November 03, 2015 -- Moody's America Latina confirms the Ba1 (sf) global rating and Aa2.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 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 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 (Ba1).

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

-- Senior Debenture: Confirm the Ba1 (sf) and Aa2.br (sf) ratings; previously on Aug 12, 2015 placed on review for downgrade.

RATINGS RATIONALE

The ratings confirmation is based on (1) the limited amount of receivables that were refinanced more than once, (2) the sufficiency of projected cash flows to repay the debt without a trigger breach and (3) the State of Minas Gerais' ownership of MGI and Moody's opinion that the state would be proactive in taking the necessary measures to shore up this transaction' performance in the event of stress.

Moody's analyzed the level of refinanced receivables within the pool, to assess the potential of recurring delinquency by certain tax payers. Of the total receivables outstanding, 60% of the receivables have never been refinanced and only 6% of the pool has been refinanced more than once, indicating that the level of recurring delinquent obligors that seek multiple re-financing of its debt is limited. As of July 2015, 87% of taxpayers were current with their obligations and 9% were delinquent for less than 30 days. The transaction performance supports the arguments by MGI and the State of Minas Gerais that the refinanced receivables has had no impact for noteholders, as these receivables are performing again and generating cash flows.

The adjusted cash flow projections, based on the outstanding receivables' contractual monthly flows and adjusted by an expected mortality curve, show that the expected collections from the monthly payments of the ICMS taxes will be sufficient to repay the rated debt without a breach of the debt service coverage ratio (DSCR) trigger. The projected DSCR is expected to remain above a 2.0x coverage through to the transaction maturity and therefore, under this scenario, the available receivables will be sufficient for full repayment of principal and interest on the debenture. With the expected DSCR remaining above the trigger level, the need of a potential support by the State of Minas Gerais is diminished.

Moody's will continue to closely monitor the level of refinanced receivables, as the State of Minas Gerais can continue to refinance receivables and in doing so reduce the amount of receivables due before the legal final maturity date of the debenture, compromising the cash flows of the transaction.

Although MGI is the sole obligor under the debentures and investors have no recourse against the State of Minas Gerais in the transaction, there is a close relationship between MGI and the State of Minas Gerais, given the extent (1) of the state's ownership of MGI and (2) of the portion it holds of the transaction's subordinated debt. Moody´s expects that the state will continue to pro-actively take the necessary measures to support the transaction's performance, through MGI´s governing bodies or as otherwise needed.

The transaction has performed within expectations, with an average DSCR of 2.25x in the last 12-month period ending September 2015, above the minimum requirement of 1.8x. The asset coverage ratio as of September 2015 was 319%, higher than the 200% trigger level.

Loss and Cash Flow Analysis:

Moody's updated cash flow projections indicate that collections will be sufficient to repay the debt principal and interest by the transaction's maturity in August 2017, as the DSCR will remain above 2.0x through that time, providing sufficient cash to repay principal and interest on the debenture.

Stress Scenarios:

In its analysis Moody's applied an expected mortality curve to the contractual installments, to derive its base-case expected cash flows.

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

A factor that would lead to an upgrade is a significant improvement in collateral performance. Factors that would lead to a downgrade include a deterioration of the collateral performance or a 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 Credit Policy 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 June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

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.

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 describes its loss and cash flow analysis in the section "Ratings Rationale" of this press release.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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

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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

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The date of the last Credit Rating Action was 12/08/2015.

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Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com.br for further information on the meaning of each rating category and the definition of default and recovery.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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