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Rating Action: Moody's affirms Tegma's B2 global ratings and upgrades the national scale ratings to Ba1.br from Ba2.br; outlook changed to stable from negative

Global Credit Research - 20 Apr 2017

Sao Paulo, April 20, 2017 -- Moody's America Latina Ltda. ("Moody's") affirmed Tegma Gestao Logistica S.A.'s ("Tegma") B2 global scale ratings and upgraded the Brazilian national scale ratings to Ba1.br from Ba2.br. At the same time, Moody's changed the outlook for the ratings to stable from negative.

Ratings affirmed:

Issuer: Tegma Gestao Logistica S.A.

- Corporate Family Ratings: B2 (global scale)

- BRL 200 million senior unsecured debentures due in 2018 and 2019: B2 (global scale)

Ratings upgraded:

- Corporate Family Ratings: to Ba1.br from Ba2.br (national scale);

- BRL 200 million senior unsecured debentures due in 2018 and 2019: to Ba1.br from Ba2.br (national scale)

Outlook: changed to stable from negative

RATINGS RATIONALE

Tegma's B2/Ba1.br ratings reflect its leading position as the largest logistics company for the automotive industry in Brazil, supported by medium and long-term contracts and longstanding relationships with its client base. The ratings also consider the company's "asset-light" business model, which entails relatively stable cash flows and more flexible operations in face of market downturns, and the company's adequate credit metrics.

On the other hand, Tegma's high revenue concentration in the cyclical automotive industry, challenges related to still weak market conditions and track record of high dividend distributions constrain the ratings. Furthermore, although the current liquidity profile is adequate, additional improvements are limited due to the short tenor of debt maturities.

The stabilization of the ratings outlook reflects Tegma's improved credit metrics resulted from the company's efforts to reduce costs and from debt amortizations made during 2016. As well, it considers our expectations that the deterioration in Tegma's business environment has likely bottomed and should start to improve slowly and gradually, although we don't expect material improvements at least until the end of 2017.

After three years of consecutive contraction, Brazil's economy is showing signs of recovery with falling inflation and interest rates, which limits downside risks to the automotive industry and to Tegma's credit metrics. A more stable economic outlook will support a gradual pick-up of consumer confidence and increase consumer financing availability in the medium to long term, which will translate into increased auto sales. After an accumulated contraction of 44% since 2013, auto sales increased by 5.5% in March 2017 for the first time since December of 2014, and ANFAVEA (Brazil's auto manufacturers association) forecasts a 4% increase in sales for 2017.

As a consequence, we expect Tegma to post stable revenues in 2017, after a 41% contraction from 2013 through 2016, while profitability should improve thanks to cost saving initiatives including reduced labor, sale of non-profitable units and focus on higher capacity utilization rates. In addition, leverage and interest coverage improved with the amortization of BRL 71 million in debt during 2016, providing the company more financial flexibility to whether the industry's downcycle. At the end of 2016, Tegma's adjusted leverage declined to 2.6 times from 3.4 times in 2015, while interest coverage (measured by adjusted EBIT/interest expense) increased to 1.4 times from 1.1 times.

Tegma has an adequate liquidity profile with BRL 193 million in cash and equivalents and BRL 128 million in short term debt at the end of 2016. Even after a debt amortization of BRL 67 million made in February 2017, we expect Tegma's cash balance to remain relatively stable given its positive free cash flow generation. Nevertheless, further improvements in the company's liquidity profile are limited due to the short tenor of debt maturities. As such, we expect the company to seek liability management initiatives or other alternatives to reduce future liquidity risks.

The stable outlook reflects our expectations that Tegma will maintain leverage and profitability near current levels, while prudently managing debt amortizations, capex and dividends to preserve its adequate liquidity.

The rating could be upgraded if operating margins increase to its historical levels of 10% and if leverage decreases to below 3.0x on a sustained basis. An improvement in the company's debt amortization profile is also required for a rating upgrade. Tegma is expected to maintain its leadership position, ensure healthy operating margins and debt protection metrics even during the down cycle.

The ratings could be downgraded if the outlook for Brazil's economy and for the automotive industry worsens or if the company is not able to generate positive FCF, increasing its overall credit risk. Quantitatively, the ratings could be downgraded if FCF turns negative or if total adjusted debt to EBITDA increases to above 4.0x. Further downgrade pressure may arise in case Tegma cannot sustain its leading market position. Also, a significant increase in the level of secured debt could cause a downgrade of the rated unsecured debentures.

Tegma is a logistics company, primarily focused on supply chain management and products for the automotive industry mainly in Brazil. In 2016, Tegma transported approximately 681 thousand vehicles representing approximately 29.1% of Brazil's light vehicle sales. Tegma also provides delivery services, warehousing, inventory management and control and other logistic solutions to the consumer product segment. In 2016, Tegma reported consolidated net revenues of BRL 924 million (USD 300 million) with adjusted EBITDA margin of 18%.

The principal methodology used in these ratings was Global Surface Transportation and Logistics Companies published in April 2013. Please see the Rating Methodologies page on www.moodys.com.br for a copy of this methodology.

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