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Recovery Report:

Urbi Desarrollos Urbanos S.A.B. de C.V.'s Senior Unsecured Notes

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On Aug. 29, 2008, Standard & Poor's Ratings Services assigned its recovery rating on Urbi Desarrollos Urbanos S. A. B. de C. V.'s (Urbi) $150 million senior unsecured notes maturing in 2016. The notes are rated 'BB-' (the same as the long-term corporate credit rating), with a recovery rating of '3', indicating that lenders can expect meaningful (50%-70%) recovery in the event of payment default.

The distinctive characteristics of particular jurisdictions' insolvency regimes have a significant effect on the amounts ultimately recovered, the time to recover such amounts, and the overall predictability of the process. Based on our review, we have assessed Mexico's insolvency regime as a Group B jurisdiction, resulting in the capping of both recovery and issue ratings.

Our classification results in jurisdiction-specific adjustments to our recovery ratings, namely the capping of both recovery ratings and the differential between the issuer credit and issue ratings in countries where we expect debtor-friendly insolvency regimes to affect the recovery process and actual recovery rates negatively. These caps increase the transparency and consistency of our assessments of the effect of countries' insolvency rules--especially countries that are less creditor-friendly--when assigning recovery and issue ratings. (Please refer to "Update On Post-Default Recovery in Latin America," published Jan. 8, 2008, on RatingsDirect.)

The assignment of the recovery rating follows the introduction of the new recovery methodology that replaces the traditional notching guidelines we have been using for speculative-grade issuers in Mexico. (See "Introducing Recovery Ratings In Mexico" and "Debt Recovery For Creditors And The Law Of Insolvency In Mexico," both published Sept. 19, 2007, on RatingsDirect.)

The notes are senior unsecured obligations, ranking equally in right of payment with Urbi's existing and future senior unsecured indebtedness, senior in right of payment to all of its existing and future subordinated indebtedness, and junior to all of its existing and future secured indebtedness and all other indebtedness owed to statutorily preferred creditors. All of Urbi's existing subsidiaries guarantee the notes.

The likelihood of default for Urbi's debt is reflected in the 'BB-/Stable/--' corporate credit rating, which has not changed. (For the complete corporate credit rating rationale on Urbi, see Urbi Desarrollos Urbanos S.A.B. de C.V., published March 27, 2008, on RatingsDirect.)

Table 1

Urbi Desarrollos Urbanos S.A.B. de C.V. --Credit Profile					
Corporate credit rating	BB-/Stable/--				
Facility/Issue	**Issue rating**	**Recovery rating**	**Expected recovery (%)**	**Maturity**	**Repayment**
$150 mil. senior unsecured notes	BB-	3	50-70	2016	Bullet

Recovery Analysis

Simulated default scenario

Our simulated default scenario assumes a sharp and unexpected slowdown in the amount of mortgages financed by Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit), as Urbi generates about 70% of its total revenues through this institution. The scenario also envisions that Urbi would continue its aggressive growth plan during the next years despite the aforementioned slowdown in loans from Infonavit. High working capital requirements to finance double-digit growth would restrict free operating cash-flow generation, leading to additional indebtedness with suppliers and longer inventory and trade receivables cycles, until the company consumes all its cash balances and is unable to pay its interest expenses.

Specifically, our default scenario contemplates:

- Default year is 2011;
- A sharpened slowdown of Infonavit's activity beginning in 2008;
- Double-digit growth in revenues until 2011;
- Stable gross and EBIT margins;
- The company consumes all its cash to finance larger operating cycles, and the trade receivables turnover is 250 days; and
- Additional indebtedness through unsecured debt and suppliers.

Valuation

As Urbi recognizes revenues under the percentage-of-completion method of accounting, which requires the company to recognize revenues as it incurs the cost of construction and prior to receipt of actual cash, we have chosen to evaluate the enterprise's recovery using a discrete asset valuation approach, that is, we are assuming liquidation in an event of default or insolvency.

The company's primary assets are trade receivables and inventories. For our default scenario, we assumed trade receivables increase until the company consumes all its cash balances, reaching a trade receivable turnover of 250 days. At that level, we applied a discount rate of 65%, assuming a substantial weakening in the quality of accounts receivable.

Moreover, to estimate inventory value, we considered only the value of land, which normally represents about 10% of the projects' total cost.

The aforementioned assets produced a total value of $1,281 million; however, we deducted about $194 million related to the following items to obtain a net collateral value for unsecured claims:

- Mortgage loan with Banco del Bajio;
- Recourse factoring facility; and
- Maintenance capital expenditures.

These assumptions yield a net collateral value available for unsecured claims of $1,087 million. Compared to our estimate of total unsecured claims of $1,837 million, we obtain a '3' recovery rating, suggesting the expectation of meaningful (50%-70%) recovery.

Results

The result of this analysis provides meaningful (50%-70%) recovery of principal for the senior unsecured notes.

Transaction Summary

Table 2

Transaction Summary	
Facility	Senior unsecured notes
Borrower	Urbi Desarrollos Urbanos S.A.B. de C.V.
Guarantors	All existing and future subsidiaries.
Structure	No amortization until maturity.
Legal jurisdictions/issues	U.S.
Key covenants	Incur additional indebtedness, pay dividends on its capital stock or redeem, grant liens, repurchase or retire its capital stock or subordinated indebtedness, engage in transactions with affiliates, make certain investments and take part in a merger, consolidation and asset sale transactions.