

Research Update:

# Grupo Famsa Downgraded To 'SD' From 'CCC-' On Missed Interest And Principal Payments On 2020 Senior Unsecured Notes

June 2, 2020

## Rating Action Overview

- Mexican retailer Grupo Famsa, S.A.B. de C.V. (GFamsa) did not make interest and principal payments on its 2020 senior unsecured notes on June 1, 2020.
- On May 29, 2020, the company announced it will pursue a restructuring of its outstanding \$59.1 million senior unsecured notes through an exchange offer to bondholders. The company expects to complete the offer in the next few weeks.
- As a result, on June 2, 2020, S&P Global Ratings lowered its long-term issuer credit rating on GFamsa to 'SD' (selective default) from 'CCC-'.
- At the same time, we affirmed our 'CCC-' issue-level rating on its senior secured notes due 2024, with a recovery rating of '3', indicating a meaningful recovery prospect (50%-90%).
- We don't assign an outlook on 'SD' ratings, and we will assign a forward-looking issuer credit rating on the company following the resolution of its debt restructuring.

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## Rating Action Rationale

**The company missed its interest and principal payments on its 7.25% senior unsecured notes on June 1, 2020.** The downgrade to 'SD' follows GFamsa's missed interest and principal payments on its \$59.1 million outstanding senior unsecured notes on June 1, 2020.

**GFamsa announced its intention to restructure its debt through an exchange offer.** The company will pursue a restructuring of its 7.25% senior unsecured notes through an exchange offer to bondholders. GFamsa expects to settle the offer in the next few weeks. As part of the restructuring process, GFamsa is offering new notes to its 7.25% noteholders, with an extended maturity and greater coupon rates, among other conditions. Additionally, the company will pay a cash fee to noteholders that accept the offer by June 23, 2020. In the event that holders of at least two-thirds in dollar amount, and more than half in terms of the number of the allowed 2020 notes

claims, vote to accept the offer, the company intends to file a voluntary reorganization petition to implement the reorganization plan.

The abovementioned events could trigger a payment acceleration of the company's other debt obligations under certain specific conditions. According to the indenture of the 2024 notes, the default of other debt could accelerate principal and accrued interest, if requested by holders of at least 25% of the 2024 notes' outstanding amount. Moreover, GFamsa's short-term local bonds program also contain cross-default provisions.

**Issue-level rating on senior secured notes due 2024 affirmed at 'CCC-'.** We affirmed our 'CCC-' issue-level rating on the company's senior secured notes due 2024, as we expect the company to meet its semiannual coupon payment on June 15, 2020, for its 9.75% senior secured notes, and other upcoming debt obligations, including its local short-term debt certificates.

We will assign a forward-looking issuer credit rating on the company after it completes its debt restructuring process in the next weeks.

## **Company Description**

Through its subsidiaries, GFamsa operates in the wholesale and retail sale of consumer products in Mexico and the U.S. It sells furniture, appliances, electronics, clothing, footwear, and other products. The company also operates a banking unit, which provides deposit services, loans, and financing services. It operates a network of 379 retail stores in Mexico and 22 retail stores in Texas and Illinois. GFamsa was founded in 1970 and is based in Monterrey, Mexico.

## **Related Criteria**

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Downgraded; CreditWatch/Outlook Action

	To	From
<b>Grupo Famsa S.A.B. de C.V.</b>		
Issuer Credit Rating	SD/--	CCC-/Negative/--

### Ratings Affirmed

<b>Grupo Famsa S.A.B. de C.V.</b>		
Senior Secured		
Local Currency	CCC-	
Recovery Rating	3	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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