FitchRatings

Corporates
Natural Resources
Cyprus

Interpipe Holdings Plc

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	B	Stable	Publish 11 Nov 20

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The rating on Interpipe Holdings Plc reflects a limited record of post-restructuring financial policy and governance practices, which results in uncertainty over post-2020 dividend distributions and thus leverage profile, once Interpipe's current restrictive covenants are lifted. The rating also reflects a smaller scale than steel peers' and exposure to the Ukrainian operating environment. The company's pipe business is exposed to oil markets where customers have volatile capex alongside oil price fluctuations.

The rating also incorporates a high share of value-added products (steel pipes and railway products), a leading domestic and regional position in seamless pipes and wheels, backward integration into scrap and billets and geographically diversified operations. The rating also reflects strongly improved credit metrics following a restructuring in 4Q19.

Key Rating Drivers

Volumes under Pressure from Coronavirus: Interpipe managed to operate throughout 2020 without significant operational disruptions but faced coronavirus-driven demand slowdown, which was particularly pronounced in pipes (9M20 sales -24% yoy).

Its oil country tubular goods (OCTG) segment was hardest hit (-54%) while line pipes were nearly flat. Its wheels division performed better with a modest 3% reduction in sales volumes. We forecast that OCTG will take three years to see full recovery from the 2020 lows and other segments' volumes to grow incrementally beyond 2020, except for wheels sales in Ukraine and CIS.

Cost-Cutting Helps: Interpipe's measures to cope with the slowdown have included layoffs and a shortened four-day working week, as well as other cost-cutting measures. The company postponed all expansion capex and scaled back maintenance capex. This has allowed Interpipe to generate positive free cash flow (FCF) and build up its liquidity cushion (USD187 million reported cash and equivalents at end-2Q20).

Railway Products Market to Normalise: Russian wheels deficits in 2019 and 2020 driven by the 2017-2019 wagon maintenance cycle resulted in record-high EBITDA from wheels, exceeding USD200 million in 2019. We expect 2021 to be a transitional year as Russian and Ukrainian railcar manufacturers and operators cut wheel purchases by double digits, resulting in segment EBITDA of USD110 million, and decreasing to USD70 million from 2022.

This is still more than twice the 2017-2018 levels as the likely cancellation of the 34.22% Russian anti-dumping duty from January 2021 and Interpipe's expansion in European markets and into wheelsets assembly will support the segment's performance.

Pipes Recovery Will Take Years: COVID-19 impact on pipes was uneven, with particular pressure on OCTG and welded pipes in 1H20, as weaker sales volumes added to price pressure on revenues. Line pipes fared well in volume but saw mid-teens price declines. Weak domestic gas drilling and construction and fierce competition in the US oil and gas market were only partly offset by flat-to-rising sales volumes in European and Middle Eastern regions.

We expect both the domestic economy and US oil production to take at least two years to recover to pre-pandemic levels, while we assume line pipes will see marginal growth.

Minimal Debt: Interpipe's restructuring in October 2019 led to USD400 million outstanding debt, versus USD1,354 million at end-2018 (6.6x funds from operations (FFO) gross leverage).

Applicable Criteria

Corporate Rating Criteria (May 2020)
Sector Navigators - Addendum to the Corporate Rating Criteria (June 2020)
Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (February 2020)

Related Research

CIS Steel Adapts to Effects of Pandemic (August 2020)
Global Economic Outlook (December 2020)

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Record-high EBITDA and modest capex allowed Interpipe to shrink debt to USD331 million (1.3x FFO gross leverage) at end-2019 and further to USD81 million in October 2020.

We assume Interpipe will prepay notes in full by mid-2021 following its net cash position achieved in 2H20. We conservatively assume dividends to commence from 2021, gradually driving FFO gross leverage towards 2.0x-2.5x from 2022-2023.

Post-Restructuring Financial Policy Key: We view the post-restructuring financial structure of Interpipe as strong for the rating. It has cut capex and optimised costs notwithstanding a solid cash balance and low net debt since the COVID-19 outbreak. However, Interpipe is yet to establish a track record of its new financial policy and determine the balance in capital allocation. Sustained adherence to a prudent financial policy supporting a strong financial profile may result in a positive rating action.

Trade Restrictions Risk: Interpipe is exposed to tariffs and quotas as it exports over 70% of pipes and wheels. The risk is higher in the pipes segment as proven by recent 10% import duties introduced by Saudi Arabia and Turkey in 2Q20, on top of existing widespread trading restrictions. The risk in the wheels segment is much lower and primarily related to the Eurasian Customs Union market where we see de-escalation of trade restrictions as likely, due to a limited number of suppliers in this market.

Fees Excluded from Leverage: Interpipe's restructuring agreement includes performance-sharing fees and/or an exit fee. A USD40 million exit fee falls due only if the notes and term loan are fully discharged after 25 October 2023. Performance-sharing fees apply once the notes and term loan are fully discharged over three consecutive years, and may be 15%-25% of adjusted consolidated EBITDA.

Assuming the notes are fully prepaid by end-2021, performance fee outflows may amount to USD20 million-25 million in 2022-2024, based on our nearly USD150 million EBITDA assumption post-2021.

Modest Capex Anticipated: We do not expect any transformative capex as Interpipe has a modern electric arc furnace and is gradually and selectively investing to improve quality and add value to its products. We expect annual capex to average USD63 million in 2020-2021 and around USD70 million thereafter. The investments are for increasing the production capacity of OCTG with premium connections, new heat-treatment lines of OCTG pipes and a new wheel machining and finishing line.

Financial Summary

(USDm)	Dec 18	Dec 19	Dec 20F	Dec 21F
Gross revenue	1,074	1,122	823	845
Operating EBITDA margin (%)	14.8	23.0	29.7	21.0
FFO leverage (x)	6.6	1.3	0.4	1.6
FFO net leverage (x)	6.0	0.3	-0.1	0.9
FFO interest coverage (x)	35.9	1.8	10.1	12.5

F – Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Interpipe is a small producer with a strong position in niche and consolidated segments such as steel pipes (top 10 globally) and wheels (top five globally). Both segments, particularly wheels, have barriers to entry, long-standing customer relationships and certification processes in various jurisdictions. However, the segments are also exposed to high volume risk.

Interpipe's closest peer is PJSC Chelyabinsk Pipe Plant (BB-/Stable), a Russian seamless and large diameter pipe (LDP) producer with bigger scale, an incumbent position in Russia's steel pipes market, and partial integration into billets. ChelPipe's lack of wheels exposure is offset by diversification towards LDP with different dynamics.

Interpipe's other EMEA peers include steel producers such as Russia's PJSC Novolipetsk Steel, PJSC Magnitogorsk Iron & Steel Works and PAO Severstal (all BBB/Stable), EVRAZ plc (BB+/Stable) and ArcelorMittal (BB+/Negative) which benefit from partial or full integration into iron ore and/or coal, bigger scale and, in the case of Russian peers, cost leadership in steel operations. They also have lower volume risk but lack Interpipe's value-added product share and higher barriers to entry compared with more commoditised markets.

Interpipe's post-restructuring leverage profile is very comfortable and places the company ahead of its Russian and European peers. However, its future financial profile is yet to be defined by the company's financial policies. Interpipe's margins in the medium term are expected to converge with ChelPipe's, and remain above ArcelorMittal's but behind other steel producers'.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Cost Position	Raw Material Self-Sufficiency	Value-Added	Diversification	Profitability	Financial Structure	Financial Flexibility
Interpipe Holdings Plc	B/Sta	b	bb-	bbb-	bb	bbb-	bb-	bbb	bbb	b
PJSC Chelyabinsk Pipe Plant	BB-/Sta	bb-	bb+	bbb-	bb	bbb	bb-	bbb-	bb-	bb+
EVRAZ plc	BB+/Sta	bb	bbb-	bbb-	BBB	bb-	bb+	bbb	bbb	bbb
ArcelorMittal S.A.	BB+/Neg	aa-	bbb+	bb	bb	bb+	bbb+	bb	bb-	bbb+

Source: Fitch Ratings.

Importance: Higher / Moderate / Lower

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Record of a conservative financial policy and established corporate governance practices with FFO leverage sustained below 2.5x on a gross basis or 2.0x on a net basis (2019: 1.3x gross and 0.3x net)
- Larger scale or increased diversification supporting resilience to commodities market weakness and/or economic slowdown
- The above factors may lead to an upgrade only if Ukraine's sovereign rating is upgraded or Interpipe's hard-currency debt service cover is above 1.0x on a 12-month rolling basis, as calculated in accordance with Fitch's *Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria*

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- EBITDA margin sustained below 8% on adverse market developments and volume pressure
- FFO leverage sustained above 3.5x on a gross basis or above 3.0x on a net basis

Liquidity and Debt Structure

Strong Liquidity Post Restructuring: At end-2Q20 Interpipe had a USD187 million cash cushion compared with USD211 million notes outstanding due from 2023 onwards. Liquidity is forecast to remain strong until 2023 with no significant maturities. We expect FCF generation to be positive in 2020-2021 if no dividends are paid in 2021. Performance sharing and/or exit fees are not expected to be a drag on liquidity.

Debt Quantum at Decade Low: As of 30 June 2020, the company had USD211 million outstanding under its notes, and prepaid a further USD129 million during August-October. Interpipe's outstanding debt, represented by the notes, amounted to a decade-low level of USD81 million. We expect the company to prepay the remaining notes by mid-2021. In addition, Interpipe entered into a total return swap (TRS) in August 2020 with regard to the notes for the notional amount of USD70 million. The term of the TRS is up to one year.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Interpipe Holdings Plc – Liquidity Analysis

Scheduled debt maturities (USDm)	Original[a] 31 Dec 19	Pro forma 05 Oct 20
2020	36	0
2021	0	0
2022	0	0
2023	145	81
2024	151	0
Thereafter	43[b]	45
Total	**375**	**126**

[a] Figures are as per amortisation schedule in accordance with IFRS and include accrued interest and fair rather than nominal values of debt maturities. Pro forma figures exclude accrued interest and reflect nominal values of debt maturities.
[b] Subordinated shareholder loan. Fitch does not treat this loan as debt in its calculations.
Source: Fitch Ratings, Fitch Solutions

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Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Pipes volumes down towards 460,000-470,000 tonnes in 2020 from around 600,000 tonnes in 2019 on coronavirus-driven economic downturn, before recovering slowly to 600,000 tonnes by 2023
- Wheels volumes marginally lower in 2020 from around 200,000 tonnes in 2019, slowly growing towards 200,000 tonnes by 2023
- EBITDA at around USD245 million in 2020, down towards USD180 million in 2021 as wheels segment normalises, and around USD150 million in 2022-2023
- Capex rising to 8% to 9% of sales towards 2022-2023
- Dividends commencing from 2021, while allowing for a gradual and decelerating gross debt increase over 2021-2023 towards USD300 million-350 million, corresponding to 2.0x-2.5x FFO gross leverage after 2021
- Pre-dividend FCF margin in single digits from 2020

Financial Data

(USDm)	Historical			Forecast		
	Dec 17	Dec 18	Dec 19	Dec 20F	Dec 21F	Dec 22F
Summary income statement						
Gross revenue	806	1,074	1,122	823	845	904
Revenue growth (%)	59.0	33.3	4.5	-26.7	2.6	7.0
Operating EBITDA (before income from associates)	119	159	259	244	178	148
Operating EBITDA margin (%)	14.8	14.8	23.0	29.7	21.0	16.4
Operating EBITDAR	119	160	259	245	178	149
Operating EBITDAR margin (%)	14.8	14.9	23.1	29.7	21.1	16.4
Operating EBIT	67	114	193	192	126	95
Operating EBIT margin (%)	8.4	10.6	17.2	23.3	14.9	10.5
Gross interest expense	-107	-127	-122	-19	-10	-18
Pretax income (including associate income/loss)	-71	-67	815	176	119	80
Summary balance sheet						
Readily available cash and equivalents	71	135	264	92	91	96
Total debt with equity credit	1,264	1,374	333	80	200	300
Total adjusted debt with equity credit	1,264	1,380	336	80	200	300
Net debt	1,193	1,239	68	-12	109	204
Summary cash flow statement						
Operating EBITDA	119	159	259	244	178	148
Cash interest paid	-7	-6	-141	-19	-10	-18
Cash tax	-2	-4	-16	-22	-22	-17
Dividends received less dividends paid to minorities (inflow/(out)flow)	0	0	0	0	0	0
Other items before FFO	26	53	7	-33	-33	0
Funds flow from operations	137	204	112	174	116	117
FFO margin (%)	17.0	19.0	10.0	21.1	13.7	13.0
Change in working capital	-53	-91	79	-43	-12	3
Cash flow from operations (Fitch defined)	84	113	191	131	104	120
Total non-operating/non-recurring cash flow	0	0	0			
Capital expenditure	-43	-44	-60			
Capital intensity (capex/revenue) (%)	5.3	4.1	5.3			
Common dividends	0	0	0			
Free cash flow	41	69	132			
Net acquisitions and divestitures	0	-3	2			
Other investing and financing cash flow items	5	-1	15	0	0	0
Net debt proceeds	0	-1	-68	-253	120	100
Net equity proceeds	0	0	50	0	0	0
Total change in cash	46	64	129	-172	-1	5
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	10.0	7.8	0.3	-0.1	0.6	1.4
Total adjusted debt/operating EBITDAR (x)	10.6	8.6	1.3	0.3	1.1	2.0
Total adjusted net debt/operating EBITDAR (x)	10.0	7.8	0.3	-0.1	0.6	1.4
Total debt with equity credit/operating EBITDA (x)	10.6	8.7	1.3	0.3	1.1	2.0
FFO adjusted leverage (x)	8.8	6.6	1.3	0.4	1.6	2.3
FFO adjusted net leverage (x)	8.3	5.9	0.3	-0.1	0.9	1.5
FFO leverage (x)	8.8	6.6	1.3	0.4	1.6	2.3
FFO net leverage (x)	8.3	6.0	0.3	-0.1	0.9	1.5
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-43	-47	-58	-50	-225	-214
Free cash flow after acquisitions and divestitures	41	66	133	81	-121	-95
Free cash flow margin (after net acquisitions) (%)	5.1	6.2	11.9	9.8	-14.3	-10.5
Coverage ratios						
FFO interest coverage (x)	19.6	35.9	1.8	10.1	12.5	7.5
FFO fixed charge coverage (x)	19.6	29.9	1.8	9.9	12.0	7.3
Operating EBITDAR/interest paid + rents (x)	16.3	22.8	1.8	12.8	17.4	8.3
Operating EBITDA/interest paid (x)	16.3	27.3	1.8	13.1	18.1	8.5
Additional metrics						
CFO-capex/total debt with equity credit (%)	3.2	5.1	39.5	100.8	14.4	16.6
CFO-capex/total net debt with equity credit (%)	3.4	5.6	192.5	-655.3	26.4	24.5

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	□	Stable

FitchRatings

Interpipe Holdings Plc

Corporates Ratings Navigator
Steel

Operating Environment

	Sub-Factor		Description
b+	Economic Environment	b	Weak combination of countries where economic value is created and where assets are located.
b	Financial Access	b	Weak combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	b	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'b'.
b-			
ccc+			

Management and Corporate Governance

	Sub-Factor		Description
bb+	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bb	Governance Structure	bb	Board effectiveness questionable with few independent directors. "Key man" risk from dominant CEO or shareholder.
bb-	Group Structure	bb	Complex group structure or non transparent ownership structure. Related-party transactions exist but with reasonable economic rationale.
b+	Financial Transparency	bb	Financial reporting is appropriate but with some failings (eg, lack of interim or segment analysis).
b			

Cost Position

	Sub-Factor		Description
bbb+	Cost Position	bbb	Low – 1st/2nd quartile.
bbb			
bbb-			
bb+			
bb			

Raw Material Self-Sufficiency

	Sub-Factor		Description
bbb-	Raw Material Self-Sufficiency	bb	Partial control over key raw materials or pricing power.
bb+			
bb			
bb-			
b+			

Value-Added

	Sub-Factor		Description
bbb+	Proportion of Higher Value-Added Products	bbb	High (>50%).
bbb	Proportion of Contracted Sales	bb	Medium proportion to long term customers (30-70%)
bbb-			
bb+			
bb			

Diversification

	Sub-Factor		Description
bb+	Product and Geographical Diversification	bb	Good diversification or good cost position in niche product.
bb	Operational Diversification	b	Low (single plant)
bb-	Environmental Exposure	bbb	Limited or manageable exposure to environmental regulations. Remediation costs are comfortably within current cashflows.
b+			
b			

Profitability

	Sub-Factor		Description
a-	FFO Margin	bbb	12%
bbb+	EBITDAR Margin	bbb	16%
bbb	FCF Margin	bbb	Mostly positive through the cycle.
bbb-			
bb+			

Financial Structure

	Sub-Factor		Description
a-	FFO Leverage	bbb	2.5x
bbb+	FFO Net Leverage	bbb	2.0x
bbb	Total Debt With Equity Credit/Op. EBITDA	bbb	2.0x
bbb-			
bb+			

Financial Flexibility

	Sub-Factor		Description
bb-	Financial Discipline	b	No financial policy or track record of ignoring it. Opportunistic behavior.
b+	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
b	FFO Interest Coverage	bb	6x
b-	FX Exposure	bb	FX exposure on profitability and/or debt/cash flow match. Some hedging in place but only partly effective.
ccc+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Interpipe Holdings Plc has 11 ESG potential rating drivers

- Emissions from production
- Energy and fuel use in operations
- Water usage in operations (including exposure to regions with water scarcity)
- Pollution incidents; sludge disposal
- Impact of labor negotiations and employee (dis)satisfaction
- Worker safety and accident prevention

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	11	issues	3
not a rating driver	0	issues	2
	3	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

Interpipe Holdings Plc

Corporates Ratings Navigator
Steel

Credit-Relevant ESG Derivation

Interpipe Holdings Plc has 11 ESG potential rating drivers

- Interpipe Holdings Plc has exposure to emissions regulatory risk but this has very low impact on the rating.
- Interpipe Holdings Plc has exposure to energy productivity risk but this has very low impact on the rating.
- Interpipe Holdings Plc has exposure to water management risk but this has very low impact on the rating.
- Interpipe Holdings Plc has exposure to waste & impact management risk but this has very low impact on the rating.
- Interpipe Holdings Plc has exposure to labor relations & practices risk but this has very low impact on the rating.
- Interpipe Holdings Plc has exposure to employee health & safety risk but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	11	issues	3
not a rating driver	0	issues	2
	3	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	3	Emissions from production	Diversification; Profitability; Financial Structure; Financial Flexibility	5
Energy Management	3	Energy and fuel use in operations	Cost Position ; Profitability	4
Water & Wastewater Management	3	Water usage in operations (including exposure to regions with water scarcity)	Diversification; Profitability; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Pollution incidents; sludge disposal	Diversification; Profitability; Financial Flexibility	2
Exposure to Environmental Impacts	1	n.a.	n.a.	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	1	n.a.	n.a.	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Diversification; Cost Position ; Profitability; Financial Flexibility	3
Employee Wellbeing	3	Worker safety and accident prevention	Diversification; Profitability; Financial Flexibility	2
Exposure to Social Impacts	3	Social resistance to new projects, sourcing of iron ore/coking coal that leads to delays and cost increases	Raw Material Self-Sufficiency; Profitability; Financial Structure; Financial Flexibility	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

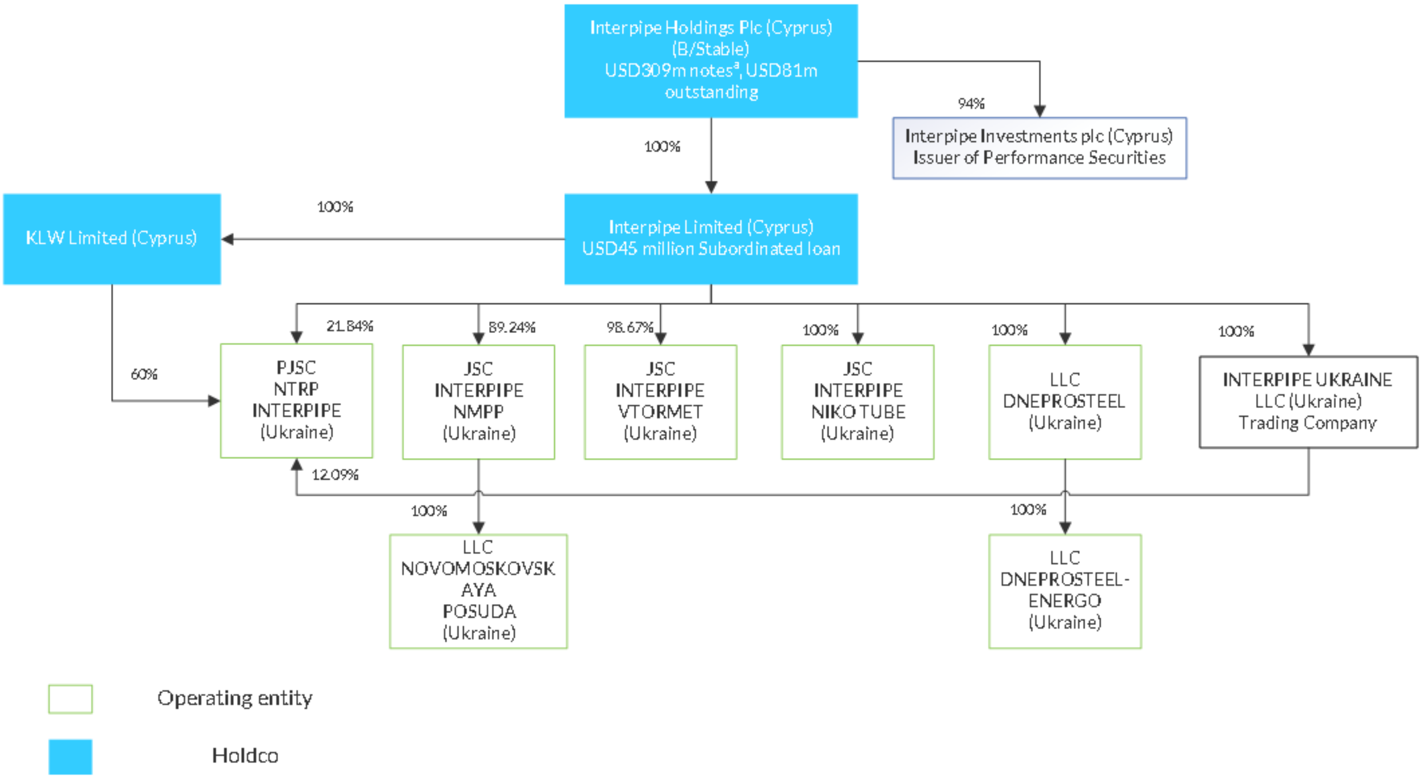
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



[a] All entities are guarantors under the notes except for Interpipe NMPP and its subsidiaries and Interpipe Investments plc
Source: Interpipe Holdings Plc, Fitch Ratings
As of 5 October 2020

Peer Financial Summary

Company	Issuer default rating	Financial statement date	Gross revenue (USDm)	Operating EBITDAR margin (%)	FFO leverage (x)	FFO net leverage (x)	FFO interest coverage (x)
Interpipe Holdings Plc	B						
		2019	1,122	23.1	1.3	0.3	1.8
		2018	1,074	14.9	6.6	6.0	35.9
		2017	806	14.8	8.8	8.3	19.6
PJSC Chelyabinsk Pipe Plant	BB-						
	BB-	2019	2,974	16.8	2.9	2.2	3.3
	BB-	2018	2,840	16.0	3.7	2.8	2.7
	BB-	2017	2,714	15.0	3.9	3.1	1.5
EVRAZ plc	BB+						
	BB+	2019	11,905	21.3	2.3	1.6	7.5
		2018	12,836	29.2	1.5	1.1	9.8
		2017	10,827	23.9	2.4	1.8	5.5
ArcelorMittal S.A.	BB+						
	BBB-	2019	70,615	6.7	5.6	4.4	5.3
	BBB-	2018	76,033	14.1	2.3	2.0	10.6
	BB+	2017	68,679	12.9	2.6	2.2	6.8

Source: Fitch Ratings, Fitch Solutions

Fitch Adjustment and Reconciliation Table

Fitch Adjustments and Reconciliation Table for Interpipe Holdings Plc

(USD Millions)	Notes and Formulas	Reported Values	Sum of Adjustments	CORP - Lease Treatment	Other Adjustments	Adjusted Values
31/12/2019						
Income Statement Summary						
Revenue		1,122				1,122
Operating EBITDAR		149	111	1	110	259
Operating EBITDAR After Associates and Minorities	(a)	149	111	1	110	259
Operating Lease Expense	(b)	0	1	1		1
Operating EBITDA	(c)	149	110		110	259
Operating EBITDA After Associates and Minorities	(d) = (a-b)	149	110		110	259
Operating EBIT	(e)	83	110		110	193
Debt and Cash Summary						
Total Debt with Equity Credit	(f)	459	-127		-127	333
Lease-Equivalent Debt	(g)	0	3	3		3
Other Off-Balance-Sheet Debt	(h)	0				0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	459	-124	3	-127	336
Readily Available Cash and Equivalents	(j)	256	8		8	264
Not Readily Available Cash and Equivalents		8	-8		-8	0
Cash Flow Summary						
Operating EBITDA After Associates and Minorities	(d) = (a-b)	149	110		110	259
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	3				3
Interest (Paid)	(m)	-141				-141
Cash Tax (Paid)		-16				-16
Other Items Before FFO		117	-110		-110	7
Funds from Operations (FFO)	(n)	112				112
Change in Working Capital (Fitch-Defined)		79				79
Cash Flow from Operations (CFO)	(o)	191				191
Non-Operating/Nonrecurring Cash Flow		0				0
Capital (Expenditures)	(p)	-60				-60
Common Dividends (Paid)		0				0
Free Cash Flow (FCF)		132				132
Gross Leverage (x)						
Total Adjusted Debt/Operating EBITDAR[a]	(i/a)	3.1				1.3
FFO Adjusted Leverage	(i/(n-m-l-k+b))	1.8				1.3
FFO Leverage	(i-g)/(n-m-l-k)	1.8				1.3
Total Debt with Equity Credit/Operating EBITDA[a]	(i-g)/d	3.1				1.3
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	28.6%				39.5%
Net Leverage (x)						
Total Adjusted Net Debt/Operating EBITDAR[a]	(i-j)/a	1.4				0.3
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	0.8				0.3
FFO Net Leverage	(i-g-j)/(n-m-l-k)	0.8				0.3
Total Net Debt with Equity Credit/Operating EBITDA[a]	(i-g-j)/d	1.4				0.3
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	64.7%				192.5%
Coverage (x)						
Operating EBITDA/(Interest Paid + Lease Expense)[a]	a/(-m+b)	1.1				1.8
Operating EBITDA/Interest Paid[a]	d/(-m)	1.1				1.8
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	1.8				1.8
FFO Interest Coverage	(n-l-m-k)/(-m-k)	1.8				1.8

[a]EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, Interpipe Holdings Plc

B+/B/B-/CCC Table

Considerations	B+	B	B-	CCC+	CCC	CCC-	CC	Trend	Fitch's View
Business Model	Robust	Sustainable	Intact	Redeemable	Compromised	Disrupted	Irredeemable		Interpipe's product and regional mix in pipes proved flexible and not dependent on a single region or product type. Its wheels sales remained strong and profitable in the CIS despite high import duties, while the ongoing market slowdown is addressed via refocusing on Europe and value-added solutions, with modest capex and low impact on margins.
Strategy/ Execution Risk	Limited	Moderate	Meaningful	Challenging yet achievable	Uncertain	Highly speculative	Not credible		Interpipe has adjusted its cost base throughout a challenging operating environment. Debt restructuring is behind, and future capex projects are incremental and flexible (e.g. high-speed wheels). Interpipe has so far performed well during the pandemic despite the severely hit OCTG segment as line pipes and wheels held up well.
Cash Flow	Consistently positive	Neutral to positive	Volatile	Mostly negative	Constantly negative	Accelerating cash outflow	Irreversible outflow		Fitch expects pre-dividend FCF to stay positive as the capital intensity of the business is rather low. It would require aggressive cash upstreaming, or extreme economic conditions, to drive FCF negative after the notes redemption.
Leverage Profile	Clear deleveraging path	Deleveraging capacity	High but sustainable	Significant outlier	Unsustainable	Disproportionate and increasing	Unrecoverable		Interpipe has achieved very significant deleveraging through its restructuring, and prepaid most of its debt in the aftermath. It has sound cash generation and low levels of maintenance capital expenditures. If the notes are fully prepaid cash outflows under performance share fees are likely to be manageable.
Governance and Financial Policy	Committed	Some commitment to deleveraging	Aggressive	Ineffective	Uncommitted	Hostile	Inevitable balance-sheet restructuring		The shareholder injected USD50 million as part of the restructuring. The restructuring does not allow for dividends until the outstanding debt is discharged. It is unclear what the dividend policy will look like should the company prepay outstanding debt maturities. Our conservative assessment reflects a lack of track record of when the company could pursue its financial policies independently.
Refinancing Risk	Limited	Manageable	High	Off-market options	Excessive	Unavailable	Imminent		Refinancing risk is limited due to distant maturities (2023-2024) and a strong cash buffer. Leverage is likely to be low at the time of refinancing while sudden EBITDA pressure is likely be addressed by capex delays.
Liquidity	Comfortable	Satisfactory	Limited	Minimal headroom	Poor/partly funded	Unfunded	De facto insolvent		Refinancing risk is very limited due to the cash buffer, sound cash generation despite the challenging environment, improved operational profile and diversification. Full prepayment of the notes is likely to be combined with strong cash generation and/or additional credit lines.
Conclusion	B								

Source: Fitch Ratings

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.