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Research Update:

Interpipe Holdings PLC Rating Reinstated At 'CCC'; Outlook Negative

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Rating Action Overview

- The ongoing Russia-Ukraine military conflict challenges operations, with Interpipe Holdings PLC facing rapidly evolving security, economic, and operational risks. That said, production volumes have been resilient as the company continues exporting to its key geographic markets across Europe and North America.
- Nonetheless, in the absence of positive developments in Ukraine's geopolitical conflict and uncertainties about capital controls, we see an increased risk of a selective default on the company's outstanding $260 million bond due in May 2026.
- Therefore, we reinstated our 'CCC' long-term issuer credit rating on Interpipe.
- The negative outlook reflects the risk of a downgrade should Interpipe restructure its debt in a way we view as a distressed exchange and tantamount to a default.

Rating Action Rationale

The heightened debt restructuring risk on Interpipe's outstanding $260 million bond, maturing in May 2026, constrains the rating on Interpipe at 'CCC'. On Feb. 4, 2025, Interpipe redeemed $25.4 million of its 2026 bond through a tender offer, reducing the outstanding principal balance from $300 million to $274 million, the company has since repurchased for a further $15 million reducing the principal outstanding to $260 million, we view these partial buybacks as opportunistic in nature. We estimate the company will have a sufficient liquidity buffer over the next 12 months--with over $280 million of cash on balance sheet, approximately $230 million of which is expected to be held outside of Ukraine given that the company maintains about 80% of its cash in offshore bank accounts, and we expect it to generate meaningful cash funds from operations in 2026. These sources should be sufficient to cover working capital and capital expenditure requirements, while also addressing the May 2026 maturity. While we expect Interpipe to continue to service the approximately $25 million annual coupon payments on its bond, it remains unclear whether the company will be able to use its offshore cash to redeem the bond on maturity. Therefore, we expect Interpipe could consider restructuring the debt in a way that we could view the transaction as a distressed exchange and tantamount to a default.

Interpipe's performance in 2024 was affected by cost pressures and operational risks, which we expect to continue in 2025. Interpipe reported revenues of $803 million for the first nine months of 2024, rising 2.3% from nine months 2023. The railway products division revenue increased by 25% to $193 million, supported by increased sales volumes to the U.S and Europe. At the same time, revenues from the Pipes division declined by 3.8% to $578 million as lower average selling prices offset higher volumes. The company's EBITDA decreased by 30.5% to $200 million (compared with $288 million in the first nine months of 2023), with margins falling to 25.0% from 36.6% primarily owing to higher scrap, labor, and electricity prices.

The effect on Interpipe from the potential removal of the Section 232 exemption related to steel products remains uncertain. Any tariffs imposed by the U.S. authorities on steel products imported from abroad should, in our view, have a manageable effect for Interpipe at this stage.

The operating environment remains dynamic and risks to the company's future business integrity underpins our assessment. The ongoing conflict poses significant operational and security challenges, the company's pipes workshop in Nikopol, situated just six kilometers (km) from the frontline, experiences near-daily shelling, and a damaged transformer in October 2024 led to a six-week production downtime. While key assets are largely undamaged, and four of the production facilities are located at least 130 km from the nearest front-line, the security situation on the ground remains fluid.

Russian attacks on Ukrainian energy infrastructure have caused nationwide electricity shortages, materially driving up costs as supplies need to be imported from Europe. The shortage of skilled labor constrains operations, pushing up wage expenses and increasing reliance on overtime pay.

The logistical situation has improved following the reopening of key routes to market. The lifting of border restrictions at the Polish land border in April 2024 has eased transportation bottlenecks for exports to Europe. The reopening of the Odesa port in January 2024 has reduced transit times for shipments to other geographic markets by 20-30 days, although the port area is also subject to regular attacks.

Outlook

The negative outlook reflects the operational uncertainty faced by Interpipe due to the ongoing geopolitical situation and the risk that Interpipe could be downgraded if the company were to restructure its debt in a way we would view the terms of a transaction akin with a distressed exchange and tantamount to default ahead of their $260 million bond maturity in May 2026.

Downside scenario

We could lower the rating on Interpipe Holdings if:

- We saw a heightened likelihood of the company restructuring debt or if the company were to redeem the bond in a way we view akin with a distressed exchange.
- The geopolitical conflict accelerating such that the operating environment adversely changes.

Upside scenario

We could revise our rating on Interpipe if we gained visibility on the company's ability to successfully redeem or refinance their May 2026 maturity in the absence of a debt restructuring that we could view as a distressed exchange and there is no deterioration of the operating environment.

Company Description

Interpipe is a Ukraine-based, vertically integrated, low-cost manufacturer of steel pipes and railway wheels. The company operates three divisions (pipes, railway products, and steelmaking) that are run with separate management teams. The company employs about 9,000 people.

Established in 1990, Interpipe is a private company, 100% ultimately owned by Mr. Victor Pinchuk and his family members.

Steel pipes

The division manufactures a variety of pipes, with 73% of output comprising seamless pipe products (including line pipes, oil country tubular goods, and mechanical pipes). Key markets are Europe (33% of sales volumes in first nine months of 2024); Ukraine (30%); the U.S. (18%); Middle East and North Africa (14%); and the Commonwealth of Independent States (4%).

In the first nine months of 2024 the pipes segment reported revenues of $578 million and EBITDA of $139 million.

Railway wheels

The division manufactures more than 250 types of wheel and axles that it sells to a variety of customers, namely in Europe (62% of sales volumes in the first nine months of 2024); Ukraine (16%); and other countries (21%).

In the first nine months of 2024, the railway wheels business reported revenues of $193 million and EBITDA of $56 million.

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March

28, 2018

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Ukraine 'SD/SD' FC Ratings And 'CCC+/C' Local Currency Ratings Affirmed; Outlook Stable; New Eurobonds Rated 'CCC+', Sept. 13, 2024
- Negative Rating Actions Taken On Three Ukraine-Exposed Mining And Metals Producers, March 3, 2022

Ratings List

New Rating;

	To	From
Interpipe Holdings PLC		
Issuer Credit Rating	CCC/Negative/--	NR/--/--