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Fitch Downgrades Interpipe to 'CCC-'

Fitch Ratings - London - 25 Apr 2022: Fitch Ratings has downgraded Interpipe Holdings Plc's (Interpipe) Long-Term Issuer Default Rating (IDR) and senior unsecured rating to 'CCC-' from 'CCC'. The Recovery Rating is 'RR4'.

The downgrades reflect the circumstance that most of Interpipe's operations are suspended and the group only generates very limited cash flow from monetising working capital. As long as transport channels in the Ukraine remain severely constrained, the group relies on its existing cash position and incremental proceeds from the sale of inventories to fund the preservation of assets and operations.

As per Fitch's assessment the group has sufficient liquidity to cover fixed costs for more than six months. The next coupon payment on Eurobonds is due on 13 May 2022. The longer the Russia-Ukraine war continues, the more likely it will be that the management could need to consider prioritising maintenance and wages over debt service.

Key Rating Drivers

Limited Operations: Interpipe suspended all operations at the start of the Russia-Ukraine war in order to allow employees to stay or relocate to safer areas and regions, and to minimise the risk of destruction of assets and equipment. The decision was also due to the closure of international seaports and severe constraints on procurement and exports through rail and truck networks.

The company re-opened some production facilities in the beginning of April with the aim of processing semi-finished pipes, railway wheels and wheelsets into finished products for international distribution. Key production facilities remain undamaged.

Focus on Preserving Liquidity: Interpipe is selling its remaining inventories from its warehouse in Houston (no interruptions have taken place) and dispatching trucks and train shipments from Ukrainian operations when possible (having restarted in mid-March). Incremental liquidity will allow the business to preserve its assets and pay wages with the aim of resuming full production once military actions abate and logistics channels re-open. The longer the conflict continues, the more likely it is that the management could need to consider prioritising maintenance and wages over debt service.

Integrated Business Profile: Interpipe is a leading manufacturer of seamless steel pipes and railway wheels, with integration into scrap collection and billet production. Compared to many steel peers, Interpipe is relatively smaller, but has a higher share of value-added products. Historically the business has had high exposure to the global oil and gas industry and to CIS end-markets, the importance of the latter has been declining since 2019 due to embargo on pipes in 2019 and on wheels in 2021 from

Russia. With all production facilities located in the Ukraine, a return to normal operations will require access to international shipping routes and railway networks.

Derivation Summary

Interpipe's Ukrainian peers include Ferrexpo plc (B-/RWN), Metinvest B.V. (CCC), and MHP SE (C).

Ferrexpo is a pellet producer that continues to operate its mines and ship product to European markets through barges and rail. The company continues to generate operating cash flow and has no outstanding debt.

Metinvest is a steel producer with some operations in the US and Europe, operating its Ukrainian assets at historically low capacity utilisation. Steel plants in Mariupol have been damaged by intense fighting. Nonetheless, the company's diverse asset base throughout Ukraine and internationally allows it to generate some operating cash flow. The group is funded beyond 2022, aided by few near-term maturities and its existing cash position.

Interpipe's assets are more concentrated than those of Metinvest and more constrained by procurement and export logistics. Its operations are currently limited to processing semi-finished products. The company has no near-term maturities and is funded for more than six months (as per Fitch's assessment).

MHP is the largest poultry producer in the Ukraine, and has experienced severe operational disruption due to the war. The company announced that it would exercise a grace period and it failed to make a coupon payment on 19 March 2022.

Key Assumptions

- Monetisation of working capital worth mid-double-digit millions in US dollars
- Ongoing maintenance of assets, and payments of fixed wages and coupon

RECOVERY ANALYSIS ASSUMPTIONS

The recovery analysis assumes that Interpipe would be considered a going concern (GC) in bankruptcy and that it would be reorganised rather than liquidated.

Interpipe's GC EBITDA of USD75 million is below a mid-cycle estimate of USD170 million-180 million and reflects war-related disruption to exports and local operations, assuming that procurement and export routes will gradually re-open as the conflict recedes or moves to other parts of the country. A lot of Ukraine's transport infrastructure has been damaged so we don't expect Interpipe's earnings capacity to quickly rebound even once production resumes.

We use an enterprise value/EBITDA multiple of 3.0x to calculate a post-reorganisation valuation. The multiple was reduced from the previous assessment of 4x, reflecting the concentrated nature of key manufacturing assets in a territory with military conflict.

Taking into account our Country-Specific Treatment of Recovery Ratings Rating Criteria and after a deduction of 10% for administrative claims, our waterfall analysis generated a waterfall-generated recovery computation (WGRC) in the 'RR4' band, indicating a 'CCC-' instrument rating for the company's senior unsecured notes. The WGRC output percentage on current metrics and assumptions is 50%.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- De-escalation of the war in Ukraine, facilitating the re-opening of logistics routes and reducing operating risks

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Default of some kind appearing probable or near default
- Key production assets being materially damaged by war.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

When Russia's war in Ukraine began in February, Interpipe had readily available cash of around USD100 million, in line with Fitch's previous forecast assumptions. The business is looking to monetise its existing working capital. It has sufficient funding to pay for fixed costs, including maintenance and care and a limited scope of production and wages, for more than six months. There are no meaningful debt maturities in 2022, but ongoing six-monthly coupons on the USD300 million of outstanding bonds amount to USD12.56 million, with the next due on 13 May 2022.

Issuer Profile

Interpipe is a Ukrainian producer in niche and consolidated segments such as steel pipes and wheels.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY		PRIOR
Interpipe Holdings Plc	LT IDR	CCC-	Downgrade		CCC
• senior unsecured	LT	CCC-	Downgrade	RR4	CCC

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Corporate Rating Criteria \(pub.15 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.05 Jan 2021\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub.15 Oct 2021\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

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