Fitch Upgrades Interpipe to 'B-'; Outlook Stable

18 Jun 2012 5:30 AM (EDT)

Fitch Ratings-London-18 June 2012: Fitch Ratings has upgraded Ukrainian-based Interpipe Limited's (Interpipe) Long-term Issuer Default Rating (IDR) to 'B-'. The company has been removed from Restricted Default (RD). Fitch has also assigned a 'B-' senior secured rating to the company's 2017 Eurobonds (RR4). The existing senior unsecured rating of 'C' has been withdrawn. The Outlook on the Long-term IDR is Stable.

The rating actions follow the conclusion of restructuring talks with bank debt and bondholders, which started following the company's payment default in December 2009. Fitch assesses Interpipe as having a viable business profile including a competitive cost profile and good market positions in its key segments of seamless pipes and railway wheels. The wheels business is a consolidated market which has traditionally offered higher profit margins, although price competition is rising.

The company will soon commission its new 1.3 million tonne Electric Arc Furnace (EAF). This will resolve the company's key historical operational weakness, namely its lack of internal self-sufficiency in steel billets. Once the EAF is in full production in 2013, Interpipe will be internally self-sufficient in billets but will still continue to externally purchase around 200,000 tonnes of hot rolled coil for welded steel pipe production.

The restructuring agreements provide for an extension and re-tranching of bank debt. The USD200m Eurobonds have also been extended to August 2017; post the final maturity of bank debt. All bank debt and bondholders benefit from a general security package including guarantees/sureties from key operating/trading subsidiaries, pledges of PPE (Niko Tube, Nizhnedneprovskiy Tube Rolling Plant), pledges of inventory, and assignment of off-take contracts. Key operating subsidiaries, Novomoskovskiy Pipe Plant and Dnepro Vtormet do not provide a pledge of PPE which is reserved for lenders under the USD100m working capital facility. Lenders under the SACE facility benefit from various first-ranking pledges including over the equipment and shares of Steel One (owner of the EAF) and assignment of scrap supply contract. EAF noteholders have a second-ranking pledge, whilst other bank debt and bondholders benefit from a third-ranking pledge.

Lenders and bondholders share a comprehensive covenant package including leverage, debt service cover and balance sheet restrictions. Available liquidity consists of on-balance sheet cash (USD123m as at 31 March 2012), plus the working capital facility.
Mandatory debt repayments total USD70m in 2012, USD206m in 2013, and then ratchet up to USD307m in 2014. Under Fitch's base rating case the repayments due in 2012-13 appear manageable, but have limited allowance for operational underperformance. The increased payments in 2014 represent a higher hurdle, albeit the company's reduced overall debt burden may allowance a refinancing prior to this date.

Fitch expects Interpipe to record mid single digit revenue growth in both 2012 and 2013. EBITDAR for 2012 is expected to be in the range of USD320m-USD340m, rising to around USD390m in 2013. Fitch expects the company to be marginally free cash positive in 2012 (post capex), increasing to around USD150m in 2013.

Contact:

Primary Analyst
Peter Archbold
Senior Director
+44 20 3530 1172
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Dmitri Kazakov
Analyst
+7 495 956 7075

Committee Chairperson
Frederic Gits
Managing Director
+33 144 299 184

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Rating Methodology', dated 12 August 2011 are available on www.fitchratings.com

Applicable Criteria and Related Research:
Corporate Rating Methodology