Fitch Downgrades Interpipe to 'B-'; Ratings Placed on RWN

Fitch Ratings-London/Moscow-19 December 2008: Fitch Ratings has today downgraded Ukraine-based pipes and railway wheels producer Interpipe Limited's (Interpipe) Long-term Issuer Default Rating (IDR) to 'B-'(B minus) from 'B' and downgraded Interpipe's senior unsecured rating to 'B-'(B minus)/'RR4' from 'B'/'RR4'. The Negative Outlook on the Long-Term IDR has been removed and both ratings are placed on Rating Watch Negative (RWN). Fitch has also placed Interpipe's Short-term IDR of 'B' on RWN.

Interpipe announced on December 11 2008 that Millen Financial Limited, a company owned by Interpipe's ultimate shareholders, had offered to purchase USD200m 8.875% bonds, due 2010, from Interpipe bondholders at between 47% and 55% of par value. Interpipe simultaneously announced that it was seeking to amend covenants contained in the USD200m bond documentation, including an amendment of the Gross Debt/EBITDA ratio to 4.5x from 3.5x, and to include a USD344m Export Credit Agency finance facility within the definition of Permitted Indebtedness. The finance facility is for the completion of the construction of an electric arc furnace.

The rating downgrades reflect Fitch's view that Interpipe's request to amend the covenants and expand the list of Permitted Indebtedness signals ongoing and increased negative pressure on the issuer's credit profile. Factors contributing to this view include the ongoing uncertainty affecting the metal and mining industry, due to the global economic recession, an associated sharp downturn in steel prices and a decline in demand for the company's core products, pipes and wheels. Based on a downside scenario, whereby market conditions remain weak throughout FY2009 and production volumes decline by 20%-35% year-on-year, Fitch estimates that Interpipe's FY2009 EBITDAR could potentially fall to around USD230-275m. This could result in its leverage ratio (Gross Debt/EBITDA) exceeding 3.5x at FY2009, which is Interpipe's existing bond covenant.

At 18 December 2008, Interpipe had total debt of USD970m from which USD465m was secured by the Company's assets. The recovery rating applied to Interpipe's senior unsecured notes of 'RR4 takes into account the split between secured and unsecured debt and indicates Fitch's expectation of more than 30% recovery of the unsecured debt in the event of default.

Fitch expects to resolve the RWN following the outcome of the tender offer for Interpipe's bonds and also once the agency has gained comfort that the issuer will be able to pass quarterly testing of all covenants in 2009. Conversely, a failure to amend the covenants and increased negative pressure on Interpipe's credit profile, as a result of a sharper-than-expected deterioration in market conditions, could place additional negative pressure on the company's ratings.

Fitch does not view the tender offer for the bonds as a distressed debt exchange, based on the agency's "Distressed Debt Exchange Criteria", as the agency believes there is no possibility of bankruptcy or insolvency in the near term if the tender offer does not take place. The recent covenant testing, based on Q2 2008 financial reporting, indicated a Net Debt/EBITDAR ratio of 1.86x. Fitch estimates a FY2008 Gross Debt/EBITDAR of 2.5-2.7x which is below the bonds covenants of 3.5x.

The company's gearing increased from Net Debt to EBITDA of 0.2x as of FY07 to 1.86x in Q3 FY08 due to both a strategic capital expenditure programme to construct an electric arc furnace and demands on working capital due to business expansion.

Fitch downgraded Interpipe’s Long-term IDR to ‘B’ from ‘B+’ on 27 November 2008 while also downgrading the company’s senior unsecured rating to ‘B’/‘RR4’ from ‘B+’/‘RR4’. The agency maintained a Negative Outlook on the Long-term IDR and affirmed Interpipe’s Short-term IDR at ‘B’ on the same date. The late November downgrade was caused by Interpipe’s exposure to the global economic recession which could result in a future significant deterioration of Interpipe’s operating and financial results.

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