India Infrastructure Trust

January 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	6,452.00	Provisional CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rating in the absence of the pending steps/documents	No rating can be assigned

Rationale and key rating drivers

The rating assigned to the proposed non-convertible debentures (NCDs) of India Infrastructure Trust (IIT) principally factors in the presence of a long-term pipeline usage agreement (PUA) for specified capacity of the pipeline between Reliance Industries Limited (RIL; rated 'CARE AAA; Stable/ CARE A1+') and Pipeline Infrastructure Limited (PIL; rated 'CARE AAA; Stable') for 20 years. This arrangement imparts strong cashflow visibility to PIL and insulates from revenue volatility either because of lower gas volume or tariff variation. IIT holds the entire stake in the special purpose vehicle (SPV), PIL, which is operating the sole pipeline in India's natural gas grid starting from Kakinada, Andhra Pradesh, on the east coast, to Bharuch, Gujarat, on the west coast. The total length of PIL's pipeline is at 1,480 km, with a capacity of 85 million metric standard cubic metre per day (MMSCMD).

The rating is underpinned by the strategic location of PIL in terms of gas transportation being the sole pipeline connecting the gas-producing Krishna Godavari-Dhirubhai 6 (KG-D6) basin on the Eastern coast to the industrial belts on the Western coast of India, which includes entities such as RIL (rated 'CARE AAA; Stable/CARE A1+'), city gas distribution (CGD) network operators, state public sector enterprises (PSEs) such as Gujarat State Petronet Limited (GSPL) and other industries operating in the gas segment or consuming natural gas. The pipeline operated by PIL also serves as a connecting link for the KG-D6 basin with the pan-India gas networks operated by other pipeline operators such as Gas Authority of India Limited (GAIL) and Indian Oil Corporation Limited (IOCL), among others. The rating also derives strength from the gas transportation agreements (GTAs) signed between PIL and reputed clientele across different user industries, exhibiting healthy collecting cycles. The rating also takes cognisance of the waterfall mechanism, ensuring ringfencing of the cashflows at both levels, SPVs and IIT.

The above rating strengths are partially offset by refinancing risk for the proposed NCDs, wherein the NCDs are proposed in multiple series of varying maturities ranging from three to five years with bullet repayment. While IIT proposes to refinance the NCDs at the time of maturity, it exposes the trust to refinancing risk. However, the residual tenure of the PUA with RIL provides financial flexibility to the trust, mitigating the risk to an extent. As articulated to CARE Ratings Limited (CARE Ratings) by the trust's investment manager, Brookfield India Infrastructure Manager Private Limited (BIIMPL), it is understood that the initiation towards refinancing will commence at least six months prior to the scheduled redemption date.

The absence of a debt service reserve account (DSRA) is also a credit deterrent. However, the payment structure in the PUA necessitates a 90-day gap between the payment from RIL and the coupon payment date, thereby mitigating any timing mismatches to that extent. Being an infrastructure asset, PIL is exposed to moderate operations and maintenance (O&M) risk. However, the O&M contract for the asset stipulates a funding arrangement for excess O&M costs by RIL, which mitigates the O&M risk to an extent.

The above rating is provisional and will be confirmed once the trust has submitted all the below-mentioned documents and completed the below-mentioned steps to the satisfaction of CARE Ratings:

a. Execution of the escrow agreement.
b. Execution of the debenture trustee deed.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors

- Significant delay in receipt of quarterly contracted capacity payments (CCPs) from RIL.
- Moderation in the financial risk profile of RIL.
- Material deviation from the contracted terms impacting the coverage indicators.
- External debt exceeding ₹7,000 crore for the existing asset except for debt raised towards incremental asset acquisition.

Analytical approach: Consolidated

CARE Ratings has consolidated the financial and operational profiles of PIL with IIT as PIL is 100% held by IIT and will remain a subsidiary of IIT during the tenor of the facilities. CARE Ratings has also taken into consideration the strong operational linkages with RIL based on the PUA between PIL and RIL.

Outlook: Stable

The outlook for the rating of IIT is expected to be stable, backed by assured cashflow visibility due to the presence of the PUA between PIL and RIL. The refinancing risks are also mitigated to an extent based on the financial flexibility rendered by the presence of a residual tenor of at least 10 years in the PUA for refinancing for each series.

Detailed description of the key rating drivers

Key strengths

Strategic location of PIL asset in terms of gas transportation

PIL, with a length of 1,480 km, is the sole pipeline connecting the East coast of India to the West coast. The erstwhile promoter of PIL, East West Pipeline Limited (EWPL), had designed, constructed, and commissioned the pipeline after the discovery of natural gas reserves in the KG-D6 gas block in the Krishna Godavari (KG) basin. The pipeline is also critical for transporting gas from the KG-D6 basin to customers and ensures the availability of natural gas to markets along Eastern and Western India and to consumers along the route. PIL has connectivity with pipelines of other operators such as GAIL and GSPL, which also provides delivery of gas to other parts of India. Being the only major pipeline at source, PIL holds significant importance for companies sourcing gas at the KG-D6 basin.

PUA with RIL assuring steady cashflows and GTAs with a reputed client base

PIL and RIL have signed a PUA, enabling RIL to reserve transportation, storage, or other capacities in the pipeline, for a period of 20 years starting from April 01, 2019. As per the PUA, during the contract tenure, RIL has agreed to pay CCPs determined for four blocks of five years each, towards the annual contracted capacity. The obligation of RIL to pay the CCP is adjusted according to payments made for actual capacities contracted by RIL or third-party customers pursuant to the GTAs. RIL ensures the payments of the regardless of whether they utilise the natural gas capacity of the pipeline. CCPs have been formulated in coherence with the operational expenditure (opex) and debt servicing requirements of PIL.

In addition to the PUA, PIL has signed a GTA with a reputed client base spread across different user industries. PIL transports gas mainly from the KG-D6 basin to these clients pan-India. Delivery at places where PIL does not have its own network is aided by connectivity with other major pipelines of India's natural gas grid. in FY23, PIL had GTAs with more than 30 companies operating in the fertiliser, metals and mining, power, CGD, petrochemicals, and refining industries. The contract tenure of the GTA with these companies are short term and are renewed periodically.

With investments of RIL and British Petroleum (BP) in the KG-D6 basin, gas production at source has reported a strong increase, which is expected to rise further in the near term. Resultantly, the volume transported for FY23 and H1FY24 has also enhanced. However, as on March 31, 2023, the overall capacity utilisation of PIL's gas transportation network is still low, thereby leaving a significant headroom for scaling up operations. CARE Ratings expects developments at gas fields in the KG-D6 basin, leading to higher volumes of gas produced, to further boost the operational efficiency of PIL.

Cashflow assurance amid regulatory nature of business

The transportation of gas through the pipeline is regulated by the Petroleum and Natural Gas Regulatory Board (PNGRB), which has established rules determining the tariffs for the transportation of natural gas. PNGRB reviews the tariffs at five-year intervals and the revised tariff is applied prospectively.

PNGRB has notified the Unified Tariff Structure vide notification PNGRB/com/10-NGPL Tariff (11)/2022 (P-4142) on March 27, 2023, effective from April 01, 2023, which requires PIL to raise gas transportation invoices at the Unified Tariff Rate as compared to the erstwhile Tariff Order issued by PNGRB for PIL. Hence, all entities forming part of the natural gas pipeline grid are required to submit to the settlement commission on a fortnightly basis, the revenue entitlement as per the PNGRB order, as compared to the invoicing done at the Unified Tariff Rate. The differential is settled as deficit or surplus.

CARE Ratings observes that the revenues generated from the pipeline may be impacted due to a significant change in the government policy and the tariff. However, the steady cashflows on the back of the PUA with RIL ensures the availability of funds for debt servicing.

Support from RIL towards funding excess O&M costs

The O&M are managed by ECI India Managers Private Limited (EIML), an appointed project manager. EIML is responsible for the O&M of the pipeline. Furthermore, EIML has sub-contracted the O&M to Pipeline Management Services Private Limited (PMSPL), a 50:50 joint venture (JV) between RIL and EMIL. Thus, PIL and EIML have entered into an O&M agreement with PMSPL. Per the O&M agreement, if in any year, the actual O&M costs and system used gas (SUG) incurred are more than that determined in the initial annual operating plan and budget, then the excess O&M costs will be funded by RIL through optionally fully convertible debentures carrying an interest of 0.001% per annum subscribed by the O&M sub-contractor, PMSPL, issued by PIL, and converted into equity shares of PIL at the option of PIL; SUG overrun will be met from revenue.

Comfortable financial risk profile and proposed waterfall arrangement

Per the proposed terms of the NCD issuance, the indebtedness (consolidated net debt-to-value of assets) for the IIT will be restricted to 65%, thereby restricting the leverage. The terms also outline a well-defined waterfall mechanism to be followed by the trust and retention account (TRA) of both, the SPV and IIT, wherein payments to external NCD holders are given priority over other distribution or surplus payouts.

Per the PUA, net CCP payments are received in the first week of any quarter while the coupon payment on the NCDs will be towards the end of the quarter, thereby providing ample time buffer between cashflow realisation and debt repayment. This lends additional support to the financial risk profile.

The PUA also has provisions to address any payment delays from RIL. In a scenario where the payment delays extend up to 30 days from the beginning of the quarter, IIT may exercise an enforcement option, which will require RIL to either purchase NCDs of PIL (including the proposed NCD issuance as well, given the ongoing transaction for refinancing of external NCDs of PIL) for the enforcement amount or invest the amount into PIL. Such proceeds will be utilised to redeem external NCDs. The enforcement amount will be required to be paid by the 158th day from the beginning of the quarter where the delays were observed.

Key weakness

Refinancing risk and absence of DSRA

The NCDs proposed by the trust have a tenure ranging from three to five years with a bullet repayment at the end of the tenure of each series. IIT proposes to refinance the NCDs at the time of its redemption, which exposes it to refinancing risk. However, by having a residual PUA tenor of at least 10 years at the refinancing for each series and having a strong and established sponsor, the Brookfield group, the trust has financial flexibility, mitigating the refinancing risk to an extent. IIT's investment manager has also articulated that the initiation of the refinancing of NCDs will be made at least six months before its maturity.

The draft terms of the issuance do not propose maintenance of a DSRA. However, CARE Ratings notes that the CCPs and coupon payment date have a three-month cushion and the CCPs have an established track record of about five years, mitigating the inordinate cashflow delay risk to an extent.

Liquidity: Strong

IIT has a strong liquidity position, backed by credit quality of the assured cashflows governed by the PUA with RIL, which will ensure the timely servicing of debt obligations. On a consolidated level, IIT generally maintains a liquid balance of about ₹500 crore on the closing of any given quarter, which renders liquidity support. The payments under GTAs are also realised within four days of billing, which is processed fortnightly, thereby underpinning the robust liquidity position of the trust.

Assumptions/Covenants

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Indebtedness	Consolidated net debt-to-value of assets not exceeding 65%
II. DSCR as per term sheet	Minimum of 1.10x
B. Non-financial covenants	
I. Shareholding	PIL will remain a subsidiary of IIT during the tenor of the facilities
II. Affirmative covenant of minimum repayment	The issuer will repay at least ₹3,200,000,000 (Indian rupees three hundred and twenty crore only) for any one of the series of debt securities no later than by December 31, 2028, through proceeds arising from internal accruals or by infusion of capital from external sources.

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

Policy on default recognition
Assignment of Provisional Rating
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Investment Trusts (InvITs)
Infrastructure Sector Ratings

Validity of the provisional rating

The provisional rating will be converted into a final rating after receipt of the above-mentioned transaction documents duly executed or completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In absence of the receipt of documents or completion of steps or where such documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport services	Transport-related services

IIT was set up by Rapid Holdings 2 Pte Ltd (sponsor) on November 22, 2018, as a contributory irrevocable trust under the provisions of the Indian Trusts Act, 1882. The trust was registered as an infrastructure investment trust under the Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014 (SEBI InvIT Regulations) on January 23, 2019. Rapid Holdings 2 Pte Ltd is a step-down holding of Brookfield Asset Management. IIT holds 100% stake in PIL.

Brief Financials (Consol., ₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	2,592	2,744	1,655
PBILDT	1,964	2,033	1,244
PAT	549	546	515
Overall gearing (times)	1.20	1.30	NA
Interest coverage (times)	3.33	3.44	4.22

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	NA	NA	-	up to 5 years from issue date.	6452.00	Provisional CARE AAA; Stable

NA: Not applicable because the issuance is a proposed issuance.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non-convertible debentures	LT*	6452.00	Provisional CARE AAA; Stable				

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Lender details

Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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