India Infrastructure Trust

May 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating - Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has withdrawn rating assigned to the proposed non-convertible debenture (NCD) instrument of India Infrastructure Trust (IIT). The rating action is based on the trust's confirmation that it has not utilised the assigned ratings to raise funds. Consequently, there is no outstanding amount against the rated NCD instrument.

The issuer rating assigned to IIT continues to factor in a long-term pipeline usage agreement (PUA) for the 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 offers strong cashflow visibility to PIL and insulates it from revenue volatility either from lower gas volume or tariff variation. IIT holds the entire stake in the special purpose vehicle (SPV), PIL, which is operating the sole pipeline starting from Kakinada, Andhra Pradesh on the east coast to Bharuch, Gujarat on the west in India's natural gas grid. 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 PIL's strategic location 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 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 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 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 cashflows at SPVs and IIT levels.

Rating strengths are partially offset by refinancing risk for the NCDs on a consolidated level which have been raised in multiple series of varying maturities ranging from three to five years with bullet repayment. IIT proposes to pay about 5% of the total NCDs by December 2028 while refinancing the remaining 95% at the time of their redemption, which exposes the trust to refinancing risk. However, residual tenure of the PUA with RIL provides financial flexibility to the trust, mitigating risk to an extent. As articulated to CARE Ratings by the trust's investment manager, Brookfield India Infrastructure Manager Private Limited (BIIMPL), refinancing will be initiated 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 PUA's payment structure necessitates a 90-day gap between payment from RIL and coupon payment date, mitigating timing mismatches to an extent. Being an infrastructure asset, PIL is exposed to moderate operations and maintenance (O&M) risk. However, the O&M contract for asset stipulates a funding arrangement for excess O&M costs by RIL, which mitigates O&M risk to an extent.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Significantly delaying quarterly contracted capacity payment (CCPs) receipt from RIL.
- Moderating financial risk profile of RIL.

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

- Materially deviating from contracted terms, impacting coverage indicators.
- External debt exceeding ₹7,152 crore for existing asset except for debt raised towards incremental asset acquisition.

Analytical approach: Consolidated

CARE Ratings has consolidated financial and operational profiles of PIL with IIT, as PIL is 100% held by IIT and will remain a subsidiary in the tenor of the facilities. CARE Ratings has considered strong operational linkages with RIL based on the PUA between PIL and RIL. Entities considered for consolidating financials are provided in Annexure-6.

Outlook: Stable

The outlook for IIT's rating is expected to be stable, backed by assured cashflow visibility under the PUA between PIL and RIL. Refinancing risks are also mitigated to an extent based on financial flexibility rendered by 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 gas transportation

PIL, with a length of 1,480 km, is the sole pipeline connecting the east coast of India to the west. The erstwhile promoter of PIL, East West Pipeline Limited (EWPL), had designed, constructed, and commissioned the pipeline after discovering 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 natural gas availability 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 20 years starting from April 01, 2019. Under the PUA, in the contract tenure, RIL has agreed to pay CCPs determined for four blocks of five years each, towards the annual contracted capacity. RIL's obligation to pay the CCP is adjusted according to payments made for actual capacities contracted by RIL or third-party customers pursuant to GTAs. RIL ensures payments regardless utilising the natural gas capacity of the pipeline. CCPs have been formulated in coherence with PIL's operational expenditure (opex) and debt servicing requirements.

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 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 GTA contract tenure 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. 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, leaving 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 PIL's operational efficiency.

Cashflow assurance amid regulatory business

Gas transportation through the pipeline is regulated by the Petroleum and Natural Gas Regulatory Board (PNGRB), which has established rules determining tariffs for transporting natural gas. PNGRB reviews tariffs at five-year intervals and 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 April 01, 2023, which requires PIL to raise gas transportation invoices at the Unified Tariff Rate as against the erstwhile Tariff Order issued by PNGRB for PIL. Hence, entities forming part of the natural gas pipeline grid are required to submit to settlement commission fortnightly, the revenue entitlement under the PNGRB order, as against invoicing done at the Unified Tariff Rate. The differential is settled as deficit or surplus.

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

Support from RIL towards funding excess O&M costs

O&M are managed by ECI India Managers Private Limited (EIML), an appointed project manager. 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 an O&M agreement with PMSPL. Under the O&M agreement, if the actual O&M costs and system used gas (SUG) incurred are more than that determined in the initial annual operating plan and budget in any year, then 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 waterfall arrangement

IIT has a debt of ₹6,452 crore on a consolidated level. The terms of the debt also outline a well-defined waterfall mechanism to be followed, where payments to external NCD holders are given priority over other distribution or surplus payouts.

Under 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, providing ample time buffer between cashflow realisation and debt repayment. This lends additional support to financial risk profile.

The PUA also has provisions to address payment delays from RIL. If payment delays extend up to 30 days from the beginning of the quarter, IIT may exercise an enforcement option, requiring RIL to either purchase NCDs of PIL for 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 beginning of the quarter where delays were observed.

Key weaknesses

Refinancing risk and absence of DSRA

NCDs raised by PIL are having a tenure ranging three to five years with a bullet repayment at end of the tenure of each series. IIT proposes to pay about 5% of the total NCDs by December 2028 while refinancing the remaining 95% at the time of their redemption, which exposes the trust to refinancing risk. However, by having residual PUA tenor of at least 10 years at refinancing for each series and having a strong and established sponsor, the Brookfield group, the trust has financial flexibility, mitigating refinancing risk to an extent. IIT's investment manager has also articulated that initiating refinancing of NCDs will be made at least six months before its maturity.

The terms of the issuance do not propose maintaining 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 inordinate cashflow delay risk to an extent.

Liquidity: Strong

IIT has a strong liquidity position, backed by credit quality of assured cashflows governed by the PUA with RIL, which will ensure 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. GTA payments are also realised within four days of billing, which is processed fortnightly, underpinning the trust's robust liquidity position.

Assumptions/Covenants

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. DSCR per term sheet	Minimum of 1.10x
B. Non-financial covenants	Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

[Assignment of Provisional Rating]
[Consolidation]

[Definition of Default](#)
[Issuer Rating](#)
[Factoring Linkages Parent Sub JV Group](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Infrastructure Investment Trusts (InvITs)](#)
[Infrastructure Sector Ratings](#)
[Withdrawal Policy](#)

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 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: 'these are latest available financial results'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-	NA	NA	NA	NA	0.00	Withdrawn

convertible debentures						
Issuer rating-Issuer ratings		-	-	-	0.00	CARE AAA; Stable

NA: Not applicable because the issuance did not materialise and was at a proposed stage.

Annexure-2: Rating history for 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 2024-2025	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
1	Debentures-Non-convertible debentures	LT	-	-	-	1)Provisional CARE AAA; Stable (27-Feb-24) 2)Provisional CARE AAA; Stable (30-Jan-24)	-	-
2	Issuer rating-Issuer ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Feb-24)	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details: Not applicable

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Pipeline Infrastructure Limited	Full	Subsidiary; the cashflows to the InvIT depend on the cashflows generated at SPV level.

Note on complexity levels of 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.

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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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