Pipeline Infrastructure Limited

August 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	146.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	50.00	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	**196.00 (₹ One hundred ninety-six crore only)**		
Non-convertible debentures	6,452.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**6,452.00 (₹ Six thousand four hundred fifty-two crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Pipeline Infrastructure Limited (PIL) continues to derive strength from its strong and experienced promoter group having rich experience in the infrastructure segment across geographies and strategic importance of the pipeline in terms of gas transportation, being the sole pipeline connecting eastern coast to the western coast of India, for Reliance Industries Limited (RIL, rated 'CARE AAA; Stable/CARE A1+') and other industries operating on gas amidst the regulatory nature of business. The ratings continue to derive strength from pipeline usage agreement (PUA) with RIL providing steady cash flows ensuring debt servicing coupled with Gas Transportation Agreements (GTA) with reputed client base across different user industries and support from RIL towards funding of excess operations and maintenance (O&M) costs.

The above rating strengths are partially offset by the refinancing risk arising in FY24 (refers to the period April 1 to March 31), wherein the company proposes to refinance the non-convertible debentures (NCDs) at the time of its redemption. Nevertheless, the presence of a strong sponsor – the Brookfield group, provides financial flexibility to PIL. As articulated by PIL's management to CARE Ratings Limited (CARE Ratings), it is understood that the initiation towards refinancing shall commence at least six months prior to the redemption date.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the credit risk profile of RIL.
- Non-adherence of the contractual agreements moderating revenue visibility.
- Significant delay in the receipt of quarterly contracted capacity payments (CCPs) from RIL.

Detailed description of the key rating drivers

Key rating strengths

Strong and experienced promoter group having rich experience in infrastructure segment across geographies:

PIL is a special purpose vehicle (SPV) held by India Infrastructure Trust, which is an Infrastructure Investment Trust (InvIT). Rapid Holdings 2 Pte Ltd. is the sponsor of the InvIT, which is an entity forming part of the Brookfield group. The sponsor is a wholly-owned subsidiary of Rapid Holdings 1 Pte. Ltd. Rapid 1 is held 71.43% by (Brookfield Infrastructure Fund) BIF III India Holdings (Bermuda LP) and 28.57% by (Brookfield Infrastructure Partners) BIP BIF III AIV (Bermuda) LP, a Limited Partnership incorporated in Bermuda.

Brookfield is a global alternative asset manager, which has investments in long-life, high-quality assets across real estate, infrastructure, renewable power and private equity. The infrastructure-related investments by Brookfield are made through Brookfield Infrastructure Partners (BIP), L.P. BIP owns and operates infrastructure assets globally across the utilities, transport, energy, power transmission, data infrastructure and sustainable resources sectors.

India Infrastructure Trust was formed on November 22, 2018, as a contributory irrevocable trust under the provisions of the Indian Trusts Act, 1882. The Trust was registered as an InvIT under Securities and Exchange Board of India (SEBI) Infrastructure Investment Trust Regulations, 2014 on January 23, 2019. The investment objectives of the Trust are to carry on the activities of an Infrastructure Investment Trust, as permissible under the SEBI InvIT Regulations, by acquiring the Initial

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

Portfolio Asset in the first instance, and subsequently raising funds and making investments in compliance with the provisions of the SEBI InvIT Regulations.
InvIT has given undertaking to Debenture Trustee, wherein, it irrevocably and unconditionally agrees, undertakes until the expiry of a term among others, to directly hold 100% of equity shares of issuer which carry voting rights, ensure the aggregate consolidated borrowings and deferred payments of the InvIT does not exceed 49% of the total assets of the Issuer and ensure that the aggregate amount of external consolidated indebtedness of InvIT shall not exceed ₹6,452 crore.

Strategic importance in terms of gas transportation for RIL and other industries operating on gas amidst regulatory nature of business: 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 Krishna Godavari (KG)-D6 gas block, located in the KG Basin. The presence of this pipeline is also critical for the transportation of gas from RIL's KG-D6 basin to various customers. It connects gas sources in the KG Basin and the Hazira LNG Private Limited (HLPL) terminal at Hazira, Gujarat, with the existing markets in the eastern, western and northern regions of India, as well as to the consumers along the route. RIL has made a sizable investment in the KG-D6 basin, which has led to an improvement in the volumes extracted at the source. PIL being the only major pipeline at the source holds a significant importance for companies sourcing gas at the KG-D6 basin. The developments at the gas fields in the KG-D6 basin leading to higher volumes of gas produced shall aid to the operational efficiency of PIL.
Transportation of gas through pipeline is regulated by Petroleum and Natural Gas Regulatory Board (PNGRB). The PNGRB has established rules that determine the tariffs for the transportation of natural gas. PNGRB reviews the tariffs at 5-year intervals and the revised tariff is applied prospectively.

PNGRB has approved the Final Initial Unit Natural Gas Pipeline tariff for this pipeline in March 2019. Zonal tariff apportionment of the Final Initial Unit Natural Gas Pipeline Tariff was approved on June 4, 2019, and presently, the customers are being billed for transportation of gas as per the said Zonal tariff based on the Final Initial Unit Natural Gas Pipeline. The revenues generated from the pipeline might be impacted on account of a significant change in the Government policy and the tariff. Nevertheless, the steady cash flows on the back of PUA with RIL ensure availability of funds for debt servicing.

PUA with RIL assuring steady cash flows towards debt servicing combined with GTA with reputed client base across different user industries: PIL and RIL have entered into the PUA, enabling RIL to reserve transportation, storage or other capacity in the pipeline for a period of 20 years starting from April 01, 2019. As per PUA, during the contracted tenure, RIL has agreed to pay contracted capacity payments (CCPs) determined for four blocks of five years each, towards annual contracted capacity to PIL. The obligation of RIL to pay the CCP is adjusted in accordance with the payments made for actual capacity contracted by RIL or third-party customers pursuant to GTAs. RIL ensures payment of the CCPs regardless of whether it utilises the natural gas capacity of the pipeline. The CCPs have been formulated in coherence with the operational expenditure and debt servicing requirements of PIL.

In addition to PUA, PIL has entered into GTA with a reputed client base spread across different user industries. PIL transports gas mainly from KG-D6 basin to these clients PAN-India, where PIL does not have its own network. PIL through the interconnecting points of the company's pipeline and network of GAIL (India) Limited and Gujarat State Petroleum Corporation Limited (GSPC) transports gas to these customers. During the fiscal year ending on March 31, 2022, PIL had GTAs with more than 30 companies. These companies are operating in fertilizer, metals and mining, power, city gas distribution, petrochemicals and refining industry. The tenure of GTA with these companies is renewed periodically.

With the recent investments of RIL in the KG-D6 basin, gas production at source has reported a strong increase and is expected to rise further in the medium term. Resultantly, the volume transported for FY22 has also increased. However, the overall capacity utilisation of PIL's gas transportation network is still low. As per articulation from the management, with the recent discovery of new gas reserved in the KG-D6 block, it is expected that gas transportation volume shall improve going forward and the pipeline shall be able to cater to the increased gas transportation demands from its customer base.

Support from RIL towards funding of excess O&M costs: The O&M is managed by ECI India Managers Private Limited (EIML), an appointed Project Manager. EIML is responsible for O&M of the pipeline. Furthermore, EIML has sub-contracted O&M to the Pipeline Management Services Private Limited (PMSL), a 50: 50 joint venture (JV) between RIL and the Brookfield group. Thus, PIL and EIML entered into an O&M agreement with the PMSL. As per the O&M agreement, if in any year, the actual O&M costs incurred are more than that determined in the annual operating plan and budget, then the excess O&M costs will be funded by RIL subscribing to optionally fully convertible debentures carrying interest of 0.001% per annum, issued by PIL, and convertible into equity shares of PIL at the option of PIL.

Key rating weaknesses
Refinancing risk: The NCDs raised by the company have a tenure of up to five years and a bullet repayment at the end of the tenure, i.e., in March 2024. At the time of repayment, it is expected that the InvIT will raise debt at its level and infuse money in PIL for the same. In other terms, the Trust (InvIT) proposes to refinance the NCD at the time of its redemption, which exposes it to the refinancing risk. However, by virtue of having a strong and established sponsor, i.e., the Brookfield group, InvIT has financial flexibility which mitigates refinancing risk to an extent. Moreover, the InvIT shall also furnish a firm commitment letter for refinancing the outstanding amount of the NCD a month before their maturity.

Liquidity: Strong
PIL has strong liquidity position in the form of free cash and bank balances of ₹79.74 crore and mutual fund investments of ₹594.56 crore as on March 31, 2022. Furthermore, PIL receives fixed and assured cash flows as per the PUA with RIL, which will ensure timely servicing of the debt obligations. The company has furnished bank guarantee in the favour of IDBI Trusteeship Services Limited amounting ₹145.56 crore towards debt service reserve account (DSRA) equivalent to three months of debt obligations.

Analytical approach: Standalone. CARE Ratings has also taken into consideration the strong operational linkage including the PUA with RIL.

Applicable criteria
[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Infrastructure Investment Trusts (InvITs)]
[Infrastructure Sector Ratings]

About the company
Incorporated in April 2018, PIL (formerly Pipeline Infrastructure Private Limited) is an SPV, held entirely by India Infrastructure Trust. Earlier, PIL was a wholly-owned subsidiary of Reliance Industries Holding Pvt. Ltd (RIHPL), which is a holding arm of Mukesh Ambani and family, the promoters of Reliance Industries Ltd (RIL; rated 'CARE AAA; Stable/CARE A1+') in which the pipeline housed under East West Pipeline Limited (EWPL) had been transferred.
In March 2019, Canada-based Brookfield Asset Management's India Infrastructure Trust (an InvIT) has acquired RIL's EWPL, connecting the gas-producing eastern coast to the western coast of India, for around ₹13,000 crore. The InvIT holds 100% equity interest in PIL, which currently owns and operates the pipeline.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	1,791.73	2,591.99	703.71
PBILDT	921.68	1,985.12	561.61
PAT	-1,190.74	-30.53	343.10
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	0.71	1.63	1.89

A: Audited; UA: Un-audited; NM: Not Meaningful;
Note: Financials classified as per CARE Ratings' internal standards.

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	50.00	CARE AAA; Stable / CARE A1+
Non-fund-based - LT-Bank guarantee	-	-	-	-	146.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE01XX07026	April 23, 2019	8.95%	March 22, 2024	6452.00	CARE AAA; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible debentures	LT	6452.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Sep-21)	1)CARE AAA; Stable (07-Oct-20) 2)CARE AAA; Stable (05-May-20)	1)CARE AAA; Stable (16-Apr-19)
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	50.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (01-Sep-21)	1)CARE AAA; Stable / CARE A1+ (07-Oct-20) 2)CARE AAA; Stable / CARE A1+ (05-May-20)	1)CARE AAA; Stable / CARE A1+ (27-May-19)
3	Non-fund-based - LT-Bank guarantee	LT	146.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Sep-21)	1)CARE AAA; Stable (07-Oct-20) 2)CARE AAA; Stable (05-May-20)	1)CARE AAA; Stable (20-Sep-19)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Debt service reserve account (DSRA)	The company shall create and maintain DSRA equivalents to 3 months of interest obligation.
II. Interest Service Coverage Ratio (ISCR) for Listed NCDs: (Cash inflows under PUA and GTA-Opex-Other cash expenses)/(Coupon on the Listed NCD)	ISCR shall not be less than 2.
B. Non-financial covenants	**Not applicable**

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Non-fund-based - LT-Bank guarantee	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Harish Kumar Chellani
Phone: +91-22-6837 4472
E-mail: harish.chellani@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

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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