

East West Pipeline Limited (erstwhile Reliance Gas Transportation Infrastructure Ltd)

April 23, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non Convertible Debentures	3,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instruments of East West Pipeline Limited (EWPL) factors in the recent name change of the company from 'Reliance Gas Transportation and Infrastructure Ltd' to 'East West Pipeline Ltd' (EWPL) and the name change of a group company, 'Reliance Ports & Terminals Ltd' to 'Sikka Ports & Terminals Ltd'(SPTL). CARE also notes that there has been no change in the operational linkages and cash flow fungibility between EWPL, SPTL and Reliance Utilities and Power Pvt Ltd (RUPPL).

The rating continues to factor in the financial strength and resourcefulness of the promoter company - Reliance Industries Holding Pvt Ltd (RIHPL), financial flexibility arising out of cash flow fungibility between SPTL, RUPPL and EWPL; continued financial support extended by the group companies as well as the experienced management of the company. The rating also derives comfort from the importance of EWPL's East West Pipeline in the upstream operations of Reliance Industries Ltd. [for transporting natural gas from the Krishna Godavari (KG) basin to various parts of the country] and favourable demand-supply scenario. The rating also takes into account dependence of revenue primarily on quantum of gas produced from Krishna Godavari (KG) basin and tariff mechanism for gas transportation as determined by the regulator.

Continued financial support from the group as well as timely approval of the revised gas transportation tariff based on re-assessment of the pipeline's capacity and its optimal utilization are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established promoter group; regular financial support from group companies: Reliance Industries Holding Pvt. Ltd. (RIHPL) is the ultimate holding company of EWPL, which is one of the promoter group companies of RIL, holding, directly and indirectly, around 94 crore shares of RIL (rated CARE AAA; Stable/ CARE A1+). RIHPL is also the ultimate holding company of Sikka Ports and Terminals Ltd. (SPTL, rated CARE AAA; Stable) and Reliance Utilities and Power Pvt. Ltd. (RUPPL, rated CARE AAA; Stable). Common ownership of these companies (EWPL, SPTL and RUPPL) by RIHPL together with cash flow fungibility among group companies and control over RIL shares by RIHPL, which are available for meeting any shortfall in debt servicing, provides financial flexibility to RIHPL and in turn, to these companies, including EWPL. The promoters have regularly infused funds in the form of preference shares/subordinated debt in EWPL. The promoter/group companies have infused around Rs. 8,000 crore during FY17 in the form of Preference share capital. Further, RIHPL group is expected to maintain minimum consolidated liquidity of Rs.500 crore for meeting any short term liquidity requirements.

Strategic importance of the East West Gas Pipeline in the operations of RIL: East West Gas Pipeline is strategically located as it is the only pipeline that connects the Eastern coast of India to the West coast. The presence of the pipeline is also critical for transportation of gas from RIL's KG-D6 basin to various customers. The pipeline has significant operational synergies with the exploration and production (E&P) activities of RIL. Customers of RIL utilise the pipeline to transport gas evacuated from KG-D6 block.

Favorable demand-supply scenario: There is a large demand for natural gas in the West coast of India whereas significant production takes place on the East coast. Hence, the pipeline, with significant capacities is highly suited to fulfil the need for gas transportation from East to West.

Key Rating Weaknesses

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Decline in gas throughput: EWPL witnessed further drop in gas throughput during FY16 and further in FY17 following lower average daily gas production from KG-D6 block on account of unforeseen reservoir complexities and water ingress in the producing fields. The average daily gas throughput by the pipeline in FY17 declined to 20 MMSCMD from 21 MMSCMD in FY16.

Regulated by Petroleum and Natural Gas Regulatory Board (PNGRB): Transportation of gas through pipeline and the operations of the business including setting up of pipeline and determination of tariff are regulated by PNGRB. PNGRB has approved the provisional transportation tariff in year 2010. Presently, the customers are being billed for transportation of gas as per the said provisional tariff. The Company has filed application for determination of final tariff and subsequent revisions as directed by PNGRB, which are pending for consideration before them.

Analytical approach:

The rating takes into account the financial strength and resourcefulness of the promoter (RIHPL) on account of its holding RIL Shares having significant market value. Further, the rating factors in the cash flow fungibility between RUPPL, SPTL and EWPL which imparts financial flexibility to these entities

Applicable Criteria

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Incorporated in June 1999, East West Pipeline Limited (EWPL) has implemented a 1,386 kilometers long East West Gas Pipeline from Kakinada, Andhra Pradesh (AP) to Bharuch, Gujarat. The pipeline is designed to transport 85 million metric standard cubic meters per day (MMSCMD) of natural gas at designed entry point pressure of 72 barg. It connects the on-shore terminal of Krishna Godavari – D6 (KG-D6) field of Reliance Industries Limited (RIL) to Bharuch (Gujarat), with various spurs and interconnects on the way, to cater to the requirements of several customers across the breadth of the country. The pipeline traverses through the states of AP, Telangana, Karnataka, Maharashtra and Gujarat and has been operational since 2009.

EWPL is a 100% subsidiary of Reliance Utilities Pvt. Ltd. (RUPL), which in turn is a subsidiary of Sikka Ports and Terminals Ltd. Reliance Industries Holding Pvt. Ltd. (RIHPL) is the holding company of SPTL and thus, the ultimate holding company of EWPL.

The pipeline has significant operational synergies with the upstream activities of RIL. The current primary gas source for the pipeline is the gas discoveries made in the KG-D6 block.

Brief Financials as per Ind-AS (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1443.71	1088.27
PBILDT	1154.65	901.15
PAT	-1736.51	-387.59
Overall gearing (times)	NM	NM
Interest coverage (times)	0.75	0.86

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	-	2019	1000.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	-	-	2021	2500.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (11-Dec-17)	1)CARE AAA (26-Oct-16)	1)CARE AAA (25-Sep-15)
2.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (11-Dec-17)	1)CARE AAA (26-Oct-16)	1)CARE AAA (25-Sep-15)
3.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (11-Dec-17)	1)CARE AAA (26-Oct-16)	1)CARE AAA (25-Sep-15)

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