March 31, 2024

Pipeline Infrastructure Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Non fund based	400.00	[ICRA]A1+ assigned
Total	**400.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for the bank facilities of Pipeline Infrastructure Limited (PIL) derives strength from the strong business linkages between PIL and Reliance Industries Limited (RIL; rated [ICRA]AAA (Stable)/[ICRA]A1+) in the form of a 20-year pipeline usage agreement (PUA), which ensures contracted capacity payments. The PUA guarantees a specified revenue for the pipeline, ensuring a steady and assured cash flow stream for PIL. This arrangement also shields PIL from revenue fluctuations that may arise due to changes in gas volume or tariff variations. PIL owns and operates a cross-country 1,480-km pipeline extending from Kakinada (Andhra Pradesh) to Bharuch (Gujarat) and is the sole pipeline which connects the gas-producing eastern coast to the western coast of India. The rating also factors in the parentage of India Infrastructure Trust (IIT), which is an infrastructure trust promoted by Brookfield Asset Management.

The rating also takes into account PIL's gas transportation agreements (GTAs) with reputed clients across various industries. ICRA also notes that there has been a steady improvement in the volumes transported by PIL to 36.93 mmscmd in 9M FY2024 from 23.68 mmscmd in FY2023, with a potential to increase further, as the gas production ramps up in the KG basin. Further, revenues and cash flows are also supported by the pipeline being used by the other operators for parking natural gas.

While the PUA ensures contracted capacity payment from RIL in case of shortfall in volumes transported, there also exists an upside sharing mechanism after all costs, debt servicing requirements and capex commitments are covered. With the upside sharing mechanism, ICRA expects that the loan to value at the consolidated InvIT level is likely to witness steady increase from the current levels, although the same is expected to remain comfortable. ICRA also notes the refinancing risk on the external NCDs at maturity, however, the same is mitigated on account of exceptional financial flexibility that PIL enjoys. Moreover, ICRA expects the DSCR to remain comfortable and above the financial covenant in the latest NCD issuance of minimum DSCR of 1.1x.

Key rating drivers and their description

Credit strengths

Strategic location of PIL's pipeline for gas transportation - PIL, with a length of 1,480 km, is the sole pipeline connecting the eastern coast of India to the western coast. The pipeline is critical for transporting gas from the Krishna Godavari basin to customers and ensures the availability of natural gas to markets along East and West India and to consumers along the route. PIL has connectivity with pipelines of other operators such as GAIL and GSPL, which provides delivery of gas to other parts of India. Being the only major pipeline at the KG basin where a large amount of gas is produced, PIL holds significant importance for companies sourcing gas.

PUA with RIL assuring steady cash flows 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. As per the PUA, during the contract tenure, RIL has agreed to pay contracted capacity payments determined for four blocks of five years each, towards the annual contracted capacity, irrespective of RIL using that capacity of the pipeline. CCPs have been formulated taking into cognisance the operational expenses, capex and debt servicing requirements of PIL.

Cash flow 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. At present, unified tariff regime has been implemented from April 01, 2023, as per which the tariffs are divided in three categories depending on distance – 0-300 km, 300-1,200 km and more than 1,200 km. The blended tariff for PIL comes at around Rs. 80/mmbtu.

Comfortable financial risk profile - According to the PUA, net CCP payments are received in the first week of the quarter while the coupon payment on the external NCDs is due towards the end of the quarter, thereby providing ample time buffer between cash flow realisation and debt repayment. This lends additional support to the financial risk profile. Moreover, the cash flows are devised in such a way that the debt repayments can be comfortably managed with DSCR remaining above the negative covenant of 1.1 times in the latest bond issuance.

Credit challenges

Refinancing risk – PIL has recently refinanced debentures of Rs. 6,452 crore, which will be repaid with bullet payments in 3rd year (Rs. 1000 crore), 4th year (Rs. 1000 crore) and 5th year (balance amount). The interest rate on debenture is 7.96% p.a., which is lower than the earlier NCD rates of 8.9508%. There will be no DSRA requirement in the new NCD. Moreover, these NCDs are expected to be refinanced at maturity. However, by having a residual PUA tenor of at least 10 years, the refinancing risk remains for the NCDs. However, the risk gets mitigated to some extent owing to the strong and established sponsor.

Liquidity position: Strong

PIL's strong liquidity position is backed by the assured cash flows governed by the PUA with RIL, which will ensure the timely servicing of debt obligations. PIL generally maintains cash and cash equivalents of about Rs. 500 crore, which renders liquidity support.

Rating sensitivities

Positive factors – NA

Negative factors – The rating could witness a downward revision in case of any significant delay in receipt of quarterly contracted capacity payments (CCPs) from RIL. Further, weakening of the credit risk profiles of RIL or IIT can trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA factors in the parentage of IIT while assigning the rating for PIL. ICRA expects IIT to support PIL in a situation of distress
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of PIL

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 RIL, 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) acquired RIL's EWPL, connecting the gas-producing eastern coast to the western coast of India, for around Rs. 13,000 crore. The InvIT holds 100% equity interest in PIL, which currently owns and operates the pipeline.

Key financial indicators (audited)

PIL	FY2022	FY2023
Operating income	2,592.0	2,744.0
PAT	-30.5	501.0
OPBDIT/OI	76.6%	74.9%
PAT/OI	-1.2%	18.3%
Total outside liabilities/Tangible net worth (times)	-121.2	37.9
Total debt/OPBDIT (times)	6.8	6.1
Interest coverage (times)	1.6	1.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024	-	-	-
1	**Non Fund-based facilities**	Short-term	400.0	--	**[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – Non fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non fund based**	NA	NA	NA	400.00	[ICRA]A1+

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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