Energy Infrastructure Trust — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**India Infrastructure Trust operates as a critical utility asset, controlling 26% of national gas pipeline capacity with a 20-year Pipeline Usage Agreement (PUA) with RIL providing a 33 MMSCMD revenue floor.**	Positive
2	**Revenue grew 5.87% YoY to □2,744 Cr, supported by a 29% increase in trade receivables and an average daily billed volume of 23.68 MMSCMD.**	Positive
3	**Operating profit margins remain robust and stable at 75%, reflecting the high-margin nature of the infrastructure and efficient management of System Use Gas (SUG) at 1.23%.**	Positive
4	**Reported PAT of □546 Cr is significantly lower than cash generation due to high non-cash depreciation charges, which increased by □65.9 Cr following a conservative residual value reassessment.**	Neutral
5	***The Trust faces a severe liquidity crisis with a Current Ratio of 0.13, driven by a 6,446 Cr debt maturity "cliff" due in March 2024, representing 100% of outstanding NCDs.***	Negative
6	**Earnings quality is exceptional with a CFO of □1,600 Cr (2.93x PAT), ensuring that the □1,047 Cr in unitholder distributions is fully covered by operational cash flow.**	Positive
7	**Maintenance capex of □47 Cr is minimal and 34x covered by CFO, indicating a "harvest" phase where cash is primarily directed toward debt service and distributions.**	Positive
8	***Capital allocation is currently value-dilutive as the 8.00% ROCE remains below the average interest cost of approximately 9%, creating a negative spread for unitholders.***	Negative
9	**Governance is generally strong with a 9/10 rating and 0% promoter pledging, though □62.84 Cr of land assets are not yet held in the Trust's name and RPTs account for 30.6% of revenue.**	Neutral
10	***High counterparty risk exists with 62.08% of revenue concentrated in the top two customers, while long-term upside is capped by a 50 Cr terminal value call/put option with RIL.***	Negative
11	**The outlook depends on volume ramp-up in the KG Basin toward 30+ MMSCMD and the successful implementation of the Unified Tariff to maintain revenue neutrality.**	Neutral
12	**Investment View: Watch stance maintained; the primary monitorable is the successful refinancing of □6,446 Cr in debt at a coupon rate below 8.5% to ensure yield sustainability.**	Neutral

1. Business overview (In Bullet Points)

- **Asset Profile:** The Trust is a single-asset vehicle owning 100% of Pipeline Infrastructure Limited (PIL), which manages a 1,375 km cross-country natural gas pipeline (plus 105 km of spur lines) from Kakinada to Bharuch.
- **Revenue Drivers:** Revenue is almost exclusively derived from gas transportation charges regulated by the PNGRB. A "Pipeline Usage Agreement" (PUA) with Reliance Industries Limited (RIL) reserves capacity of up to 33 MMSCMD for 20 years, providing a guaranteed cash flow floor.

- **Cost Structure:** Characterized by high fixed costs (depreciation, finance costs) and low variable costs. The primary operational driver is System Use Gas (SUG), which was managed at 1.23% in FY23, outperforming the 1.25% target.
- **Industry Position:** PIL is India’s first bi-directional pipeline, representing 7% of the national network by length but 26% by design capacity (85 MMSCMD).
- **Capacity Utilization:** Currently low at 27.86% (23.68 MMSCMD billed), indicating significant operating leverage potential as volumes ramp up.
- **Expansion & Connectivity:** Completed 3 City Gas Distribution (CGD) connectivity projects in FY23 (Megha Engineering) with 2 more planned for FY24 (AGP, Bhilosa Industries) to diversify the customer base.
- **Segment Performance:** Revenue from operations grew to □2,744.02 Cr in FY23 from □2,633.76 Cr (Consol.) in FY22, driven by increased domestic production from the KG-D6 cluster.
- **Geographical Presence:** Connects major supply hubs on the East Coast (KG-D6, ONGC) to high-demand centers and LNG terminals on the West Coast (Shell Hazira).

2. Management commentary & outlook

- Management is shifting strategy from managing the captive RIL relationship to becoming a "common carrier" for a broader set of customers, including 14 CGD entities.
- Growth guidance is tied to the volume ramp-up from RIL-BP’s KG-D6 cluster and ONGC’s east coast fields, alongside incremental volumes from new "last-mile" connectivities.
- The transition to a Unified Tariff (effective April 1, 2023) is expected to be revenue-neutral but volume-supportive for long-distance pipelines like PIL.
- Management is engaged in ongoing litigation with PNGRB regarding capacity determination; while APTEL ruled in favor of PIL, the matter is now in the Supreme Court, representing a long-term tail-risk for tariff revisions.
- Operational focus remains on "sweating the asset" and maintaining high efficiency, evidenced by a negligible Unaccounted for Gas (UFG) rate of 0.003%.
- Technology upgrades, including drone surveys and Optical Gas Imaging for methane leak detection, are being integrated to ensure pipeline integrity and ESG compliance.
- The distribution strategy remains heavily weighted toward "Return of Capital" (□6.77 per unit in FY23), reflecting a liquidating yield structure typical of finite-life infrastructure assets.
- Management expresses confidence in the long-term cash flow certainty provided by the RIL contract, as reflected in the Fair Value (□102.19/unit) exceeding Book Value (□90.55/unit).
- The management exhibits "Pragmatic Optimism," remaining realistic about regulatory hurdles while focusing on incremental volume growth and zero-loss operational records (LAST bullet point).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	2,744	2,592
Sales Growth %	5.87	44.66
Expenses	697	628
Manufacturing Cost %	17	17
Employee Cost %	1	1
Other Cost %	7	6
Operating Profit	2,047	1,964
OPM %	75	76
Other Income	45	41
Exceptional items	9	20
Other income normal	36	21
Interest	591	590
Depreciation	953	864
Profit before tax	547	551
Tax %	0	0
Net Profit	546	549
Exceptional items AT	9	20
Profit excl Excep	537	530
Profit for PE	537	530
Profit for EPS	546	549
Profit Growth %	1	220
EPS (□)	8.22	8.27
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	4,708	5,158
Reserves	-2,035	-1,983
Borrowings	6,475	6,473
Long term Borrowings	7	6,446
Short term Borrowings	6,446	0
Lease Liabilities	22	27
Preference Capital	7	6
Other Borrowings	-7	-6
Other Liabilities	5,770	6,137
Non controlling int	4,045	4,045
Trade Payables	136	97
Other liability items	1,589	1,995
Total Liabilities	14,919	15,784
Fixed Assets	13,583	14,456
Land	96	96
Building	233	233
Plant Machinery	14,606	14,547
Equipments	24	19
Furniture n fittings	3	3
Vehicles	0	0
Intangible Assets	40	40
Other fixed assets	2,104	2,088
Gross Block	17,107	17,027
Accumulated Depreciation	3,524	2,571
CWIP	37	72
Investments	20	595
Other Assets	1,279	661
Inventories	237	137
Trade receivables	146	113
Receivables over 6m	15	15
Receivables under 6m	146	113
Prov for Doubtful	-15	-15
Cash Equivalents	592	35
Loans n Advances	18	14
Other asset items	286	363
Total Assets	14,919	15,784

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	1,600	1,875
Profit from operations	2,062	1,984
Receivables	-11	39
Inventory	-101	-30
Payables	-381	-91
Other WC items	0	0
Working capital changes	-493	-82
Direct taxes	31	-27
Cash from Investing Activity	416	-326
Fixed assets purchased	-47	-69
Fixed assets sold	0	0
Investments purchased	-3,780	-4,830
Investments sold	4,377	4,697
Interest received	6	10
Other investing items	-140	-134
Cash from Financing Activity	-1,628	-1,639
Proceeds from shares	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	0	0
Interest paid fin	-580	-580
Dividends paid	0	-7
Financial liabilities	-2	-2
Other financing items	-1,047	-1,051
Net Cash Flow	388	-90
Free Cash Flow	1,553	1,806
CFO/OP	77	97

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	19	16
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	19	16
Working Capital Days	-1,013	-158
ROCE %	8	8

3.2 Financial analysis summary

- **Revenue** grew by 5.87% to ₹2,744.00 Cr, primarily driven by Income from Transportation of Gas (₹2,568.91 Cr) and Parking and Lending Services (₹166.62 Cr), supported by a 29.2% increase in Trade Receivables to ₹146.00 Cr with a tight credit period of 4 business days.
- **Operating Profit** margins remained robust at 75.00%, despite a 180% spike in Electricity, Power and Fuel costs to ₹348.00 Cr, which was mitigated by the recognition of ₹586.73 Cr from Other Liabilities (Income received in advance) into Revenue.
- **Depreciation** increased by 10.32% to ₹953.00 Cr due to a reassessment of the residual value of Plant & Machinery, resulting in an additional non-cash charge of ₹65.90 Cr, which reduced Net Profit but supported a high CFO to PAT ratio of 2.93x.
- **Net Profit** remained flat at ₹546.00 Cr, impacted by a ₹13.98 Cr fair value loss on Call/Put options and high Finance Costs of ₹591.00 Cr, consistent with the Interest paid fin of ₹580.00 Cr in the Cash Flow Statement.
- A critical liquidity risk has emerged as ₹**6,445.63 Cr** of Total Debt (100% of NCDs) was reclassified to Short term Borrowings due to maturity in March 2024, causing the Current Ratio to collapse to 0.13.
- **Cash from Operating Activity** of ₹1,600.00 Cr was healthy but lower than the previous year, primarily due to a ₹493.00 Cr drain from Working capital changes, including a ₹381.00 Cr outflow in Trade Payables and a ₹101.00 Cr increase in Inventory.
- **Inventory** of Natural Gas and Fuel surged by 361% to ₹102.73 Cr, while Other Assets increased to ₹1,279.00 Cr, including ₹173.24 Cr in restricted bank deposits (DSRA) and GST balances of ₹19.63 Cr.
- **Free Cash Flow** remained strong at ₹1,553.00 Cr, as Capex was minimal at ₹47.00 Cr, indicating the Trust is in an "operation and maintenance" phase with low capital commitments of ₹22.85 Cr.
- **Cash from Financing Activity** saw an outflow of ₹1,628.00 Cr, largely driven by ₹1,047.00 Cr in Other financing items, representing distributions to the Sponsor via Return on Capital and Repayment of Unit Capital.
- **Net Worth** is pressured by accumulated Reserves of -₹2,035.00 Cr, meaning distributions are funded by CFO and "Return of Capital" rather than accounting profits, leading to a high Debt / Equity ratio of 2.42x.
- **ROCE** remained stable at 8.00%, while ROE improved to 20.43% due to high financial leverage and the fixed nature of the ₹13,583.00 Cr Fixed Assets base.
- **Other Liabilities** include ₹1,442.57 Cr of PUA-related and Capacity Payment obligations; the 46.7% drop in "Income Received in Advance" indicates the company is now "earning" cash collected in previous years, impacting future cash flow sustainability.
- **Other Expenses** saw a spike in Power and Fuel (180%) and General Expenses (₹22.49 Cr), suggesting higher pipeline throughput intensity or increased gas prices for internal consumption.
- **Fixed Assets** include ₹62.84 Cr of land still held in the name of previous owners, representing a documentation risk, while Goodwill of ₹40.40 Cr was tested for impairment using a high discount rate of 18.15%.
- The Trust maintains an **Interest Coverage** of 3.46x, but the fixed coupon of 8.9508% on NCDs will be subject to market volatility upon the mandatory refinancing required by March 2024.
- The dominant financial theme of the year is the transition from a cash-rich upfront model to an operational "earning" phase, characterized by strong utility-like cash flows being utilized for high distributions while facing a massive near-term debt refinancing cliff.

3.3 Contingent liabilities & commitments

- **Capital Commitments:** ₹22.85 Cr (Net of advances) as of March 31, 2023, primarily for maintenance and minor connectivity projects.

- **Litigation:** Ongoing dispute with PNGRB regarding capacity determination; currently in the Supreme Court. A negative ruling could adversely impact future tariff revisions.
- **Asset Title:** ₹62.84 Cr of freehold and leasehold land is still held in the name of the previous owner (RGTIL/ others).
- **Guarantees:** No major third-party guarantees disclosed; NCDs are secured by a first-ranking charge on all pipeline assets and PUA assignment.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — CFO of □1,600 Cr exceeds PAT of □546 Cr due to □953 Cr depreciation add-back.	—	High cash generation relative to PAT is typical for InvITs; depreciation is a non-cash charge.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — inventory spike of □100 Cr (361%) vs 5.8% sales growth suggests potential overstocking.	—	Inventory increase driven by Natural Gas and Fuel stock; receivables remain high quality with 4-day credit [Note 3, 5.1].
3	Revenue timing (deferred revenue)	Revenue ↑ — drawdown of □586.7 Cr from advances recognized as revenue boosts current period turnover.	—	Revenue recognized as performance obligations are met; significant reliance on historical upfront payments.
4	Revenue from related parties %	Revenue ↑↓ — high concentration risk; top two customers (including RIL) contribute 62.08% of revenue.	—	Significant counterparty risk if Pipeline Usage Agreement (PUA) terms change or contracts are not renewed.
5	Inventory vs revenue growth	Profit ↓ — inventory growth of 73% (total) far outpaces 5.8% revenue growth, increasing carrying costs.	—	Specifically, Natural Gas and Fuel stock rose 361%, suggesting higher line pack or valuation changes.
6	Inventory valuation method change	Neutral — no change in policy; line pack gas capitalized as PPE and not depreciated.	—	Standard industry practice; ensures value remains on books indefinitely unless pipeline pressure is reduced.
7	Exceptional items in operating profit	Profit ↑ — □9 Cr exceptional gain (post-tax) included in PAT, slightly inflating core earnings.	—	Non-operational gains; Profit excluding exceptional items is □537 Cr [P&L Statement].
8	Depreciation rate vs useful life policy	Profit ↓ — reassessment of residual values increased depreciation by □65.9 Cr, reducing reported PAT.	—	Change based on external technical evaluation of Plant & Machinery; reflects more conservative asset life.
9	Provision reversals boosting PAT	Neutral — no significant provision reversals; credit impaired receivables remain 100% provided for.	—	Conservative stance on impaired assets; no artificial boost to PAT from reversal of old provisions.
10	Tax rate consistency	Neutral — 0% effective tax rate consistent with InvIT structure and unabsorbed depreciation.	—	DTA recognized only to the extent of DTL, preventing inflation of the balance sheet.
11	CWIP age and stalling projects	Neutral — CWIP decreased by 48%, indicating successful capitalization of ongoing pipeline projects.	—	Low capital commitment (□22.85 Cr) suggests the Trust is in a steady-state operational phase.
12	Deferred tax asset recognition	Neutral — conservative recognition policy; DTA limited to DTL on unabsorbed depreciation.	—	Management avoids recognizing DTAs that may not be recoverable against future taxable profits.
13	RPT quantum and trend	Profit ↓ — □785 Cr distributed to Sponsor via capital repayment; □51.6 Cr paid for O&M.	—	O&M outsourced to group entity; reciprocal Call/Put options with RIL cap long-term terminal value [Note 28, 15.1].
14	Dividend paid vs FCF adequacy	Neutral — distributions of □1,047 Cr are well-covered by Free Cash Flow of □1,553 Cr.	—	NDCF is nearly double the PAT due to depreciation add-backs, typical for yield-based instruments.
15	Current Ratio / Liquidity Cliff	Neutral — Current ratio collapsed to 0.13 due to reclassification of □6,446 Cr debt to current.	—	100% of NCDs mature in March 2024; creates massive refinancing risk.
16	Asset Title Documentation	Neutral — □62.84 Cr land still in name of previous owner.	—	Documentation risk; transfer in process but not complete.

#	Check	Impact	Status	Notes detail
17	Terminal Value Cap	Neutral — Reciprocal Call/Put options with RIL capped at □50 Cr.	—	Effectively caps the long-term terminal value for unitholders.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Title Deed Documentation Risk:** Auditor noted that □62.84 Cr of freehold and leasehold land is still held in the name of the previous owner (RGTIL/others) and not the company. Management asserts legal possession and control, but the transfer process is ongoing. * **Impairment of Pipeline Assets:** Valuation of the Cash Generating Unit (CGU) relies on complex levelized tariffs and volume estimates. Management used external technical experts and concluded no impairment is necessary. * **Fair Value of Financial Options:** Valuation of Call/Put options (□82.80 Cr liability) involves significant judgment using the Black-Scholes model with a 36.4% volatility assumption. * **Audit Opinion:** Unqualified. Auditor confirmed the going concern basis is appropriate despite the current liability cliff.

B. Related Party Transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
Rapid Holdings 2 Pte. Ltd.	Sponsor	Return on Capital	447.71 Cr	High cash extraction
Rapid Holdings 2 Pte. Ltd.	Sponsor	Repayment of Unit Capital	337.36 Cr	Capital erosion
Pipeline Management Services	Group Entity	O&M Expenses	51.64 Cr	Captive outsourcing
Brookfield India Infra Manager	Manager	Investment Manager Fee	2.83 Cr	Fixed fee structure
ECI India Managers	Project Manager	Project Manager Fee	1.77 Cr	Fixed fee structure

- **RPT Risk:** RPTs as a % of Revenue stand at 30.60% (due to distributions). The Sponsor extracted □785.07 Cr in FY23. Reciprocal Call/Put options with RIL for the SPV stake are capped at □50 Cr or lower, effectively capping long-term terminal value for unitholders.

C. Shareholding * **Promoters:** 75.00% * **FIIs:** 16.02% * **DIIs:** 8.61% * **Public:** 0.37% * **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 4 (at Investment Manager level); **Independent %:** 50.00%; **Women Directors:** 1 (Ms. Swati Mandava). * **KMP Compensation:** Investment Manager (□2.83 Cr) and Project Manager (□1.77 Cr) fees remained flat YoY. Aggregate management pay is exceptionally low at 0.23% of EBITDA, indicating a fixed-fee governance structure with no family-based compensation anomalies noted.

F. Capital Allocation & Capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Distributions (Total)	1,046.91 Cr	1,058.00 Cr	65.43%	—
Capex	47.00 Cr	69.00 Cr	2.94%	—
Net Debt Change	2.00 Cr	0.00 Cr	0.13%	—
Working Capital Investment	493.00 Cr	82.00 Cr	30.81%	—
Interest Payments	580.00 Cr	580.00 Cr	36.25%	—

- **CAPEX Analytical Notes:**
  - CFO (□**1,600 Cr**) covers Capex (□47 Cr) by 34x, indicating the asset is fully self-funding.
  - The □**47 Cr capex is purely defensive**, aimed at maintenance and minor CGD connectivities.

◦ Revenue grew 5.87% while Capex fell 31.9%, suggesting high efficiency in sweating existing assets.

H. Risks * ***Refinancing Cliff:*** 100% of NCDs (□**6,452 Cr**) mature in March 2024. Impact: Potential liquidity crunch or higher interest costs upon refinancing (High Severity). * ***Customer Concentration:*** Top 2 customers account for 62.08% of revenue. Impact: Loss of one contract could hit 40%+ of topline (High Severity). * ***Terminal Value Cap:*** RIL Put/Call options at □50 Cr. Impact: Limits upside for unitholders at the end of the asset's economic life (High Severity). * ***Regulatory/Tariff:*** PNGRB Unified Tariff and capacity determination litigation. Impact: Potential reduction in revenue entitlement (Medium Severity). * ***Asset Title:*** Land parcels (□**62.84 Cr**) not in Trust's name. Impact: Legal disputes or inability to charge assets (Medium Severity).

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	26% of national capacity; PUA with RIL	Strong moat and guaranteed floor, but high customer concentration.
Financial health	2	↓	Current Ratio 0.13; D/E 2.42x	Massive near-term debt maturity cliff outweighs strong CFO.
Earnings quality	4	→	CFO (□1,600 Cr) > PAT (□546 Cr)	High cash conversion; conservative DTA and inventory policies.
Management & governance	3	→	50% Ind. Board; Title deed issues	Generally transparent but terminal value cap and land title issues persist.
Capital allocation & earnings visibility	3	→	ROCE 8% < Interest 9%; PUA floor	Yield-focused "harvest" phase with limited growth visibility.

Business positives (for this company this year) * **Strong Cash Conversion:** CFO of □**1,600 Cr** is 2.93x the reported PAT of □546 Cr, driven by high non-cash depreciation. * **Operational Efficiency:** Managed System Use Gas (SUG) at **1.23%**, outperforming the regulatory target of 1.25%. * **Revenue Protection:** The Pipeline Usage Agreement (PUA) with RIL ensures a capacity reservation of **33 MMSCMD**, providing a stable revenue floor. * **Self-Funding Capex:** Maintenance capex of □**47 Cr** is covered 34x by operating cash flows. * **Zero Pledging:** Promoter holding remains at 75% with **0% pledged**.

Business negatives / concerns (for this company this year) * **Liquidity Risk:** □**6,446 Cr** of debt (100% of NCDs) matures in March 2024, resulting in a Current Ratio of 0.13. * **Customer Concentration:** Top two customers contribute **62.08%** of total revenue, creating high counterparty risk. * **Terminal Value Cap:** Reciprocal Call/Put options with RIL for the SPV are capped at □**50 Cr**, limiting long-term upside for unitholders. * **Value Dilution:** Interest cost (approx. 9%) currently exceeds ROCE (**8.00%**), making the debt structure value-dilutive. * **Governance/Title Risk:** □**62.84 Cr** of land assets are still not held in the Trust's name.

Overall scorecard summary India Infrastructure Trust is a robust utility-like asset with exceptional cash flow generation and high operating margins (75%). However, its financial profile is currently overshadowed by a massive □6,446 Cr debt maturity "cliff" in March 2024 and a high debt-to-equity ratio. While governance is generally stable with low management fees, the terminal value cap and land title issues are notable overhangs. The business is on a stable operational trajectory but faces a critical financial refinancing test in the next 12 months.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 9/10 — Governance Rating: 4

Part c: investor verdict

Thesis: A high-yield, single-asset infrastructure play with guaranteed cash flows from RIL, currently transitioning through a major debt refinancing cycle. **Overall stance:** Watch **Rationale:** Strong operational cash flows are offset by the imminent □6,446 Cr debt maturity and the terminal value cap. **Re-evaluate when:** Successful refinancing of the □6,446 Cr NCDs is completed at a coupon rate below 8.5%. **BULL CASE:** Volume ramp-up in the KG Basin leads to utilization exceeding 40%, driving organic revenue growth beyond the PUA floor. **BEAR CASE:** Refinancing occurs at significantly higher interest rates (>10%) or PNGRB litigation results in a downward tariff revision. **Key monitorable:** Average Daily Billed Volume: 23.68 MMSCMD → Watch for 30+ MMSCMD.