

Change in Rating Symbol

September 16, 2019

Nagar Nigam Ghaziabad

Total Instruments Rated	Rs. 150.00 Cr
Long Term Rating	ACUITE Provisional AA / Stable

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 there is a revision in the rating symbol. The change to 'CE' suffix / removal of 'SO' suffix for the rated instrument(s) is not to be construed as any change in the rating or Acuité's credit opinion on the said instrument(s). The previous rating rationale is appended herewith for reference.

For the background note, please visit: [https://www.acuite.in/pdf/General%20Communication%20For%20Website%20\(1\).pdf](https://www.acuite.in/pdf/General%20Communication%20For%20Website%20(1).pdf)

Criteria for assigning ratings with 'SO' suffix: <https://www.acuite.in/view-rating-criteria-48.htm>

Criteria for assigning ratings with 'CE' suffix: <https://www.acuite.in/view-rating-criteria-49.htm>

Press Release

Nagar Nigam Ghaziabad

D-U-N-S® Number: 86-381-3167

March 20, 2019



Rating Assigned

Bond Programme*	Rs. 150.00 Cr.
Long Term Rating	ACUITE Provisional AA (SO)/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE Provisional AA (SO)**' (**read as ACUITE provisional double A (Structured Obligation)**) on the Rs. 150.00 crore proposed bond of Nagar Nigam Ghaziabad (GNN). The outlook is '**Stable**'.

Nagar Nigam Ghaziabad (GNN), founded in 1994, services an area of 210 square kilometres, inhabited by around 30 lakh people in and around 100 wards. The corporation provides key obligatory services such as roads and bridges, water supply and sanitation, drainage and sewerage, public health, solid waste management, and primary education. It also offers discretionary services such as public transportation.

The rating on the Rs. 150.00 Cr. Bonds is provisional and the final rating is subject to:

- Finalisation of term sheet
- Compliance with all the terms and conditions as per the term sheet

The provisional rating is valid for 90 days and Acuité reserves the right to alter/modify/extend/withdraw the rating any time prior to 90 days, if such an action is deemed appropriate.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GNN to arrive at the rating.

Key Rating Drivers

Strengths

• Benefits emanating from the high growth prospects of NCR region

GNN provides civic services to Ghaziabad city, a part of Uttar Pradesh. Ghaziabad is part of National Capital Region (NCR) and also the second largest industrial area in Uttar Pradesh. Ghaziabad is also a major defense centre, and the Air Force operates from Hindon Airbase. It is one of the biggest and largest air base in Asia and 8th largest in the world. The region has a well-balanced mix of industries including Chemicals, Mechanical Engineering Equipment, and Packaging Material, among others. The city has more than 14,000 small scale industries and around 150 medium and large scale industries in and around Ghaziabad. With the total investment of more than Rs.3000 crore, these industries have generated employment for more than 100,000 workers. The major industries present in and around Ghaziabad are Reliance Foods & Protiens Private Limited, Hindustan Coca-Cola Botteling North-West Private Limited, International Tobacco Company Limited and Dabur India Limited to name a few.

The cost of living in Ghaziabad is lower compared to Delhi and Gurugram. There has been an uptick in the demand for affordable housing in the city, although the owned revenue base of GNN has been moderate at Rs.101.62 crore for FY2018 (vis-à-vis other municipal corporations such as Lucknow Municipal Corporation, Indore Municipal Corporation and Bhopal Municipal Corporation). The key factor favoring GNN are the significant infrastructural projects being executed in and around Ghaziabad which is expected to provide a significant impetus to the economic activities and growth in Ghaziabad region.

Some of the key developments taking place in Ghaziabad are improving the connectivity between Delhi NCR and Ghaziabad such as widening of NH24 from Delhi to Meerut which will significantly help reduce

the traveling time and two more metro lines coming up in Ghaziabad. Under UDAAN Scheme, the Hindon Airport (currently used by Air Force) is likely to be opened for civil operation. As per the survey conducted by Ministry of Housing and Urban Development, Ghaziabad is ranked amongst the best city in Delhi NCR in Liveability Index and 46th Rank in India. Acuité believes that the significant employment opportunities generated by varied range of industries located in and around Ghaziabad and major infrastructural developments taking place in and around the city is expected to lead to higher per capita income which augurs well for GNN.

GNN's owned revenues stood at Rs.101.62 crore for FY2018 against Rs.102.12 crore for the previous year. The surplus stood at Rs.91.41 crore for FY2018 (PY: Rs.106.01 crore). Besides the owned revenues, GNN has been a recipient of continuous support from the government in the form of revenue and capital grants. The revenue grants received by GNN stood at Rs.273.86 crore for FY2018 (PY: Rs.251.09 crore). GNN's owned revenues to total revenues stood at 25.00 per cent in FY2018 as against 27.18 per cent in the previous year. GNN also has access of capital grants from State and Central Government which stood at Rs.159.95 crore as on 31 March, 2018 as against Rs.99.64 crore in the previous year. However, GNN has proposed an increase in taxes by 10 per cent which will further increase the owned revenue share of GNN.

The below average coverage ratios inhibit its ability to scale up its owned revenue over the medium term. However, the support from State and Central Government by way of Grants is expected to continue in the coming years which will be critical to maintain the pace of capital expenditure necessary to bring the coverage ratios to the benchmark levels. Acuité believes that GNN will continue to benefit significantly from developments, as regards of improving the infrastructure, in and around the city.

• Structured Payment Mechanism

The payment mechanism entails maintenance of an Escrow Account, Debt Service Reserve Account (DSRA), Debt Service Account (DSA), Interest Service Account (ISA), and Debenture Redemption Reserve (DRR):

- I. The DSRA shall be created on the day prior to pay-in date with an amount equal to four half yearly interest payments for the bond structure.
- II. The funds (Owned Revenue and Revenue Grants (free from all charges)) received in the Escrow Account will be transferred to ISA and DRR on a monthly basis as per the terms of the bond.
- III. As regards the interest payments (expected to be half yearly), the ISA will be funded on a monthly basis.
- IV. DRR, which shall be funded monthly equivalent to the amount as per the terms of bond issuances. Corporation is also expected to create an upfront DRR amount of 6 month liability in form of Fixed Deposit, one day prior to the pay in date and lien marked in favor of the Trustees,

• DSA:

All the designated funds collected in the Escrow Account will be transferred to the DSA account, to the tune of the defined monthly liability for servicing of the debt, including the monthly interest portion and the monthly portion for the DRR, on the day of fulfilling of the monthly liability. The account is meant for funding of Interest Service account (ISA) and Debenture Redemption Reserve Account (DRR).

• ISA:

An amount, as specified in the terms of bonds/loans agreements, will be transferred to ISA from DSA on monthly basis. In case of any shortfall in the amount lying in the credit of interest service account on transaction date (T)-30 days prior to debt service, the trustee shall inform GNN, and the latter shall cover the shortfall by T-15 days. If the corporation fails to cover the shortfall by T-15 days, then the trustee will instruct the bank to transfer the deficit from DSRA to ISA by T-15 days.

• DRR:

The debenture trustee shall check the balance in DRR at the end of each year; in case of any shortfall, the trustee shall inform GNN to replenish the same. Further, the trustee shall check the balance in DRR in T-30 days from the principal redemption date. In case of any shortfall, the trustee shall ask GNN to make good the shortfall in T-15 days. As per the term sheet, in case of utilisation of DSRA to fund any shortfall in ISA during the time of interest payment or any shortfall in DRR account during the time of repayment, and corporation is also expected to create an upfront DRR amount of 6 month liability in the form of Fixed Deposit, lien marked in favor of the Trustees, one day prior to the pay-in date. Acuité believes that adherence to the structured payment mechanism is central to the rating.

- **Management of Funds**

The management of funds in the various designated accounts will be overseen by the trustee. Any surplus funds available in the Escrow account, after meeting the aforesaid structured payment mechanism, can be transferred to GNN's general fund account. The amount lying in DSRA and DRR account are to be kept in the form of Fixed Deposit with any Scheduled Commercial Banks /Govt. of India dated Securities (G-Sec)/ State Development Loans (SDL), AAA/AA+ rated PSU/Bank Bonds having fixed coupon.

Weaknesses

- **Sub optimal civic service coverage parameters**

GNN's coverage ratios have remained sub optimal. The water supply connection coverage (based on land area) and sewerage coverage remained below average at 77.30% and 75.70%, respectively, in FY2017-18, against the benchmarks service levels of 100%. Acuité expects major capex taking place in next five years to meet the required service levels. The high level of committed capital expenditure will require significant resource generation either from own sources or through state government grants. In the event of slowdown in owned revenues or lower pace of flow of grants from government, GNN might have to go in for additional debt to support the high level of capex.

Acuité believes that the sub optimal level of coverage indicators will continue to impinge on its credit profile by way of significant capital expenditure commitments and commensurate requirement of funding support either by way of government grants or additional debt.

- **Significant buildup of receivables**

The debtors position as on 31 March, 2018 stood at Rs.219.29 crore as compared to Rs.200.63 crore as on 31 March, 2017 i.e. 654 days for FY2018 (PY: 601days). The key concern here is that in addition to property and water taxes receivable, the debtors mainly pertains to accumulated receivables from State Government to the tune of Rs.177.67 crore as on 31 March, 2018.

Acuité believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Liquidity Position

GNN has been generating revenue surplus over the past three years in the range of Rs.91.14 crore to Rs.149.16 crore. While the flow of grants from the government has been robust, the high buildup of receivables continues to be an area of concern. Since GNN is debt free at present, it has a reasonable financial flexibility. The cash and bank balance of GNN stood at Rs.328.88 crore as on 31 March, 2018. GNN will be maintaining four half yearly interest payment and 6 months bond liability in form of fixed deposit for servicing of the bond.

Outlook: Stable

Acuité believes that GNN will maintain a 'Stable' outlook on the back of major developments taking place in and around Ghaziabad. The outlook may be revised to 'Positive' in case there is a significant improvement in cost recovery and service coverage indicators. The outlook may be revised to 'Negative' in case of a sharp deterioration in the coverage indicators or any significant build up in debtors.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Revenue Receipts	Rs. Cr.	395.96	372.30	376.02
Surplus / Deficit	Rs. Cr.	91.41	106.01	149.16
Total Debt	Rs. Cr.	NA	NA	NA
Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest)	(%)	NA	NA	NA

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Urban Local Bodies - <https://www.acuite.in/view-rating-criteria-39.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Criteria For Rating Of Securitized Transactions - <https://www.acuite.in/view-rating-criteria-29.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bond	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE Provisional AA (SO) / Stable

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About Acuité Ratings & Research:

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