

Press Release

Nagar Nigam Ghaziabad

February 03, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 150.00 Cr.
Long Term Rating	Provisional ACUITE AA (CE)/Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of **'Provisional ACUITE AA (CE)' (read as ACUITE double A Provisional (Credit Enhancement))** on the Rs.150.00 crore proposed bond of NAGAR NIGAM GHAZIABAD (GNN). The outlook is **'Stable'**.

Acuité had reaffirmed the rating of ACUITE AA Provisional (CE) / Stable on 20 March, 2019 based on the revised term sheet received from GNN. Subsequently, GNN has revised the term sheet wherein Pandit Deen Dayal Upadhyay Nagar Vikas Yojana has been replaced with Infrastructure Development Fund (IDF). Out of the total 02% additional Stamp Duty collected on transfer records of immovable properties located under Urban Local Bodies, 0.5% is made available to the ULB's under Infrastructure Development Fund (IDF). IDF funds will be utilised for replenishment of Debt Service Reserve Account and to fund the shortfall in Debt Redemption Reserve Account as per the timeline of Structured Payment Mechanism. Further, IDF will also be utilised for creation of DSRA.

Nagar Nigam Ghaziabad (GNN), founded in 1994, services an area of 210 square kilometres, inhabited by around 31 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 Nagar Nigam Ghaziabad is divided into five administrative zones namely City Zone, Kavi Nagar Zone, Vijay Nagar Zone, Mohan Nagar Zone and Vasundhara Zone.

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

- Finalization of term sheet in name of Nagar Nigam Ghaziabad
- Compliance with all the terms and conditions as per the term sheet

The provisional rating is valid for 180 days and Acuité reserves the right to alter/modify/extend/withdraw the rating any time prior to 180 days, if such an action is deemed appropriate.

Standalone (Unsupported) Rating

ACUITE A+

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GNN to arrive at the rating while factoring in the availability of Infrastructure Development Fund for meeting the shortfall in the cash flow for meeting the debt obligations.

Key Rating Drivers

Strengths

• Benefits emanating from the high growth prospects of NCR region

GNN provides civic services to Ghaziabad city, the 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 like 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 Bottling North-West Private Limited, International Tobacco Company Limited and Dabur India Limited to name a few.

The cost of living in Ghaziabad is lower as compared to Delhi and Gurugram, there has been an uptick in the demand for affordable housing in the city. While the owned revenue base of GNN has been moderate at Rs.116.91 crore for FY2019 (vis-à-vis other municipal corporations like 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, widening of NH24 from Delhi to Meerut which will significantly help reduce the traveling time, there are two more metro lines coming up in Ghaziabad. Under UDAAN Scheme, the Hindon Airport (currently used by Air Force) is likely to open 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. Acuite believes 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.116.91 crore for FY2019 against Rs.101.62 crore for the previous year. The surplus stood at Rs.98.14 crore for FY2019 (PY: Rs.91.41 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. 288.77 crore for FY2019 (PY: Rs. 273.86 crore). GNN's owned revenues to total revenues stood at 27.83 per cent in FY2019 as against 25.00 per cent in the previous year. GNN also has access of capital grants from State and Central Government which stood at Rs. 192.48 crore as on 31 March 2019 as against Rs. 159.95 crore in the previous year. However, GNN has proposed an increase in taxes by 10% 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 Government by way of Infrastructure Development Funds (IDF).

Acuite believes that GNN will continue to benefit significantly from developments as regards of improving the infrastructure in and around the city. Since the proposed support from state government will be critical for maintaining of a stable credit profile, the credit rating of UP government will also be a key monitorable.

• **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

• **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 to 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 IPA 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 IPA during the time of interest payment or any shortfall in DRR account during the time of repayment, GNN is also expected to be eligible for revolving credit facility from GoUP under Pandit Deen Dayal Upadhyay Yojna, in terms of the undertaking provided by GoUP, for replenishment of DSRA and/or funding the shortfall in DRR.

Further the Infrastructure development funds will be made available for replenishment of DSRA to fund the shortfall in ISA and/or funding the shortfall in DRR. Acuite believes 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 is 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+/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 79.30% and 75.90%, respectively, in FY2018-19, against the benchmarks service levels of 100%. Acuite 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.

Acuite 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**

In FY2019, the Debtors position of NNG has further declined marked by debtor levels of Rs. 281.79 crores as on 31 March, 2019 as compared to Rs.219.29 crore as on 31 March, 2018 i.e. 777 days for FY2019 (previous year 654days). 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.233.07 crore as on 31 March 2019.

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

Rating Sensitivity Factor

- Higher-than-expected collections while improvement in debtor position
- Continued deterioration in the liquidity marked by elongation in debtor position coupled with deterioration in debt service coverage indicator falling below 1.5x will entail a negative biased towards the rating.

Material Covenants

None

Liquidity Position: Adequate

GNN has been generating revenue surplus over the past three years with a range of Rs.106.01 crore to Rs.98.14 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.355.89 crore as on 31 March 2019. GNN will be eligible for the funds from IDF thus giving a further liquidity for servicing of the bond.

Outlook: Stable

Acuite believes GNN will maintain a 'Stable' outlook on the back of the continued support from

government of UP on account 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 fiscal position of GNN or UP state government. Any significant slippages in UP government's fiscal parameters will inhibit its ability to support GNN in form of IDF.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Revenue Receipts	Rs. Cr.	420.12	395.96
Surplus / Deficit	Rs. Cr.	98.14	91.41
Total Debt	Rs. Cr.	NA	NA
Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest)	(%)	NA	NA

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Urban Local Bodies - <https://www.acuite.in/view-rating-criteria-57.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Criteria for Rating Based on Explicit Credit Enhancement (CE) - <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Mar-2019	Proposed Bond	Long Term	150.00	Provisional ACUITE AA (CE)/ Outlook: Stable (Assigned)

*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	Provisional ACUITE AA (CE)/ Outlook: Stable (Reaffirmed)

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About Acuité Ratings & Research:

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