



Press Release
PRA Y A G R A J N A G A R N I G A M
February 20, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	50.00	Provisional ACUITE AA Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**Provisional ACUITE AA**' (read as **Provisional ACUITE double A**) on the Rs.50.00 Crore Bond of Prayagraj Nagar Nigam(PNN). The Outlook is '**Stable**'

The rating on the Rs.50.00 Cr proposed Bond is provisional and the final rating is subject to receipt of pending documentation:

- Final NCD term sheet
- Executed agreement with debenture trustee and trust deed
- Any other document relevant to the issue

Rationale for Rating

The rating takes into consideration the consistent support from both the state and central government towards development of the city, it's stable revenue income and healthy cash surplus. Uttar Pradesh continues to solidify its position on the global tourism map, with the number of tourists visiting UP in 2022 was 31.85 crores, while in the first nine months of 2023 itself, there were over 32 crore tourists. After Varanasi, Prayag Raj attracted the highest number of tourists in Uttar Pradesh last year. The rating further factus Prayagraj's status as Judicial capital of Uttar Pradesh. Also, rating derives comfort from the structured payment mechanism including DSRA, Interest Payment Account and Sinking Fund Account. However, the rating to be constrained by the elevated level of receivables of PNN.

About the Company

Prayagraj Nagar Nigam (PNN) is the chief municipal body of Prayagraj city. Its Jurisdiction encompasses an area of approximately 365 sq. km and it has a population of about 1.2 million as per the 2011 Census. PNN is one of the largest corporations in the state of Uttar Pradesh and is covered under AMRUT Scheme* of Government of India. Prayagraj Nagar Nigam (PNN) established in 1994. The company is responsible for the civic infrastructure and administration of the city. Shri Gaurav Kumar is the Chief Development Officer, Shri Vijay Vishwas Pant is the Divisional Commissioner, Shri Navneet Singh Chahal is the District Magistrate and Shri Chandra Mohan Garg is the Commissioner of the city. The registered office of the company is in Uttar Pradesh.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Prayagraj Nagar Nigam (PNN) to arrive at the rating.

Key Rating Drivers

Strengths

Benefits from Prayagraj's status as the Judicial Capital of Uttar Pradesh

PNN is a governing civic body and provides civic services to Prayagraj city, it is responsible for the civic infrastructure and administration of the city. As of 2011, Prayagraj is the seventh most populous city in the state, thirteenth in Northern India and thirty-sixth in India, with an estimated population of 1.2 million in the city. In 2011, it was ranked the world's 40th fastest-growing city. The city, in 2016, was also ranked the third most liveable urban agglomeration in the state (after Noida and Lucknow) and sixteenth in the country. The administrative section of PMC is headed by the Municipal Commissioner under whom currently three Additional Municipal Commissioners are deputed. The political section of the PMC is constituted of an elected mayor and 100 ward members for a term of five years. The city is divided into wards according to its population, and representatives are elected from each ward. The significant employment opportunities, generated as a result of the economic activities in and around Prayagraj, has led to higher per capita income that augurs well with the cash flows Product Quantum. Besides being one of the largest city of Uttar Pradesh, Prayagraj has been identified as one of the cities under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) mission. The purpose of AMRUT is to ensure every household has access to tap water and sewerage connection, increase the amenity value of cities, and reduce pollution in the city. Acuité believes that adequate financial and non-financial support from State and Central Government will be made available to PNN for maintaining civic infrastructure at healthy levels under AMRUT mission. The operating income of PNN stood at Rs.707.69 Cr. for FY2023 against Rs.607.41 Cr. for FY2022 and Rs.478.32 Cr. in FY2021. PNN has access to revenue grants and capital Grants from State Government and Central Government. The entity's surplus stood at Rs.94.63 Cr. in FY2023 against Rs.91.08 Cr. for FY2022.

Structured Payment Mechanism

PNN has access to various income sources out of which Property tax shall be deposited every month in a separate no-lien Escrow account for debt servicing of the bonds.

The funds should be first utilized to meet the Minimum Balance in Escrow Account which entails maintenance of a Debt Service Reserve Account (DSRA), Sinking fund Account(SFA) and Interest Payment Account (IPA)

The minimum balance shall not be used for any purpose other than transfer to the DSRA, IPA and SFA.

Terms of the NCDs

- The DSRA shall be created in an any event prior to seven days with an amount equivalent to the four coupon payments (2 years' interest) need to be maintained.
- The funds (Owned Revenue) received in the Escrow Account will be transferred to IPA and SFA on a monthly basis as per the terms of the bond.
- As regards the interest payments (expected to be half yearly), the IPA will be funded on a monthly basis.
- SFA, which shall be funded monthly equivalent to the amount as per the terms of bond issuances.

IPA (Interest Payment Account)

An amount, as specified in the terms of bonds/loans agreements, will be transferred to IPA from Escrow Account on a monthly basis. The debenture trustee shall check the amount in IPA at least 25 (T-25) days prior to the interest payment date. In case of any shortfall in the amount the trustee shall intimate the PNN of the shortfall and PNN shall cover the shortfall prior to 10 days (T-10 days) of the interest payment day. If the corporation fails to cover the shortfall at 09 days (T-09 days) prior to interest servicing day, then the trustee will instruct the bank to transfer the deficit from DSRA to IPA at 08 days (T-08 days) prior to the interest servicing day. In case the DSRA Amount (or part thereof) is utilized to fund the shortfall in the amount required to make payment of the Coupon in respect of any Coupon Payment Date, immediately after the Debenture Trustee has instructed the Bank to utilise the DSRA Amount as above and in any event prior to 7 (Seven) days prior to the relevant Coupon Payment

Date (T-7). The Debenture Trustee would issue a notice in writing to the Issuer (and the GoUP shall be informed of the same, by the Debenture Trustee marking a copy of such notice to the GoUP).

SFA (Sinking Fund Account)

The debenture trustee shall check the amount in SFA at least 25 (T-25) days prior to end of each 12-month block. In case of any shortfall in the amount the trustee shall intimate the PNN of the shortfall and PNN shall cover the shortfall prior to 15 days (T-15 days) prior to end of each 12 months' block. If the corporation fails to cover the shortfall at 14 days (T-14 days) prior to end of each 12 months' block, then the trustee shall trigger the payment mechanism and issue a notice to the Issuer (and the GoUP shall be informed by marking a copy to the GoUP). On the issuance of such notice, the GoUP shall remit funds to fund the shortfall into the Sinking Fund Account prior to the end of each 12 Month Block (T). The redemption shall be made by the Issuer on the relevant Redemption Dates.

Weaknesses

Significant buildup of receivables

The debtors position as on 31 March, 2023 stood at Rs. 298.43 Cr. ie 501 days against Rs.245.01 Cr. as on 31 March, 2022 i.e. 494 days for FY22. Acuité believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Rating Sensitivities

- Significant improvement in collection efficiency.
- Significant improvement in civic coverage indicators.

All Covenants (Applicable only for CE & SO Ratings)

1. The Issuer shall, at all times till the Debentures are outstanding, ensure that the total amounts collected in the Escrow Account in any financial year shall be at least 2 (Two) times of the Annual Payments Amount.
 - For the purpose of this term sheet, the term 'Annual Payments' shall, in respect of any financial year, mean the aggregate of:
 - the Coupon payable in such year (in relation to the present bond issue and any further borrowings);
 - the portion of principal amount of the Debentures which are required to be deposited by the Issuer into the Sinking Fund Account in such financial year (in relation to the present bond issue and any further borrowings), in terms hereof.
 - So long as the Eligibility Conditions are met, the Issuer shall be entitled to raise further financial indebtedness based on its cash flows including the cash flows through the Escrow Account, provided that it is clarified that nothing in this provision should be construed to permit the creation of any encumbrance over the hypothecated property without the express prior written consent of the debenture trustee. For the purpose of this term sheet, the term 'Eligibility Conditions' shall mean the following conditions:
 - a. the Annual Payments Ratio is maintained by the Issuer;
 - b. there is no shortfall in the contribution to the Escrow Account, the Interest Payment Account (including towards maintenance of the Required DSRA Amount) and/or the Sinking Fund Account which has not been made good by the Issuer in terms of the Transaction Documents; (c) no Event of Default has occurred.

2. Other financial covenants as defined in the Transaction Documents

Liquidity Position

Adequate

PNN has adequate liquidity marked by healthy net cash accruals of Rs.94.63 crore for FY2023. Currently, PNN does not have any major repayment in near to medium term. PNN's cash and bank balances of PNN stood at Rs.218.27 crore as on March 31, 2023. Further, it had investments in fixed deposits of about Rs.3.53 Crore as on 31st March 2023 against Rs.3.35

Crore as on 31st March 2022. PNN did not avail any borrowings. However, the city requires huge investments to improve the quality of its civic services. PNN has cash buffers, which can be utilized to fund capex for the betterment of the city. Acuite expects the liquidity to be adequate considering the PNN has not availed any external debt.

Outlook: Stable

Acuité believes that PNN will maintain a 'Stable' outlook given its healthy revenue growth and diversified economic infrastructure. 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 there is an increased dependence on grants and further buildup in the debtor levels.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	707.69	607.41
PAT	Rs. Cr.	13.02	9.85
PAT Margin	(%)	1.84	1.62
Total Debt/Tangible Net Worth	Times	0.42	0.33
PBDIT/Interest	Times	3835.98	59755.25

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

None.

Any other information

Supplementary disclosures for Provisional Ratings

Risks associated with the provisional nature of the credit rating In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE C).

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Public Finance - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Bond	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	Provisional ACUITE AA Stable Assigned

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Depanshi Mittal Analyst-Rating Operations Tel: 022-49294065 depanshi.mittal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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