



**Press Release**  
**NAGAR NIGAM VARANASI**  
**July 16, 2025**  
**Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>BOND</b>	50.00	ACUITE AA   Stable   Assigned   Provisional To Final	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	50.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

**Rating Rationale**

Acuité has converted the provisional rating on the Rs. 50 Cr. bonds of Nagar Nigam Varanasi (NNV) to final and assigned the long term rating of ‘**ACUITE AA**’ (read as **ACUITE double A**). The outlook is ‘**Stable**’.

**Rationale for Rating**

The final rating has been assigned on the account of receipt of following documents:

1. Debenture trustee deed
2. Escrow agreement
3. Placement memorandum
4. Final term sheet (part of Placement memorandum)
5. Tripartite agreement with GoUP
6. Deed of hypothecation.

The rating takes into consideration the consistent support from both the state and central government towards development of the city, the stable revenue income and healthy cash surplus. Uttar Pradesh continues to solidify and strengthen its position on the global tourism map, with the number of tourists in Varanasi has gone up to more than eleven crore in 2024. Varanasi is among top five most populous cities in Uttar Pradesh & considered as one of the most popular tourism place in India for domestic, national and international tourist. Also, the rating derives further 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 NNV and high dependence on tourism.

**About the Company**

Nagar Nigam Varanasi (NNV), is a municipal governing body of Varanasi, Uttar Pradesh, it was established on January 24, 1959, initially as a Nagar Mahapalika under the Municipal Corporation Act of 1959. In 1994, it was upgraded to Nagar Nigam to enhance its administrative capabilities and scope. Varanasi Nagar Nigam administers an area of 82 square kilometres, divided into 90 wards. The city is densely populated and attracts numerous pilgrims and tourists due to its historical and cultural significance. NNV aims to transform Varanasi into a dynamic, vibrant, self-reliant, and sustainable city. The mission focuses on providing all basic amenities and enhancing the quality of life for its citizens. The corporation's responsibilities encompass a range of services and infrastructural developments.

**Unsupported Rating**

ACUITE A/Stable

### **Analytical Approach**

Acuite has standalone business and financial risk profiles of Nagar Nigam Varanasi (NNV) to arrive at the rating.

### **Key Rating Drivers**

#### **Strengths**

### Benefits from Varanasi's status

When assessing Varanasi for a credit rating, its advantages include its historical and cultural importance, which improves investor attractiveness and financial steadiness through tourism. The city benefits from a relentless income stream generated by millions of pilgrims and tourists visiting its religious sites. Significant investments in infrastructure development bolster economic growth and investor confidence, while its strategic location along the Ganges River supports trade and regional integration. The presence of prestigious educational institutions like Banaras Hindu University (BHU) fosters innovation and economic development. Additionally, various government initiatives aimed at urban improvement further boost economic prospects. A diverse economy, encompassing both traditional and emerging industries, contributes to financial stability and growth, creating a strong foundation for a positive credit rating assessment of Varanasi.

### Strong Financial Risk Profile

The financial risk profile of the NNV is strong marked by net-worth of Rs.1,956.36 Crore as on 31st March 2025 against Rs.1,816.21 Crore as on 31st March 2024. The surplus generated is transferred to municipal funds and the same is utilized for the development purposes as and when required by the corporation. The gearing ratio and TOL/TNW ratio stood at 0.42 times and 0.57 times as on 31st March 2025 respectively.

### Structured Payment Mechanism

NNV has access to various income sources out of which Property tax and fees & user charges 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 NNV of the shortfall and NNV 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. 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). If shortfall is not made good by NNV on T date, the DT shall issue a notice to NNV marking a copy to GoUP following which the GoUP shall remit funds required to replenish the Required DSRA Amount within 15 (Fifteen) days from the relevant Coupon Payment Date i.e. by T+15 days by depositing such amounts in to the IPA.

### Sinking Fund Account (SFA)

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 NNV of the shortfall and NNV 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).

### Weaknesses

#### Significant build-ups of receivables and tax collection efficiency over a period of time

The debtors position as on 31 March, 2025 stood at Rs.166.17 Cr. i.e. 343 days for FY25 improved against Rs.173.03 Cr. as on 31 March, 2024 i.e. 427 days for FY24 and overall tax collection efficiency is lower in past years and expected to improve in near to medium term on the account of E-governance initiatives taken for reforms in property tax collections. Acuité believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

#### Assessment of Adequacy of Credit Enhancement under various scenarios including stress scenarios (applicable for ratings factoring specified support considerations with or without the "CE" suffix)

GoUP has created a policy for utilisation of the funds in the IDF (Infrastructure Development Fund) for credit

enhancement and other needs of local bodies to promote/ incentivise issuance of municipal bonds. Pursuant to the Governmental Order, the issuer shall approach the GoUP for entering into the Tripartite Agreement with the Debenture Trustee and the Issuer in respect of the Debentures, for agreeing and covenanting to make payment of funds from the IDF in terms of such agreement:

- (a) into the Interest Payment Account for creation of the upfront Required DSRA Amount;
- (b) into the Sinking Fund Account on the occurrence of a Sinking Fund Mismatch.

The GoUP shall make payment of such amounts as may be required to make good any DSRA Amount Shortfall. In case the DSRA Amount lying in the Interest Payment Account is utilized to fund the shortfall in Interest Payment Account at the time of the Coupon payment, the GoUP shall remit the funds (to the extent that the DSRA Amount utilized to fund the shortfall in the Interest Payment Account for meeting the Coupon payment on such Coupon Payment Date) to replenish the Required DSRA Amount, in terms of the Tripartite Agreement.

Further, the GoUP shall make payment of such amounts as may be required to make good any Sinking Fund Mismatch. In case of Sinking Fund Mismatch, the GoUP shall remit the funds to fund the shortfall in the Sinking Fund Account.

### **Stress Case Scenario**

Acuite believes that if the collection from property tax and fees & user charges would adjust it by 50%, still the corporation would be having sufficient cash flow over and above to make the coupon payments and DSRA. Further, the corporation is required to maintain DSRA for four coupon payments.

### **Rating Sensitivities**

- Significant improvement in collection efficiency.

### **All Covenants**

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:

- (a) the Coupon payable in such year (in relation to the present bond issue and any further borrowings);
- (b) 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.

2. Debt Service Coverage Ratio (DSCR) shall mean the ratio of operating surplus to total debt servicing, which shall not be less than 1.50 times of operating surplus calculated as on 31st March for each year financial year (starting from 31st March 2026 till the time bonds are outstanding) as below:

$$DSCR = \text{operating surplus} / \text{total debt service}$$

i. Operating surplus calculated as the below:

Operating Surplus = Total Income - Adjusted Expenditure

a. Total income = Total income of the corporation as per the audited Income and Expenditure statement.

b. Adjusted Expenditure = Total expenditure as per the audited Income and Expenditure statement - Depreciation - Finance charges - Provisions and Write offs - other non-cash expenditures.

ii. Total debt service = interest payment of loans and bonds + transfers made to the sinking fund account towards principal repayment / redemption + principal repayment / redemption (Excluding those made out of the sinking fund account)

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) the Minimum DSCR of 1.5 times is maintained by the Issuer;
- (c) 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.

### 3. Other financial covenants as defined in the Transaction Documents

The documents executed in relation to, or which are relevant to the Issue includes:

- a) Preliminary Placement Memorandum, along with all annexures
- b) Tripartite Agreement with the Debenture Trustee and the Government of Uttar Pradesh
- c) Issue Agreement
- d) Issue Proceeds Agreement
- e) Debenture Trustee Agreement
- f) Registrar Agreement,
- g) Debenture Trust Deed
- h) Deed of Hypothecation
- i) Escrow Agreement
- j) Tripartite Agreements with NSDL and CDSL\
- k) Any other agreement or document designated as such by the Debenture Trustee (acting on the instructions of the Majority Debenture Holders).

4. Additional Covenants Default in Payment: In case of default in payment of interest and/or principal redemption on the due dates, the Issuer shall pay an additional interest at the rate of 2% p.a. over the respective Coupon Rates of the Bonds for the defaulting period.

### 5. Negative Covenants

At all times until the Final Settlement Date, the Issuer shall not, without the prior written consent of the Debenture Trustee (acting upon the instructions of the Majority Debenture Holders):

- a) Create any encumbrance over the Hypothecated Property
- b) Enter into any agreement or commitment of any sort, the terms of which conflicts with the provisions of the Transaction Documents
- c) Close the Collection Accounts and/or collect property tax (or any other tax levied in place of property tax as per Section 173 of the Act) and fees and user charges in any other account
- d) Abolish, alter or reduce the Property tax and fees and user charges levied by the Issuer.
- e) Undertake or enter into any transaction of merger, de-merger, consolidation, re-organisation, or compromise with its creditors.

### **Liquidity Position**

#### **Adequate**

NNV has adequate liquidity marked by healthy net cash accruals of Rs.116.68 crore for FY2025. Currently, NNV does not have any repayment in near to medium term. NNV's cash and bank balances of NNV stood at Rs.740.30 crore as on March 31, 2025. Further, it had investments in fixed deposits of about Rs.384.93 Crore as on 31<sup>st</sup> March 2025 against Rs.236.00 Crore as on 31<sup>st</sup> March 2024. NNV 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 NNV has not availed any external debt. The current ratio stood at 6.48 times for FY 25.

### **Outlook: Stable**

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 25 (Actual)	FY 24 (Actual)
Operating Income	Rs. Cr.	803.37	714.71
PAT	Rs. Cr.	80.79	654.62
PAT Margin	(%)	10.06	91.59
Total Debt/Tangible Net Worth	Times	0.42	0.41
PBDIT/Interest	Times	2073.05	13773.17

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

Not applicable

### Any other information

None

### 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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- State Government Ratings : <https://www.acuite.in/view-rating-criteria-26.htm>
- Urban Local Bodies : <https://www.acuite.in/view-rating-criteria-57.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. Acuité'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](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Aug 2024	Proposed Bond	Long Term	50.00	ACUITE Provisional AA   Stable (Assigned)

**Annexure - Details of instruments rated**

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE1OK924037	Bond	07 May 2025	8.01	07 May 2032	12.50	Simple	ACUITE AA   Stable   Assigned   Provisional To Final
Not Applicable	INE1OK924045	Bond	07 May 2025	8.01	07 May 2031	12.50	Simple	ACUITE AA   Stable   Assigned   Provisional To Final
Not Applicable	INE1OK924011	Bond	07 May 2025	8.01	07 May 2030	12.50	Simple	ACUITE AA   Stable   Assigned   Provisional To Final
Not Applicable	INE1OK924029	Bond	07 May 2025	8.01	07 May 2029	12.50	Simple	ACUITE AA   Stable   Assigned   Provisional To Final

**\*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr. No.	Company name
1	Nagar Nigam Varanasi
2	Government of Uttar Pradesh



## Contacts

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### About Acuité Ratings & Research

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