

Greater Visakhapatnam Municipal Corporation

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Bonds	100.00	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bonds issuance of Greater Visakhapatnam Municipal Corporation (GVMC) factors in Trustee-administered structured payment mechanism (SPM) for the bonds with escrow of designated revenue collections towards debt obligations of the entity, priority of debt servicing and stipulated reserves maintained in the form sinking fund and debt service reserve account (DSRA). Comfort is derived from the 1.5x coverage stipulated in the SPM and cashflows of GVMC adequately covering the same. GVMC has been maintaining the stipulated reserves of DSRA and sinking fund in form of fixed deposit with sinking fund balance of ₹44 crore as on September 30, 2023.

The rating continues to derive comfort from the healthy financial profile of the corporation backed by consistent revenue surplus during the last five years ending March 2023 and the Corporation being a self-reliant entity, with average of 86% of its revenue coming from its own sources. GVMC is the sole municipal corporation of Visakhapatnam, which is the largest city in Andhra Pradesh, and thus is of significant economic importance to the state. GVMC continues to benefit from strong economic base of Visakhapatnam, comfortable debt coverage metrics and adequate liquidity position.

The rating strengths are, however, tempered by the limited autonomy with dependence on the state government for various reforms, high disputed receivables with resolution pending before court and shortfalls in utility infrastructure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in Property Tax Collection to above 90% on a sustained basis.
- Growth in the size of the corporation with a sustained revenue surplus.

Negative factors

- De-growth in revenue surplus on a continuous basis.
- Significant increase in debt levels thereby impacting the liquidity profile.
- Non-adherence to the SPM as per the term sheet and/or non-maintenance of the stipulated DSRA/sinking fund balances.

Analytical approach:

Standalone along with factoring in comfort from the Trustee-monitored SPM for the bond issue, with escrow of designated revenue sources with priority towards debt servicing of bonds, creation of interest payment account and sinking fund account and DSRA provision for two semi-annual interest payments.

Outlook: Stable

GVMC is expected to maintain a comfortable financial profile with steady growth in revenue receipts, consistent revenue surplus generation and comfortable liquidity position.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:**Key strengths****Strong economic base and strategic and economic importance of the city**

GVMC covers an area of 689 sq.km with a population of 17.30 lakh (as per 2011 census). Being the municipal corporation of the largest city of Andhra Pradesh, GVMC is of strategic and economic importance to state.

Visakhapatnam has good infrastructure in place and has a strong track record in terms of coverage and service delivery and high level of industrialisation with Visakhapatnam being a hub for various industrial set-ups. The Corporation has solid waste collection coverage at 99%, water supply coverage at 82%, storm water coverage at 60%, and sewerage coverage at 23%. Though there are shortfalls in the coverage of civic amenities provided by the corporation, the corporation has been incurring capex for the improvement of the same.

Trustee-administered SPM with priority for servicing of bonds

GVMC has an SPM through creation of an Escrow account of designated revenue collections, with priority for servicing of bonds. Under the SPM, collections under the revenue heads of Property tax, Vacant land tax and Bulk water supply charges for at least 1.5x the bond issue from all zones of GVMC shall be transferred to the separate escrow account (GVMC Bonds Escrow Collection Account) on a daily basis. CARE Ratings notes that only 50% of the collections under Property tax are free from any charge. The salient features of SPM are as follows –

- i. First, to build up shortfall in DSRA account (at all times the DSRA should be maintained as 2x half-yearly interest payment).
- ii. Second, to transfer funds collected in Escrow account to debt service account (DSA), amount equivalent to the defined monthly liability for servicing of debt, on the day of fulfilling of monthly liability (the interest payment liability is on a half yearly basis). This includes the interest and debt redemption reserve (DRR) components.
- iii. Third, transfer to interest service account for half-yearly interest servicing with the first interest payment amount to be equally transferred within a period of first five months, i.e., fully at T-30 days. For all future interest payments, 100% of the half-yearly interest amount is to be built up within a period of the first six months (equally).
- iv. Then, transfer to debt redemption reserve (DRR) account on a monthly basis, amount equivalent to 1/11th of yearly 10% redemption amount of the total bond issue (redemption commences after 6 years of bond issue).

The surplus funds after meeting the minimum balance can thereafter be transferred to GVMC General Fund account. The debenture trustee shall have a lien on the IPA, DSRA and SFA for the exclusive benefit of the bondholders. GVMC is maintaining DSRA equivalent to two half yearly interest payment amounts, in the form of fixed deposits, which provides sufficient liquidity cushion and is also creating sinking fund reserves for the payment of bonds.

Self-reliant corporation with high proportion of own revenue

The Corporation has reported consistent growth in the revenue receipts over the last few years with gradual increase in both, property tax revenue and non-tax revenue components. During FY23, GVMC has reported a growth of 13% in adjusted revenue receipts (adjusted for incremental debtors) mainly led by increase in the property taxes and non-tax revenue (majorly building permit fees). GVMC continues to be a self-reliant entity with about 91% of the revenue coming from its own sources during FY23 (vis-à-vis about 84% in FY22). The balance pertains to revenue share received from state government, which mainly comprised share in property registration charges shared with the state government. The corporation reported a growth of 18% in revenue receipts from ₹438 crore in H1FY23 to ₹516 crore in H1FY24.

Consistent revenue surplus and satisfactory collection efficiency

GVMC has been reporting a consistent revenue surplus over the years. The corporation reported an adjusted revenue surplus of ₹344 crore in FY23 as against ₹286 crore in FY22 mainly led by increased property taxes and as well higher interest income. The revenue surplus has moderated during H1FY24 due to increased O&M expenses from ₹140 crore in H1FY23 to ₹123 crore in

H1FY24. Though there is moderation in revenue surplus, CARE Ratings expects the same to remain satisfactory in the medium term.

The collection efficiency is satisfactory with collection efficiency around 80% for the last five years (FY19-FY23). On current basis, as against the demand of ₹792 crore during FY23, the corporation collected about ₹781 crore which translates to collection efficiency around 99%.

Comfortable debt coverage metrics

GVMC has strong debt coverage metrics with relatively low debt in the books. The Corporation has been raising debt over the years to fund its capex plans while maintaining healthy coverage metrics. The debt level for the Corporation stood at ₹244 crore as on March 31, 2023 (as against ₹268 crore as on March 31, 2022), which along with sustained revenue surplus result in comfortable debt coverage metrics. Debt/ revenue receipts were satisfactory at 24% for FY23. GVMC has not proposed any large debt-funded capex/other additional borrowing, and change in the stance from the same impacting the coverage/liquidity is a key rating sensitivity.

Sustained capital expenditure

The capital expenditure of the Corporation, which is mainly incurred towards development of civic amenities and infrastructure projects, has been fairly steady over the years. During the last few years, majority of the capital expenditure undertaken by the entity has been funded through a mix of raising of debt, grants received and through revenue surplus/available cash balance. The Corporation has undertaken capex pertaining to development of sewerage system and wastewater treatment system. The project is to be developed under the Smart City scheme in two phases and is being implemented under a special purpose vehicle (SPV), viz., Greater Visakhapatnam Smart City Corporation Limited (GVSCCL). GVSCCL has been formed along with GoAP in 50:50 ownership. Phase I and Phase II are under implementation and expected to be completed by December 2025.

Key weaknesses

Limited autonomy with dependence on state government for reforms

GVMC has limited autonomy in implementation of reform with key decisions like property tax revision implemented by state government. The property taxes have been revised after more than a decade in FY22. Before the revision in FY22, the last revision was undertaken in 2003 for residential properties, and in 2007 for commercial properties. The implementation of tax reforms will be crucial for sustenance of the corporation.

Long pending disputed debtors

The Corporation has debtors aggregating ₹758 crore as on March 31, 2023 (as against ₹736 crore as on March 31, 2023). These majorly include levy of property tax & vacant land tax and fees and user charges on vast land parcels/properties owned by the steel companies of state, particularly Rashtriya Ispat Nigam Limited (RINL). However, the Corporation has not been able to recover the dues on account of litigations with the matter pending in court for resolution. Also, as per Visakhapatnam Municipal Corporation Act, the entity cannot write-off debtors, which has resulted in accumulation of debtors over the years.

Liquidity: Strong

The liquidity position of GVMC is strong with adequate revenue surplus, sufficient cash and balance of ₹1,035 crore as on September 30, 2023 (₹1,148 crore as on March 31, 2023) against a term loan repayment of ₹23.22 crore in FY24 and staggered repayment obligation for the bonds issued with the principal repayments falling at the end of 7th to 10th year of the bond issue (annual instalment of 25% each). Additionally, GVMC has been maintaining DSRA (equivalent to two semi-annual coupon payments) and Sinking fund in the form of fixed deposits.

Assumptions/Covenants

- Collection of 50% of Property tax, 100% Vacant land tax and Bulk water supply charges for at least 1.5x, the bond issue (provisioned for) from all zones of GVMC shall be transferred to the separate escrow account (GVMC Bonds Escrow Collection Account) on a daily basis.

- DSRA- 2 semi-annual coupon payments for bonds.
- Debt service coverage ratio (DSCR) on operating surplus: DSCR will not be less than 1.25x of operating surplus (i.e., total income – total expenditure + depreciation).

Interest payment and principal repayment mechanism

T = Bond payment date

Date	Event	Measure if shortfall occurs
Interest Payment Account		
T-30	Trustees will check amount in Interest Payment Account which is to be equivalent to the interest payment amount	Intimate GVMC to make good for the shortfall in interest payment account by T-23 days.
T-23	Trustees shall re-check amount in interest Payment	Trustees will trigger the payment mechanism and bank will be instructed to transfer the shortfall amount from DSRA to interest payment account within T-15 days Withdrawal from DSRA should be deposited back in the account within a period of next 21 working days. In case of use of DSRA for funding of interest payments, all free collections from the designated accounts would flow into the escrow account till the deficit is fully funded.
T	Interest to be serviced	-

Sinking fund		
T-30	Trustees shall check credit in the sinking fund	Intimate GVMC of the shortfall and GVMC shall make good the shortfall 15 days prior to redemption date
T	PMC shall repay the principal	

Environment, social, and governance (ESG) risks : Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Urban Infrastructure Projects](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Public services	Urban local bodies

GVMC was constituted as a municipality in 1858 and subsequently upgraded to a Corporation in 1979. It is governed by the Visakhapatnam Municipal Corporation Act of 1979. Till 2005, the Corporation had a jurisdiction of 111 sq.km with a population of about 9.69 lakh as per the 2001 census. The GoAP reconstituted the entity in 2005 by extending the jurisdiction and by merging the adjoining Gajuwaka Municipality and surrounding 32 gram panchayats to form GVMC. The area under GVMC has been divided into 8 zones and 98 sub-zones or wards for administrative convenience. GVMC covers an area of 689 sq.km with a population of 17.30 lakh (2011).

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (Prov.)@
Reported revenue receipts	974	1031	516
Reported revenue surplus	364	366	123
Revenue surplus**	286	344	123
Revenue surplus/Revenue receipts (%)**	31.93	34.07	23.73
Own revenue/Revenue receipts (%)	84.37	90.66	95.16

A: Audited; Prov.: Provisional

**Adjusted for incremental debtors and excluding depreciation

@On receipt basis.

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE423G07051	December 21, 2018	10%	December 21, 2028	80	CARE AA; Stable
Bonds proposed	-	-	-	-	20	CARE AA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds	LT*	100.00	CARE AA; Stable	-	1)CARE AA; Stable (25-Jan-23)	1)CARE AA; Stable (31-Jan-22)	1)CARE AA; Stable (02-Feb-21)

*Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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