

Nagpur Municipal Corporation

March 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	200.00	CARE A; Stable	Revised from CARE A-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to bank facilities of Nagpur Municipal Corporation (NMC) factors in continued growth in revenue receipts (RR) over the last six years (FY18-23) accompanied by consistent revenue surplus reported by the corporation. NMC's RRs witnessed a 12% compounded annual growth rate (CAGR) over the last six years with RR having increased from ₹1,284 crore in FY18 to ₹2,388 crore in FY23 (revised estimates [RE]). Similarly, the revenue surplus (RS) has also surged continuously at 23% CAGR, from ₹233 crore in FY18 to ₹874 crore in FY23. The revenue surplus/revenue receipt also improved over the years and stood at 37% in FY23 as against average of 23% from FY18-20. This is majorly due to increased revenue grant from the State (majorly share of GST compensation received) and rise in non-tax revenue with increased real estate activity and high building permit fees. The rating revision also factors in continued lower reliance on debt despite increased development expenditure, which is supported by receipt of grants from the State and high own-surplus generation. The corporation has outstanding debt of ₹111.17 crore as on February 29, 2024, as against cash and bank balance of ₹345 crore and ₹102 crore of investments as fixed deposits. The overall debt / RR position stood at 0.08x for the corporation in FY23.

NMC has also undertaken developmental projects for improving the city's infrastructure. The corporation has taken up one road cementing project, a project for constructing 42 overhead tanks, and laying pipelines, and distributing and installing tap water. These projects are funded partly by the central/state government and partly by the corporation's own funds/debt.

However, the rating is tempered by the corporation's low self-reliance given the higher share of grants in its revenues (almost 70% of revenue receipts) majorly as GST compensation receipt from the Government of Maharashtra, post abolishing local body taxes and declining collection efficiency. The property tax collection efficiency has been declining over the past three years, which was compensated by increased grants and non-tax revenue has supported revenue receipt growth. However, improved collection efficiency is important for sustained growth of the corporation and hence shall remain important from credit perspective.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Continued growth in revenue receipts with revenue surplus/revenue receipts maintained above 35% on sustained basis
- Improvement in collection efficiency above 50% on sustained basis
- Improved service delivery benchmarks to 90% and above on sustained basis

Negative factors

- Reduction in revenue receipts and de-growth in revenue surplus
- Significant and sustained delays in receipt of revenue grant from State Government
- Fall in property tax collection efficiency to below 35%

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings) expectation of steady receipt of GST grants from the Government and continued generation of Revenue surplus with comfortable debt and liquidity structure of the corporation.

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

Detailed description of key rating drivers:**Key strengths****Satisfactory economic base**

Nagpur is the second capital of Maharashtra and the largest city in Vidarbha (eastern region of Maharashtra). Nagpur city is emerging as an important industrial town and NMC has been continuously incurring capex for developing the infrastructure base in the city. NMC's industrialisation level is moderate at above 65%, with gradual development of industrial set ups.

Growth in RRs and improved RS over the years

The corporation's RRs witnessed continuous growth and has reported consistent RS over the last few years. Overall, RRs have increased from ₹1,284 crore in FY18 to ₹2,388 crore in FY23 (at 12% CAGR) and RS increased from ₹233 crore in FY18 to ₹874 crore in FY23 (at 23% CAGR). RS / RRs increased from 18% to 37% for the same period. This is majorly due to increased revenue grant from the State (majorly share of GST compensation received) and rise in non-tax revenue with increased real estate activity and high building permit fees.

In FY23 (RE), the corporation's RRs grew by 10% with increased grants, tax and non-tax revenue, and other income. The non-tax revenue reported significant increase of 81% in FY22 (to ₹491 crore) after resuming normal business activities, subsiding impact of COVID-19 and pent-up demand emanating from the real estate segment. This toned down to ₹435 crore in FY23. With improvement in overall revenue, surplus increased from ₹847 crore in FY22 to ₹874 crore in FY23.

Comfortable debt profile

The corporation has minimal reliance on debt to fund its capex plans. Its debt level stood at ₹111 crore as on February 29, 2024 (as against ₹184 crore as on March 31, 2023), which with sustained RS, resulted in comfortable debt coverage metrics. Debt/RRs were satisfactory at 8% for FY23(RE).

Reform-oriented administration

Reforms and measures have been/are taken to increase revenues, especially in property tax. Reforms include GIS mapping, property tax collection app for the corporation to easily assess and track property tax dues, in line assessment and payment among others. NMC has also digitised operations such as online platforms for shop license registration, POS machines to make tax payments, online assessments, and payment of taxes among others. The corporation has also launched the *Abhay Yojna* in 2023, which offers 80% waiver on penal interest on arrears between January 1, 2024, and March 31, 2024, and collected ₹40.39 crore through the scheme by March 09, 2024.

Capex incurred for infrastructure development

NMC has undertaken projects for upgrading the city's infrastructure. The corporation has completed the first phase of road cementing project and is close to completing the second phase. The project laying of pipelines, distribution and installation of taps till the end of December 2024 achieved about 81% physical progress.

The capex incurred over the last three years is at an average of ₹1000 crore, which has been largely funded through grants received/own surplus.

Key weaknesses**Low self-reliance with lower proportion of the corporation's revenue**

The corporation has low self-reliance on its revenue sources. Tax revenue comprises property tax revenue, water tax, and others, which account for around 9-12% of total revenue receipts. GST grants has been a major revenue contributor with an average of 65% share in RRs. The own-revenue share to overall RRs has been low at 30% in FY23. The corporation depends on timely receipt of GST grants from the State and delays might impact its overall financial profile. The corporation receives share of GST compensation from the State Government as stipulated in "The Maharashtra Goods and Services Tax (Compensation to The Local Authorities) Act 2017".

Shortfalls in civic infrastructure

Shortfalls in civic infrastructure include low storm water drainage and water supply coverage. However, all households are covered under solid waste collection and 93% households have water supply coverage.

Low collection efficiency

The property tax collection efficiency (current demand) reduced to around 35% in FY23 (44% in FY22). On an overall basis, property tax collection efficiency moderated due to addition of new properties that were not included under property tax assessment earlier and lower property tax collection from government properties. The corporation has relatively high arrears mainly due to central government properties, where collection has been a challenge. These, and penal interest of 2% per month on arrears, inflates overall demand significantly.

Liquidity: Adequate

The corporation has been reporting consistent revenue surplus, which with low debt level, resulted in a satisfactory liquidity profile. The corporation has overall cash and bank balance of ₹345 crore as of January 04, 2024, and fixed deposit receipts (FDRs) of ₹102 crore as on the same date, lying across accounts of the corporation.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Urban Infrastructure Projects](#)

About the company and industry

Industry classification

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

NMC was established in March 1951. It is governed by the City of Nagpur Corporation Act, 1948. The area under NMC is divided into 10 zones. It has a coverage area of 217.56 sqkm with a population of 24.06 lakh (2011 census). Nagpur Improvement Trust (NIT) works with NMC and carries out works such as development of civic infrastructure and new urban areas.

Brief Financials (₹ crore)	FY22 (Actual)	FY23 (RE)
Revenue Receipts	2,173	2,388
Revenue Surplus	847	874
Revenue Surplus/Revenue Receipts (%)	39	37
Own Revenue/Revenue Receipts (%)	33	30

A: Actual RE: Revised estimates NA: Not available; *the above results are as per the 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 to Annexure-2

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

Complexity level of 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
Fund-based - LT-Term Loan	-	-	-	October 2027	200.00	CARE A; Stable

Annexure-2: Rating history for 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	Fund-based - LT-Term Loan	LT	200.00	CARE A; Stable	-	1)CARE A-; Stable (20-Feb-23)	1)CARE A-; Stable (22-Nov-21)	1)CARE A-; Stable (18-Dec-20)

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

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

Contact us

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About us:

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