

Gandhinagar Municipal Corporation

May 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Bonds	25.00	Provisional CARE AA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rating in the absence of the pending steps/ documents	CARE AA-
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Rationale and key rating drivers

The rating assigned to the proposed Bonds of Gandhinagar Municipal Corporation (GMC) factors in the proposed Trustee-administered structured payment mechanism (SPM) with an escrow provisioning of tax revenue (property tax, vehicle tax, and professional tax among others) towards debt obligations of the entity, priority of debt servicing, and stipulated reserves to be maintained in the form of a sinking fund and a debt service reserve fund. GMC has proposed borrowing in the form of bond issuance and comfort is derived from the 1.25x coverage stipulated in the SPM and cashflows of GMC comfortably covering same. The rating also factors in the strong financial profile of the corporation backed by high share of own revenue (95% in FY24; refers to period April 01 to March 31) and consistent growth in revenue receipts and surplus reported y-o-y. years. Revenue receipts increased from ₹78 crore in FY19 to ₹505 crore in FY24 (Provisional) with a y-o-y growth of 42% in FY24. Revenue surplus has also increased from ₹25 crore in FY19 to ₹366 crore in FY24 thereby registering a compounded annual growth rate (CAGR) of 56%. The corporation has no debt in the books as on March 31, 2024. Gandhinagar is the capital city of Gujarat and GMC being the sole municipal body of the city is of strategic importance to the state.

However, the rating strengths are tempered by the moderate collection efficiency and relatively low economic base. The city has low economic base, but it has been attracting investment due to the developments around the GIFT City, which is in the vicinity of GMC, although it does not come under GMC administrative jurisdiction. Due to various developments and investments in GIFT city, GMC has also witnessed increased investments in real estate which has boosted the non-tax revenue for the Corporation. Going forward, the tax revenue is thereby also expected to grow backed by such real estate developments in the city.

The above rating is provisional and will be confirmed once the company submits all the below-mentioned documents to the satisfaction of CARE Ratings Limited (CARE Ratings):

- a. Transaction documents including debenture trust deed
- b. Escrow agreement
- c. Final term sheet

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the size of the corporation with sustained revenue surplus.
- Improvement in property tax collection efficiency.

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 with reduction in property tax coverage for the bonds below 2x.

Analytical approach: Standalone including trustee monitored structured payment mechanism involving escrow of property tax revenue with priority towards debt servicing of bonds, creation of interest payment account and sinking fund account and debt service reserve account (DSRA).

Outlook: Stable

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

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

Strategic importance to Gujarat

Gandhinagar is the capital city of Gujarat. GMC being the sole municipal body of the city is of strategic importance to the state and hosts several government buildings and offices. The strategic importance has been reflected through release of funds from Government of Gujarat for funding majority of capex undertaken by GMC. GMC possesses locational advantages with its proximity to Ahmedabad and GIFT City. GMC has good infrastructure in place and has a strong track record in terms of coverage and service delivery.

Trustee-monitored SPM

GMC would follow SPM through the creation of an escrow account of its tax collections revenue (property tax, vehicle tax, and professional tax among others) with priority for servicing of bonds. Under the SPM, collections under the tax revenue will be transferred to a separate escrow account. SPM's salient features are as follows:

- i. The funds should be first utilized to accumulate the minimum balance in Escrow Account as defined in the debenture trust deed
- ii. The funds thereafter should be utilized to fund any shortfall in required DSRA amount (in case of utilization of the DSRA amount), Interest payment account and sinking fund account
- iii. The surplus funds, if any, after first accumulating the Minimum Balance can thereafter be transferred to the general fund account(s) in accordance with the directions of the Issuer from time to time.

The structure stipulates total collection in the escrow account in any financial year to be at 1.25 times the amount of the annual payments (coupon + principal amount). GMC would maintain a DSRA equivalent to yearly interest payment amounts for the proposed bonds issue and would also create a sinking fund reserve for the payment of bonds.

The SPM also stipulates T minus structure (T= bond payment date) for servicing of interest and principal repayment.

The Debenture Trustee, on behalf of the Debenture Holders, shall have an exclusive first charge on the escrow account, interest payment account (including the DSRA amount), and sinking fund account and any permitted investments made from these accounts for the exclusive benefit of the debenture holders. The amount deposited in the interest payment account (including the DSRA amount) and sinking fund account shall be used solely for meeting the dues to the debenture holders. No amount can be withdrawn from this account without the approval of debenture trustee.

Strong financial performance

There has been a sustained increase in the revenue receipts of the corporation over the last few years. Revenue receipts of GMC witnessed a CAGR growth of 36% in FY18-FY24 mainly led by significant increase in non-tax income primarily revenue from town planning department. In 2021, 18 surrounding villages were merged with GMC which has increased the area under jurisdiction area and enabled higher real estate development activity. Besides, the town planning revenue has also witnessed sharp growth backed by incidental construction in GMC area following the large-sized investments in GIFT city. The above factors put together have led to increased revenue from town planning income from ₹0.10 crore in FY21 to ₹367 crore in FY24. The growth is likely to continue in the next two years with advances received by GMC for building permits and continued investments expected at GIFT city.

The expenditure growth in comparison with revenue has been limited, and resultantly, revenue surplus grew sharply from ₹25 crore in FY19 to ₹366 crore in FY24 thereby registering a CAGR of 56%.

Comfortable financial position and sustainable capex

GMC does not have any external borrowings as on March 31, 2024. Besides, for the proposed borrowing in the form of bond issuance, comfort is derived from stipulated SPM and cashflows of GMC comfortably covering the same. The debt service coverage ratio (DSCR) is also expected to remain at a healthy level for the corporation, based on the current borrowings and capex plans. With the expanding city, there is an increase in capital expenditure over the last few years with capital expenditure increasing from ₹52 crore in FY19 to ₹380 crore in FY24. This has ensured maintenance of high service level benchmarks with continued capex incurred toward roads, water supply, and sanitation. Also, sustained capex is expected to be incurred, which is likely to be funded majorly through grants, in line with the past trend. The large liquid balance of GMC also is expected to support the incremental capex requirements.

Liquidity: Strong

GMC's liquidity is strong with consistent revenue surplus over the last few years. GMC is expected to maintain DSRA, sinking fund in the form of fixed deposit for the proposed bonds. As on March 31, 2024, the free cash and bank balance of GMC stood at ₹658 crore.

Key weakness

Low but growing economic base and moderate collection efficiency.

The city has low industrialisation base and is historically hosted majorly by government employees. Owing to the low economic base, the population and revenue base is relatively lower when compared to other corporations in the state. Property tax contributions to the revenue receipts has remained low at 12.5% in FY24. However, the economic base has been growing with the emergence of GIFT city which falls in the vicinity of GMC and the incidental construction activities are likely to support the property tax revenue growth also going forward.

The collection efficiency of tax revenue has been moderate at around 58% in FY23 and 54% in 9MFY24. GMC has undertaken various measures to improve the same with adoption of GIS Mapping, and implementation of online collection of property taxes among others, which has been contributing to the growth of property tax.

GMC also follows cash basis of accounting with the corporation under preparatory stage for shifting to double entry accrual accounting.

Assumptions/Covenants

- DSRA of annual coupon payments have to be maintained.
- Total tax amounts collected in the escrow account in any financial year will be at least 1.25x the amount of the annual payments (coupon + principal amount).
- Interest payment and principal repayment mechanism

Date	Event	Measure if shortfall occurs
Interest Payment Account (IPA)		
T-25	Trustees will check amount in Interest Payment Account	Intimate GMC to make good for the shortfall in interest payment account 15 days prior to interest payment date.
T-14	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 14 days prior to interest payment date. Withdrawal from DSRA should be deposited back in the account.
T	GMC shall pay the interest on due date	-
Sinking Fund Account (SFA)		
T-25	Trustees shall check credit in the sinking fund	Intimate GMC of the shortfall and GMC shall make good the shortfall 15 days prior to redemption date.
T-14	Trustee shall issue final notice	-
T	GMC shall pay the redemption amount on due date	

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

Applicable criteria

[Assignment of Provisional Rating](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Urban Infrastructure Projects](#)

Validity of the Provisional Rating:

The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Public Services	Urban Local Bodies

GMC is the municipal corporation in Gujarat, governed by The Gujarat Provincial Municipal Corporations Act, 1949. Gandhinagar is capital city of Gujarat. GMC was set up on March 16, 2010, after a ruling by the Gujarat High Court in 2009. GMC covers an area of 205 sq. kms with a population of 2.02 lakh (2011).

Brief Financials (₹ crore)	FY23 (A)	FY24 (Prov.)
Revenue receipts	356	505
Revenue surplus	245	366
Revenue surplus/Revenue receipts	68.85	72.48
Own revenue/Revenue receipts	93.85	94.86

A: Audited; Note: 'these are latest available financial results'

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 (Proposed)	-	-	-	-*	25.00	Provisional CARE AA; Stable
Rating in the absence of the pending steps/documents	-	-	-	-	0.00	CARE AA-

*proposed

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 2024-2025	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
1	Bonds	LT	25.00	Provisional CARE AA; Stable				
2	Rating in the absence of the pending steps/documents	LT	0.00	CARE AA-				

LT: 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
2	Rating in the absence of the pending steps/documents	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

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