

Greater Visakhapatnam Municipal Corporation

December 27, 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

Reaffirmation in 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). The rating also derives comfort from the 1.5x coverage stipulated in the SPM for the bond servicing and cashflows of GVMC adequately covering the same.

The rating continues to derive comfort from the corporation's healthy financial profile backed by consistent revenue surplus in the last five years ending March 2024 and the corporation being a self-reliant entity with an average of 94% 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 the strong economic base of Visakhapatnam, comfortable debt coverage metrics and adequate liquidity position.

However, rating strengths are tempered by the limited autonomy with dependence on the state government for reforms, high disputed receivables with resolution pending before the 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 impacting the liquidity profile.
- Non-adherence to the SPM per the term sheet and/or non-maintenance of the stipulated DSRA/sinking fund balances.

Analytical approach: Standalone and 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 a comfortable liquidity position.

Detailed description of key rating drivers:

Key strengths

Strong economic base and strategic and economic importance of the city

GVMC covers an area of 689 square kilometre (sq km) with a population of 17.30 lakh (per 2011 census). Being the municipal corporation of the largest city of Andhra Pradesh, GVMC is of strategic and economic importance to the state. Visakhapatnam has good infrastructure and a strong track record in terms of coverage and service delivery and a high level of industrialisation with

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

Visakhapatnam being a hub for industrial set-ups. The corporation has solid waste collection coverage at 23%, water supply coverage at 99%, stormwater coverage at 80%, and sewerage coverage at 60%. Though there are shortfalls in the coverage of civic amenities provided by the corporation, the corporation has been incurring capex for the improvement.

Trustee-administered SPM with priority for servicing of bonds

GVMC has an SPM through the 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) daily. CARE Ratings Limited (CARE Ratings) notes only 50% collections under property tax are free from charge. SPM's salient features are as follows –

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

The surplus funds after meeting the minimum balance can thereafter be transferred to the GVMC General Fund account. The debenture trustee shall have a lien on the IPA, DSRA and SFA for the exclusive benefit of 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 a high proportion of own revenue

The corporation has reported consistent growth in revenue receipts over the last few years with a gradual increase in property tax revenue and non-tax revenue components. In FY24, GVMC reported a de-growth of 3% in adjusted revenue receipts (adjusted for incremental debtors) mainly led by a decrease in the assigned revenue. GVMC continues to be a self-reliant entity with ~94% revenue coming from its own sources in FY24 (against ~91% in FY23). The balance pertains to revenue share received from the state government, which mainly comprises a share in property registration charges shared with the state government.

The corporation reported a de-growth of 2% in revenue receipts from ₹516 crore in H1FY24 to ₹504 crore in H1FY25. However, overall financial performance continues to remain satisfactory.

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 ₹175 crore in FY24 against ₹344 crore in FY23. This was mainly led by a reduction in assigned revenue and higher operation and maintenance expenditures. The higher maintenance expenditures are considering payment to the labour cost towards the contract workers for the G20 summit held in FY24. This is expected to normalise from FY25. The revenue surplus improved in H1FY25 to ₹188 crore against ₹123 crore in H1FY24. This was due to the reduction in operations and maintenance expenditure from ₹358 crore in H1FY24 to ₹280 crore in H1FY25. The corporation's collection efficiency is satisfactory at ~76% for the last three years (FY22-FY24).

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 ₹167 crore as on March 31, 2024 (against ₹244 crore as of March 31, 2023), and sustained revenue surplus resulted in comfortable debt coverage metrics. In FY24, GVMC prepaid debt of ₹70 crore from HUDCO. Debt/revenue receipts were satisfactory at 22% for FY24. GVMC has not proposed large debt-funded capex/other additional borrowing, and a change in the stance from this impacting the coverage/liquidity is a key rating sensitivity.

Sustained capital expenditure

The corporation's capital expenditure is mainly incurred towards the development of civic amenities and infrastructure projects and has been fairly steady over the years. In the last few years, the majority capital expenditure undertaken by the entity has been funded through a mix of the raising of debt, grants received and revenue surplus/available cash balance.

The corporation has undertaken capex pertaining to the development of a 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), Greater Visakhapatnam Smart City Corporation Limited (GVSCCL). GVSCCL has been formed and GoAP in 50:50 ownership. Phase I and Phase II are under implementation and are expected to be completed by December 2025.

Key weaknesses

Limited autonomy with dependence on state government for reforms

GVMC has limited autonomy in the implementation of reform with key decisions like property tax revision implemented by the state government. Property taxes have been revised after over 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 the corporation's sustenance.

Long pending disputed debtors

The corporation has debtors aggregating ₹737 crore as on March 31, 2024 (against ₹758 crore as on March 31, 2023). These majorly include the levy of property tax and vacant land tax and fees and user charges on vast land parcels/properties owned by the steel companies, particularly Rashtriya Ispat Nigam Limited (RINL). However, the corporation has not been able to recover the dues considering litigations with the matter pending in court for resolution. Also, per the Visakhapatnam Municipal Corporation Act, the entity cannot write off debtors, which has resulted in the accumulation of debtors over the years.

Liquidity: Strong

GVMC's liquidity position is strong with adequate revenue surplus, sufficient cash and a balance of ₹1,046 crore as on July 31, 2024 (₹1,148 crore as of March 31, 2023), against a term loan repayment of ₹6 crore in FY25 and staggered repayment obligation for the bonds issued with 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% 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) daily.
- 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 (total income – total expenditure + depreciation).

Interest payment and principal repayment mechanism

T = Bond payment date

Date	Event	Measure if a shortfall occurs
Interest Payment Account		
T-30	Trustees will check the amount in the 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 the amount in interest Payment	Trustees will trigger the payment mechanism and the bank will be instructed to transfer the shortfall amount from DSRA to the interest payment account within T-15 days Withdrawal from DSRA should be deposited back into the account within the next 21 working days. In the case of the use of DSRA for funding 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 the redemption date.
T	PMC shall repay the principal	

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

Macroeconomic 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 ~9.69 lakh per the 2001 census. The GoAP reconstituted the entity in 2005 by extending the jurisdiction and merging the adjoining Gajuwaka Municipality and surrounding 32-gram panchayats to form GVMC. The area under GVMC has been divided into eight 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)	FY23 (A)	FY24 (A)	H1FY25 (Prov.)@
Reported revenue receipts	1,031	980	504
Reported revenue surplus	366	154	188
Revenue surplus**	344	175	188
Revenue surplus/Revenue receipts (%)**	34%	17%	37%
Own revenue/Revenue receipts (%)	91%	94%	87%

A: Audited; Prov.: Provisional

**Adjusted for incremental debtors and excluding depreciation

@On receipt basis.

Note: 'The above results are 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: Annexure-2

Detailed explanation of covenants of rated instrument/facility: 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds	INE423G07051	December 21, 2018	9.50	December 2028	80.00	CARE AA; Stable
Bonds Proposed	-	-	-	-	20.00	CARE AA; 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 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	100.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-24)	1)CARE AA; Stable (25-Jan-23)	1)CARE AA; Stable (31-Jan-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short 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	Bonds	Simple

Annexure-5: Lender details: Not applicable

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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