

Tiruppur City Municipal Corporation

April 03, 2025

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

Details of instruments/facilities in Annexure-1.

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

The rating assigned to proposed bonds of Tiruppur City Municipal Corporation (TCMC) factors in the proposed Trustee-administered structured payment mechanism (SPM) for bonds through the creation of an escrow account of designated revenue collections, with priority for servicing proposed bonds, and stipulated reserves to be maintained in the form of debt service reserve account (DSRA), an interest payment account (IPA) and a sinking fund account (SFA). The rating also takes comfort from the payment security guarantee fund (PSGF) of ₹10.4 crore, which can be used to replenish shortfall in the IPA/SPA. PSGF is a non-lapsable fund created by the GoTN to provide grants for implementing urban infrastructure projects in Tamil Nadu and is managed by Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL). This PSGF will be lien marked and will be kept as collateral in the form of security for the bondholders for servicing bonds in the tenor.

TCMC 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 TCMC comfortably covering it.

The rating also factors in the corporation's satisfactory financial profile with consistent growth in revenue receipts (RR) reported y-o-y, with strong collection efficiency and adequate own revenue share (64%). Led by increase property tax and State Finance Commission, TCMC's revenue receipts grew from ₹212 crore in FY22 to ₹359 crore in FY24. The government of Tamil Nadu has passed a government order (GO) to revise property tax rates every year at a flat 6%, and the same is expected to aid TCMC in revenue growth. Tiruppur is major city in Tamil Nadu and is a key economic hub and a vital centre for the textile industry, making it strategically important to the state. This is reflected by timely receipt of revenue grants as well as capital grants from GoTN. The rating also factors in the satisfactory service delivery track record parameters.

However, the rating is constrained by TCMC's limited autonomy in levying taxes, a relatively modest economic base, and its dependence on state government grants. Additionally, the corporation experienced financial volatility, with a revenue deficit recorded in FY23 due to a one-time increase in O&M charges. Nevertheless, TCMC reported a surplus in FY24, and this positive trend is expected to continue moving forward.

The rating is provisional and will be confirmed once the company submits the following documents to the satisfaction of CARE Ratings Limited (CARE Ratings):

- Transaction documents including debenture trust deed.
- Escrow agreement.
- Final Information memorandum

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the size of the corporation with a sustained revenue surplus.

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

Negative factors

- De-growth in revenue surplus on a sustained basis.
- Significant Increase in debt levels, impacting the liquidity profile.
- Non-adherence to the SPM per the Debenture Trust Deed (DTD) and/or non-maintenance of the stipulated DSRA/sinking fund balances.

Analytical approach:

Standalone, including trustee-monitored structured payment mechanism involving escrow of property tax revenue with priority towards debt servicing of bonds, creation of IPA and SPA and DSRA provision for three semi-annual interest payments.

Outlook: Stable

TCCM 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****Trustee-monitored SPM**

TCCM would follow the SPM. under the SPM, collections under revenue heads of property tax and fee and user charges shall be transferred to the separate escrow account daily with priority for servicing of bonds. Salient features of the SPM include:

- 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. This includes the interest and debt repayment components.
- Firstly, build up shortfall in the DSRA account (at all times the DSRA should be maintained as three half-yearly interest payments).
- Secondly, the IPA shall receive transfers in a structured manner, where half-yearly interest amount will be divided into five equal parts, with each part being transferred to the IPA every month for the first five months. Consequently, 20% of the half-yearly coupon payment, and additional interest payable per terms of the issuance and shortfall from previous contributions, shall be transferred to the IPA each month as follows:
 - for the 1st half-year, from the 1st to the 5th month.
 - for the 2nd half-year, from the 6th to the 10th month.
- Thirdly, transfer of funds to the SFA shall be done in a structured manner, with the total issue size of debentures (₹100 crore) divided into 10 equal parts of ₹10 crore, each to be transferred annually to the SFA over 10 years. Each annual transfer of ₹10 crore shall be subdivided into ten equal sub-parts of ₹1 crore, which shall be transferred to the SFA every month for the first 10 months of each year. Accordingly, 10% of the total issue size shall be transferred annually over 10 years, with 10% of this amount being transferred each month for the first 10 months of each year. In the event of shortfall in funds available in the escrow account to complete these transfers, the Issuer shall make good the deficit by transferring funds from other account(s) of the Issuer.
- Surplus funds after meeting the minimum balance can thereafter be transferred to the TCCM general fund account.

Total amounts collected in the escrow account in any financial year shall be at least 2x the annual payments amount (coupon + principal amount to be deposited in the sinking fund).

The Issuer shall establish a separate no-lien escrow account, and all funds collected and/or pooled in the account(s) where the Property Tax - Revenue Fund, and other tax revenues and Fee and user income, is deposited (collection account(s)), shall be transferred daily to the escrow account for debt servicing. The debenture holders or the debenture trustee, acting on their behalf, shall have the first and exclusive charge over both the escrow account and the account(s) where the Property Tax - Revenue Fund and other related revenues are collected and/or pooled by the Issuer.

PSGF, a Grant Fund of Government of Tamil Nadu and managed by TNUIFSL, shall create a term deposit in the name of PSGF equivalent to ₹10.4 crore with the Trustee Banker / Escrow Banker of the municipal bond issue of the Corporation as Credit Enhancement Facility under World Bank assisted Tamil Nadu Resilient Urban Development Program (TNCRUDP) for the issuance of municipal bond ("PSGF Amount"). The Debenture Trustee (on behalf of bond holders) shall have First & Exclusive charge over the Project Sustainability Grant Fund (PSGF Amount) term deposit created for this bond issue.

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

The Debenture Trustee, on behalf of debenture holders shall have an exclusive first ranking charge over the escrow account and the account(s) where the property tax (or other tax levied in place of property tax) and fees and user charges, is being collected/pooled by the Issuer (specifically defined ones), the IPA (including the DSRA Amount), SFA and Permitted Investment(s) made from these account(s) for the exclusive benefit of the Debenture Holders(s).

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. Any surplus in the above account(s) after the Debentures have been redeemed in full and dues to the Debenture Holders have been paid can be transferred to the escrow account after obtaining written consent of the Debenture Trustee: No amount can be withdrawn from these account(s) without the approval of Debenture Trustee.

Satisfactory financial performance

The corporation has experienced a consistent increase in revenue receipts in the last few years. In FY23, there was a significant rise in property tax revenues due to a revision in property taxes and an increase in grants. Revenue receipts grew from ₹212 crore in FY22 to ₹359 crore in FY24. For FY24, own revenue accounted for 65% of total revenue receipts. Historically, the share of own revenue has ranged between 60-70% and is expected to remain within this range going forward. The remaining 35% of revenue receipts is derived from grants. The Government Order (GO) issued by the GoTN to revise property tax rates annually by a flat 6%, effective from October 2024, is anticipated to further enhance tax revenue growth. The corporation has reported a revenue surplus of ₹101 crore, which is expected to remain consistent in the future.

The collection efficiency of the corporation has stood at an average of 98% for the last two years FY23 and FY24. In the last three years, the demand stood at ₹437 crore and the corporation collected ~₹429 crore, which translates to a collection efficiency of 98%.

Comfortable capital structure

As of March 31, 2024, TCMC holds a debt of ₹252 crore, which is attributed to term loans from the Go TN and state government bodies / departments. The repayment of these loans is facilitated through deductions from grants receivable from the GoTN. Apart from the proposed bonds, no further debt is anticipated going forward and the capital expenditure is expected to be funded from capital grants.

Satisfactory operational track record with current focus on Underground Sewerage Scheme

TCMC has satisfactory service level benchmarks but there is a scope for improvement. Around 100% of the population has access to piped water supply. The present per capita water supply is 125 Liters Per person Capita per day (LPCD) against the target of 135 LPCD. The sewerage coverage is 60% whereas the solid waste coverage is ~100%. Existing underground sewerage system covers ~60% of the Municipal limits with only 120 Km of sewer collection system and Sewage Treatment plant of 15 MLD capacity. Towards its improvement, TCMC has drawn a capex.

Key weaknesses

Moderate economic base

Tirupur had a gross domestic product (GDP) of US\$6.49 billion as of 2020. The economy of Tirupur highly depends on textiles and is known as "knitwear capital of India" and is a major source of hosiery, sportswear, and casual wear. Tirupur accounts for

90% of India's cotton knitwear export. The city's textile industry has an export turnover of ₹35,000 crore and a domestic trade value of ₹25,000 crore per annum.

Fluctuating revenue surplus

There was a revenue deficit recorded in FY23 considering charges paid to metro water board for ongoing restoration works for the underground drainage (UGD) project. However, the maintenance charges paid to metro water board has normalized from ₹91 crore in FY23 to ₹18.66 crore in FY24, and the corporation has recorded a revenue surplus of ₹101 crore.

Liquidity: Adequate

TCMC's liquidity position is adequate with satisfactory revenue surplus against nil debt repayment obligation. The repayment of the proposed bond of ₹100 crore is stipulated to commence from the sixth year of the deemed date of allotment. TCMC is expected to maintain DSRA, a sinking fund in the form of a fixed deposit for the proposed bonds. As on September 30, 2024, the cash and bank balance of TCMC stood at ₹288 crore.

Assumptions/Covenants:

- DSRA of three semi-annual coupon payments have to be maintained.
- Total tax amounts collected in the escrow account in financial year will be at least 2x the amount of the annual payments (coupon + principal amount).
- Interest payment and principal repayment mechanism:

Date	Event	Measure if a shortfall occurs
Interest Payment Account		
T-25	Trustees will check the amount in the Interest Payment Account (over and above the Required DSRA Amount)	Intimate TCMC to make good for the shortfall in the interest payment account 15 days before the coupon payment date.
T-14	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 eight days before the coupon payment date. Withdrawal from DSRA should be deposited back into the account before T.
T	TCMC shall pay the coupon on the due date	-
Sinking Fund Account		
T-25	Trustees shall check credit in the sinking fund	Intimate TCMC (and GoTN shall be informed by marking a copy to GoTN) of the shortfall and TCMC shall make good the shortfall before the date falling 15 days before the end of each 12-month block (T-15 days).
T-14	Trustee shall trigger the payment mechanism and issue notice to the issuer and inform Govt. of TN by marking a copy of the notice.	The Escrow banker is issued notice for blocking the collection of funds being received in escrow account till such time the shortfall is not met.
T	TCMC shall pay the redemption amount on the relevant Redemption 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 Provisional Rating:

Provisional rating shall be converted into a final rating after receipt of transaction documents duly executed/ completion of mentioned steps within 90 days from the instrument's date of issuance. 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, it is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of critical documents to the satisfaction of CARE Ratings, the final rating is assigned. In absence of documents/ completion of steps or where such documents deviate significantly from those considered, provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Public services	Urban local bodies

Located in Coimbatore, Tiruppur is one of the most important industrial centres of Tamil Nadu. Tiruppur started off as a small union and became a town with the inclusion of Thennampalayam, Karuvampalayam and Valipalayam villages on 1st of December 1917. The town was upgraded as a City Municipal Corporation in Tamil Nadu from January 01, 2008 and 15 village panchayats are merged with Tiruppur City Municipal Corporation on October 25, 2011. The total area of the corporation is 159.35 Sq.Km with 60 wards. Total population per 2011 census is 8,77,778. The economy of the town revolves around manufacturing hosiery and cotton products.

The executive power of the TCMC is vested in the Municipal Commissioner, an Indian Administrative Service (IAS) officer appointed by the GoTN. Major civic services provided by the corporation are water supply, underground sewerage, solid waste management, maintenance of roads, drains, streetlights, one municipal school, and public conveniences.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Revenue Receipts	315	357
Reported Revenue Surplus [^]	(62)	101
Revenue Surplus ^{**}	(62)	112
Revenue surplus/Revenue receipts (%) ^{**}	(19.78)	31.44
Own revenue/Revenue receipts (%)	69.05	64.67

[^]Before Depreciation; ^{**}Adjusted for incremental debtors

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: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds		-	-	-	100.00	Provisional 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	Provisional CARE AA-; Stable				

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	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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Disclaimer:

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