

## Nagpur Municipal Corporation (Revised)

November 22, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	200.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
<b>Total Bank Facilities</b>	<b>200.00</b> <b>(Rs. Two Hundred Crore Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of Nagpur Municipal Corporation (NMC) continues to derive strength from stable financial profile of the entity backed by growth in revenue receipts over the years and consistent revenue surplus reported by the Corporation. The Corporation has vast economic base and has been focusing on asset creation and improving service delivery benchmarks while maintaining sustainable debt level. The city has been selected for Smart Cities and AMRUT programme and the development of infrastructure under this is expected to stimulate economic activity in the region. The rating also factors in stable financial performance during FY21 (refers to period April 01 to March 31) despite slowdown in economic activities due to covid pandemic impacting the own revenue source. The rating is, however, tempered by the low self-reliance of the corporation given the higher share of grants in its revenues, low collection efficiency and shortfalls in the civic infrastructure and need for reforms/measures in the area of financial accounting with the corporation yet to adopt a double entry system of accounting.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Growth in size of the Corporation with sustained revenue surplus
- Improvement in property tax collection efficiency above 50% on sustained basis
- Improved service delivery benchmarks to 90% and above on sustained basis
- Availability of audited financial statements

#### **Negative Factors- Factors that could lead to negative rating action/downgrade:**

- De-growth in revenue surplus
- Significant and sustained delays in receipt of revenue grant from State Government

### Detailed description of the key rating drivers

#### Key Rating 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 development of the infrastructure base in the city. The level of industrialization of NMC is moderate with gradual development of various industrial set ups and level of industrialization at about 65%.

**Improved revenue receipts and surplus during FY21:** The Corporation has reported continuous growth in revenue receipts and reported revenue surplus on a consistent basis over the past 5 years. During FY21 (RE), revenue receipts of the corporation has grown by 6% with improved revenue grant and tax revenue marginally offsetting the decline in non-tax revenue. Revenue grants and tax revenue together comprise 82% of overall revenue receipts for FY21. The non-tax revenue reported decline of 24% in FY21 due to reduced revenue from function groups such as planning & regulation, public works & civic amenities, revenue & tax and health. Lower construction activity was permitted during FY21 due to covid which resulted in lower fees & user charges. With growth in revenue receipts and stable revenue expenditure, the Corporation reported about 25% growth in revenue surplus during FY21. The expenditure remained stable, despite higher expenses on healthcare due to pandemic. The covid related expenses have been met through grants received.

**Focus on capital asset creation and comfortable debt coverage indicators:** The corporation has been focusing on capital asset creation. Capital outlay accounts for around 80% of total capital expenditure in FY21(RE). NMC has reported consistent increase in capex over the past 5 years with focus on improvement in the civic infrastructure of the city and cater to the requirement of increased industrialization. Capital Expenditure witnessed marginal

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

contraction of 6% in FY21 due to slowdown in execution with covid induced lockdown. On an average, the corporation has been receiving 50-60% of the capex funding through grants with balance funded through debt and revenue surplus.

However, the debt levels have remained range bound (between Rs.250 crore to Rs.300 crore) for the Corporation. The debt outstanding as on Mar 31, 2021 as a proportion of revenue receipts stood satisfactory at 13.64% NMC has raised debt for various projects such as Pench water project under JNNURM, cement road project, AMRUT water supply project, LED light project and shifting of electric pole/pillar project. The debt coverage indicators of NMC is expected to be comfortable in coming years.

**Reforms oriented administration:** Various reforms and measures have/are been undertaken to increase revenues especially in the area of property tax (GIS mapping, property tax collection app for the corporation to easily assess and track property tax dues, on line assessment and payment of property tax dues). In addition, it has digitized operations such as online platforms for shop license registration, POS machines to make tax payments, online assessments and payment of taxes among others.

### Key Rating Weaknesses

**Cash based system of accounting:** The corporation has not been maintaining a double entry based system of accounting as is stipulated by the National Municipal Accounting Standards.

**Low self-reliance with lower proportion of corporation's own revenue:** The corporation has low self-reliance on its own sources of revenue. Tax revenue comprises property tax revenue, water tax and others accounts to around 9-12% of total revenue receipts. GST grants has been major revenue contributor with 70% share in revenue receipts. The own revenue share to overall revenue receipts has been low at 29% in FY21. The Corporation is dependent upon timely receipt of GST grants from the State and any delay in the same might impact the overall financial profile. There has been no delay witnessed in receipt of the GST compensation with timely receipt witnessed during even during covid-19 pandemic. Continuity of same would be important given low own revenue base.

**Low collection efficiency:** The collection efficiency of the property tax has been low and declined substantially to 25% in FY21 (from 30% in FY20). On an overall basis, the property tax collection efficiency has witnessed moderation due to increased base with introduction of retrospective tax on properties that were not included under property tax assessment earlier. Further, a sizeable portion of the arrears in on account of central government properties, where collection has been a challenge. Pandemic has impacted the collection efficiency in FY21. Various reforms have been undertaken to improve property tax revenues of the corporation including GIS mapping for properties.

**Shortfalls in civic infrastructure:** There exist shortfalls in civic infrastructure - low storm water drainage and water supply coverage. However, all the households are covered under solid waste collection.

**Liquidity - Adequate:** The Corporation has been reporting consistent revenue surplus which along with low debt level has resulted in a satisfactory liquidity profile. The Corporation has overall free cash and bank balance of 728.32 as on August 31, 2021 lying in various accounts of corporation & Fixed Deposit Receipts (FDRs) of Rs.283 crore as on Oct.29, 2021.

**Analytical approach:** Standalone

### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Urban Infrastructure Projects](#)

[Financial Ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

### About the Company

Nagpur Municipal Corporation was established in March 1951. The Corporation is governed as per the City of Nagpur Corporation Act, 1948. The area under NMC is currently divided into 10 zones. It has a coverage area of 217.56 sq. km with a population of 24.06 lakh (2011 census).

Nagpur Improvement Trust (NIT) works with NMC and carries out works like development of the civic infrastructure and new urban areas on behalf of NMC.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (RE)	H1FY22
Revenue Receipts	1742	1848	Not Available

Brief Financials (Rs. crore)	FY20 (A)	FY21 (RE)	H1FY22
Revenue Surplus	429	534	
Revenue Surplus/Revenue Receipts (%)	25	29	
Own Revenue/Revenue Receipts (%)	31	29	

A: Actuals; RE: Revised Estimates

**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 facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	October 2027	200.00	CARE A-; Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	200.00	CARE A-; Stable	-	1)CARE A-; Stable (18-Dec-20)	1)CARE A-; Stable (18-Dec-19)	1)CARE A-; Stable (18-Dec-18)

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

#### Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

#### Annexure 5: Bank Lender Details for this Company

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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