



Credit Rating Toolkit for Urban Local Bodies



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Ministry of Housing and Urban Affairs
Government of India

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Foreword



Sustainable and planned urbanization holds the key to continued economic prosperity and vision of 'Viksit Bharat by 2047'. Planned urbanization would require substantial investments in urban infrastructure and service delivery of civic amenities. For funding, Urban Local Bodies (ULBs) are largely reliant on centre and state government grants along with their own source revenues. Considering the vast investment requirements, ULBs need to tap into market-based financing and commercial

borrowings.

In order to support the ULBs to access the market-based financing for urban infrastructure, Government of India has announced the setting up of Urban Challenge Fund (UCF) of ₹1 lakh crore for projects related to 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation'. UCF will finance up to 25% of the cost of bankable projects subject to at least 50% of the cost being funded from commercial financial instruments such as municipal bonds, bank loans, or Public Private Partnerships.

For accessing commercial finance including bank loans, credit rating is often a pre-condition. A strong credit rating - reflects a city's sound financial health, debt servicing capacity, institutional maturity and better governance standards – thereby enabling lower cost commercial borrowing.

For providing the initial guidance to cities on the process for getting a credit rating, the Ministry has prepared this toolkit. The document details the process adopted by credit rating agencies for evaluating ULBs' debt repayment capacity and assigning credit ratings.

I would like to thank our knowledge partner, Janaagraha Centre for Citizenship and Democracy for working with the Ministry for preparing this toolkit. I would also like to thank SEBI, credit rating agencies, and multilateral financial institutions with whom extensive consultations have been done by the Ministry.

I hope that State governments and cities will find this toolkit an easy reference tool as they undertake steps to unlock commercial finance for urban infrastructure.

(D. Thara)

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Abbreviations

CAFO	Chief Accounts and Finance Officer
CAGR	Compound Annual Growth Rate
CRA	Credit Rating Agency
DCB	Demand Collection Balance Register
DPR	Detailed Project Report
DSCR	Debt Service Coverage Ratio
DSRA	Debt Service Reserve Account
FD	Fixed Deposit
FY	Financial Year
GDP	Gross Domestic Product
GST	Goods and Services Tax
HUDCO	Housing and Urban Development Corporation
IFC	International Finance Corporation
IIFCL	India Infrastructure Finance Company Limited
ILMDS	Issue and Listing of Municipal Debt Securities
INR	Indian Rupee
IPA	Interest Payment Account
ISIN	International Securities Identification Number
Ind-Ra	India Ratings and Research
LT	Long Term
MDB	Multilateral Development Bank
MoHUA	Ministry of Housing and Urban Affairs
NCD	Non-Convertible Debenture(s)
OSR	Own Source Revenues
PPP	Public Private Partnerships
RBI	Reserve Bank of India
SCB	Scheduled Commercial Bank
SLB	Service Level Benchmark
SEBI	Securities and Exchange Board of India
SPM	Structured Payment Mechanism
ULB	Urban Local Body

1. Context and Overview

1.1. Background

India's cities and towns require substantial investments in infrastructure to ensure planned and sustainable urbanization, meet the aspirations of its urban population as well as facilitate continued economic growth. At present, Urban Local Bodies (ULBs) largely rely on Central and State Government grants and, to a limited extent, their Own Source Revenues (OSR) for undertaking capital expenditures. But considering the vast investment requirements across all key sectors, there is a growing need for ULBs to mobilise market-based financing to bridge this investment gap.

Recognising this need, as announced in Union Budget 2025-26, the Government of India shall be setting up the Urban Challenge Fund (UCF) of INR 1 lakh crore to incentivise market-based financing of urban infrastructure projects related to creative redevelopment of cities, water and sanitation, and cities as growth hubs. UCF aims to finance up to 25 per cent of the projects' cost subject to ULBs funding at least 50 per cent of the project's cost from commercial financial instruments like municipal bonds, bank loans, or Public-Private Partnerships.

1.2. Objective

Market-based financing of infrastructure projects includes both debt and equity instruments (such as equity investments by private sector in PPPs). In terms of debt financing, ULBs can mobilise commercial debt either as **loans** from Scheduled Commercial Banks (SCBs), Multilateral Development Banks (MDBs), financial institutions like HUDCO, IIFCL, NaBFID, etc., or as **municipal bonds** (including green bonds). For ULBs planning to issue municipal bonds or avail large ticket-size loans or loans from certain private-sector SCBs, getting their creditworthiness evaluated from a registered Credit Rating Agency (CRA) is a prerequisite.

This toolkit aims to provide guidance to ULBs on the credit rating process. It is aimed primarily at municipal officials – especially Municipal Commissioners, Executive Officers, Finance and Accounts personnel – to provide a comprehensive overview of the steps, documentation requirements, and methodologies employed by CRAs.

2. Role and Types of Credit Ratings

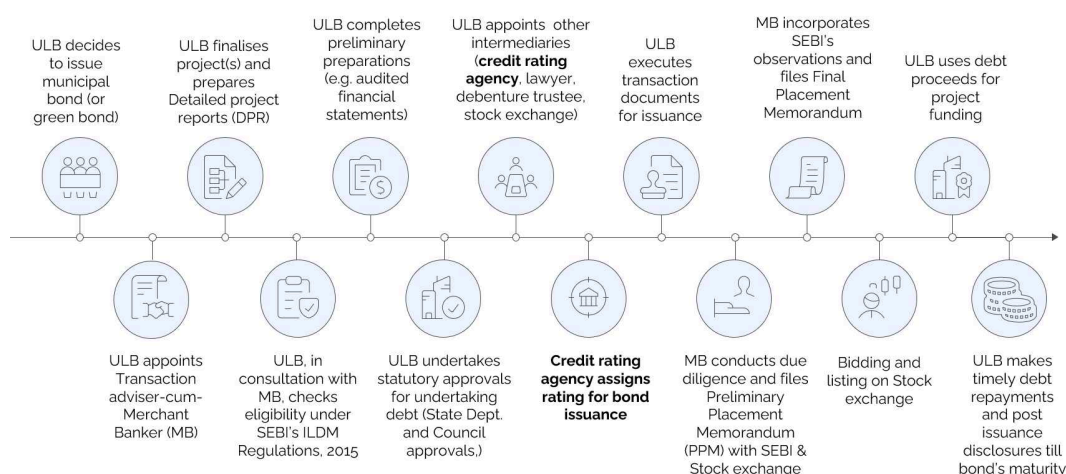
Credit rating is an independent opinion by CRAs on an entity's ability and willingness to repay their debt service obligations which includes both interest payments and principal repayments.

Credit ratings are generally categorized into two types: i) issuer rating and ii) instrument rating. The rating methodology applied to both types is fundamentally similar. Issuer ratings are standalone assessments of entities like ULBs which evaluate an issuer's overall debt management ability over a medium-term horizon (usually three years). The issuer ratings typically remain valid unless withdrawn, subject to periodic surveillance by CRAs.

On the other hand, instrument ratings pertain to specific debt instruments, such as municipal bonds^[1] or term loans, and are assigned based on the instrument's structure (for bonds) and the terms and conditions (for loans) established for it. Instrument ratings are assigned after the bond/loan is structured and typically remain valid throughout the instrument tenure, subject to annual reviews by CRAs. The regulatory timeline for periodic surveillance is 15 months for bank loans, and 12 months for bonds, Non-Convertible Debentures (NCDs) and Commercial Papers (CPs).

As mentioned above, for ULBs exploring commercial debt options – either in the form of municipal bonds, green bonds or in certain cases, loans from select commercial banks, getting a credit rating assigned is a pre-requisite. For instance, SEBI (Issue and Listing of Municipal Debt Securities), Regulations, 2015 mandates that prospective municipal bond issuers need to get at least one credit rating assigned. As outlined in Figure 1, if a ULB is planning a municipal bond issuance, after appointing the Merchant Banker (MB), identifying and preparing the projects which would be financed under the bond issuance and completing all statutory approvals for undertaking debt (e.g., Municipal Council and State Government permissions), the ULB would need to appoint a CRA and get a credit rating assigned for the bond issuance.

Figure 1: Municipal Bonds Issuance Process



Source: Adapted and modified basis SEBI's Repository on Municipal Debt Securities

3. Process for Credit Rating Assignment

The credit rating process begins with the ULB appointing a CRA, followed by the CRA undertaking the rating process. There are seven CRAs registered with SEBI for credit ratings of municipal bonds, and six CRAs registered with RBI for bank loans (please refer Annexure 1 for the list of Registered CRAs in India). Annexure 2 presents the draft terms of reference for inviting applications from CRAs.

^[1] SEBI's Issue and Listing of Municipal Debt Securities (ILMDS) Regulations, 2015, requires at least one CRA to evaluate and rate any of the proposed municipal bonds. ULBs may change their rating agency after completing one assessment or engage multiple CRAs simultaneously. Each CRA may adapt a different rating methodology.

3.1. Coordination between ULB and Credit Rating Agencies

Generally, at the ULB level, the Accounts team led by the Chief Accounts and Finance Officer (CAFO) functions as the Single Point of Contact (SPOC) with the CRA. The SPOC coordinates with the CRA to provide them with the required documents and data.

3.2. Process for credit rating assignment and timelines for the exercise

The rating team collates relevant data and information (such as latest audited financial statements, data on performance against Service Level Benchmarks (SLBs), information on socio-economic parameters) from the ULB. The rating team then conducts its analysis and due diligence based on the data received to prepare an internal rating note, which is presented to the CRA's Rating Committee. The final rating is assigned by the Rating Committee and is communicated to the ULB before being made public. In case of timely receipt of all required information, CRAs can complete the credit rating exercise within two to four weeks. Figure 2 outlines the indicative process for assignment of a credit rating.

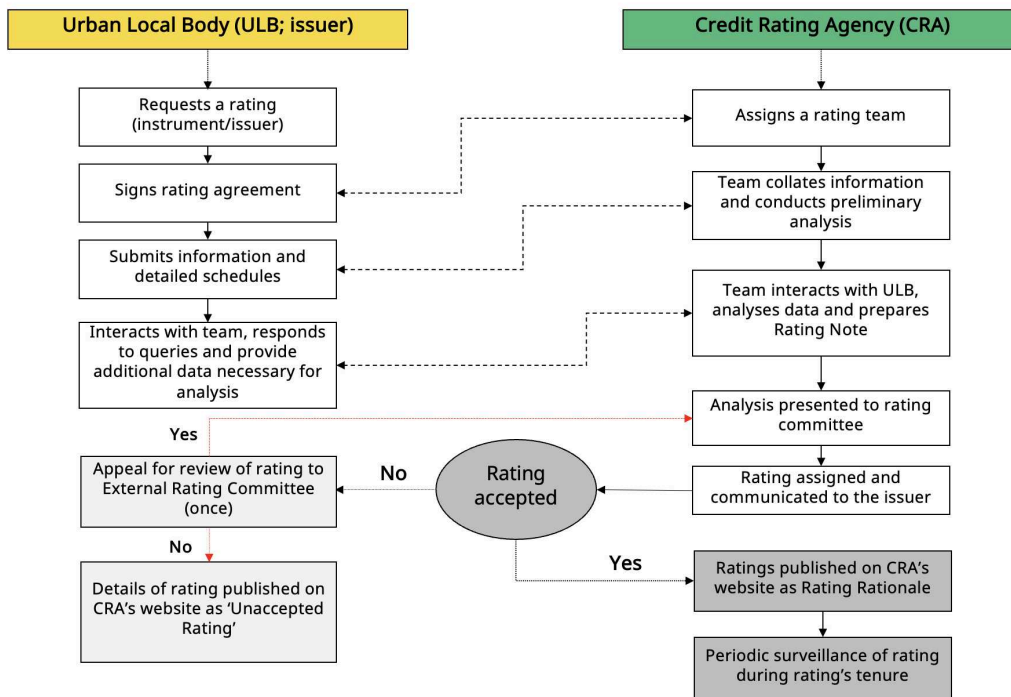
In case the ULB is not in agreement with the assigned rating, the ULB can file an appeal for a review of the rating and the representation is placed before the CRA's external rating committee. As per SEBI's Master Circular dated July 11, 2025, if a bond issuer requests a review or appeal of the rating(s) assigned to its security(ies), the case must be evaluated by a rating committee of the CRA comprising a majority of members different from those on the committee that assigned the earlier rating. Additionally, at least one-third of the members are required to be independent, i.e., individuals with no pecuniary relationship with the CRA or its employees. In case, the ULB does not accept the revised rating, the rating's letter grade (e.g., BBB- rating) is published on the CRA's website with a remark of 'Unaccepted Rating'.

3.3. Periodic surveillance post rating assignment

On acceptance of the rating and publication of rating rationale, the CRA conducts periodic monitoring of both issuer and instrument ratings to review fundamental factors, examine annual financials, engage with the ULB's management, and formally confirm the rating. During these periodic surveillance exercises, the CRAs may also upgrade or downgrade the rating based on developments – such as significant change in revenues due to political decisions, the introduction of large new loan or bond issue, or other relevant information – that may impact ULB's debt repaying capacity.

Surveillance fees are levied for periodic reviews and ULBs are required to submit relevant documents to the CRA for the periodic surveillance process. Failure to provide the necessary information or pay the fees may result in the rating being either withdrawn or marked as 'Issuer Not Cooperating'.

Figure 2: Indicative Credit Rating Process



Source: Based on credit rating methodologies employed by CRISIL Ratings and CareEdge Ratings

4. Methodology for Rating Assessments by CRAs

4.1 Parameters used by CRAs for rating assessment

While all CRAs have developed and follow their own rating methodologies for evaluating ULBs, this section attempts to outline the overall approach and parameters adopted by rating agencies. Rating assessment involves the evaluation of a combination of qualitative and quantitative parameters. These parameters can broadly be split across three groups – socio-economic, operating and financial parameters as outlined in Table 1 below.

Socio-economic parameters are used to assess a ULB's legal, administrative and economic profile, including its taxation and borrowing powers, relationship and dependence on State Government, predictability of grant transfers, its debt management capacities and accounting practices (e.g., double entry accrual accounting v/s cash based). Operating parameters are used to assess a ULB's service delivery standards and operating efficiency by evaluating the ULB's performance vis-à-vis SLBs for different civic amenities, project execution and management capabilities, and its ability to utilize capital receipts effectively. Financial parameters are used to analyze past financial performance and forecast future projections basis audited financial statements to evaluate revenue, expenditure, debt and asset management. CRAs also assess credit enhancement mechanisms (like escrow accounts and credit guarantees)

as well as government guarantees, and asset collaterals to evaluate financial strength of the issuer and degree of safety of the instrument. Annexure 3 lays out an indicative information checklist for ULBs outlining the data and documents sought by CRAs from ULBs for evaluating and assigning a credit rating basis these parameters. This information checklist has been prepared based on SEBI's repository on municipal debt securities.

Table 1: Indicative Parameters for ULBs' Credit Rating Assessment

Socio-Economic Parameters	Operating Parameters	Financial Parameters
Demographics and area covered, industrial and commercial activities, population growth rate, economic outlook	Service Level Benchmarks (SLBs) on coverage, collection efficiency, cost recovery, etc. for municipal services like water supply, sewerage, solid waste management, stormwater drainage, etc.	Audited annual financial statements for the past three years, including key financial ratios related to revenue, expenditure, debt, and assets
City's importance in the State, taxation powers, borrowing powers, overall debt management capability and accounting practices (e.g., double-entry system)	Project management capabilities and track record of execution, experience in recovering arrear collections	Credit enhancement measures (escrow mechanism and credit guarantees), government guarantees and assets offered as collateral

Source: Based on assessment methodologies of CRISIL Ratings and CareEdge Ratings

4.2 Credit rating scale

Credit ratings are often denoted in the following format: CRISIL AA+/Stable; Reaffirmed. The rating agency is listed first, followed by the letter grade rating and relevant suffixes. Table 2 presents the rating scale. These rating scales are specific to the Indian context only and are not directly comparable with international ratings. Annexure 4 presents two sample Rating Rationales (Issuer Rating for Navi Mumbai Municipal Corporation and Instrument Rating for Rajkot Municipal Corporation) for reference.

Table 2: Credit Rating Scale

Rating (Letter Grade)	Rating (Letter Grade)	Investment Grade
AA+	Highest level of safety	Investment grade rating
AA		
AA-		
A+	Adequate level of safety	
A		
A-		
BBB+	Moderate level of safety	
BBB		
BBB-		
BB+	Moderate risk of default	
BB		
BB-		
B+		
B		
B-	Highest risk of default	
C		
D	Default (downgraded in case of defaults on debt service obligations)	

4.3 Factors influencing the ratings

While ratings are influenced by a host of factors, ULBs can get a higher rating or get their ratings notched up (upgraded) by undertaking key reforms/interventions such as improving OSR by improving collection efficiency, increasing properties under their property tax net, revising user charges to improve cost recovery, consistent and timely debt repayment, better project management and execution record, etc.

Credit enhancement mechanisms can also improve a ULB's credit rating by indicating higher debt repayment capacity and increasing the likelihood of timely debt payment. For instance, municipal bonds have Structured Payment Mechanisms (SPMs) (as mandated by SEBI's ILMDS Regulations, 2015) which, inter alia, involve escrowing municipal cashflows (including property tax, user charges, transfers from State Government(s) and/or project-based revenues) in a designating escrow account to ensure timely debt repayment. From the escrow account, amounts equal to the periodic debt service obligations are routed to:

- i) an interest-payment account, which services coupon payments and maintains a Debt-Service Reserve Amount (DSRA), commonly equivalent to one year's interest and
- ii) a sinking fund account for accumulation towards principal repayment at maturity. Bondholders are accorded the first and exclusive charge over these escrowed accounts.

5. Annexures

Annexure 1: List of Registered Credit Rating Agencies

A. List of seven CRAs registered with SEBI (in case ULB is seeking credit rating for a municipal bond or green bond issuance)

1. CRISIL Ratings Limited
2. CareEdge Ratings Limited
3. ICRA Limited
4. India Ratings and Research Private Limited
5. Acuite Ratings & Research Limited
6. Brickworks Ratings India Private Limited
7. Infomerics Valuation and Rating Private Limited

Source: [Link to SEBI's website \(as on 27th July, 2025\)](#)

B. List of six CRAs registered with RBI (in case ULB is seeking credit rating for a bank loan)

1. CRISIL Ratings Limited
2. CareEdge Ratings Limited
3. ICRA Limited
4. India Ratings and Research Private Limited
5. Acuite Ratings & Research Limited
6. Infomerics Valuation and Rating Private Limited

Source: [Link to RBI's website \(as on 9th January, 2023\)](#)

Annexure 2: Draft Terms of Reference for Appointment of a Credit Rating Agency

A. Background (ULB to modify context as appropriate)

India's cities and towns are experiencing rapid urbanisation. To provide quality of life to its citizens and facilitate economic growth, Urban Local Bodies (ULBs) need to provide quality infrastructure and robust service delivery of civic amenities. In the past, ULBs have traditionally relied on Central or State budgetary transfers for funding urban infrastructure projects. But considering the vast investment needs of cities, budgetary transfers and cities' Own Source Revenues (OSR) will no longer be enough and there is a need to mobilise commercial borrowings (bonds or loans) to fund infrastructure projects.

B. Tasks

The (Name of the ULB) aims to issue municipal bonds/green loans/avail bank loans to fund key infrastructure projects in the city. A credit rating agency is to be appointed by the ULB to carry out the following tasks:

1. Rate the bond issue/loan instrument taking into consideration the project reports (where required), funding mix and the proposed structure of the issue (in case of bond issuance)
2. Communicate the rating in writing along with the rationale on which the rating is based
3. Provide the Full Rating Rationale for the ULB.
4. Undertake surveillance of the bonds on an annual basis (or earlier if warranted) and renew the rating until redemption of the bonds/loans.
5. **In case of municipal bond issuance:** Participate in pre-and post-issuance meetings with ULB, merchant banker, legal counsel to the bond issue, as and when required.

C. Credit Rating Agency's Proposal

The rating agency would be required to submit a detailed proposal including the following:

1. Experience in rating debt issues of State Governments, ULBs, along with some sample rationales
2. Methodology for rating debt issues by State Governments, and ULBs
3. Agreement to complete the exercise as per the ToR.
4. Time frame for completing the exercise
5. Specific deliverables (to comply with ToR, mentioning exclusions (if any))
6. Fees – both for initial rating and for annual surveillance.
7. **At the time of initiating annual surveillance:** List of information requirements

D. Deliverables:

The rating agency will provide the following deliverables:

1. Rating communication letter defining the detailed operation of the structure
2. Published Rating Rationale

3. Full Rating Rationale
4. Standardized reporting template for submitting the monthly no default statement
5. **At the time of annual surveillance:** Annual surveillance rating communication letter, and rationale

Annexure 3: Indicative Checklist on Key Information Required from ULBs by Credit Rating Agencies for Assessment^[2]

I. Legal & administration

- Organization structure
- Details of administrative division of service area i.e. number and size of each ward, employees dedicated to each ward
- Division of key responsibilities between governing body and administrative staff

II. Economic Base

- Geographic area and jurisdiction of operations
- Details about key industries/ services sector located in the ULB's service area.
- Details of major corporate investment in the service area
- Demographic profile
 - Current population and growth in population over the last five years.
 - Literacy rate
 - Percentage slum population in the service area
- Current tax base, rates and user charge rates for various services (maximum limits) and plans for revision

III. Reform Orientation

- Details of revisions in property tax rates, water charges and guideline values
- Current property tax rate structure and schedule of water charges
- Property tax assessment system and collection mechanism
- Initiatives taken by the corporation to improve property tax collections
- Write-up on e-governance initiatives of the corporation and level of computerisation
- Other key reforms undertaken or proposed by the ULB
- Current property tax rate structure and schedule of water charges
- Property tax assessment system and collection mechanism
- Initiatives taken by the corporation to improve property tax collections
- Write-up on e-governance initiatives of the corporation and level of computerisation
- Other key reforms undertaken or proposed by the ULB

IV. Financial Details

- Audited financial statements for the last five years along with details schedules
- Latest period financials
- Projected financials for the next 3 years/ Budget document
- Capital receipts and capital expenditure details (with break up) for the last five years.
- Coverage area details for property tax divided into residential, commercial and industrial categories.

^[2] Sourced from SEBI's Repository on Municipal Debt Securities. (https://www.sebi.gov.in/sebi_data/commondocs/jan-2023/Checklist%20for%20rating%20by%20Credit%20Rating%20Agency_p.pdf)

- Audited financial statements for the last five years along with detailed schedules
- Latest period financials
- Projected financials for the next 3 years/ Budget document(s)
- Capital receipts and capital expenditure details (with break up) for the last five years.
- Coverage area details for property tax divided into residential, commercial and industrial categories.

Cash and Bank Balance	
Free Fixed deposits (without any lien mark)	
Project specific cash balances	
Lien Marked FDs	
Any other liquid investments	

V. Capital expenditure details

- Write up on major capex plans (description, funding pattern, status, any project report available). Funding details may be provided in the following format)

As on	Status as on year T	T+1	T+2	T+3
Capex phasing				
Project				
Funding				
Own surplus				
Debt				
Grants/support from Government				

VI. Operating efficiency and service delivery

- Sewerage processing capacity in litres per day and coverage of underground sewerage systems
- Water supply capacity and availability in litres per day and coverage
- Details of solid waste generated, collected, segregated and disposed (scientifically)
- Latest service level benchmarking sheet
- Coverage/efficiency ratios (Level of industrialization, Water supply coverage, Solid waste collection, Sewerage coverage, Storm water drainage coverage)

- VII. Sanction letters for the existing loans, term sheet for proposed/existing instruments.
- VIII. Contact details of existing Bankers, Debenture Trustee and auditor (In case of municipal bonds)
- IX. Information Memorandum for proposed debt issuances (required in case of municipal bonds)
- X. Necessary approvals/clearances for fund raising programme (required in case of municipal bonds)
- XI. Other specific information, as necessary

Annexure 4: Sample Credit Rating Reports

A. Navi Mumbai Municipal Corporation's Issuer Rating (June 3, 2025)^[3]

India Ratings and Research (Ind-Ra) has affirmed Navi Mumbai Municipal Corporation's (NMMC) Long-Term Issuer Rating at 'IND AA+'. The Outlook is Stable. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Issuer rating	-	-	-	-	IND AA+/Stable	Affirmed

Analytical Approach

Ind-Ra continues to take a standalone approach while assessing NMMC's rating.

Detailed Description of Key Rating Drivers

Close Proximity with Financial Capital of the Country: Navi Mumbai was created with the primary objective of diverting population influx entering into Mumbai and to decongest the state capital. The city has attracted a substantial population by providing housing at affordable costs relative to other prominent areas in the vicinity such as Greater Mumbai. Rapid industrialization in the Trans Thane creek, which has more than 3,000 industrial units, and Taloja are the key drivers of economic activity in Navi Mumbai. The availability of dedicated and planned space for corporate offices, government offices and educational institutes, which, along with the city's civic amenities, continue to draw people from across the country. Navi Mumbai's population increased to 1.65 million in 2024 as per Department of Health Survey 2024 (Census 2011: 1.12 million). The number of households in the municipal area increased to 3,40,113 in FY24 from 3,25,712 in FY23. Ind-Ra believes the increase in population, and the resultant rise in housing requirements will not only add to Navi Mumbai's industrial and commercial activity, but also enhance NMMC's revenue generation potential over the medium to long term. The total revenue income of the corporation expanded at a CAGR of 8.38% over FY20 (audited)-FY24 (provisional).

Higher Own Revenue Sources - Credit Positive: The rating continues to reflect NMMC's ability to generate adequate revenue from its own sources to fund its revenue expenditure. The corporation's own revenue/total revenue income ratio stood at 92.58% as per FY24 provisional financials (FY23: 94.30%). The tax and non-tax revenue income constituted 77.91% and 12.91%, respectively, on average, of the total revenue income over FY20-FY24. Property, water and local body tax (LBT)/goods and services tax (GST) compensation were the key drivers of revenue from tax collections during this period. General property taxes grew 44% yoy to INR7,081.78 million in FY24 (FY23: INR4,910.03 million).

^[3] [Link to Navi Mumbai's issuer rating by India Ratings \(June, 2025\)](#)

The corporation expects collections to be higher in FY25, due to an increase in the number of assessed properties due to light detection and ranging survey initiated by NMMC to identify properties not on record. LBT was subsumed under the GST following the implementation of GST, effective 1 July 2017. Ind-Ra believes the resultant revenue loss has been mitigated by the timely compensation received by the corporation following the GST implementation. NMMC receives a monthly compensation of around INR1,350 million from the government of Maharashtra, which is subject to yearly revision of around 8% growth, as per the Maharashtra Goods and Services (Compensation to the Local Authorities) Act, 2017.

Consistent Revenue Surplus: Ind-Ra expects NMMC to maintain a comfortable revenue surplus over the medium term on the back of its healthy revenue receipts and well-managed revenue expenditures. NMMC's strong financial performance is reflected in its consistent revenue surpluses during FY20-FY24. The operating ratio (revenue expenditure/revenue income) dipped to 62.09% in FY24 (FY23: 66.51%), primarily due to considerable increase in property tax. Accordingly, the operating revenue margin was higher at 37.91% in FY24 (FY23: 33.93%). Sustained revenue surpluses enable greater financial flexibility to the corporation for funding capital expenditure through its internal sources.

Debt-free and Self-funded Capital Expenditure: Ind-Ra expects the Debt Service Coverage Ratio (DSCR) to remain strong over the medium term. The agency believes the corporation's requirement for additional borrowings will be limited in the medium term due to: a) fair performance on the achievement of service-level benchmarks in civic services delivery, b) a consistent revenue surplus leading to sizeable investments, and c) regular capital grants to fund infrastructure projects. NMMC repaid its debt completely in FY23.

NMMC is responsible for providing and managing a host of civic services and infrastructure in the city. The corporation's capital expenditure averaged 40.92% of the total expenditure over FY20-FY24; it increased to 40.81% in FY23 (FY23: 47.10%). The average capital utilisation ratio (capital expenditure/capital income) stood at 7.91x during FY20-FY24, indicating NMMC's self-sustaining and fund deployment capacity towards its capital expenditure.

Improvement Required in Overall Collection Efficiency: NMMC's performance on delivery of key urban civic services such as water supply, sewerage and solid waste management remain at or closer to SLBs for ULBs set by MoHUA.

Ind-Ra believes the corporation may have to undertake more initiatives to collect the arrears. However, there is a potential for an improvement in efficiency in the collection of property tax arrears. The current property tax collection for FY25 amounted to INR5,835.30 million and including arrears it amounted to INR8,051.60 million which was the highest for NMMC. The collection efficiency of current property taxes improved to 84.09% in FY25 on cash basis (FY24: 87.93%). However, the overall collection efficiency was modest at less than 30% during FY24 and FY25 due to accumulated property tax arrears (not all recoverable) against the demand raised.

The corporation has undertaken several measures such as online payment facilities, amnesty schemes for delayed payments from time to time and SMS services to improve the overall efficiency of property tax collections.

Liquidity

Superior:

NMMC generates adequate revenue surpluses to fund its capital expenditure. Also, as Navi Mumbai is a planned city, it does not require large periodic capital expenditure plans for its infrastructure development. The corporation has managed to accumulate healthy cash balances (FYE25: INR30,955.40 million; FYE24: INR26,794.60 million) over the years on account of sustained revenue surpluses, supported by moderate spending requirements on infrastructure projects and investments in fixed deposits. NMMC has repaid all its debt in FY23 and thus has no recurring debt obligation.

Rating Sensitivities

Positive:

This is not applicable as the corporation is the third tier of governance in India and would remain subject to policy initiatives and implementation at higher tiers of governance such as the state and centre. The state legislature can endow local bodies with power, authority and resources, as may be necessary, for carrying out specific activities/functions in NMMC area. NMMC's operational and financial profile is already factored into the rating, and as such, the issuer rating is already at the highest possible level.

Negative:

Deterioration in the revenue balance and an unexpected spike in the debt levels, leading to the worsening of the DSCR below 2x, on a sustained basis, could lead to a negative rating action.

Any Other Information

Not applicable

Status of Non-Cooperation with previous rating agency

Not applicable

About the Company

NMMC came into existence on 1 January 1992 and is the urban local body that is responsible for the maintenance of Navi Mumbai. It provides basic civic services and implements and monitors various developmental infrastructure projects in the city required to steer its economic growth.

Key Financial Indicators

Particulars	FY24 (Provisional)	FY23 (Audited)
Revenue income (INR billion)	29.38	24.97
Revenue expenditure (INR billion)	18.24	16.60
Revenue surplus (INR billion)	11.14	8.36
DSCR (x)	NM	6.71
Debt payment/revenue income (%)	NM	0.44
Source: NMMC, Ind-RaNM: Not meaningful as no debt		

Complexity Level of the Instruments

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook	
				5 March 2024	6 December 2022
Issuer rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable

B. Rajkot Municipal Corporation's Rating Rationale (November 5, 2024)^[4]

Rating Action

Rs.100 Crore Non-Convertible Debentures	CRISIL AA/Stable (Converted from Provisional Rating to Final Rating)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has converted its provisional rating on the Rs.100 crore non-convertible debentures of Rajkot Municipal Corporation (RMC) to a final rating of 'CRISIL AA/Stable' after receiving the documents executed for the transaction. The documents are in line with the transaction terms at the time of assigning the provisional rating. Hence, CRISIL Ratings has converted the provisional rating into a final rating.

As required, CRISIL Ratings has received the following final legal documents:

- Debenture trustee agreement
- Debenture trust deed
- Escrow agreement
- Issue proceeds agreement
- Final representation and warranties letter
- Final debenture trustee consent letter
- Final debenture trustee awareness letter
- Final term sheet

The rating reflects the strong creditworthiness of RMC, the strength of the trustee-administered escrow account and payment mechanism which incorporates upfront creation of liquidity (Rs 10 crore in the form of a fixed deposit for meeting the principal obligation), escrow of own tax and non-tax revenues, and the strength of the structured payment mechanism which will create liquidity for meeting the principal obligation 42 months before the due date. The rating also factors in liquidity in the form of Debt Service Reserve Account (DSRA) amounting to 12 months of interest obligation (refer to the annexure for the payment mechanism for coupon and redemption).

The rating also factors in the adequate financial risk profile of the corporation, backed by improved operations and operating surplus of Rs 155 crore in fiscal 2024 on account of revision in tax rate and user charges, supported by reforms undertaken by the corporation in the recent past, continued support from the government in the form of grants and compensation, comfortable liquidity, favourable economic base and sound service arrangements. These strengths are partially offset by modest cost recovery for the services provided and average (but improving) collection efficiency.

^[4] [Link to Rajkot's instrument rating by CRISIL \(November, 2024\)](#)

Analytical Approach

For arriving at the rating, CRISIL Ratings has applied its criteria on future flow securitisation.

Key Rating Drivers & Detailed Description

Strengths:

Strength of the escrow mechanism

The escrow and bond payment mechanism provides adequate strength to the bond issuance. The own revenue escrowed at collection, trustee-managed escrow mechanism and payment structure with recourse to the originator ensure sufficient safety for timely debt servicing. The corporation will escrow its own revenue and additionally create an upfront liquidity of 10% of the issue amount as a fixed deposit and the amounts from such fixed deposits shall be utilised for the purpose of principal payment. Also, the creation of a DSRA equivalent to annual interest payment before pay-in and its maintenance throughout the tenure further enhances the strength of the structure. The DSCR is expected to be high through the tenure of the instrument. Additionally, the principal amount, coupon payment and other charges will be secured through an exclusive first ranking floating charge over present and future receivables pertaining to own revenue. Non-adherence to the payment structure mechanism will be a key rating sensitivity factor.

Moderate operating performance

Revenue has grown in fiscal 2024 with pick-up in economic activity, increase in tax rates and improved collection efficiency. Operating surplus improved to ~Rs 155 crore in fiscal 2024 led by an increased growth in revenue income over expenditure. RMC is likely to maintain moderate operating performance over the medium term, backed by stable property tax collection, steady receipt of grants from the state government in lieu of octroi, and growth in non-tax income, primarily comprising fees and user charges, town development income and rental income. RMC reported revenue income of ~Rs 954 crore in fiscal 2024, with its own revenue comprising 75%, with the remaining derived from government grants. Revenue grew over 24% on-year amid various revenue augmentation initiatives taken up by the corporation, while expenditure grew ~9%. The operating performance is gradually improving, as the corporation collected Rs 386 crore in tax and around Rs 148 crore in octroi grants in fiscal 2024.

Comfortable financial risk profile

The healthy financial risk profile is reflected in above-average debt protection metrics, strong liquidity and negligible debt. The corporation is likely to fund most of its capital expenditure (capex) through internal accrual and grants. It had debt of Rs ~12 crore as on March 31, 2023, which reduced to Rs 1 crore as on March 31, 2024. Cash and bank balance of Rs 118 crore as on March 31, 2024, including the current accounts, support liquidity. Regular receipt of octroi compensation and capital grants from the state government will be monitorable.

Healthy economic base and moderate service levels

Rajkot is well known for its casting and forging industries and has around 500 foundry units. The city plays an important role in the complex supply chains of many global engineering companies that make electric motors, automobiles, machine tools, bearings and shafts. Rajkot is also famous for jewellery, silk embroidery and watch parts.

Service arrangements are characterised by 100% coverage of water supply, 92% coverage of sewage and 100% coverage of solid waste management.

Weaknesses:

Low collection efficiency of taxes and average cost recovery for services

Rajkot is well known for its casting and forging industries and has around 500 foundry units. The city plays an important role in the complex supply chains of many global engineering companies that make electric motors, automobiles, machine tools, bearings and shafts. Rajkot is also famous for jewellery, silk embroidery and watch parts.

Service arrangements are characterised by 100% coverage of water supply, 92% coverage of sewage and 100% coverage of solid waste management.

Large capex requirement and high dependence on the state government

RMC has planned capex of Rs 950-1,000 crore over the medium term. With operating surplus is projected at Rs 150-160 crore per annum, the capex is expected to be funded largely through grants, in line with the past, and partly through the surplus available with the corporation. However, with low operating surplus historically, the ability of the corporation to execute capital projects remains limited and depends largely on receipt of grants. Furthermore, after abolishment of octroi, the state government has been compensating the corporation for loss of revenue. The compensation contributed to around 16% of the total revenue receipts in fiscal 2024. RMC will continue to depend on compensation from the state government for its regular operating expenses.

Liquidity: Strong

Total cash and bank balance available with the corporation was Rs 118 crore as on March 31, 2024. The operating surplus is expected to remain stable at Rs 150-160 crore over the medium term against debt obligation of Rs 15-32 crore over the next two fiscals (including the sinking fund contribution). RMC is likely to maintain its healthy liquidity and continue to generate an operating surplus, which will be sufficient to meet its debt obligation and fund a portion of the capex.

Outlook: Stable

RMC will maintain its comfortable financial risk profile, supported by recovery in operating performance and stable liquidity.

Rating Sensitivity Factors

Upward factors:

- Sustained increase in revenue receipts at over 15% with steady operating surplus or revenue receipt ratio

- Improvement in collection efficiency and cost recovery of services

Downward factors:

- Sustained steep fall in revenue or large, debt-funded capex weakening the financial risk profile, with operating surplus to debt ratio below 0.2 time
- Irregularities or decline in grants from the state government and weakening support in terms of adequacy and timeliness of octroi compensation
- Non-adherence to the escrow and payment mechanism

About the Company

RMC is governed by the Bombay Provincial Municipal Corporation Act, 1949, as amended by the Government of Gujarat. It covers an area of 161 square kilometre and has a population of 1.4 million. The corporation is responsible for providing basic civic services, such as water supply, sewage management and solid waste management. It has an elected body, with the municipal commissioner as the administrative head.

Key Financial Indicators

As on / for the period ended March 31	Units	2024	2023
		Prov	Actual
Revenue receipts	Rs crore	954	772
Revenue surplus	Rs crore	145	39
Revenue surplus/revenue receipts	%	15%	5%

Any other information:

Annexure

Broad contours of the escrow structure pertaining to the current Rs 100 crore NCD issue are as follows:

- All funds as own revenue/cash flow (own revenue/cash flow here shall mean the revenue/cash flow being directly levied and collected/recovered by the issuer and not being the revenue/cash flow received from the government in the form of grants, contributions and subsidies, assigned revenue and compensation or others. The revenue/cash flow being directly levied and collected/recovered by the issuer includes tax revenue, rental income from municipal properties, fees and user charges, sale and hire charges). Collection accounts(s) shall be transferred to a separate no-lien escrow account for debt servicing. This transfer is done on a daily basis.
- Eligible bond holders and lenders shall have first and pari passu charge over the escrow account collections.
- The funds lying in the escrow account shall be used to meet the minimum balance required in the account. The surplus funds, after meeting the minimum balance, can thereafter be transferred to RMC on daily basis. The funds should be first utilised to accumulate the minimum balance in the escrow account. The surplus funds after

meeting the minimum balance can be transferred to the general fund account.

- Monthly contribution to be transferred from the escrow account to IPA (interest payment account) shall be calculated separately for each bond/NCD/loan facility as per the terms of the said issuance/facility.
- RMC shall open the following accounts for servicing the interest and principal of the proposed bonds for the exclusive benefit of the bond holders:
 - Escrow account
 - IPA – Series I (IPA - I)
 - Sinking fund account (SFA) – Series I (SFA - I)
- The IPA – I shall be funded one day before the pay-in date with an amount equal to annual interest payments for bonds referred to as DSRA amount.
- At the end of every month, the funds lying/deposited in the escrow account shall be used in the following priority:
 - First, to transfer funds to the respective accounts created for servicing of each loan/bonds.
 - Second, an amount equal to interest payment for one month to be transferred to the IPA, along with any further interest payable (by whatsoever name called) as per the terms of the issuance, and any shortfall in earlier contribution shall be transferred to the IPA.
 - At the end of each month, an amount equal to one-month equivalent of the redemption amount to be transferred to the SFA, and any shortfall in earlier contribution shall be transferred to the SFA.

Any shortfall in the above account(s) shall be made good by RMC by transfer from its other account(s).

- The amount deposited in the IPA and SFA shall be used solely for meeting the dues to the bondholders.
- No amount can be withdrawn from these accounts without the approval of the trustees to the bond holders.
- The issuer shall one day prior to the pay-in date, create upfront fixed deposit in terms of the transaction documents for an amount equivalent to 10% of the total bond issue size and the same will be used for principal repayment.

The principal amount of the debentures to be issued with all the coupon due on the debentures, as well as costs, charges, all fees, remuneration of the debenture trustee and expenses payable in respect thereof have been secured by way of exclusive first ranking floating charge over present and future receivables pertaining to its own revenue/cash flow.

Interest payment mechanism

– Interest payment date

Day	
T-25	The trustees shall check the amount in the IPA. In case of any shortfall, the trustees shall intimate RMC of the shortfall.
T-10	RMC shall make good the shortfall in the IPA, if applicable. Furthermore, the amounts lying or credited in the escrow account shall flow into the IPA for funding the shortfall and shall not be transferred by the issuer to the general fund account(s) till the time the shortfall is funded.
T-9	In case of shortfall, the trustee shall trigger the payment mechanism and instruct the bank to transfer the shortfall amount.
T-8	The bank shall transfer the shortfall amount from the IPA, if applicable
T	Interest payment is done.

DSRA

Day	
T-7	DSRA amount will be used to make the coupon payment in case of shortfall.
T	The issuer shall make good the DSRA amount shortfall within the next 15 days (T+8). Furthermore, immediately after the DSRA utilisation, the amounts lying or credited in the escrow account shall flow into the IPA for DSRA replenishment and shall not be transferred by the issuer to the general fund account(s) till the time the required DSRA amount is replenished.

Redemption mechanism

T – Redemption date

Day	
T-45	The trustees shall check the amount in the SFA. In case of any shortfall, the trustees shall intimate RMC of the shortfall. Furthermore, in case of shortfall on T-45 day, the amount lying or credited in the escrow account shall flow into the SFA for funding the shortfall and shall not be transferred by the issuer to the general fund account(s) till the time the shortfall is funded.
T-15	RMC shall make good the shortfall in the SFA.
T-14	The debenture trustee shall trigger the payment mechanism and shall instruct the bank to utilise the sinking fund FD to the extent of the shortfall in the SFA.
T-12	After the debenture trustee has instructed the bank to utilise the sinking fund FD as above and in any event prior to 12 days before the end of each 12-month block (T-12), the debenture trustee would issue a final notice in writing to the issuer. On the issuance of such notice, the issuer shall replenish the sinking fund FD within the next 12 days (T).
T	Redemption payment is done.

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
INE0T7907013	Non-convertible debentures	18-Oct-24	7.90%	18-Oct-29	50	Simple	CRISIL AA/ Stable
INE0T7907021	Non-convertible debentures	18-Oct-24	7.90%	18-Oct-29	50	Simple	CRISIL AA/ Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT		--		--		--		--		--	Withdrawn
			--		--		--		--		--	Withdrawn
Non Convertible Debentures	LT	100	CRISIL AA/ Stable	21-05-24	Provisional CRISIL AA/ Stable	15-12-23	Provisional CRISIL AA/ Stable	21-10-22	Provisional CRISIL AA/ Stable	01-11-21	Provisional CRISIL AA/ Stable	--
			--		--	22-09-23	Provisional CRISIL AA/ Stable	28-04-22	Provisional CRISIL AA/ Stable		--	--
			--		--	05-04-23	Provisional CRISIL AA/ Stable		--		--	--

All amounts are in Rs.Cr.

Annexure 5: List of References

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