



Rating Rationale

Greater Chennai Corporation

24 May 2021

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 2500.00 Crs of Greater Chennai Corporation and withdraws the issuer rating.

Particulars

Facilities**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (26-Feb-2020)	Present
Fund Based	2500.00	2500.00	Long Term	BWR A /Stable	BWR A /Stable Reaffirmed
Total	2500.00	2500.00	Rs. Two Thousand and Five Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank loan facilities are provided in Annexure-I

Facilities/ Instruments	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (26-Feb-2020)	Present
Issuer Rating	--	--	Long Term	BWR A/Stable Notice of Withdrawal ^{\$}	BWR A/Stable Reaffirmed Withdrawn[^]

^{\$}Notice of withdrawal was issued on 26 February 2020

[^]The rating has been withdrawn in line with the BWR Policy on the withdrawal of issuer ratings.

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) currently has an Issuer Rating of BWR A (Outlook: Stable) for Greater Chennai Corporation (GCC or the corporation), for which the last press release was issued on 9 June 2017. BWR has sent an intimation regarding the notice of withdrawal through emails. In accordance with BWR's policy on the withdrawal of issuer ratings, the rating withdrawal follows the completion of 12 months from the rating exercise. The issuer rating has now been withdrawn on the completion of the 3 months' notice period.

The rating reaffirmation of the bank loan facilities of Rs. 2500.00 Crs takes into account the escrow mechanism of routing the receivables except grants and loans, infusion of capital in the form of earmarked funds and support from the Government of Tamil Nadu (GoTN) by way of grants. The rating also takes into account that the corporation continued to report the loans to reserve ratio at less than 1X in the last three years, along with the strategic importance of Chennai being the state capital and economic centre of Tamil Nadu, ensuring adequate support

from the state government. Furthermore, Clause 152 of the Chennai City Municipal Corporation Act 1919 (Tamil Nadu Act IV of 1919) accords the priority of payment for the debt servicing obligations over other due payments. The ratings of the corporation are constrained by limited revenue raising powers and a high receivables position.

The outlook of the corporation has been kept as Stable; the corporation's performance is likely to remain consistent owing to cash flows, along with grants from the GoTN. In addition, the receivables of the corporation except grants and loans are being escrowed with the lender.

Key Rating Drivers

Credit Strengths:

- **Structured payment mechanism with priority for servicing of borrowings:** There is a structured payment mechanism in place for the servicing of bank loans through the creation of an escrow account (for all receivables excluding grants/loans). Moreover, the servicing of all its debt obligations has priority over other due payments (As per the Chennai City Municipal Corporation Act 1919 [Tamil Nadu Act IV of 1919] clause 152).
- **Strong economic base, satisfactory operations and service delivery track record:** Chennai being the state capital and economic centre of Tamil Nadu, GCC is strategically important to the state, ensuring adequate support from the state government. The city is well-connected with other economic centres and has good infrastructure in place. Furthermore, GCC has a strong track record in terms of coverage and service delivery and high level of industrial and commercial activity (automobile, information technology, among others).
- **Support from government by way of grants:** During FY20 (provisional) and FY21 (provisional), the corporation has received revenue grants, contributions and subsidies to the extent of Rs. 207.35 Crs and Rs. 942.94 Crs, respectively. The increase in revenue grants in FY21 (provisional) was on account of grants released towards the Covid-19 disaster plan and on the receipt of the balance amount of the 14th Finance Commission. During FY21 (provisional), there was an addition of capital in the form of earmarked funds to an extent of Rs. 219.57 Crs. Additionally, the grants received towards its specific projects was Rs. 1465.08 Crs during FY21 (provisional).
- **Low loans to reserve ratio:** During the last three years, the corporation has continued to report the loans to reserve ratio at less than 1X. As of 31 March 2021 (provisional), the municipal funds and reserves were reported at Rs. 4340.55 Crs, and grants and contribution to specific purposes at Rs. 2741.05 Crs. The total debt of the corporation was reported at Rs. 2647.67 Crs as of 31 March 2021 (provisional).
- **Financial performance of GCC:** During FY21 (provisional), the corporation has reported decline in tax revenues. This decline in revenues was on account of the withdrawal of the revision in the property taxes during November 2019, resulting in an adjustment in excess payments collected during the previous years. Moreover, on account of the Covid-19 pandemic, the tax revenues collection slowed down during FY21. As per FY21 provisional financials, the total income of the corporation was reported at Rs. 2220.97 Crs as against Rs. 2688.38 Crs in FY20 (provisional). In view of the withdrawal



of the revision of the property taxes, the corporation has reported deficit before interest and depreciation during FY21 (provisional) as compared to surplus before interest and depreciation in FY20 (provisional). The cash and bank balances reported as of 31 March 2021 (provisional) was Rs. 1119.28 Crs as against Rs. 699.21 Crs in FY20 (provisional).

Credit Risks:

- **Limited autonomy in levy of taxes:** GCC has limited revenue raising powers, with the major powers resting with the state government. Although there was a revision in the property taxes in FY19, subsequently there was a Government Order (GO) published during November 2019 to withdraw the increase (revision) in the property tax rates. This has resulted in decline in the tax revenues in FY20 and FY21, wherein excess tax revenues received during the revision in the property taxes have to be adjusted for the subsequent years.
- **High receivable levels:** The corporation continued to report high receivable levels. As of 31 March 2021 (provisional), the outstanding receivables were reported at Rs. 1717.62 Crs. However, the outstanding receivables lowered slightly from Rs. 2147.41 Crs as of FY20 (provisional).

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has considered the corporation's standalone financials. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES:

Going forward, growing tax revenues to enable meeting the increasing expenditure and improving collection efficiency while maintaining the liquidity position and adequate support from the state government would be key rating sensitivities.

- **Upward:** The ratings can move upwards if there is an improvement in the tax revenues, thereby generating cash surplus before depreciation, with an improvement in the collection efficiency, thereby reducing the receivables position with a revision in the property tax rates leading to an improvement in the cash flows of the corporation.
- **Downward:** The ratings can move downward if there is a substantial reduction in the revenues leading to deficit before depreciation, reduction in the average monthly cash flows escrowed with the SBI from the current levels, delay/lack of support from the government by way of capital contribution and revenue grants/contributions, and deterioration of the loans to reserve ratio above 1X.

LIQUIDITY: ADEQUATE

As per the Chennai City Municipal Corporation Act 1919 (Tamil Nadu Act IV of 1919) clause 152 "Priority payments due from the corporation for interest on, and repayment of, loans" shall be made in priority to all other payments due from the corporation. As per clause 152 of the act, the corporation is meeting its interest and repayment obligations firstly. While, the average escrow collection was reported at Rs. 339.00 Crs in the last three months (February to April

2021), the principal obligations to be met for the lender State Bank of India per quarter are at Rs. 14.50 Crs. These obligations of the corporation can be easily met from the escrow receivables which has been escrowed. The corporation is also meeting its other financial borrowings through the receivables received to the escrow account. The cash and bank balance of the corporation have been reported at Rs.1119.28 Crs as of FY21 (provisional).

ABOUT THE CORPORATION

Greater Chennai Corporation (GCC) (previously Madras) is the oldest municipal institution in India established on 29 September 1688. The Parliamentary Act of 1792 gave the corporation the power to levy municipal taxes in the city. The Municipal Act has been amended from time to time, introducing changes in the constitution and powers of the corporation.

The Madras Municipal Corporation Act, 1919 (as amended) provides the basic statutory authority for the administration now. It is the state capital of Tamil Nadu and therefore, an administrative and economic center. It has port and airport connectivity, and the city is a major center for trade, commerce and industry for the state. Its present area of jurisdiction extends to 426 sq. km after it was expanded in October 2011 from its earlier limit of 176 sq. km. Overall, 42 adjoining local bodies including 9 municipalities, 8 town panchayats and 25 village panchayats were brought under the GCC. Obligatory services provided by GCC majorly include solid waste management, the maintenance of roads/bridges, parks and playgrounds, storm water drain and the provision of education and healthcare.

Mr. Gagandeep Singh Bedi, IAS, is the commissioner of the corporation with effect from 09 May 2021.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2020	2021
Result Type		Provisional	Provisional
Total Income	Rs. Crs	2688.38	2220.97
Total Expenditure	Rs.Crs	2157.97	2582.48
Surplus Before Interest and Depreciation	Rs. Crs	530.41	(361.51)
Municipal Fund and Reserves (excluding grants, contribution to specific purposes)	Rs. Crs	5015.00	4340.55
Loans to Reserve Ratio	In Times	0.53	0.61

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: The terms of sanction include standard covenants normally stipulated for bank loan facilities. GCC is maintaining an escrow account with the SBI lender. GCC has agreed to and accepted that all receivables excluding grants and loans be transferred/credited/remitted to the escrow account (T+2 days from respective collection banks).



NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

ANY OTHER INFORMATION: NA

Rating History for the previous three years (Including withdrawal and suspended)

S.No	Instrument /Facility	Current Rating			Chronology of Rating History for the past 3 years (Rating assigned and press release date) along with outlook/watch, if applicable		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Date(s) & Rating(s) assigned in 2020	Date(s) & Rating(s) assigned in 2019	Date(s) & Rating(s) assigned in 2018
1	Bank Loan Fund Based	Long Term	2500.00	BWR A/ Stable Reaffirmed	BWR A/Stable (26-Feb-2020)	BWR A/Stable (10-Jan-2019)	--
2	Issuer Rating	Long Term	--	BWR A/ Stable Reaffirmed Withdrawn	BWR A/ Stable Notice of Withdrawal (26-Feb-2020)	--	--
Total			2500.00	INR Two Thousand and Five Hundred Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors' queries can be sent to info@brickworkratings.com.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Public Finance- Municipal and Urban Local Bodies](#)

For any other criteria obtain [hyperlinks](#) from website

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Greater Chennai Corporation

**Annexure-I
Details of Bank Loan Facilities rated by BWR**

S.No	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Cash Credit from Banks	550.00	--	550.00
2	Term Loans from Banks	561.51	--	561.51
3	Term Loan from Govt. Institution	252.47		252.47
4	Term Loan from Govt. Institution	852.23		852.23
5	Un-tied Portion Proposed Loans	283.79		283.79
	Total	2500.00	--	2500.00

INR Two Thousand and Five Hundred Crores Only.
Note: Term Loans O/s as on 31-Mar-2021.

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