

## RATING RATIONALE

26-Feb-2020

### Greater Chennai Corporation

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

#### Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (10-Jan 2019)	Present
<b>BLR Fund Based</b>	<b>2500.00</b>	<b>2500.00</b>	<b>Long Term</b>	<b>BWR A/ Stable</b>	<b>BWR A/ Stable Reaffirmed</b>
<b>Total</b>	<b>2500.00</b>	<b>2500.00</b>	<b>Rupees Two Thousand and Five Hundred Crores Only</b>		

Note: Ratings moved to Ratings Not Reviewed category on 13-Jan-2020

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank Loan facilities is provided in Annexure-I

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Jun 2017)	Present
<b>Issuer Rating</b>	<b>--</b>	<b>--</b>	<b>Long Term</b>	<b>--</b>	<b>BWR A/ Stable*</b>

\*- *proposed to be withdrawn. Notice of withdrawal has been issued*

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 The issuer rating will now be withdrawn on completion of the 3 months' notice period.

## RATING ACTION / OUTLOOK

The rating reaffirmation takes into account the improvement in tax revenues on account of revision in the property tax rates, infusion of capital in the form of capital contribution and earmarked funds by the Tamil Nadu State Government and satisfactory financial performance of the corporation as on 31-Mar-2019. The rating also factors the strategic importance of Chennai being the state capital and economic centre of Tamilnadu ensuring adequate support from the State Government. SBI term loan is supported by escrow mechanism for all receivables except grants and loans. Further, Clause 152 the Chennai City Municipal Corporation Act 1919 (Tamilnadu Act IV of 1919) accords priority of payment for the debt servicing obligations over other due payments. However, the rating is constrained by increasing outstanding receivables and limited revenue raising powers.

## KEY RATING DRIVERS

### Credit Strengths:

- **Improvement in tax revenues in FY19:** Corporation has reported improvement in tax revenues on account of improvement in the property tax rates from April 2018. The tax revenues of the corporation have improved by 87% in FY19. i.e. from ₹ 989.87 Crores in FY18 to ₹ 1856.23 Crs in FY19.
- **Infusion of capital :** During FY19, Corporation municipal funds and reserves have improved from Rs. 3222.37 Crs as on 31-Mar-2018 to Rs. 4153.49 Crs as on 31-Mar-2019. The improvement in municipal funds and reserves was on account of infusion of funds by way of capital contribution and earmarked funds. In FY19, there was an addition of ₹811.75 Crs in the form of capital contribution and ₹180.42 Crs in the form of earmarked funds.
- **Satisfactory financial performance:** During FY19, Corporation has reported satisfactory financial performance. The total income of the corporation has improved from ₹ 2026.06 Crs in FY18 to ₹3126.12 Crs on account of improvement in tax revenues. During FY19, Corporation has received an amount of ₹195.17 Crores by way of revenue grants, contribution and subsidies as against of ₹157.68 Crs in FY18. Corporation has reported net surplus before depreciation of ₹801.00 Crs in FY19 as against deficit before depreciation of 58.85 Crs in FY18. The loans to reserve ratio reported at 0.73X as on FY19 and interest service coverage ratio of the corporation was at 5.89X in FY19. Tax revenue to total revenue income of the corporation reported at 59.38% during FY19. The cash and bank balances of the corporation as on 31-Mar-2019 reported at ₹ 661.15 Crs as against ₹344.62 Crs as on 31-Mar-2018.

- **Strong economic base, satisfactory operations and service delivery track record :** Chennai being the state capital and economic centre of Tamilnadu, 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. Further, GCC has a strong track record in terms of coverage and service delivery and high level of industrial and commercial activity (Automobile, Information Technology etc.).
- **Structured payment mechanism with priority for servicing of borrowings :** There is a structured payment mechanism in place for servicing of the Bank loans through creation of an Escrow account (for all receivables are excluding grants/loans). Moreover, servicing of all its debt obligations have priority over other due payments (As per the Chennai City Municipal Corporation Act 1919 [Tamilnadu Act IV of 1919] clause 152)

#### Credit Risks:

- **Moderate service levels:** The coverage of storm water drainage reported by the corporation is at 65% as on FY19 . Solid waste household coverage stands at 95% in FY19. Corporation has covered 90% of water supply and per capita water supply stood at 85Liters as on FY19. Corporation has stated incidence of storm waterlogging at 25% during FY19.
- **Increasing receivables position:** Total Outstanding receivables stood at ₹2270.81 Crores as on FY19 as against ₹ 1631.12 Crores as on FY18. Out of the outstanding receivables, receivables outstanding for less than one year stood at ₹668.52 Crs, outstanding less than three years stood at Rs.465.00 Crs and outstanding more than three years stood at Rs.980.06 Crores.

#### ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the company. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

#### RATING SENSITIVITIES

Going forward, growth in tax revenues, improving collection efficiency while maintaining the liquidity position and adequate support from the State Government would be key rating sensitivities.

- **Positive:** Substantial improvement in revenues and surplus before depreciation, improvement in collection efficiencies and substantial reduction in the receivables position
- **Negative:** 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 in the way of capital contribution and revenue grants/contributions and deterioration of loans to reserve ratio above 1X.

### **LIQUIDITY INDICATORS - Adequate**

Corporation has reported surplus before depreciation of ₹801.00 Crores in FY19 and is generating sufficient cash accruals to repay its debt obligations. For the existing term loan from SBI, Corporation has to repay ₹44.55 Crs in FY20 and ₹58.00 Crs in FY21. The corporation has been generating sufficient cash flows to meet its debt obligations. Also, Corporation has been supported by the Government by way of capital contribution of ₹811.75 Crores and earmarked funds of ₹180.42 Crores in FY19. As on 31-Mar-2019, Corporation has reported cash and bank balances of ₹661.15 Crs as against ₹344.62 Cr as on 31-Mar-2018.

### **CORPORATION PROFILE**

The Greater Chennai Corporation (GCC or Corporation) (previously Madras) is the Oldest Municipal Institution in India established on 29th September 1688. The Parliamentary Act of 1792 gave the Corporation 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 Tamilnadu 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. 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, maintenance of roads/bridges, parks & playgrounds, Storm Water Drain, provision of education and healthcare.

## KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY18	FY19
Result Type		Audited	Provisional
Total Income	₹ Crs	2026.06	3126.12
Total Expenditure	₹ Crs	1949.01	2161.07
Municipal Fund and Reserves	₹ Crs	3222.37	4153.49
Loans to Reserve Ratio	Times	0.83	0.71
Tax Revenue to Total Revenue Income	%	48.66	59.38
Non- Tax Revenue to Total Revenue Income	%	12.32	8.78

**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 and accepted for all receivables excluding grants and loans to be transferred/credited/remitted to the escrow account (T+2 days from the respective collection banks).

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY : Nil**

## RATING HISTORY FOR THE PREVIOUS THREE YEARS

Instrument / Facilities	Current Rating (2020)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs. Crs.)	Rating	2019	2018	2017
BLR Fund Based	Long Term	2500.00	BWR A/ Stable	BWR A/ Stable (10-Jan-2019)	Ratings migrated to not reviewed category (10-Dec-2018)	BWR A/ Stable (08-Sep-2017)
Issuer Rating	Long Term	--	BWR A/ Stable Notice of Withdrawal	--	--	BWR A/ Stable (09-Jun-2017)
<b>Total</b>		<b>2500.00</b>	<b>Rupees Two Thousand and Five Hundred Crores Only</b>			

Note: Ratings moved to Ratings Not Reviewed category on 13-Jan-2020

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

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

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## GREATER CHENNAI CORPORATION

### ANNEXURE I

#### Details of Bank Loan Facilities rated by BWR (Outstanding as on 31-12-2019 )

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	State Bank of India	Term Loan	632.08	--	632.08
	State Bank of India	Cash Credit	450.00	--	450.00
2	TUFIDCO	Term Loan	308.67	--	308.67
3	TNUDF-KFW Loan	Term Loan	815.70	--	815.70
4	Un tied Portion	Term Loan	293.55	--	293.55
<b>Total</b>			<b>2500.00</b>		<b>2500.00</b>

**Total Rupees. Two Thousand and Five Hundred Crores Only**



### **For print and digital media**

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**DISCLAIMER:** Brickwork Ratings Private Limited (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons