

India Ratings Assigns Agra Nagar Nigam's Municipal Bonds Final 'IND AA'/Stable

Apr 16, 2025 | Urban Local Bodies

India Ratings and Research (Ind-Ra) has assigned a final rating to Agra Nagar Nigam's (ANN) municipal bonds as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Municipal bonds*, \$	-	-	-	INR500	IND AA/Stable	Assigned

*detail in annexure

\$The final rating has been assigned following the receipt of key executed transaction documents conforming to the information already received by Ind-Ra and the creation of a debt service reserve amount equivalent to four semi-annual instalments of interest payments as on 11 April 2025. The final rating, therefore, is the same as the provisional rating affirmed on 28 March 2025. The key documents received are debenture trustee deed, escrow agreement, final term sheet, placement memorandum, tripartite agreement, statement of interest payment escrow account and deed of hypothecation.

Analytical Approach

Ind-Ra continues to take a standalone view of ANN while reviewing the rating.

Detailed Rationale of the Rating Action

The rating reflects ANN's continued moderate operational and financial performance and stable performance of escrowed assets (property taxes) during 1HFY25 and FY24, the enforceable nature of these collections by the corporation, strength of the trustee-monitored structured payment mechanism and an adequate debt service coverage ratio (DSCR) during the bond tenor.

The structured payment mechanism is backed by an interest payment account (IPA) and a sinking fund account (SFA). The IPA is pre-funded with the required amount in the debt service reserve account (DSRA), equivalent to four semi-annual interest instalments, one day before the pay in date, to be maintained during the tenor of the bonds. The bonds are issued at a fixed rate of interest that mitigates the interest rate risk.

Ind-Ra takes comfort from the presence of an infrastructure development fund (IDF), which is available to replenish the amount in IPA on account of a DSRA shortfall and any mismatch in SFA. IDF is funded out of the additional stamp duty paid on the transfer of records of immovable properties in Uttar Pradesh. ANN is entitled to receive its own share during the year from IDF, which resides with the state government, based on the property registrations under its jurisdiction.

Ind-Ra expects ANN to maintain adequate receivables from property tax to cover its debt service obligations. ANN set up a separate no-lien escrow account into which the funds lying in account(s), in which the property tax is collected by ANN, shall be transferred for debt servicing. In Ind-Ra's assessment, structured payment mechanism of the bond is strong.

List of Key Rating Drivers

Strengths

- Adequacy of escrowed revenue stream
- Structured debt servicing mechanism
- Trustee monitoring
- IDF support
- Improvement in collection efficiency
- Consistent operating revenue surpluses; moderate operating margin

Weaknesses

- Low capital utilisation
- Moderate civic service delivery

Detailed Description of Key Rating Drivers

Adequacy of Escrowed Revenue Stream: Ind-Ra expects the receivables from property tax, which are under escrow, to sufficiently cover ANN's debt service obligations during the bond tenor. Under the bond structure, the property tax revenue would be escrowed for servicing debt obligations. The escrowed collections will be first utilised for meeting the minimum balance required to be transferred to IPA and SFA. The revenue from property tax grew at a CAGR of 19.9% over FY21-FY24 to INR769.82 million on cash basis.

Structured Debt Servicing Mechanism: Ind-Ra believes that the structured payment mechanism will provide adequate support to timely meet debt service obligations. Under the structure, DSRA is funded one day prior to the pay-in date with an amount equal to four half-yearly interest payments (INR81.5 million). At all times, DSRA is to be maintained at four succeeding half-yearly interest payments. ANN has set up a separate no-lien escrow account, into which the funds that are lying in the account(s), in which the property tax is collected by ANN, shall be transferred for debt servicing. ANN has issued a standing instruction/sweep with regard to this transfer following the completion of bond allotment, and this would remain in place during the tenor of the bonds. The tenor of the bond is four-to-seven years in four sub-series.

On the transfer date (transfer date here means the last date of any monthly period), the funds parked in the escrow account shall be used in the following order of priority:

- On each of the first five transfer dates of the 12-month block, an amount equivalent to 20% of the coupon payment shall be transferred on the first coupon payment date, and any further interest payable as per the terms of the issuance, and any shortfall in the earlier contribution shall be transferred to IPA. On each of the sixth to the 10th transfer dates of the year, an amount equivalent to 20% of the coupon payment shall be transferred on the second coupon payment date in such 12-month block, and any further interest payable and any shortfall in the earlier contribution shall be transferred to IPA.
- On each of the first 10 transfer dates occurring in each 12-month block, an amount equivalent to 1/10th of 14.28% of the issue size and any shortfall in the earlier contribution shall be transferred to SFA. The account will be duly monitored on an ongoing basis, including on each of the first 10 transfer dates occurring in each 12-month block.
- Any shortfall in the funds available in the escrow account to complete the aforesaid transfers to the above accounts shall be made good by ANN by the transfer from its other account(s).

Trustee Monitoring: As per the debenture trust deed, the debenture trustees, on behalf of the debenture holders, will have an exclusive first charge on the escrow account, IPA, SFA and any permitted investments made from these accounts for the exclusive benefit of the debenture holders. Ind-Ra is in receipt of the deed of hypothecation with regard to this. The amount deposited in the IPA and SFA will be used solely for meeting the debenture holders' dues. Any surplus available in the escrow account can be transferred to ANN's general account only after obtaining the written consent of the debenture trustees. No amount is withdrawn from these accounts without the prior approval of the debenture trustee.

IDF Support: The GoUP, via an order issued on 30 July 2019 as well as government order on 6 February 2025, created a policy for the utilisation of funds in IDF for credit enhancement and other needs of local bodies to promote/incentivise the issuance of municipal bonds. Furthermore, the GoUP has entered into a tripartite agreement with the debenture trustee and ANN for making funds available from IDF, in case of any shortfall in DSRA for interest payments or

SFA for principal redemption. Out of the 2% additional stamp duty paid on the transfer of immovable properties in Uttar Pradesh, 0.5% is allocated to urban local bodies (ULBs) in the form of IDF and the remaining 1.5% is allocated to other parastatals engaged in urban development in the ULB area. ANN receives these funds from the state government as per its requirements.

Improvement in Collection Efficiency: Ind-Ra expects implementation of the planned measures to improve the property tax collections in the medium term. During FY24, the property tax collection efficiency stood at 78.7% (FY23: 45.2%; FY22: 50.2%) which eventually led to an improvement in the overall collection efficiency, despite the slowdown in property tax arrears collection.

ANN uses geographic information system surveys to bring unassessed properties under the tax net and has undertaken various steps to improve the efficiency levels such as enabling an online payment gateway, sending frequent WhatsApp messages for making the citizens aware and updating the status as well for timely and digital-based submission of bills.

Ind-Ra expects ANN to enhance its own revenue and reduce its dependence on the GoUP. The proportion of ANN's own income in the total revenue income ratio moderated to 32.5% in FY24 (FY23: 36.2%; FY22: 26.9%). In FY24, property tax constituted 49.7% of the tax revenue (FY23: 53.9%; FY22: 50.7%) and 9.2% of the total revenue income (12.4%; 8.2%). In FY24, water tax constituted the second major source of tax revenue at 36.3% (FY23: 33.6%; FY22: 35.4%).

Consistent Operating Revenue Surpluses; Moderate Operating Margin: Ind-Ra expects ANN's revenue balance position to remain in surplus over the medium term. ANN maintained its revenue surplus position at INR2,247.86 million in FY24 (FY23: INR747.28 million, FY22: INR2,312.08 million) including the impact of prior period adjustments. Excluding the impact of the same, ANN maintained revenue surplus position of INR2,210.41 million in FY24 (FY23: 744.01 million; INRFY22: INR426.10 million). The rent receivable for prior years from Torrent Power Limited (debt rated at '[IND AA+/Stable](#)'; electricity provider for ANN) was received, and a revision in the house and water tax arrears resulted in a net prior period adjustment. The final adjustments are unlikely to have a significant impact on ANN's income statement.

During FY20-FY24, the revenue expenditure grew at a CAGR of 11.3%, while revenue income grew at a CAGR of 25.7%. The corporation funded its entire revenue expenditure out of the revenue income. The operating margin was moderate at around 25.1% during FY21-FY24. Ind-Ra expects ANN's operating margin to have remained moderate in FY25 and will continue to do so in the medium term, supported by tax revenue, non-tax revenue and grants. Ind-Ra will closely monitor the coverage adequacy during the entire tenure of the bond.

Low Capital Utilisation: Ind-Ra expects ANN's capital utilization to remain in line to previous years. The capital utilisation (capital expenditure/capital grant) has been less than 1.0x during FY21-FY24. A lower capital utilisation ratio is likely to impact the speed of infrastructural improvement in the city. The capital utilisation ratio stood at 0.26x in FY24 (FY23: 0.48x, FY22: 0.64x). The low capital utilisation ratio has been owing to receipt of capital grants towards the end of the fiscal year. The proportion of capital expenditure in the total expenditure was also low at 11.9% in FY24 (FY23: 16.8%, FY22: 14.6%).

Moderate Civic Service Delivery: Ind-Ra believes civic service delivery in ANN's area to improve as the corporation has undertaken several projects in the field of water supply and sewerage, and construction of parks under the AMRUT scheme. Given the quality of civic infrastructure and with the new areas being merged with ANN, the demand for capital expenditure is likely to increase. The corporation's service delivery levels for water, sewerage and solid waste segments remained average. The Ministry of Housing and Urban Affairs has set benchmark levels of 100% for each parameter, whereas the corporation has a water supply coverage network of 85.0% in 1HFY25 (FY24: 72.5%), household level coverage of solid waste management of 100%, and extent of solid waste segregation of 85% (70%). The per capita daily water supply remained consistent in line with benchmark at 135 litres per capita daily since FY20.

However, ANN's performance was less than adequate in areas such as continuity of water supply (FY24: 8 hours against benchmark of 24 hours per day), extent of non-revenue water (1HFY25: 30% and FY24: 35%, against benchmark of 20%), coverage of sewerage network (85% and 72% against benchmark of 100%) and collection efficiency of sewerage network

services (77% and 72% against benchmark of 100%).

Liquidity

Adequate: Ind-Ra expects ANN's liquidity profile to be adequate over the medium term, supported by capital grants to fund capex, sizeable cash and bank balances and unencumbered investments. Debt servicing requirement pertaining to the bonds will be backed by way of escrow of receivables from property taxes. The corporation's cash, bank balances and investments stood at INR4,990.18 million as on 30 September 2024 (FYE24: INR6,124.35 million). The debt servicing in FY26 and FY27 will be INR20.43 million and INR40.75 million respectively, which ANN will be able to comfortably service through a monthly build-up of escrowed property tax receivables in IPA. Ind-Ra expects DSCR to remain healthy in the medium-term.

Rating Sensitivities

Positive: Events that could collectively lead to a positive rating action are:

- total house tax collection efficiency increasing to or exceeding 75% on a sustained basis, and
- a sustained improvement in the civic service deliverables such as hours of water supply and coverage of sewerage network in line with the corresponding benchmark levels.

Negative: Events that could, individually or collectively, lead to a negative rating action are:

- a breach of financial covenants and a deviation from the structured payment mechanism,
- an unanticipated increase in the debt levels, resulting in the DSCR below 2.0x for two consecutive years,
- a higher dependence on grants and/or deterioration in revenue on a sustained basis,
- property tax collection efficiency falling below 40% on a sustained basis, and
- failure or breach to comply with Securities and Exchange Board of India's listing requirements with regards to timely disclosure on a sustained basis.

Any Other Information

Bond Usage: On the advice of the state government, ULB has decided to utilise the proceeds from the bond issuance to fund utility and revenue-generating projects. ANN plans to enhance its own income to reduce the dependence on the state and central governments for financial aid for undertaking developmental works for the city. ULB proposes to construct i) co-working spaces, recreation centres and citizen facilitation centres at the zonal office, Tajganj, ii) a working women's hostel in Lohamandi, and iii) solar power plants at four locations - Kanha Gaushala, Tedhi Bagiya, Jalkal 1st and 2nd Jeoni Mandi and Kuberpur. The aggregate capacity of four plants would be 7.5MW. The total cost of the project is INR704.80 million, funded through the bond issuance of INR500 million and remaining through ULB's internal accruals.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ANN, due to either their nature or the way in which the entity is managing them. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

ANN is the chief municipal body responsible for the civic infrastructure and administration of Agra city. The Agra city is one of the famous cities of Uttar Pradesh, attracting a huge number of visitors both domestically and internationally. The city is divided into four zones and has 100 wards covering an area of 157.12 square km. It had a population of 1.58 million as per Census of India 2011.

Key Financial Indicators

Particulars	FY24	FY23
Revenue income (INR million)	6,680.76	5,186.96
Revenue expenditure (INR million)	4,432.90	4,439.68
Revenue surplus/(deficit) before depreciation* (INR million)	2,247.86	747.28
DSCR (x)	NM	NM
Debt payment/revenue income (%)	NM	NM
NM: Not meaningful, no debt at FYE24		
Source: ANN, Ind-Ra		
*Including the impact of prior period adjustments		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	28 March 2025	2 April 2024
Municipal bonds	Long-term	INR500	IND AA/Stable	Provisional IND AA/Stable	Provisional IND AA/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Municipal bonds	Moderate

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

ANNEXURE - I

INSTRUMENT COVENANTS

Financial Covenants

The issuer shall, at all times till the debentures are outstanding, ensure that the total amounts collected in the escrow account in any financial year shall be at least 2.0x of the annual payments amount.

For the purpose of this term sheet, the term annual payments shall, in respect of any financial year, mean the aggregate of: (a) the coupon payable in such year (in relation to the present bond issue and any further borrowings); and (b) the portion of principal amount of the debentures which are required to be deposited by the issuer into the SFA in such financial year (in relation to the present bond issue and any further borrowings), in terms hereof.

The issuer shall ensure that the DSCR of 1.50x maintained at all times till the final settlement date.

So long as the eligibility conditions are met, the issuer shall be entitled to raise further financial indebtedness based on its cash flows including the cash flows through the escrow account, provided that it is clarified that nothing in this provision should be construed to permit the creation of any encumbrance over the hypothecated property without the express prior written consent of the debenture trustee.

'Eligibility conditions' shall mean the following conditions:

1. the annual payments ratio is maintained by the issuer;
2. minimum DSCR of 1.5x is maintained by the issuer;
3. there is no shortfall in the contribution to the escrow account, IPA (including towards maintenance of the required DSRA amount) and/or SFA which has not been made good by the issuer in terms of the transaction documents.

Annexure – II

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
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Municipal bonds*	INE1N2P24034	15 April 2025	8.15%	15 April 2029	INR125.00	IND AA/Stable
Municipal bonds*	INE1N2P24042	15 April 2025	8.15%	15 April 2030	INR125.00	IND AA/Stable
Municipal bonds*	INE1N2P24018	15 April 2025	8.15%	15 April 2031	INR125.00	IND AA/Stable
Municipal bonds*	INE1N2P24026	15 April 2025	8.15%	15 April 2032	INR125.00	IND AA/Stable
Total					INR500.00	

*Interest payment frequency is half yearly for the bonds.

Source: ANN, NSDL

Interest Payment Mechanism (T-interest date)	
Trigger Date	Action
T-25	The trustee shall check the amount lying to the credit of IPA over and above the required DSRA amount. In case of any shortfall in the requisite amount for coupon payment, the trustee shall intimate the issuer.
T-10	The issuer makes good the shortfall in IPA, if required.
T-9	In case of shortfall, the trustee shall trigger the payment mechanism and instruct the banks to utilise the DSRA amount for meeting the shortfall in IPA.
T-8	The bank shall transfer the shortfall amount, if applicable*.
T	Interest payment service
*Any amount drawn from DSRA should be deposited back in the account before T.	
DSRA	
Trigger Date	Action
T-7	DSRA amount to be used for interest payment in the event of shortfall, immediately after the trustee instruction to the bank.
	The issuer shall make good the DSRA amount shortfall prior to the date falling on T. In case the DSRA shortfall is not replenished by T date, then trustee shall issue a notice to ANN and marking a copy to the GoUP on the date immediately succeeding the relevant coupon payment date (T+1) day. Post issuance of the notice, the GoUP shall remit funds required to replenish required DSRA amount (such that the amount in IPA (calculated on the basis of the amounts available in addition to the minimum balance) is at least equivalent to the required DSRA amount) within 15 days from the relevant coupon payment date (T+15) by depositing such amounts in to the interest payment account.
Redemption Mechanism (T-redemption date)	
Trigger Date	Action
T-25	The trustee shall check the amount lying to the credit of SFA. In case of any shortfall, the trustee shall intimate ANN and the GoUP of the same.
T-15	ANN shall make good the shortfall in SFA.
T-14	In case any shortfall still persists in SFA, the trustee shall trigger the payment mechanism and issue notice to ANN and the GoUP. Post issuance of the notice, the GoUP shall remit funds to fund the shortfall into SFA prior to T.
T	Redemption payment is done.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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Local and State Government Rating Criteria

Evaluating Corporate Governance

Policy on Provisional Ratings

The Rating Process

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