



# Credit Rating and Issuance of Municipal Bonds

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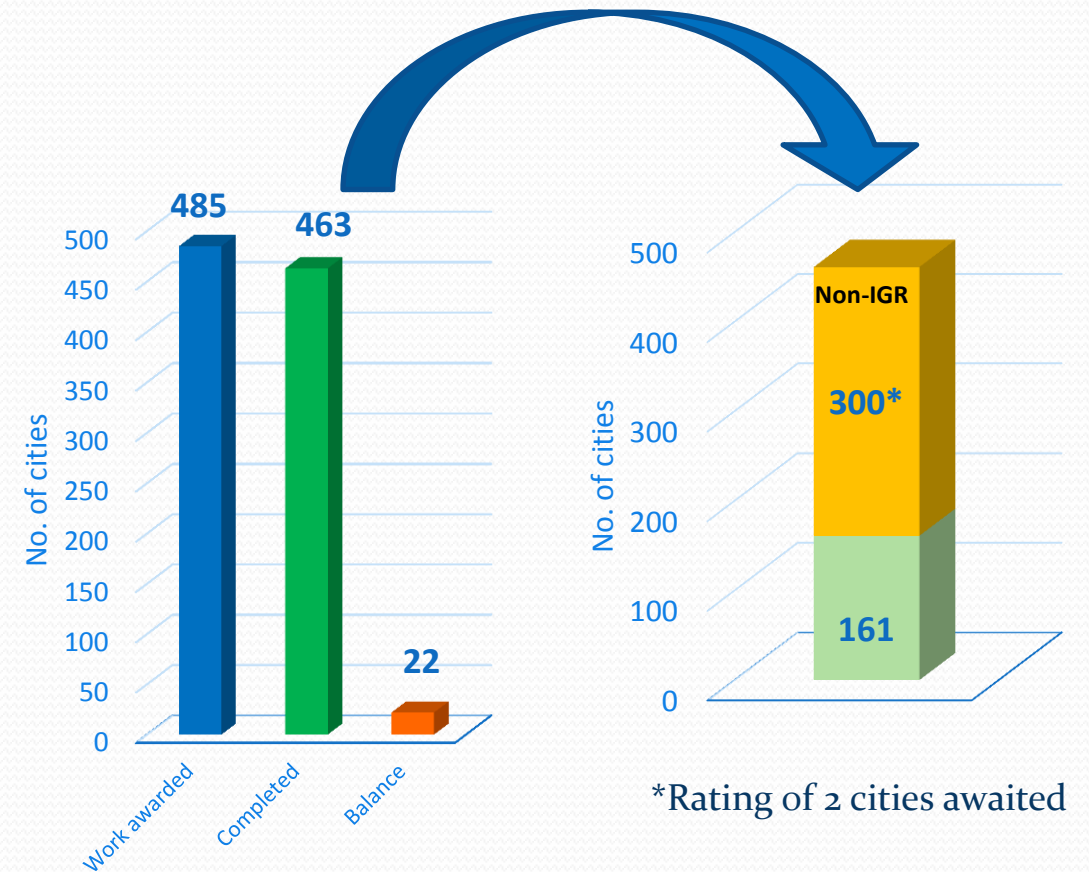
# Credit Rating of Urban Local Bodies (ULBs)

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- Credit rating is an assessment of an ULB's ability to pay its financial obligations. ULBs have limited source of revenue and finance options. Credit rating is the first necessary step to mobilise funds from markets through issuance of municipal bonds
- Credit ratings are assigned based on municipal assets and liabilities, revenue streams of ULBs, availability of resources for capital investments, practice of double entry accounting and other governance practices
- AMRUT reform agenda includes a set of 11 reforms comprising 54 milestones to be achieved over a period of 4 year. Credit rating of ULBs is one of the AMRUT reforms to be attained by Mission cities

# Status of Credit Rating in AMRUT cities

- Work awarded in 485 cities
- Credit Rating completed in 463 cities
- Investment Grade Rating (BBB- and above) in 161 cities
- A(-) and above ratings in 35 cities
- ₹260 crore earmarked as incentive to 10 ULBs for issuing bonds, on first-come-first-serve basis, with a cap of ₹26 crore
- Pune and Hyderabad raised ₹200 crore each, Indore has raised ₹140 crore, Bhopal has raised Rs.175 crore and Amaravathi has raised Rs.2000 crore through Municipal bonds
- Accordingly, 5 ULBs have received incentive of ₹118.94 crore in the ongoing financial year (2018-19)



\*Rating of 2 cities awaited

# List of 35 cities with A (-) or above rating

S.NO	STATE/UT	#	Name of Mission Cities	Rating	S.NO	STATE/UT	#	Name of Mission Cities	Rating
1	Andhra Pradesh	1	GVMC	AA (SO)	7	Maharashtra	18	Kalyan Dombivali	A+ Provisional
		2	Vijayawada	Ir A-			19	Mira Bhayandar	AA-
2	Delhi	3	N.D.M.C.	AAA			20	Nashik	AA-
		4	South DMC (U)	AAA			21	Navi Mumbai	AA+
		5	East DMC	A+			22	Pimpri Chinchwad	AA+
		6	North DMC	A			23	Pune	AA+
3	Gujarat	7	Ahmadabad	CCR AA			24	Thane	AA-
		8	Rajkot	A			25	Greater Mumbai	AA+
		9	Surat	CCR AA			26	Vasai-Virar City	A-
		10	Vadodara	CCR A+			27	Bhiwadi	A-
4	Haryana	11	Faridabad	AA+			28	Jaipur	A-
		12	Gurugram	A-	29	Jhunjhunun	A		
5	Karnataka	13	Mangalore	A	9	Telangana	30	Kishangarh	A+
		14	Mysore	A			31	GHMC	A+
6	Madhya Pradesh	15	Bhopal	CCR A-			32	Warangal	A
		16	Indore	CCR A+	33	Lucknow	A-		
		17	Jabalpur	CCR A-	10	Uttar Pradesh	34	Ghaziabad	A-
					11	West Bengal	35	Kolkata	AAA

# Municipal Bonds: SEBI guidelines

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As per SEBI Regulations, 2015, an Urban Local Body should meet the following conditions:

- The ULB must not have negative net worth in any of the three immediately preceding financial years
- The municipality should not have defaulted in repayment of debt securities or loans obtained from banks or financial institutions during the last 365 days
- The corporate municipal entity, its promoter, group company or director(s), should not have been named in the list of the willful defaulters published by the RBI or should not have defaulted payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any
- The ULB issuing municipal bonds should have mandatory ratings above investment grade for public issue. Financial institutions including banks should be appointed as monetary agencies
- Audited financial results for immediately preceding 3 years

# Way forward for IGR and non-IGR ULBs

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## **IGR cities to follow the steps below:**

- Appointment of Intermediaries
- Preparation of Information Memorandum and Structuring of the Instrument
- Finalization of other intermediaries
- Launch of the issue/ bidding process

## **Non-IGR cities to follow the steps below:**

- Cities with poor credit rating should appoint Transaction Advisor (TA) for credit enhancement plan
- By assessing the poor ratings, TA provides recommendations on institutional framework, debt and other long term liabilities management, fiscal performance management etc.
- Based on the recommendations of TA, ULBs need to initiate actions for improvement in collection and coverage of property tax, other municipal fees and charges etc.
- After incorporation of recommendations of the TA, cities may go for revision of credit rating

**Thank You**