Rating Rationale

November 18, 2025 | Mumbai

Surat Municipal Corporation

'Crisil AA+/Stable' Converted from Provisional Rating to Final Rating

Rating Action

Rs.200 Crore Green Municipal Bonds	**Crisil AA+/Stable (Converted from Provisional Rating to Final Rating)**

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 200 crore green municipal bonds of Surat Municipal Corporation (SMC) 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 continues to reflect the strong creditworthiness and low performance risk of SMC, along with moderate debt service coverage ratio (DSCR) leading to low impact of future flow on other obligations of the corporation. The linkage of inflow to the performance of SMC is low as the inflow is dependent on own revenue. Expected high DSCR, coupled with stable (yet growing) inflow and modest debt, will keep financial risk profile comfortable. Thebonds have a well-defined structure for an escrow account, payment structure and points of recourse in case of shortfall in cash flow. The rating also reflects the strength of the trustee-administered escrow account, payment mechanism and adequate liquidity in the form of a debt service reserve account (DSRA) equivalent to 12 months of interest obligation.

The rating also considers the continued robust operating performance and strong financial risk profile of the corporation, driven by healthy operating surplus, modest debt, superior liquidity and adequate debt protection metrics. Furthermore, SMC has sound economic base, adequate service levels, optimal collection efficiency of taxes and charges, and good reform orientation.

These strengths are partially offset by the significant reliance on state government grants and large capital expenditure (capex) requirement.

Analytical Approach

Crisil Ratings has applied its criteria on future flow securitisation.

Key Rating Drivers - Strengths

Strength of the escrow mechanism

The escrow and bond payment mechanism provides adequate strength to the Green Municipal bond. For the green municipal bonds, own-revenue escrowed at collection, trustee-managed escrow mechanism and payment structure with recourse to the originator ensure sufficient safety for timely debt servicing. Creation of the DSRA in case of the green municipal bonds before pay-in and maintenance of the same throughout the tenure of the bonds enhance the strength of the structure. The DSCR is expected to be high throughout the tenure of the bonds.

Strong financial performance, as reflected in healthy operating surplus

Revenue includes income from collection of property tax, user charges for water and sewerage service, income from other taxes such as professional tax, octroi compensation, other revenue grants and other non-tax income. The revenue surplus is healthy, backed by strong property tax collection and steady grants from the state government in lieu of octroi and non-tax income, comprising town development income. Revenue surplus in fiscal 2025 stood at Rs 909 crore (vs Rs 832 crore in fiscal 2024) primarily on the back of full year implication of higher tax rate and increased user charges undertaken in fiscal 2024. The corporation is expected to sustain the same in the near term.

Comfortable financial risk profile
A healthy operating surplus along with support from the state government in the form of grant has helped the corporation to fund the growing capex through internal cash accrual, leading to no reliance on debt. As on July 31, 2025, the corporation had nil outstanding debt. Robust cash flow provides ample liquidity to the corporation. Unencumbered cash and equivalent including bank balance and fixed deposits stood over Rs 1000 crore as on July 31, 2025. Cash balance is expected to be maintained over the medium term.

The corporation has large capex planned under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart City projects, which is being funded through a mix of government grants and own-revenue surplus. Despite the debt, debt protection metrics will remain strong over the medium term. Regular receipt of octroi compensation and capital grants from the state government will be monitorable.

Adequate service levels and healthy collection efficiency of taxes and charges
SMC has strong civic infrastructure and healthy delivery systems, which are reflected in good water supply coverage, adequate road and sewerage networks, and improving drainage and solid waste management practices.

The current collection efficiency of property tax stood at ~92% in fiscal 2025 (around 92% in fiscal 2024 and 94% in fiscal 2023). Property tax collection efficiency is expected to be healthy going forward. The cost of recovery for essential services is among the highest compared with other corporations in the state. The implementation of AMRUT and Smart City projects should further drive improvement in service levels and collection efficiency of taxes and charges.

Sound economic base
The robust industrial base of Surat, its favourable location, strategic importance in the state and high per-capita income have led to a sound economic base. Industries in Gujarat have flourished because of favourable state government policies, affordable cost of living, surplus labour and low transportation cost.

Key Rating Drivers - Weaknesses
High dependence on state government grants
Although the share of grants and compensation from the state government has steadily reduced to 21% in fiscal 2025 from 45% in fiscal 2013, it continues to be a major part of the revenue receipts. Since the abolition of octroi in fiscal 2008, the corporation has been consistently receiving compensation from the state government. In fiscal 2025, Rs 790 crore was received as octroi compensation. With rise in property tax and non-tax revenue, dependence on government grants is likely to reduce over the medium term. Additionally, SMC has strong liquidity to partly fund its proposed capex in case of delay in receipt of grants.

Large capex requirement
The corporation has large capex planned over the medium term for implementing AMRUT, Dumas sea face development project, barrage projects, among others. The estimated project cost under these schemes is around Rs 10,000 crore, spread over five fiscals.

Healthy operating surplus is likely to be maintained, and no sizeable debt (other than Rs200 cr Green Municipal bond) will be contracted. However, a significant increase in capex, leading to additional debt, could weaken the financial risk profile and will remain monitorable.

Liquidity Superior
Liquidity is supported by a healthy revenue surplus of around Rs 909 crore in fiscal 2025 and unencumbered cash and bank balance of over Rs 1000 crore as on July 31, 2025. SMC is likely to maintain unencumbered cash and bank balance and continue to generate healthy operating surplus to meet debt obligation and partly fund capex.

Outlook Stable
SMC will continue to generate a healthy operating surplus over the medium term while maintaining strong debt protection metrics.

Rating sensitivity factors
Upward factors
- Significant improvement in services such as water supply, sewerage and solid waste management
- Increased collection efficiency in existing own-revenue sources and generation of income from additional sources
- Sustained increase in operating surplus to over 30%

Downward factors
- Significant decline in the collection of property tax
- Fall in operating surplus below 15% on a sustainable basis weakening the debt protection metrics
- Change in stance of support from the state government in terms of adequacy and timeliness of octroi compensation, and availability of funds under AMRUT and Smart City schemes and other grants
- Non-adherence to the escrow and payment mechanism

About the Company
SMC is one of the largest municipal corporations in Gujarat and is governed by the Bombay Provincial Municipal Corporation Act, 1949, as amended by the Government of Gujarat. It has jurisdiction over 462.15 square kilometre and provides services such as water supply, sewerage disposal, solid waste management, primary education, public safety, transportation and slum improvement.

Key Financial Indicators

As on / for the period ended March 31	Units	2025	2024
Revenue receipts	Rs crore	4851	4476
Revenue surplus	Rs crore	909	832
Revenue surplus/revenue receipts	%	19	19

Any other information:
For the Green Municipal bonds:
Broad contours of the escrow structure pertaining to the Green Municipal bonds Rs 200 crore:

a) All funds as 'own revenue/cash flows' here shall mean the revenue/cash flows being directly levied and collected/recovered by the Issuer and not being the revenue/cash flows received from the government in the form of grants, contributions and subsidies, compensation in lieu of octroi or others. The revenue/cash flows being directly levied and collected/recovered by the issuer include entire tax revenue (i.e. property tax, profession tax, water charges), non-tax revenue, and other income. Collection accounts(s) shall be transferred to a separate no-lien escrow account for debt servicing. This transfer is done daily.

b) Eligible bond holders and lenders shall have the first and pari passu charge over the escrow account and the collection account(s).

c) Total tenure of 4-5 years with half yearly coupon payment.
Bullet / full redemption at the end of 4-5 years comprising of:-

Sub series	Tenure (in years)	As % age of issue	Amount (in crore)
A	4	50%	100
B	5	50%	100
Total		100%	200

d) Establishing separate DSA, DSRA, interest payment accounts (IPA), and sinking fund accounts (SFA) with the escrow banker as per the terms of each series. Bondholders/lenders of a particular series have the first and pari-passu charge over DSA, DSRA, IPA, and SFA for the respective series.

e) In case of any shortfall during transfer from the escrow account to DSA, SMC shall compensate with funds from other account(s) to DSA.

f) 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 has 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
T – Interest payment date

Day	
T-25	The trustees shall check the amount lying to the credit of IPA. In case of any shortfall in the amount, the trustees shall intimate SMC
T-10	SMC shall make good the shortfall in the IPA, if applicable
T-9	In case of shortfall, trustees shall trigger the payment mechanism and instruct the bank to transfer the shortfall amount from the DSRA to the IPA
T-8	The bank shall transfer the shortfall amount, if applicable*
T	Interest payment is done

** Any amount drawn from the DSRA should be deposited back in the account*

DSRA

Day	
T-7	DSRA amount will be used to make the coupon payment in case of shortfall
-	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 lying to the credit of the SFA. In case of any shortfall in the amount, the trustees shall intimate SMC
T-15	SMC shall make good the shortfall in the SFA
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
INE05NX24031	Green Municipal Bonds	13-Oct-25	8.00	13-Oct-30	100.00	Simple	Crisil AA+/Stable
INE05NX24023	Green Municipal Bonds	13-Oct-25	8.00	13-Oct-29	100.00	Simple	Crisil AA+/Stable

Annexure - Rating History for last 3 Years

	Current			2025 (History)		2024		2023		2022		Start of 2022
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Bond	LT		--		--	16-04-24	Withdrawn	28-12-23	Crisil AA+/Stable	19-01-22	Crisil AA+/Stable	Crisil AA+/Stable
			--		--	08-01-24	Crisil AA+/Stable	18-01-23	Crisil AA+/Stable		--	--
Green Municipal Bonds	LT	200.0	Crisil AA+/Stable	04-09-25	Provisional Crisil AA+/Stable	23-09-24	Provisional Crisil AA+/Stable		--		--	--
			--	17-03-25	Provisional Crisil AA+/Stable	16-04-24	Provisional Crisil AA+/Stable		--		--	--
			--		--	08-01-24	Provisional Crisil AA+/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Basics of Ratings (including default recognition, assessing information adequacy)
Criteria for Public Finance (including approach for financial ratios)
Criteria for future flow transactions
Criteria for Infrastructure sectors (including approach for financial ratios)

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