India Ratings Converts Surat Municipal Corporation's Municipal Bonds' Provisional Rating to Final 'IND AA+'/Stable

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India Ratings and Research (Ind-Ra) has converted the provisional rating on Surat Municipal Corporation's (SMC) Municipal Bonds to final as follows:

Details of Instruments

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Municipal bonds (NCDs)$,*,#	-	-	-	-	INR2,000	IND AA+/Stable	Converted to final

$Details in annexure

*The municipal bond issuance took place on 13 October 2025.The rating has been converted to final from provisional after receiving key executed transaction documents that conform to the previously received information by Ind-Ra and depositing one annual interest instalment into the interest payment account as on 8 October 2025, which was required to be deposited one day prior to the pay-in date. The final rating, therefore, is the same as the provisional rating affirmed on 21 January 2025. The key documents received are the debenture trustee deed, escrow agreement, final term sheet, final information memorandum, interest payment account (IPA) statement.

#Frequency of interest payment is semi-annual.

Analytical Approach

Ind-Ra continues to take a standalone approach while assessing SMC's ratings.

Detailed Rationale of the Rating Action

The ratings reflect the operational and financial performance of SMC in FY25, the nature of the escrowed assets and adequate debt service coverage. The ratings are based on the stability in performance of assets that are escrowed (tax revenues: property taxes, profession taxes, water charge, etc, non-tax revenues, and other income) and the enforceable nature of these collections by the corporation. The rating also factors in legal foundation and custodial arrangement of the structured payment mechanism, which will be monitored and controlled by the debenture trustee (DT).

The structured payment mechanism is backed by an interest payment account (IPA) and a sinking fund account (SFA). The IPA is pre-funded with one annual interest instalment , which is the required debt service reserve (DSR) amount, instead of creating a separate debt service reserve account (DSRA) to meet the requirements of The Securities and Exchange Board of India's (SEBI) circular in relation to the 'Continuous disclosures and compliances by the listed entities under the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015' dated 13 November 2019. The bonds are issued at a fixed interest rate that mitigates the interest rate risk.

The rating reflects SMC's healthy coverage of debt servicing obligations (interest payment plus proportionate principal deposited in the SFA or instalment of principal redemption) during the tenor of the bonds in the rating case scenario. In Ind-Ra's assessment, the structured payment mechanism of the bond is strong.

List of Key Rating Drivers

Strengths

- Adequacy of escrowed revenue stream
- Structured debt servicing mechanism
- Trustee monitored payment mechanism
- Dependence on own revenue sources
- Strong financial performance
- Strong debt service coverage

Weaknesses

- Further improvement required in civic services delivery

Detailed Description of Key Rating Drivers

Adequacy of Escrowed Revenue Stream: Ind-Ra expects the own-revenue to remain healthy and provide a strong cover for SMC's debt service obligations during the entire bond tenor. Under the municipal bond structure, the entire own revenue is escrowed for the servicing of debt repayment obligations. Own revenue includes all tax, non-tax and other income of the corporation except for any government grants and compensation. The escrowed collections will be first utilised for meeting the minimum balance required to be transferred to the IPA (including the DSR amount if DSR is utilised) and SFA. SMC's revenue is primarily driven by tax collections. The escrowed tax revenue grew 9.59% yoy to INR21.66 billion in FY25 on cash basis. Tax revenue collection increased 5.30% yoy to INR13.69 billion over April-November 2025.

Structured Debt Servicing Mechanism: Ind-Ra believes that the structured payment mechanism will provide adequate protection to bondholders. The revenue collection from identified sources will be transferred to an escrow account (EA) on a daily basis to accumulate the minimum balance. Furthermore, the fund lying in this EA would be available for the debt service requirements for the municipal bond issuance on a first priority basis. The funds lying in the EA shall be used in the following priority:

(a) To transfer funds to DSRA to make good any shortfall, (if any, in DSRA,) IPA and SFA, as per the structured payment mechanism.

(b) The funds should be first utilised to accumulate the minimum balance in the EA (minimum balance to be maintained in any monthly period expiring on the transfer date (transfer date means the last date of any monthly period) shall be the amount to be transferred to the IPA and SFA on the transfer date)

(c) The minimum balance shall not be used for any purpose other than transfer to the IPA and SFA

(d) The surplus funds, if any, after first accumulating the minimum balance can thereafter be transferred to the general fund account of the corporation

SMC, with the prior written consent of the DT, can transfer the minimum balance maintained in EA to the IPA and the SFA on any day prior to the transfer date.

The DT will verify the availability of the requisite funds for interest servicing T-25 days before the due date. In case of a shortfall, the DT will intimate SMC to cover up the shortfall by T-10 days. In case of a shortfall in IPA at T-9 days prior to the interest payment date, the DT shall trigger the payment mechanism and instruct the escrow bank to utilise the DSR amount (on T-7 days) lying in IPA to make coupon payment on the due date. The DT shall also check the balance in SFA at the end of the year, and in case of any shortfall, SMC shall replenish the account to that extent. The DT shall check the amount lying to the credit of SFA at T-45 days prior to the redemption date. In case of any shortfall in the amount, the DT shall intimate SMC of the shortfall and SMC shall make good the shortfall by T-14 days prior to the redemption date. Refer to the annexure for details of the trustee monitoring mechanism.

Trustee Monitored Payment Mechanism: All accounts will be monitored by the DT. The amounts deposited in the IPA and SFA shall be used solely for meeting the dues to the bondholders. Any surplus funds available in the escrow account can be transferred to the account of SMC with the approval of the trustee.

Dependence on Own Revenue Sources: Ind-Ra expects SMC's own revenue streams to remain satisfactory over the medium term. The rating reflects SMC's ability to generate adequate revenue from its own sources to fund its revenue expenditure. Tax and non-tax revenues constituted 41.64% and 26.84%, on average respectively, of the total revenue income over FY21-FY25. The corporation's revenue income, which expanded at a CAGR of 13.32% over FY21-FY25, stood at INR48.30 billion in FY25 (FY24: INR44.70 billion) on accrual basis. SMC's own revenue/total revenue income ratio stood at 73.80% in FY25 (FY24: 73.56%) and the share of grants and compensation in the total revenue income was 20.45% in FY25 (FY24: 22.44%). Property, water, vehicle and profession tax collections were the key drivers of revenue during FY21-FY25. The current demand collection efficiency of property taxes was stable at 92.41% in FY25 (FY24: 92.27%). The corporation expects to further improve its collection efficiency to over 95% in FY26.

Strong Financial Performance: Ind-Ra expects SMC's revenue balance position before depreciation to remain in surplus over the medium term. SMC maintained its revenue surplus position before depreciation in FY25 at INR8.89 billion (FY24: INR8.68 billion). The corporation funded its entire revenue expenditure out of revenue income during the past five years.

The consistent revenue surplus has enabled the corporation to undertake significant capital expenditure which stood at INR34.01 billion in FY25 (FY24: INR34.03 billion) road works and street lighting together constituted 23.05% and sanitation-sewerage work constituted 16.06% on average, of the total capital expenditure during FY21-FY25. Water supply and sewerage were the other key areas of capex during this period.

Ind-Ra expects the capital utilisation ratio to remain above 1x in the medium term. The corporation's capital utilisation (capex/capital income) ratio stood at 1.23x on average during FY21-FY25, which indicates SMC's ability to undertake capex in core areas of civic services.

Strong Debt Service Coverage: At FYE25, SMC did not have any additional debt other than the funds received under special assistance scheme for capital investment of INR10.15 billion from Gujarat which is interest free. SMC's debt service coverage ratio (DSCR) improved to 38.99x in FY25 (FY24 3.83x), mainly due to only minmal financial charges payable during the year. Ind-Ra expects the coverage ratio to remain healthy over the medium term. The agency will also closely monitor the coverage adequacy during the entire tenor of the municipal bonds.

Further Improvement Required in Civic Services Delivery: SMC's service delivery levels for the water, sewerage and solid waste segments remained comfortable as reflected in coverage network (water supply: 93.9%; sewage network: 100%; solid waste management service: 100%), as against the benchmark levels (water: 100%; sewerage: 100%; solid waste: 100%) set by the ministry of housing and urban affairs (MOHUA) for all three services. The supply of water stood at 153.5 litres per capita per day in FY25 (benchmark: 135 litres per capita per day). However, SMC's performance was weaker than adequate in areas such as the extent of water metering, wastewater recycle and reuse and continuous hours of water supply during FY20-FY25.

Liquidity

Superior: SMC's liquidity position is supported by the sustained revenue surpluses, capital grants to fund capex, sizeable cash and bank balances and unencumbered investments. SMC's cash balances and unencumbered investments were INR32.37 billion as on 31 December 2025 (FYE25: INR21.18 billion). Ind-Ra believes the cash and investment position is more than adequate to fund debt servicing obligations, if required, in the near term. In FY26, there is no interest servicing obligation for SMC considering the financial assistance from the Government of Gujarat is an interest free loan for capex purpose. There is no repayment schedule for the funds received under special assistance scheme from the state government.

The interest repayment of the municipal bonds, which were issued in October 2025, will start only from April 2026. Thus, SMC does not have any debt repayments in FY26 and has repayment obligations of INR160 million in the form of interest in FY27, which will be serviced through a monthly build-up backed by escrow of its entire own revenue. Redemption of bonds will happen through the funds accumulated in SFA in FY30 and FY31. Ind-Ra expects the DSCR to be healthy in the medium-term.

Rating Sensitivities

Positive: The positive rating triggers are not applicable for the rated instrument of the urban local body as the instrument rating will have a cap of 'IND AA+' in absence of any unconditional, irrevocable, pre-default and continuing guarantee from the sovereign for principal and interest payments throughout the life of the instrument or a full/partial credit guarantee from any multilateral donor agency.

Negative: The following developments could individually or collectively lead to a negative rating action:

- a breach of financial covenants and a deviation from the structured payment mechanism,
- an unanticipated increase in the debt levels resulting in DSCR remaining below 2.0x for two consecutive years,
- a reduction in own revenues leading to higher dependence on grants and/or deterioration in the revenue balance position
- failure or breach to comply with SEBI listing requirements with regard to timely disclosure on a sustained basis

Any Other Information

Financial Covenants

1. SMC shall, at all times till the Debentures are outstanding, ensure that the total amounts collected in the EA in any financial year shall be at least 2x of the annual payments amount. The term 'annual payments amount' shall, in respect of any financial year, mean the aggregate of: (a) the coupon payable in such year (in relation to the present green bonds Issue and any further borrowings); and (b) the portion of principal amount of the debentures which are required to be deposited by SMC into the SFA in such financial year (in relation to the present green bonds issue, and any further borrowings), in terms hereof.

2. The SMC shall maintain the following ratios on an ongoing basis and the same should be tested at least at the end of each financial year:
DSCR for SMC shall not be less than 1.25x
as the below:
DSCR = operating surplus / total debt service
i. Operating surplus calculated as the below:
Operating surplus = Total income – adjusted expenditure
Total income =Total income of the corporation as per the audited income and expenditure statement.
Adjusted expenditure = Total expenditure as per the audited income and expenditure statement –depreciation – finance charges
ii. Total debt service = interest payment of loans and bonds + transfers made to the sinking fund account towards principal repayment/redemption + principal repayment/ redemption (where sinking fund is not created)+ transfer of debt service reserve amount.

3. So long as the eligibility conditions are met, SMC 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 DT.

As per the term sheet, the term 'eligibility conditions' shall mean the following conditions: (a) the annual payments ratio is maintained by SMC; (b) The DSCR of 1.25x is maintained (c) there is no shortfall in the contribution to the EA, the IPA (including towards maintenance of the
Required DSR amount) and/or the SFA which has not been made good by SMC in terms of the transaction documents; (d) no event of default has occurred.

4. Other financial covenants as defined in the transaction documents.

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 SMC, either due to their nature or the way in which they are being managed by the entity and sponsor. 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

SMC, a local self-government, was established in 1966 under the Bombay Provincial Corporation Act, 1949. The corporation is mainly responsible for the administration of the city, maintaining infrastructure facilities, and providing various civic services such as water supply, solid waste management, sewerage, education, health and others to its citizens. SMC covers 462.15 sq km and the Surat city is divided into nine zones namely, east, west, north, south A, south B, central, southwest, southeast A and southeast B. There are 30 municipal wards, and each municipal ward is represented by four municipal councillors.

Key Financial Indicators

Particulars (INR billion)	FY25	FY24
Revenue income	48.30	44.70
Revenue expenditure	39.41	36.02
Revenue balance before depreciation	8.89	8.68
DSCR (x)	38.99	3.83
Debt payment/revenue income (%)	0.48	5.28
Source: SMC, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook		
				21 January 2025	22 January 2024	3 February 2023
Municipal bonds	Long-term	INR2,000	IND AA+/Stable	Provisional IND AA+/Stable	Provisional IND AA+/Stable	-
Non-convertible debentures	Long-term	INR2,000	-	WD	IND AA+/Stable	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

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
Municipal bonds	INE05NX24023	13 October 2025	8.00	13 October 2029	INR1,000	IND AA+/Stable
Municipal bonds	INE05NX24031	13 October 2025	8.00	13 October 2030	INR1,000	IND AA+/Stable
					INR2,000	
Source: SMC, NSDL						

Structured Payment Mechanism

Interest payment date (T)	
Trigger Date	**Action Points**
T-25	The trustees shall check the amount lying to the credit of IPA. In case of any shortfall in 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 utilise 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
Source: SMC	
*Any amount drawn from the DSRA should be deposited back in the account before T+8 (15 days post DSRA utilisation)	

DSRA	
Trigger Date	**Action Points**
T-7	DSRA amount will be used to make the coupon payment in case of shortfall
-	SMC shall make good the DSRA amount shortfall within next 15 days (T+8). Further, immediately after the DSRA utilisation, the amounts lying or credited in the escrow account shall flow into the interest payment account for DSRA replenishment and shall not be transferred by SMC to the general fund account(s) till the time the required DSRA amount is replenished
Source: SMC	

Redemption mechanism T – Redemption date/12 Month Block	
Trigger Date	**Action Points**
T-45	The trustees shall check the amount lying to the credit of the SFA. In case of any shortfall in amount, the trustees shall intimate SMC of the shortfall and SMC shall make good the shortfall in the SFA at T-15
T-15	In case of shortfall in any amount still persists in the SFA at T-14, the trustees shall trigger the payment mechanism and shall issue a final notice to SMC. On the issuance of such notice, the SMC shall remit the funds to fund the shortfall into the Sinking Fund Account prior to the end of each 12 Month Block (T).
T	Redemption payment is done
Source: SMC	

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