India Ratings Assigns Patna Municipal Corporation's Proposed Municipal Bonds 'Provisional IND AA'; Outlook Stable

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India Ratings and Research (Ind-Ra) has rated Patna Municipal Corporation's (PMC) proposed municipal bonds as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating Assigned with Outlook/Watch	Rating Action
Proposed municipal bonds*#	SEBI	-	-	-	2,000	Provisional IND AA/Stable	Assigned

*The rating is provisional and contingent upon execution of certain documents and/occurrence of certain steps. Please refer to the section, DISCLOSURES FOR PROVISIONAL RATING, for additional details as per Ind-Ra's Policy for Provisional Rating

#Frequency of interest payment is proposed to be quarterly.

Analytical Approach

Ind-Ra has taken a standalone view of PMC while assigning the rating.

Detailed Rationale of the Rating Action

The rating reflects PMC's moderate operational and financial performance, stable performance of escrowed assets, and the enforceable nature of these collections by the corporation. The rating also derives comfort from the 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 will be backed by an interest payment account (IPA) and a sinking fund account (SFA). The IPA shall be pre-funded one day before the pay-in-date, equivalent to one annual interest instalment, to be maintained during the bond tenor. This 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 circular regarding the continuous disclosures and compliances by the listed entities under SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015, dated 13 November 2019. The bond shall be issued at a fixed rate of interest as per the draft term sheet of the bond that mitigates interest rate risk.

Ind-Ra expects PMC's debt service coverage ratio (DSCR) to remain comfortable over the medium term. Ind-Ra believes PMC will generate adequate receivables from identified revenue streams for escrow purposes to cover debt service obligations. PMC shall set up a separate no-lien escrow account into which the funds lying in account(s), in which the revenue is collected by PMC shall be transferred for debt servicing on a daily basis. In Ind-Ra's assessment, the bond's structured payment mechanism is strong. PMC has received the government of Bihar's (GoB) approval for the bond, which has been shared with the agency.

List of Key Rating Drivers

Strengths

- Proposed escrowed revenue stream likely to be adequate
- Structured debt servicing mechanism
- Trustee monitored debt service mechanism

- Consistent operating revenue surplus; moderate operating margin
- Comfortable DSCR
- Moderate collection efficiency of property tax
- Adequate coverage of civic service delivery

Weaknesses

- Low capital utilisation
- Limited reliance on own revenue

Detailed Description of Key Rating Drivers

Proposed Escrowed Revenue Stream Likely to be Adequate: Ind-Ra expects PMC's proposed escrowed revenue stream to be adequate to cover its debt service obligations during the tenor of the proposed bond. Under the proposed bond structure, tax revenue, rental income from municipal properties, fees and user charges, sale and hire charges, income from investment, interest earned and other income are being escrowed for debt servicing. The proposed escrowed collections will be first utilised for meeting the minimum balance required to be transferred to the IPA and the SFA. Revenue from earmarked sources grew at a CAGR of 9.82% to INR1,621.40 million over FY22-FY26 (FY25: INR1,790.20 million) on a cash basis. As per the historical trends, the overall collections have been much higher than the yearly requirements following the bond issuance, indicating comfortable cushion availability.

Structured Debt Servicing Mechanism: Ind-Ra believes that the structured payment mechanism will provide adequate support to timely meet PMC's debt service obligations. The proposed bonds are supported by a robust structured payment mechanism that is backed by an escrow account, an IPA, a SFA and an upfront DSRA. Under the proposed structure, a DSRA, funded one day prior to the pay-in date with an amount equal to four quarterly interest payments, will be put in place. At all times, the DSRA amount has to be equivalent to four succeeding quarterly interest payments (equivalent to one-year interest payment).

PMC will set up a separate no-lien escrow account, into which the funds from the accounts collecting tax revenue, rental income from municipal properties, fees and user charges, sale and hire charges, income from investment, interest earned and other income are transferred for debt servicing. The tenor of the bond is four-to-10 years in seven sub-series.

On the transfer date (i.e. 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 two transfer dates of the 12-month block, an amount equivalent to 50% of the coupon payment due on the first coupon payment date, and any further interest payable as per the terms of the issuance, and any shortfall in earlier contribution shall be transferred to the IPA. On each of the third to fourth transfer dates of the year, an amount equivalent to 50% of the coupon payment due on the second coupon payment date in such 12-month block and any further interest payable, and any shortfall in earlier contribution shall be transferred to the IPA. On each of the fifth to the sixth transfer dates of the year and seventh to the eighth transfer dates of the year, an amount equivalent to 50% of the coupon payment due on the third coupon payment and fourth coupon payment date, respectively, in such 12-month block and any further interest payable and any shortfall in earlier contribution shall be transferred to the IPA.

- on each of the first 10 transfer dates occurring in each 12-month block, an amount equivalent to one/10th of 10.0% of the issue size, and any shortfall in the earlier contribution, shall be transferred to the 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 PMC by transfer from its other account(s).

Trustee Monitored Debt Service Mechanism: Ind-Ra believes the trustee monitoring provides comfort for timely debt servicing to the bond holders. The debenture trustees, on behalf of the debenture holders, will have an exclusive first charge on the escrow account, IPA (including DSRA), SFA and any permitted investments made from these accounts for the exclusive benefit of the debenture holders. The amount deposited in the IPA and the SFA will be used solely for meeting the debenture holders' dues. Any surplus available in the escrow account after all dues to the debenture holders have been paid can be transferred to PMC's general account only after obtaining the written consent of the debenture trustees. No amount can be withdrawn from these accounts without the approval of the debenture trustee.

Consistent Operating Revenue Surplus; Moderate Operating Margin: Ind-Ra expects PMC's revenue balance position to remain in surplus over the medium term. PMC has maintained a revenue surplus (before depreciation) of INR1,570.35 million in FY26 (FY25: INR1,880.02 million; FY24: INR434.04 million). The revenue surplus moderation was driven by higher revenue expenditure (before depreciation) partly offset by flattish revenue income in FY26. The total revenue stood at INR7,086.32 million in FY26 (FY25: INR7,078.14 million). However, during FY22-FY26, revenue income expanded at a CAGR of 14.31%, while the revenue expenditure (before depreciation) rose at a CAGR of 7.04% to INR5,515.97 million (FY25: INR5,198.12 million). The corporation funded its entire revenue expenditure from the revenue income. The operating margin was moderate, averaging 15.94% during FY22-FY26. Ind-Ra expects PMC's operating margin to remain moderate in the medium term.

Comfortable DSCR: Ind-Ra expects PMC to issue municipal bonds of INR1,999.99 million in FY27 to fund the identified capital works in the jurisdiction of Patna city. Post-issuance of the municipal bonds, the DSCR is likely to remain comfortable over the proposed bond tenor. Debt servicing on account of principal repayments from bond issuance would begin after the fourth year, following issuance, as per the draft term sheet. Based on Ind-Ra's rating case scenario, the coverage of debt servicing obligations (including proportionate principal deposited in the SFA or the instalment of principal redemption and other servicing), would remain healthy in the medium term.

The DSCR stood at 313.63x in FY26 (FY25: 395.73x) driven by negligible debt servicing obligations from the existing loan. At FYE26, PMC had debt in the form of the unsecured loan from the GoB (INR410.04 million) and National Safai Karamcharis Finance and Development Corporation (INR29.85 million), government of India. The GoB loan was historically extended to the urban local body (ULB) as financial assistance. Till date, the state government has not raised any demand for repayment of either the principal amount or the accrued interest. The ULB expects the outstanding loan will be converted to a government grant as a policy decision relating to the same is under contemplation by the government. This will be applicable to all the ULBs in Bihar. Ind-Ra, in its analysis, has treated this loan as subordinated debt in the absence of interest servicing/debt repayment schedule and any payment demand unlikely from the state government.

National Safai Karamcharis Finance and Development Corporation loan was availed by the ULB for the procurement of sanitation vehicles. PMC has been making interest and principal repayments for the same. The obligations for the same are low and are to be closed in FY28. The debt payment/revenue income ratio remained quite low at 0.07% in FY25-FY26, driven by low debt servicing obligations.

Moderate Collection Efficiency of Property Tax: Ind-Ra expects property tax collections to remain moderate over the near-to-medium term. The total property tax demand has increased consistently to INR1,626.80 million in FY26 from INR1,010.50 million in FY22, primarily driven by the expansion of the tax base following geographic information system-based mapping and assessment of properties. Consequently, the number of properties under the tax net increased to 0.31 million in FY26 from 0.26 million in FY22.

The ULB has also undertaken targeted measures to improve its collections, encompassing the introduction of a one-time settlement scheme in FY26 and recovery drives directed at government departments, which resulted in successful collection of outstanding dues. Furthermore, the adoption of digital outreach initiatives, including AI-enabled citizen engagement platforms, has led to increased collections of dues, resulting in an improvement in the collection efficiency at current and overall levels to 88.83% in FY26 (FY25: 80.99%) and 52.91% (43.25%), respectively.

Ind-Ra expects the implementation of planned measures to improve property tax collections in the medium term. PMC has adopted a modernised property tax system focused on digitising and simplifying tax assessment, payment, and citizen grievance redressal processes. The platform enables citizens to self-assess property tax, apply for property mutations, make online payments, and access receipts through a user-friendly portal. In addition, multiple digital payment options, QR code-based demand access, WhatsApp chatbot support, instant receipt generation, and SMS reminders are likely to improve taxpayer convenience and encourage timely payments.

Furthermore, PMC has entered into a memorandum of understanding with the electricity department for using consumer data for expanding the property tax base. The electricity database comprises approximately 0.69 million consumers, including both residential and commercial connections. Hence, the ULB is anticipating a further increase in property tax collection from a potential increase in the tax base from the existing number of assessed properties. A data-matching and bifurcation exercise is underway to reconcile electricity consumer records with the existing property tax database.

Adequate Coverage of Civic Service Delivery: Ind-Ra expects ULB to have adequate coverage in terms of civic service delivery in the near-to-medium term. The corporation's service delivery levels for the water, sewerage and solid waste segments remained comfortable, as reflected in coverage network (water supply: 100.0%; sewage network: 100.0%; 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 for all three services. PMC's performance on indicators such as hours of water supply, and quality of sewage treatment is slightly below the stipulated benchmarks where the ULB can take up projects to improve the same.

Low Capital Utilisation: Ind-Ra expects PMC's capital utilisation (capex/capital grant) to improve in the near term, due to multiple projects planned for the maintenance and development of the city. The capital utilisation stood low at 0.85x in FY26 (FY25: 0.87x) due to the receipt of capital grants towards each fiscal year end. A lower capital utilisation is likely to impact the speed of infrastructural development in the city. These activities are crucial for a ULB for sustaining and improving civic services in the city, which is a mandatory obligation of the ULB. The proportion of capex to the total expenditure marginally declined to 48.6% in FY26 (FY25: 51.0%) owing to a delay in receiving approvals in the projects.

Limited Reliance on Own Revenue: Ind-Ra expects PMC's dependence on its own revenue sources to improve over the medium term, supported by the ULB's plan to undertake revenue-generating projects funded through proposed municipal bond proceeds. However, currently, the ULB is largely dependent on grants. During FY22-FY26, tax and non-tax revenue contributed an average of only 11.89% and 12.43%, respectively, to total revenue income. Meanwhile, assigned revenue and revenue grants accounted for an average of 65.99% of the total revenue income during FY22-FY26. This reflects PMC's significant reliance on grants while its own revenue base remains relatively low in funding its revenue expenditure requirements.

Liquidity

Adequate: Ind-Ra expects PMC's liquidity profile to remain comfortable over the medium term on account of the consistent generation of operating surplus and accumulated cash reserves. PMC's liquidity position is supported by sustained operating surpluses, capital grants earmarked to fund capex, sizeable cash and bank balances, and unencumbered investments. PMC's cash, bank balances, and unencumbered investments stood at INR13,433.09 million at FYE26 (FYE25: INR13,572.47 million). PMC's debt servicing requirement pertaining to proposed municipal bonds will be backed by way of escrow of receivables from tax revenue, rental income from municipal properties, fees and user charges, sale and hire charges, income from investment, interest earned and other income. Ind-Ra expects the collection of earmarked revenue to adequately meet the funding requirements for interest payment and contribution to the SFA for proposed municipal bonds in the near-to-medium term.

Rating Sensitivities

Positive: Events that may collectively lead to a positive rating action are:
- own revenue augmentation with higher dependence on own revenue on a sustained basis;
- a sustained improvement in the civic service deliverables in line with the corresponding benchmark levels.

Negative: Events that may, 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 reducing below 2.0x for two consecutive years,
- a higher dependence on grants and/or deterioration in the revenue on a sustained basis,
- the property tax current collection efficiency falling below 55% on a sustained basis,
- a failure or breach to comply with SEBI's listing requirements with regard to timely disclosure on a sustained basis.

Disclosures for Provisional Rating

1) Rating that would have been assigned in the absence of the pending steps/ documentation

Ind-Ra would have assigned 'IND A'/Stable in the absence of the pending steps/documentation.

2) Pending steps/ documentation considered while assigning provisional rating and risks associated with the provisional nature of the credit rating:

Sr. No.	Pending documentation/steps considered while assigning provisional rating	Risks associated with the provisional nature of the credit rating in the absence of completed documentation/steps

1.	Final debenture trust agreement	Weaker structure and monitoring; risks to timeliness of payment; lower protection to investors.
2	Final debenture trust deed	
3.	Final escrow agreement	
4.	Final term sheet	
5.	Final information memorandum	
6.	Statement of interest payment account showing required debt service reserve amount (one annual interest instalment), one day prior to the pay-in date	Pending funding of debt service reserve amount may increase vulnerability to cash flow mismatches and a risk of timely debt servicing.

* Additionally, any other relevant documents executed for the transaction should be provided to the agency.

3) Validity period

The final rating, upon the receipt of executed documents consistent with the draft documents, shall be assigned within 90 days from the date of issuance of the instrument. The provisional rating may be extended by another 90 days, subject to Ind-Ra's policy, if the execution of the documents is pending.

Any Other Information

Proposed Bond Usage: The ULB is proposing to utilise the proceeds from the issuance of municipal bonds towards capex primarily aimed at strengthening urban infrastructure and enhancing revenue-generating assets within PMC. The projects include the development of organised vending zones across the city, construction of a commercial complex and a marriage hall, along with parking facilities within designated vending zones. These projects are likely to improve civic amenities and create potential avenues for augmenting the ULB's non-tax revenue through user charges, rentals, leases, and other related income streams.

The total estimated construction cost of the proposed projects is INR2,704.52 million. Out of this, INR1,999.99 million is proposed to be financed through bond proceeds and the remaining through internal accruals. There are 15 identified projects, each, with a timeline ranging from six months to one-and-a-half years.

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

PMC was established on 15 August 1952 under the provisions of the Patna Municipal Corporation Act, 1951. The act was published in the Bihar Gazette Extraordinary No. 249 dated 30 July 1952, following the GoB Notification No. L.S.G. 1088/52 Leg-538 dated 26 July 1952. The act came into force on 15 August 1952, replacing the former Patna City Municipality, Patna Administrative Committee, and Patna Bankipur Joint Water Works Committee, thereby creating a unified municipal body for the governance of the city.

PMC is the statutory ULB responsible for civic administration, municipal services, and infrastructure development of Patna, the capital city of Bihar. It oversees essential functions such as urban planning, sanitation, solid waste management, water supply, drainage, street lighting, public health, and other municipal services. The city is divided into six administrative circles and has 75 wards covering an area of 108.87 sq. km. It had a population of 1.7 million as per the Census of India 2011.

Key Financial Indicators

Particulars (INR million)	FY26	FY25
Revenue income	7,086.32	7,078.14
Revenue expenditure before depreciation*	5,515.97	5,198.12
Revenue surplus/(deficit) before depreciation*	1,570.35	1,880.02
DSCR (x)	313.63	395.73
Debt payment/revenue income (%)	0.07	0.07
Source: PMC, Ind-Ra *Includes impact of prior period adjustments in FY25		

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (INR million)	Current Rating
Proposed municipal bonds	Long-term	2,000	Provisional IND AA/Stable

Disclosure on instruments / activities and names of regulators:

A list of products/activities or ratings of instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by Ind-Ra on its website. A link to the same has been provided below for ready reference:

Rating Activities

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Proposed 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

Proposed Financial Covenants

1. The issuer shall, at all times till the debentures are outstanding, ensure that the total amount 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.

2. DSCR should not be less than 1.25x of the operating surplus calculated as on 31 March for each year financial year (starting from 31 March 2027 till the time bonds are outstanding) as below:

DSCR = operating surplus / total debt service

(a) Operating surplus calculated as below:

Operating surplus = total income minus 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 less depreciation less finance charges less provisions and write offs less other non-cash expenditures

(b) Total debt service = interest payment of loans and bonds + transfers made to SFA towards principal repayment / redemption + principal repayment / redemption (excluding those made out of the sinking fund account)

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:

(i) the annual payment ratio is maintained by the issuer;

(ii) the minimum DSCR is 1.25x maintained by the issuer

(iii) there is no shortfall in the contribution to the escrow account, the interest payment account (including towards maintenance of the required DSRA amount) and/or the SFA which has not been made good by the issuer in terms of the transaction documents.

(iv) no event of default has occurred.

Annexure - II

Interest Payment Mechanism (T-interest date)	
Trigger Date	Action
T-25	The trustee shall check the amount lying to the credit of interest payment account over and above 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 the IPA, if required.
T-9	In case of shortfall, trustee shall trigger the payment mechanism and instruct the banks to utilise the DSRA amount for meeting the shortfall in the IPA.
T-8	The bank shall transfer the shortfall amount, if applicable*.
T	Interest payment serviced.
*Any amount drawn from the DSRA should be deposited back in the account before T+8 (15 days post DSRA utilization).	
Source: PMC; Ind-Ra	

DSRA	
Trigger Date	Action
T-7	The DSRA amount to be used for interest payment in the event of shortfall, immediately after the trustee instruction to the bank.
	The debenture trustee would issue a final notice in writing to the issuer for making good the shortfall. The issuer shall make good the DSRA amount shortfall within next 15 days (T+8). Furthermore, immediately after the DSRA utilisation, the amount 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.
Source: PMC; Ind-Ra	

Redemption Mechanism (T – 12-month block end date/Redemption date)	
Trigger Date	Action
T-45	The trustee shall check the amount lying to the credit of SFA prior to the end of each 12-month block. In case of any shortfall in amount, the trustee shall intimate PMC of the shortfall and PMC shall make good the shortfall in the SFA at T-15 prior to the end of each 12-month block(T). In case of shortfall in the account on T-45 days, the amount lying or credited in the escrow account shall flow into the sinking fund account for funding the shortfall and shall not be transferred by PMC to the general fund till the shortfall is met.
T-14	In case any shortfall still persists in the SFA, the trustee shall issue a final notice to PMC. Post issuance of the notice, the PMC shall remit funds to fund the shortfall into the SFA prior to T.
T	The day on which redemption payment is done/12 month block end date.
Source: PMC; Ind-Ra	

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

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Evaluating Corporate Governance

Policy on Provisional Ratings

Local and State Government Rating Criteria

The Rating Process

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