

Press Release

Indore Municipal Corporation (IMC)

17 May, 2018



Rating Reaffirmed

Total Bond Facilities Rated*	Rs.170.00 Cr.
Long Term Rating	SMERA AA (SO) / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA AA (SO)**' (read as **SMERA double A (Structured Obligation)**) on the Rs. 170.00 Cr. proposed bonds of **Indore Municipal Corporation (IMC)**. The outlook is '**Stable**'.

IMC is one of the oldest municipal corporations in India. It services an area of 274 square kilometres, inhabited by around 28 lakh people. The corporation provides key obligatory services such as roads and bridges, water supply and sanitation, drainage and sewerage, public health, solid waste management, and primary education. It also offers discretionary services such as public transportation.

Strengths

Strong Commercial & Economic Base of Indore

Indore has demonstrated an ability to attract investments from a wide range of industries which makes it the commercial capital of Madhya Pradesh. The region has a well-balanced mix of industries like Cotton Textiles, Iron and Steel, Chemicals, Pharmaceuticals, IT, Solvent Plants and Others. The region also provides significant opportunities for setting up of agro based trading units, soya product units and enterprises engaged in processing of food products. Indore has also established itself as an educational hub including the presence of both Indian Institute of Technology (IIT) and Indian Institute of Management (IIM). The significant employment opportunities generated as a result of the economic activities in and around Indore has led to higher per capita income which augurs well for IMC. The own tax revenues of IMC increased to Rs. 443.24 Cr. in FY2016-17 as against Rs. 336.95 Cr. in FY2015-16. The revenue surplus stood at Rs.302.74 crore for FY2016-17 (Rs.312.77 crore for FY2015-16).

SMERA believes that IMC will benefit from its status as the commercial capital of Madhya Pradesh and its ability to attract investment from diverse sectors.

Structured Payment Mechanism:

The payment mechanism entails maintenance of an Escrow Account, Debt Service Reserve Account (DSRA), Interest Payment Account (IPA), and Sinking Fund Account (SFA):

- I. The DSRA shall be created on the pay-in date with an amount equal to one year interest payments for the bond structure.
- II. The funds (Owned Revenue) received in the Escrow Account will be transferred to IPA and SFA on a monthly basis as per the terms of the bond.
- III. As regards the interest payments (expected to be half yearly), the IPA will be funded on a monthly basis.
- IV. SFA, which shall be funded monthly equivalent to the amount as per the terms of bond issuances.

IPA:

An amount, as specified in the terms of bonds/loans agreements, will be transferred to IPA from Escrow Account on monthly basis. In case of any shortfall in the amount lying to the credit of interest payment account on transaction date (T)-25 days prior to debt service, the trustee shall inform IMC, and the latter shall cover the shortfall by T-15 days. If the corporation fails to cover the shortfall by T-14 days, then the trustee will instruct the bank to transfer the deficit from DSRA to IPA by T-10 days.

SFA:

The debenture trustee shall check the balance in SFA at the end of each year; in case of any shortfall, the trustee shall inform IMC to replenish the same. Further, the trustee shall check the balance in SFA in T-25 days from the principal redemption date. In case of any shortfall, the trustee shall ask IMC to make good the shortfall in T-15 days.

Management of Funds:

The management of funds in the various designated accounts will be overseen by the trustee. Any surplus funds available in the Escrow account, after meeting the aforesaid structured payment mechanism, can be transferred to IMC's general fund account. Escrow Account, DSRA, IPA and SFA shall be maintained with a scheduled commercial bank, rated at least 'AA+' by two rating agencies, throughout the tenure of the instruments. If the rating of senior debt of the concerned bank falls below 'AA+', IMC will move the fund to other bank, satisfying the aforesaid conditions. The status of the designated accounts will be shared with the debenture trustee and rating agencies on a periodic basis during the tenor of the bonds. The funds credited and lying in IPA, SFA and DSRA can be kept in fixed deposits with a scheduled commercial bank with a dual rating of 'AA+' or above. The interest income earned on the investments made from SFA, DSRA and IPA can be utilised towards obligations of the respective accounts.

Efficient Civic Service Coverages:

IMC's water supply connection (base considered population) coverage and sanitation coverage remained comfortable at 89% and 92%, respectively, in FY2016-17, against the service level benchmark of 100%. Further, in FY2017-18 the ratios remained at 89% and 95%, respectively. IMC has achieved 100% coverage in terms of solid waste collection in FY2016-17.

Weaknesses**Significant Build up in Receivables**

The gross debtors position as on 31 March, 2017 stood at Rs.1246.87 Cr. as compared to Rs.1129.86 Cr. as on 31 March, 2016 i.e. 355 days revenues for FY17 (previous year 379 days). The debtors mainly pertain to accumulated overdues in property taxes and water charges (~97.20% of overall receivables). The IMC has been following a practice of provisioning for a part of these overdue receivables. The net receivables stood at Rs.477.56 Cr. (previous year Rs.443.84 Cr.).

SMERA believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of IMC to arrive at the rating.

Outlook - Stable

SMERA believes IMC will maintain a stable outlook given its healthy revenue growth and diversified economic infrastructure. The outlook may be revised to 'Positive' in case there is a significant improvement in cost recovery and service coverage indicators. The outlook may be revised to 'Negative' in case there is an increased dependence on grants and further build up in the debtor levels.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1,282.76	1,088.44	882.25
EBITDA	Rs. Cr.	509.65	500.71	295.37
PAT	Rs. Cr.	302.74	312.77	114.10
EBITDA Margin	(%)	39.73	46.00	33.48
PAT Margin	(%)	23.60	28.74	12.93
ROCE	(%)	10.22	11.80	10.83
Total Debt/Tangible Net Worth	Times	0.10	0.13	0.16
PBDIT/Interest	Times	14.01	16.13	9.67
Total Debt/PBDIT	Times	0.61	0.70	1.25
Gross Current Assets (Days)	Days	354	353	344

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Urban Local Bodies - <https://www.smera.in/criteria-urban-local-bodies.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
17-Apr-2018	Proposed Bond	Long Term	170.00	SMERA AA (SO) / Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Bond	Not Applicable	Not Applicable	Not Applicable	170.00	SMERA AA (SO) / Stable

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