

Change in Rating Symbol

September 16, 2019

Indore Municipal Corporation

Total Instruments Rated	Rs. 170.00 Cr
Long Term Rating	ACUITE AA / Stable

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 there is a revision in the rating symbol. The change to 'CE' suffix / removal of 'SO' suffix for the rated instrument(s) is not to be construed as any change in the rating or Acuite's credit opinion on the said instrument(s). The previous rating rationale is appended herewith for reference.

For the background note, please visit: [https://www.acuite.in/pdf/General%20Communication%20For%20Website%20\(1\).pdf](https://www.acuite.in/pdf/General%20Communication%20For%20Website%20(1).pdf)

Criteria for assigning ratings with 'SO' suffix: <https://www.acuite.in/view-rating-criteria-48.htm>

Criteria for assigning ratings with 'CE' suffix: <https://www.acuite.in/view-rating-criteria-49.htm>

Press Release

Indore Municipal Corporation

May 23, 2019

Rating Reaffirmed



Bond Programme*	Rs. 170.00 Cr.
Long Term Rating	ACUITE AA (SO)/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE AA (SO)**' (read as **ACUITE double A (Structured Obligation)**) on the Rs. 170.00 crore Secured Redeemable Non-Convertible Debentures 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.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of IMC to arrive at the rating.

Key Rating Drivers

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.

IMC's owned revenues stood at Rs.642.58 crore for FY2018 against Rs.546.65 crore for the previous year. The surplus stood at Rs.363.76 crore for FY2018 (PY: Rs.302.74 crore). Besides the owned revenues, IMC has been a recipient of continuous support from the government in the form of grants. The capital grants received by IMC stood at Rs.370.22 crore as on 31 March 2018 (PY: Rs.424.03 crore). IMC's owned revenues to total revenues stood at 42.37 per cent in FY2018 as against 42.62 per cent in the previous year. The below average coverage ratios inhibit its ability to scale up its owned revenue over the near to medium term. However, the support from State and Central Government by way of Grants is expected to continue in coming years which will be critical to maintain the pace of capital expenditure necessary to bring the coverage ratios to the benchmark levels as envisaged under AMRUT scheme.

Indore has also been identified as one of the cities under Atal Mission for Rejuvenation and Urban Transformation (AMRUT). The purpose of AMRUT is to ensure every household to have access to tap water and sewerage connection, increase the amenity value of cities, and reduce pollution in the city. Along with being an AMRUT city, Indore is also one of the 100 cities selected for the SMART City project. Acuite believes that IMC will continue to benefit significantly from its status of 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 has been created one day prior to 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 is being transferred to IPA and SFA on a monthly basis as per the terms of the bond.
- III. As regards the interest payments, 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, is being 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.

• **Civic service coverage**

IMC's water supply connection (base considered population) coverage and sanitation coverage remained comfortable at 89% and 80%, respectively, in FY2018-19, against the service level benchmark of 100%. IMC has achieved 100% coverage in terms of solid waste collection in FY2018-19.

Weaknesses

• **Significant Buildup in Receivables**

The gross debtor position as on 31 March, 2018 stood at Rs.1361.55 Cr. as compared to Rs. 1246.87 Cr. as on 31 March, 2017 i.e. 328 days receivables for FY18 (previous year 355 days). The debtors mainly pertain to accumulated overdues in property taxes and water charges (~92.25 % of overall receivables). The IMC has been following a practice of providing for a part of these overdue receivables. The net receivables stood at Rs.640.02 Cr. (previous year Rs. 477.56 Cr.).

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

Outlook: Stable

Acuite 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.

Liquidity Position

IMC has healthy liquidity marked by healthy net cash accruals of Rs.557.50 crore for FY2018 as against total external debt of Rs.284.75 crore outstanding as on March 31, 2018. The corporation generated cash accruals of Rs.473.28 to Rs.557.50 crore during the last three years through 2017-18. Currently, IMC does not have any major repayment in near to medium term. The bond issued has a call and put option at the end of 7th year (i.e., 2025). The cash and bank balances of IMC stood at Rs.348.30 crore as on March 31, 2018. However, Acuite believes that these funds would be significantly utilized for the infrastructural development which is required to be carried out in near to medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1516.45	1282.76	1088.44
Surplus / Deficit	Rs. Cr.	363.76	302.74	312.77
Total Debt	Rs. Cr.	284.75	309.16	352.25
Interest Coverage Ratio (Surplus/Deficit + Interest)/Interest	(%)	9.89	9.32	11.07

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Urban Local Bodies - <https://www.acuite.in/view-rating-criteria-39.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Criteria For Rating Of Securitized Transactions - <https://www.acuite.in/view-rating-criteria-29.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
17-May-2019	Proposed Bond	Long Term	170.00	ACUITE AA (SO)/ Stable (Assigned)
17-Apr-2019	Proposed Bond	Long Term	170.00	ACUITE AA (SO)/ Stable (Reaffirmed)

*Annexure – Details of instruments rated

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Rating / Outlook
INE00QS07014	Secured Redeemable Non-Convertible Debentures	29-Jun-18	9.25%	29-Jun-28	170.00	ACUITE AA (SO)/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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