

Press Release
Indore Municipal Corporation
March 29, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	320.00	ACUITE AA Stable Reaffirmed	-
Non Convertible Debentures (NCD)	170.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	490.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) on the Rs.170.00 Cr. Secured Redeemable Non-Convertible Debentures of Indore Municipal Corporation (IMC). Further, Acuite has reaffirmed the long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) on the Rs.320.00 Cr. long-term bank facilities of Indore Municipal Corporation (IMC). The outlook is '**Stable**'

Rationale for rating reaffirmation

The rating takes into account the presence of an Escrow A/c along with the Structured Payment Mechanism and DSRA with one year interest charges for the rated NCDs and Term Loan. Further, the rating also considers the corporation's ability as it raised Green Bonds for a 60MW Solar Plant set-up in the state of Madhya Pradesh for captive consumption. Entire state is expected to reap benefits of this green investment in the long run. Furthermore, rating takes comfort from Indore's status as one of the established and leading industrial and educational centres in Madhya Pradesh, consistent support from both the state and central government towards development of the city, stable revenue income and healthy cash surplus. However, the rating continues to be constrained by the elevated level of receivables of IMC.

About the Company

Constituted in 1818, IMC is one of the oldest municipal corporations in India. It services an area of 274 square kilometres, inhabited by around thirty 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

Unsupported Rating

Not applicable.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of IMC to arrive at this rating. Acuite has also factored in the benefits derived from the structured payment mechanism and DSRA for arriving at the rating of these NCDs.

Key Rating Drivers

Strengths

Strong Commercial & Economical base of Indore

With its ability to attract investments from a wide range of industries, Indore has established itself as the commercial capital of Madhya Pradesh. The region has a well-balanced mix of industries like Textiles, Iron and Steel, Chemicals, Pharmaceuticals, IT, Solvent Plants, and others. The region also has a favourable eco-system for 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). Significant economic activities in the region has created employment opportunities which has led to higher per capita income. 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 hundred cities selected for the SMART City project. Further, IMC is setting up a 60MW solar power project for captive consumption and in February 2022 has raised Green bonds to the tune of Rs. 244 Cr. for partial funding of the same and a total of 210.84 acres of land in Khargone district of Madhya Pradesh has been identified for the solar power plant set-up. On operational levels, IMC's owned revenue stood healthy at Rs. 1880.49 Cr. in FY2023 as against Rs. 1796.40 Cr. in FY2022.

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

Presence of Structured & Waterfall Payment Mechanism

The payment mechanism of Term loans and NCDs issued by IMC 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 on the pay-in date with an amount equal to one year interest payment for the bond structure.

Further, for Term Loans, the corporation shall create and maintain a DSRA upfront to meet the debt service requirements for the ensuing 1 quarter principal and payment due.

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. At the end of each month, an amount equivalent to 20 percent of the half yearly interest payment shall be transferred to the IPA IV. An amount equivalent to 1/12th of 10 percent of the bond size shall be transferred to the SFA on a monthly basis as per the terms of bond.

IV. An amount equivalent to 1/12th of 10 percent of the bond size shall be transferred to the SFA on a monthly basis.

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.

For Term Loan, the corporation shall create another Sinking Fund on monthly basis to cover the instalment amount which is due quarterly. The amount accumulated in the sinking fund shall not be used for any purpose other than for servicing Term loan. The amount in the SFA shall be utilized on due date of repayment of principal amount.

Escrow Account

Escrow account is held with the TL lending bank and all funds constituting the compensation amount in lieu of Octroi from MP State government / Central government are being credited to such escrow account. In the waterfall mechanism of escrow account, the TL will have first ranking.

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 utilized towards obligations of the respective accounts.

Civic Service Coverage

IMC's water supply connection (base considered population) coverage and sanitation coverage remained adequate. IMC has achieved 100% coverage in terms of solid waste collection since FY20.

Weaknesses

Significant buildup in receivables

The receivables of the corporation have remained high resulting in a significant buildup of receivables as on March 31, 2023. The Gross debtor position stood at Rs. 2413.7 Cr. as on March 31, 2023 against Rs. 2,246.49 Cr. in the previous year. The debtors pertain to accumulated overdues in property taxes and water charges. However, IMC has created a provision for a part of these overdue receivables. The net receivables stood at Rs.1508.20 Cr. as on March 31, 2023 against Rs. 1340.99 Cr. as on March 31 2022. The extent of recovery of the legacy receivables by the corporation will remain uncertain in the near term. Acuité believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

ESG Factors Relevant for Rating

Not applicable.

Rating Sensitivities

- Higher than expected collections with improvement in debtor position
- Continued elongation in debtor position coupled with deterioration in debt service coverage indicator with entail a negative bias towards the rating

Liquidity Position

Adequate

IMC has adequate liquidity marked by healthy net cash accruals of Rs.638.44 Cr. for FY2023 as against total debt obligation of Rs.62.45 Cr. in the same period. The corporation generated cash accruals of Rs.590 to Rs.664 Cr. during the last three years through FY2023 against repayment obligation of Rs.52-62 Cr. during the same period. Further, the liquidity is supported by structured and waterfall payment mechanism designed for NCDs and TL. The issued bond has a call and put option at the end of seventh year (i.e., 2025). The gross current asset days of the Corporation have been rising since the last three years, as it stood at 373 days as on March 31, 2023. The GCA days are driven by increasing receivables arising from overdue property and water charges. However, the cash and bank balances of IMC stood at Rs. 319.68 Cr. as on March 31, 2023 (including IPA, sinking fund and DSRA).

Outlook: Stable

Acuité believes that the IMC will maintain 'Stable' outlook in the medium term on account the city's position as a leading Industrial and Education Centre of Madhya Pradesh and ongoing support from the government. The outlook may be revised to 'Positive' in case there is a significant improvement in revenue collections and service coverage indicators. The outlook may be revised to 'Negative' in case there is a sharp decline in credit profile of the state government and increase in dependence on grants or further build-up in the debtor levels.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1880.49	1796.40
PAT	Rs. Cr.	272.69	389.16
PAT Margin	(%)	14.50	21.66
Total Debt/Tangible Net Worth	Times	0.13	0.10
PBDIT/Interest	Times	19.33	19.74

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Urban Local Bodies: <https://www.acuite.in/view-rating-criteria-57.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Mar 2023	Non-Coverible Debentures (NCD)	Long Term	170.00	ACUITE AA Stable (Reaffirmed)
	Term Loan	Long Term	150.00	ACUITE AA Stable (Assigned)
	Term Loan	Long Term	170.00	ACUITE AA Stable (Assigned)
02 May 2022	Non-Coverible Debentures (NCD)	Long Term	170.00	ACUITE AA Stable (Reaffirmed)
29 Apr 2021	Non-Coverible Debentures (NCD)	Long Term	170.00	ACUITE AA Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE00QS07014	Non-Convertible Debentures (NCD)	29 Jun 2018	9.25	29 Jun 2028	Simple	139.90	ACUITE AA Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.10	ACUITE AA Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	13 Mar 2020	Not avl. / Not appl.	31 Mar 2027	Simple	150.00	ACUITE AA Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	14 Dec 2020	Not avl. / Not appl.	01 Dec 2027	Simple	170.00	ACUITE AA Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Preet Ludhwani Associate Vice President-Rating Operations Tel: 022-49294065 preet.ludhwani@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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