

## Press Release

### Bhopal Municipal Corporation

September 06, 2018



### Rating Assigned

<b>Bond Programme*</b>	Rs. 175.00 Cr.
<b>Long Term Rating</b>	ACUITE AA (SO) / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

ACUITE has assigned the long term rating of '**ACUITE AA (SO)**' (**read as ACUITE double A (Structured Obligation)**) on the Rs. 175.00 Cr. Proposed bond of Bhopal Municipal Corporation (BMC). The outlook is 'Stable'.

Bhopal Municipal Corporation (BMC) founded in 1907, services an area of 286 square kilometres, inhabited by around 19 lakh people in and around 85 wards. 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.

### Key Rating Drivers

#### Strengths

##### Benefits from Bhopal's status as an Administrative Capital of Madhya Pradesh

BMC provides civic services to Bhopal city, the capital of Madhya Pradesh. Being an administrative capital, Bhopal is a base for all major state government offices. As a hub for major decision making, Bhopal has enhanced ability to attract investments from wide range of sectors. The city has around 1044 major small and medium scaled industries and also large scale companies like, BHEL, DB Corp among others. The city is divided into two parts, old city and new city. Old city has major industries such as electrical goods, chemical, cotton, sporting equipment among others. Mandideep which is another industrial hub of Bhopal has attracted major companies such as HEG Limited and Lupin Laboratories Limited. The significant employment opportunities generated as a result of the economic activities in and around Bhopal has led to higher per capita income which augurs well with the cash flows of BMC. The per capita income stood at Rs.47,214 for FY2017-18 (at 2004-05 constant prices).

BMC's water supply connection (base considered land) coverage and sanitation coverage remained comfortable at 95% and 100%, respectively, in FY2017-18 (Prev. year: 94% and 100% respectively). However, the sewerage coverage ratio stood moderate at 59% in FY2017-18. Besides being the capital city of Madhya Pradesh, Bhopal has been identified one of the cities under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) mission. 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. Hence, Acuité believes that adequate financial and non-financial support from State and Central Government will be made available to BMC for maintaining civic infrastructure at healthy levels under AMRUT mission.

The owned revenues to total revenues of BMC stood at 76.58 per cent in FY2018 (Prov.) as against 72.10 per cent in the previous year. The buoyancy in owned revenues is primary on account of higher tax collection during FY2017-18. BMC has also exhibited the ability to higher tax revenues which is marked by owned revenues which stood at Rs.593.31 crore for FY2018 (Prov.) as against Rs.500.82 for FY2017. BMC has access to revenue grants from State Government and Central Government. The revenue grants from State and Central government ~Rs.221 crore in FY2017-18 (Prev.: Rs.221 crore). The revenue surplus stood at Rs.26.38 crore for FY2017-18 as against revenue deficit of Rs.25.04 crore in the previous year. The surplus stood at Rs.234.34 crore for FY2018 (Prov.) as against Rs.171.86 crore

in the previous year.

### **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 BMC, 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 BMC 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 BMC 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 BMC'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+', BMC 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.

### **Weaknesses**

#### **Significant Buildup in Receivables**

The debtors position as on 31 March, 2018 stood at Rs.544.03 Cr. as compared to Rs.404.09 Cr. as on 31 March, 2017 i.e. 270 days for FY18 (Prov.) (previous year 254 days). The debtors mainly pertain to accumulated overdue in property taxes and water charges (~84.10% of overall receivables). However, the risk of buildup in receivables has mitigated at an extent as BMC has demonstrated higher tax collection efficiency for property taxes and water taxes which stood at 75 per cent and 73 per cent respectively in FY2018 (Prov.) (Prev.: 62 & 77 per cent respectively).

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

### **Analytical Approach**

Acuité has considered the standalone business and financial risk profiles of Bhopal Municipal Corporation to arrive at the rating.

### **Outlook: Stable**

Acuité believes BMC 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 buildup in the debtor levels.

### **About the Rated Entity - Key Financials**

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	958.83	804.93	641.04
EBITDA	Rs. Cr.	393.02	281.29	204.32
PAT	Rs. Cr.	234.34	171.86	147.76
EBITDA Margin	(%)	40.99	34.95	31.87
PAT Margin	(%)	24.44	21.35	23.05
ROCE	(%)	8.00	6.51	5.87
Total Debt/Tangible Net Worth	Times	0.06	0.04	0.05
PBDIT/Interest	Times	39.14	27.70	89.74
Total Debt/PBDIT	Times	0.42	0.41	0.62
Gross Current Assets (Days)	Days	379	366	353

### **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>
- 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)**

Not Applicable

### **\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bond	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE AA (SO) / Stable

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#### **About Acuité Ratings & Research:**

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