

Change in Rating Symbol

September 16, 2019

Bhopal Municipal Corporation

Total Instruments Rated	Rs. 175.00 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

Bhopal Municipal Corporation

September 09, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA (SO)**' (read as **ACUITE double A (Structured Obligation)**) on the Rs. 175.00 Cr. Non-Convertible Debentures of Bhopal Municipal Corporation (BMC). The outlook is 'Stable'.

The rating continues to drive comfort from the structured payment mechanism including DSRA, Interest Payment Account and Sinking Fund Account, which have performed in line with the expectation. However, Acuite has not received updates on the business and schedules of the financials for FY2018 of BMC. The current rating action has been taken by Acuite on the basis of best available/dated/limited information on the issuers' performance. Acuite will review the rating within next six months with the updated financials and business profile of the corporation.

About the Corporation

Bhopal Municipal Corporation (BMC), founded in 1907, services an area of 286 square kilometres that is 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.

Analytical Approach

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

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 such as 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 that 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 per cent and 100 per cent, respectively, in FY2017-18 (Prev. year: 94 per cent and 100 per cent, respectively). However, the sewerage coverage ratio stood moderate at 59 per cent in FY2017-18. Besides being the capital city of Madhya Pradesh, Bhopal has been identified as 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, Acuite 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 total revenues of BMC stood at Rs.1004.25 crore for FY2019 (Prov.) as against Rs.917.2 crore in FY2018.

BMC has access to revenue grants and capital Grants from State Government and Central Government. The capital grants from State and Central government ~Rs.350 crore in FY2019 (Prov.) (Prev.: Rs.345 crore). The surplus stood at Rs.251.14 crore for FY2019 (Prov.) as against Rs.236.26 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, 2019 (Prov.) stood at Rs.721.73 Cr. as compared to Rs. 544.03 Cr. as on 31 March, 2018 i.e. 346 days for FY19 (Prov.) (previous year 278 days). Acuite believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Liquidity Position

BMC has healthy liquidity marked by healthy net cash accruals of Rs.376.62 crore for FY2019 (Prov.) as against total external debt of Rs.324.43 crore outstanding as on March 31, 2019. The corporation generated cash accruals of Rs.282.88 crore to Rs.376.62 crore during the last three years through 2018-19 (Prov.) Currently, BMC 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 BMC stood at Rs.204.08 crore as on March 31, 2019. However, Acuite believes that these funds would be significantly utilised for the infrastructural development which is required to be carried out in near to medium term.

Outlook: Stable

Acuite believes that 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1004.25	917.22	804.93
Surplus / Deficit	Rs. Cr.	251.14	236.26	171.86
Total Debt	Rs. Cr.	324.43	175.02	120.91
Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest)	Times	23.73	21.69	17.23

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Sept-2018	Proposed Bond	Long Term	175.00	ACUITE AA (SO)/ Stable (Assigned)

*Annexure – Details of instruments rated

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Rating / Outlook
INE010I24013	Secured Redeemable Non-Convertible Debentures	26-Sept-18	9.55%	28-Sept-28	175.00	ACUITE AA (SO)/ Stable (Reaffirmed)

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About Acuite Ratings & Research:

Acuite Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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