

Press Release

Bhopal Municipal Corporation

December 11, 2020

Rating Reaffirmed



| | |
|---------------------------------|---|
| Total Instruments Rated* | Rs. 175.00 Cr. |
| Long Term Rating | ACUITE AA/Outlook: Stable (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE AA' (read as ACUITE double A)** on the Rs.175.00 crore proposed bond 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.

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 a 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 solid waste management coverage remained comfortable at 93 per cent and 100 per cent, respectively, in FY2018-19 (Prev. year: 90 per cent and 100 per cent, respectively). However, the sewerage coverage ratio stood moderate at 78 per cent in FY2018-19. 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.940.99 crore for FY2020 as against Rs.954.05 crore in FY2019.

BMC has access to revenue grants and capital Grants from State Government and Central Government. The entity's surplus stood at Rs.264.64 crore for FY2020 as against Rs.331.36 crore in the previous year.

• Structured Payment Mechanism

The payment mechanism entails maintenance of an Escrow Account, Debt Service Reserve Account (DSRA), Debt Service Account (DSA), Interest Service Account (ISA), and Debenture Redemption Reserve

(DRR):

- I. The DSRA shall be created on the day prior to 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 ISA 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 terms of bonds/loans agreements, will be transferred to IPA from Escrow Account on a 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 another 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 of receivables**

The debtors position as on 31 March, 2020 stood at Rs.761.42 Cr. as compared to Rs. 625.58 Cr. as on 31 March, 2018, i.e. 408 days for FY20 (previous year 327 days). Acuite believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Rating Sensitivity Factor

- Higher-than-expected collections while improvement in debtor position
- Continued deterioration in the liquidity marked by elongation in debtor position coupled with deterioration in debt service coverage indicator falling below 1.5x will entail a negative biased towards the rating.

Material Covenants

None

Liquidity Position: Healthy

BMC has healthy liquidity marked by healthy net cash accruals of Rs.264.64 crore for FY2020 as against total external debt of Rs.336.56 crore outstanding as on March 31, 2020. The corporation generated cash accruals of Rs.353.37 crore to Rs.264.64 crore during the last three years through 2018-20. 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.364.28 crore as on March 31, 2020. 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 build-up in the debtor levels.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|--|---------|---------------|---------------|
| Revenue Receipts | Rs. Cr. | 940.99 | 954.05 |
| Surplus / Deficit | Rs. Cr. | 132.41 | 201.29 |
| Total Debt | Rs. Cr. | 336.56 | 336.87 |
| Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest) | (%) | 20.97 | 17.39 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---|-----------|------------------|---|
| 06-Sep-2018 | Proposed Bond | Long Term | 175.00 | ACUITE AA (SO)/ Stable (Assigned) |
| 09-Sep-2019 | Secured Redeemable Non-Convertible Debentures | Long Term | 175.00 | ACUITE AA (SO)/ Stable (Reaffirmed) |

*Annexure – Details of instruments rated

| ISIN | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|--------------|---|------------------|-------------|---------------|-----------------------------|--|
| INE01OI24013 | Secured Redeemable Non-Convertible Debentures | 26-Sept-18 | 9.55% | 28-Sept-28 | 175.00 | ACUITE AA / Outlook: Stable (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|--|--|
| <p>Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuute.in</p> <p>Nikhilesh Pandey Rating Analyst - Rating Operations Tel: 011-4973 1304 nikhilesh.pandey@acuute.in</p> | <p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuute.in</p> |

About Acuité Ratings & Research:

Acuité Ratings & Research 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.