

Press Release

Bhopal Municipal Corporation

December 20, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	175.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	175.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for rating reaffirmation

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 Company

Bhopal Municipal Corporation (BMC), founded in 1907, with the expanded planning area of 463 square kilometers 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 solid waste management coverage, water supply connection (base considered land) coverage and the sewerage coverage remained comfortable at 100 per cent, 95 per cent and 100 per cent, respectively, in FY2021. 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, Acuité believes that adequate financial and nonfinancial 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.1075 crore for FY2022 as against Rs. 970 crore in FY2021.

BMC has access to revenue grants and capital Grants from State Government and Central Government. The entity's surplus stood at Rs.207 crore for FY2022 as against Rs. 198 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 oneyear 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 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 of receivables

The debtors position as on 31 March, 2022 stood at Rs.950 crore as compared to Rs.859 crore as on 31 March, 2021 i.e. 421 days for FY22 (previous year 433 days). The debtors mainly pertain to accumulated overdue in property taxes and water charges. Acuité believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Rating Sensitivities

- 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 - Adequate

BMC has adequate liquidity marked by healthy net cash accruals of Rs.207 crore for FY2022 as against total external debt of Rs.291 crore outstanding as on March 31, 2022. The corporation generated cash accruals of Rs.265 crore to Rs.207 crore during the last three years through 2020-22. 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.474 crore as on March 31, 2022. However, Acuité 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

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1074.87	969.67
PAT	Rs. Cr.	87.93	82.82
PAT Margin	(%)	8.18	8.54
Total Debt/Tangible Net Worth	Times	0.06	0.07
PBDIT/Interest	Times	15.59	16.24

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

None

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
20 Dec 2021	Non Convertible Debentures	Long Term	175.00	ACUITE AA Stable (Reaffirmed)
11 Dec 2020	Non Convertible Debentures	Long Term	175.00	ACUITE AA Stable (Reaffirmed)
09 Sep 2019	Non Convertible Debentures	Long Term	175.00	ACUITE AA (SO) 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	INE010I24013	Non-Convertible Debentures (NCD)	Sep 25 2018 12:00AM	9.55	Sep 26 2028 12:00AM	Simple / Complex	175.00	ACUITE AA Stable Reaffirmed

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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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