



**Press Release**  
**Bhopal Municipal Corporation**  
**December 20, 2023**  
**Rating Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Non Convertible Debentures (NCD)</b>	175.00	ACUITE AA   Stable   Reaffirmed	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	175.00	-	-

**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.**

The rating continues to derive comfort from the structured payment mechanism including DSRA, Interest Payment Account and Sinking Fund Account, which have performed in line with the terms.

**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.

**Unsupported Rating**

Not Applicable

**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 the 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. 61,524 for FY2021-22 (at 2011-12 constant prices) which for the year 2022-23 is likely to be 65,023. 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 has access to tap water and sewerage connection, increase the amenity value of cities, and reduce pollution in the city.

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 total revenues of BMC stood at Rs. 1106 Cr. for FY2023(Prov.) against Rs.1075 Cr. for FY2022 and Rs. 970 Cr. in FY2021.

BMC has access to revenue grants and capital Grants from State Government and Central Government. The entity's surplus stood at Rs. 214.12 Cr. in FY2023 (Prov.) against Rs.207.22 Cr. for FY2022 and Rs. 198.06 crore in the previous year.

### **Structured Payment Mechanism**

- BMC has access to Revenue Grants and Capital Grants from the State Government and Central Government. Apart from above, Property tax, water tax, other owned revenues, fees and user charges collected by and due to BMC shall be deposited every month in a separate no-lien Escrow account for debt servicing of the bonds.
- The funds should be first utilized to meet the Minimum Balance in Escrow Account which entails maintenance of an Debt Service Reserve Account (DSRA), Sinking fund Account (SFA), Interest Payment Account (IPA), and Debenture Redemption Reserve (DRR). Bondholders will have their first charge over the Escrow Account.
- The minimum balance shall not be used for any purpose other than transfer to the DSRA, IPA and SFA. The surplus funds after meeting the Minimum balance can be transferred to BMC General Fund Account.
- In case of any shortfall from transfer from Escrow account to DSRA IPA and SFA, BMC shall make good the shortfall from the funds from other accounts to IPA SFA or DSRA.

### **Terms of the NCDs**

- I. The DSRA shall be created upfront one day prior to the pay-in date with an amount equivalent to one-year's interest payments (i.e equal to two interest payments – as interest payment is semi-annual) for the bond structure by BMC from its own resources.
- 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 a monthly basis. The debenture trustee shall check the amount in IPA at least 25 (T-25) days prior to the interest payment date. In case of any shortfall in the amount the trustee shall intimate the BMC of the shortfall and BMC shall cover the shortfall prior to 15 days(T-15 days) of the interest payment day. If the corporation fails to cover the shortfall at 14 days (T-14 days) prior to interest servicing day, then the trustee will instruct the bank to transfer the deficit from DSRA to IPA at 10 days (T-10 days) prior to the interest servicing day. Any amount drawn from the DSRA should be deposited back in the DSRA by the end of the month, following the month in which the amount from DSRA has been withdrawn.

### **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 by 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, 2023 (Prov.) although improved marginally, stood at Rs. 930 Cr. ie 384 days against Rs.950 Cr. as as on 31 March, 2022 i.e. 421 days for FY22 (previous year 433 days). 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.

## **All Covenants**

- DSCR for the BMC shall not be less than 1x times of operating surplus.
- The total amount collected in escrow account shall be at least 1x times of the Debt Service amount on an annual basis. In case the ratio falls below 1x times BMC shall not without prior approval of the Debenture Trustee, borrow any further amount against the cash flows of the escrow account.
- Debt Service Amount= Interest Payment for the month + Proportionate Principal deposited in Sinking fund or equal instalment of Principal redemption.
- BMC shall not borrow any further funds against the cash flow of the Escrow Account in case there is shortfall in contribution to IPA, SFA, or DSRA and the shortfall has not been made good by BMC.

## **Liquidity Position**

### **Adequate**

BMC has adequate liquidity marked by healthy net cash accruals of Rs. 214.14 Cr. in FY2023 (Prov.) as against total external debt of Rs.272 Cr. outstanding as on March 31, 2023. The corporation generated cash accruals of Rs.198 Cr. to Rs.214 Cr. during the last three years through 2021-23. 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., September 2025). The cash and bank balances of BMC stood at Rs.454 crore as on March 31, 2023.

However, Acuité believes that these funds would be significantly utilized for 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**

Not Applicable.

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1106.44	1074.87
PAT	Rs. Cr.	91.34	87.93
PAT Margin	(%)	8.26	8.18
Total Debt/Tangible Net Worth	Times	0.06	0.06
PBDIT/Interest	Times	14.96	15.59

### 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>
- Public Finance - 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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Dec 2022	Non Convertible Debentures	Long Term	175.00	ACUITE AA   Stable (Reaffirmed)
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)

## 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	INE01OI24013	Non-Convertible Debentures (NCD)	26 Sep 2018	9.55	26 Sep 2028	Simple	100.00	ACUITE AA   Stable   Reaffirmed
Not Applicable	INE01OI24013	Non-Convertible Debentures (NCD)	26 Sep 2018	9.55	26 Sep 2028	Simple	50.00	ACUITE AA   Stable   Reaffirmed
Not Applicable	INE01OI24013	Non-Convertible Debentures (NCD)	26 Sep 2018	9.55	26 Sep 2028	Simple	25.00	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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