

Press Release
Bhopal Municipal Corporation
June 07, 2024
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	-	-

Rating Rationale

Acuité 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 reaffirmation of the rating on the NCDs continues to derive comfort from the structured payment mechanism including DSRA, Interest Payment Account and Sinking Fund Account for NCDs, which have performed in line with the expectation. Furthermore, rating takes comfort from Bhopal city's status as an administrative capital of Madhya Pradesh State. However, the rating continues to be constrained by the elevated level of receivables of BMC.

About the Company

Madhya Pradesh based Bhopal Municipal Corporation was incorporated in 1907. Bhopal Municipal Corporation (BMC) is the Municipal Corporation for the capital city of Madhya Pradesh. It is engaged in the business of civic infrastructure and administration of the city of Bhopal. Bhopal Municipal Corporation is headed by the Mayor Mrs. Malti Rai, Mr. Harendra Narayan (Commissioner), Mr. Gourav Benal (Additional Collector, Indore District), Mr. Gunvant Sevatkar (Compliance Officer, Additional Commissioner Finance (Finance)).

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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 large-scale companies such as BHEL, DB Corp, among others. The city is divided into two parts, the 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 because 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) whereas for the year 2022-23 is Rs. 65,023. 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. 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.

Structured Payment Mechanism for NCD's:

- BMC has access to Revenue Grants and Capital Grants from the State Government and Central Government. Apart from the 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.
- The above transfer shall be done on a daily basis except on the last business day of the month. On the last business day of the month, the Minimum Balance maintained shall be transferred to the DSRA, IPA and SFA.
- 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:

- 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.
- 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.
- As regards the interest payments (expected to be half yearly), the IPA will be funded on a monthly basis
- 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 in receivables

The receivables of the corporation have remained high resulting in a significant buildup of receivables as on March 2023 end. The debtor's position as on March 31, 2023, stood at Rs. 875.55 Cr. i.e. 355 days against Rs. 950.27 Cr. as on March 31, 2022 i.e. 421 days for FY22 (previous year 433 days) although improved marginally, 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 along with an improvement in debtor position.
- Continued elongation in debtor position coupled with deterioration in debt service coverage indicator with entail a negative bias towards the rating.

Liquidity Position

Adequate

BMC has adequate liquidity marked by healthy net cash accruals of Rs. 237.47 Cr. in FY2023 as against total repayment obligation of Rs. 23.21 Cr. in FY2023. The liquidity remains supported by the cash and bank balances that stood at Rs. 554.62 crore as on March 31, 2023 (including DSRA, IPA and SF). Further, the liquidity is supported by structured and waterfall payment mechanism designed for NCDs and presence of DSRA and escrow account mechanism for the term loan.

Outlook: Stable

Acuité believes that BMC will maintain a 'Stable' outlook on account of its healthy revenue growth and diversified economic infrastructure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1131.63	1074.87
PAT	Rs. Cr.	95.70	87.93
PAT Margin	(%)	8.46	8.18
Total Debt/Tangible Net Worth	Times	0.05	0.06
PBDIT/Interest	Times	17.16	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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Dec 2023	Non-Convertible Debentures (NCD)	Long Term	100.00	ACUITE AA Stable (Reaffirmed)
	Non-Convertible Debentures (NCD)	Long Term	50.00	ACUITE AA Stable (Reaffirmed)
	Non-Convertible Debentures (NCD)	Long Term	25.00	ACUITE AA Stable (Reaffirmed)
20 Dec 2022	Non-Convertible Debentures (NCD)	Long Term	175.00	ACUITE AA Stable (Reaffirmed)
20 Dec 2021	Non-Convertible Debentures (NCD)	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	50.00	ACUITE AA Stable Reaffirmed
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	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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