

Press Release

Dewas Municipal Corporation

January 21, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 27.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 27.00 crore bank facilities of Dewas Municipal Corporation. The outlook is '**Stable**'.

Dewas Municipal Corporation (DMC) located in the west central part of Madhya Pradesh founded in 1982 services an area of 65 square kilometres. The total population of Dewas is around 2.90 lakh people spread across 45 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

Acuité has considered the standalone financial and business risk profile of DMC to arrive at the rating.

Key Rating Drivers

Strengths

- **Established industrial centre in western central Madhya Pradesh**

Dewas, a leading industrial centre situated on the Malwa plateau in the West-central part of Madhya Pradesh, about 160 km south west from state capital, Bhopal, is known as the Soya capital of India and is a major part of the soya bean processing industry in the country. Dewas is the hub of various industries like textile, pharmaceutical, automobile and agri-based industries, among others. Some of the major companies in the automobile industry include TATA, Gabriel India Limited, Gajra Gears, to name a few. Apart from this there are other major sectors like textile (Arvind Mills, S Kumar), Pharma (Ranbaxy Labs), metal (Steel Tubes of India Limited), chemical (Navin Fluorine International Limited) and agri-based (Ruchi Soya Limited). Further, Dewas also holds India's Bank Note Press, an industrial unit of the Government of India, the Ministry of Finance and the Department of Economic Affairs. DMC's water supply connection coverage (based on land area) and sanitation coverage remained at 80% and 100%, respectively, in FY2017-18 (Prev. year: 78% and 90% respectively), while there is scope for improvement in terms of basic amenities coverage. Dewas has been identified 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 non-financial support from State and Central Government will be made available to DMC for maintaining civic infrastructure at healthy levels under AMRUT mission.

- **Presence of ESCROW mechanism**

The monthly collections of DMC have ranged from Rs.0.41 crore to Rs.7.84 crore during FY2018. The average gross monthly collections during fiscal year 2017-2018 are around Rs.3.51 crore. The wide fluctuations in month to month collections are on account of assigned revenues (revenues received from State Government in lieu of Octroi). Since these monthly collections will be pooled in the escrow account, the lending bank will be in a position to ensure timely servicing of debt considering the quarterly principal repayment of only around ~Rs.4.00 crore annually as against yearly owned revenues of Rs.62.56 crore. Presence of an escrow mechanism is likely to ensure timely servicing of debt obligation subject to effective enforcement of the escrow discipline by the lender. Acuité believes that the presence of escrow mechanism will be a significant risk mitigant from a debt servicing standpoint.

Weaknesses

• Significant dependence on government

The owned revenues to total revenues of DMC stood at 63.26 per cent in FY2018 as against 64.17 per cent in the previous year. The owned revenues of DMC stood at Rs.62.56 crore for FY2018 as against Rs.58.62 crore for FY2017. DMC also has access to revenue and capital grants from State Government and Central Government. The revenue grants from State and Central government stood at ~Rs.32.34 crore in FY2017-18 (Prev Year.: Rs.28.92 crore). In terms of actual cash flows, out of the total operating receipts of Rs.48.10 crore, Rs.34.86 crore is from assigned revenues (revenues received from State Government in lieu of Octroi). The surplus stood at Rs.11.05 crore for FY2018 as against Rs.10.72 crore. The cash balances of DMC stood at Rs.111.27 crore as on 31 March 2018 an increase from Rs.36.68 crore over the previous year. However, Acuité believes that these funds would be significantly utilized for the infrastructural development which is required to be carried out in near to medium term. Hence, DMC continues to depend on timely flow of receipts from the government. Thus, the rating of Madhya Pradesh government will remain a key rating sensitivity.

• Significant Buildup in Receivables

The gross debtors position as on 31 March 2018 stood at Rs.18.64 Cr. as compared to Rs.20.52 Cr. as on 31 March 2017 i.e. 108 days for FY18 (previous: 118 days). The debtors mainly pertain to accumulated overdue in property taxes and water charges (~94.89% of overall net receivables in FY2018). Acuité believes that any significant build-up in receivables beyond existing levels will be a key rating sensitivity factor.

Outlook: Stable

Acuité believes DMC will maintain a stable outlook on the back of Dewas position as a leading industrial centre of Madhya Pradesh and ongoing support from the government. The outlook may be revised to 'Positive' in case there is a significant improvement in collections and service coverage indicators. The outlook may be revised to 'Negative' in case there is a sharp decline in credit profile of the State Government an increased dependence on grants and further buildup in the debtor levels.

Liquidity Position

DMC has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The corporation generated cash accruals of Rs.20.00 to Rs.30.00 crore during the last three years through 2017-18. The cash accruals of the group are estimated to remain around Rs.20.00-30.00 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 6.50 Crore annually. The cash and bank balances of DMC stood at Rs.500.22 crore as on March 31, 2018. However, Acuité believes that these funds would be significantly utilized for the infrastructural development which is required to be carried out in near to medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	98.89	91.35	81.84
Surplus / Deficit	Rs. Cr.	11.05	10.72	5.89
Total Debt	Rs. Cr.	35.92	13.93	17.11
Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest)	(%)	4.66	7.09	3.58

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>

- Criteria For Rating Of 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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	25.43	ACUITE A- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.57	ACUITE A- / Stable

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About Acuité Ratings & Research:

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