

Press Release

Dewas Municipal Corporation

April 07, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE A-** (read as **ACUITE A minus**)' on the Rs.27.00 crore bank facilities of Dewas Municipal Corporation (DMC). 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

Acuite 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 FY2018-19 (Prev. year: 80% and 100% 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, Acuite 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 major revenues driver for the entity is the tax collected by it and since the same is subjected to large variations based on monthly collection it becomes imperative that DMC maintains an escrow account to safeguard its risk. 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.3.00 crore annually as against yearly owned revenues of Rs.69.90 crores. 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. Acuite believes that the presence of escrow mechanism will be a significant risk mitigate from a debt servicing standpoint.

Weaknesses

• Significant dependence on government

The owned revenues to total revenues of DMC stood at 63.38 per cent in FY2019 as against 63.26 per cent in FY2018 and 64.17 per cent in FY2017. The owned revenues of DMC stood at Rs. 69.90 crores in FY2019 as against Rs.62.56 crores for FY2018 as. DMC also has access to revenue and capital grants from State Government and Central Government. The surplus stood at Rs.13.67 crore for FY2019 as against Rs.11.05 crore in FY2018 and 10.72 in FY2017. The cash balances of DMC stood at Rs.67.49 crore as on 31 March 2019 marking a decrease of Rs.43.78 crore over the previous year. However, Acuite 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 2019 stood at Rs.17.18 Cr. as compared to Rs.19.63 Cr. as on 31 March 2018 i.e. 96 days for FY19 (previous: 115 days). The debtors mainly pertain to accumulated overdue in property taxes and water charges (~94.13 % of overall net receivables in FY2019). 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: Adequate

DMC has been generating revenue surplus over the past three years with a range of Rs.10.72 crore to Rs.13.67 crore. While the flow of grants from the government has been robust, the high buildup of receivables continues to be an area of concern. The entity generated net cash accruals to the tune of Rs.32.67 crore as on 31 March 2019 whereas the maturing debt obligations stood around Rs. 3.00 crores for the same period.

Outlook: Stable

Acuite believes DMC will maintain a stable outlook on the back of Dewas's 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.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Revenue Receipts	Rs. Cr.	110.29	98.89
Surplus / Deficit	Rs. Cr.	13.27	11.05
Total Debt	Rs. Cr.	33.54	35.92
Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest)	(%)	11.47	11.26

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-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Jan-2019	Term Loan	Long Term	25.43	ACUITE A-/ Outlook: Stable (Assigned)
	Proposed	Long Term	1.57	ACUITE A-/ Outlook: Stable (Assigned)

*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 Loan	Not Applicable	Not Applicable	Not Applicable	25.43	ACUITE A-/ Outlook: Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.57	ACUITE A-/ Outlook: Stable (Reaffirmed)

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About Acuité Ratings & Research:

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