

Press Release

Dewas Municipal Corporation

March 30, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.27.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed)
Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating^	ACUITE A/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

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

Further, Acuite has assigned the long term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs.30.00 Cr. bank facilities of Dewas Municipal Corporation (DMC). The outlook is '**Stable**'.

Rationale for rating reaffirmed and assigned

The rating takes into account of Dewas being one of the established and leading industrial centre located in the west-central part of Madhya Pradesh and continuous support from both the state and central government towards development of the city. Further, the differential rating on Rs.30 Cr term loan is on account of presence of ESCROW A/c along with waterfall mechanism and DSRA with one quarter principal and interest payment. However, the rating has been constrained by high dependence of revenue and capital grants from both state and central government and elongation in receivables period of the entity.

About the Company

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 business and financial risk profiles of DMC to arrive at this rating. In case of certain Term Loans availed by DMC, a differential rating has been assigned due to the presence of Debt Service Reserve Account (DSRA) and waterfall mechanism in these instrument. Acuite has factored in the benefits derived from waterfall mechanism and DSRA for arriving at the rating of these term loan.

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 FY2019-20 (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.

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 with waterfall mechanism and DSRA**

The major revenues driver for the corporation 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/Central Government in lieu of Octroi). Further, DMC has to create and maintain upfront Debt Service Reserve Account (DSRA) equivalent to one quarter principal and interest repayment of Rs.30.00 Cr. loan. The DSRA will be utilized only in case of a shortfall in the cash flow for meeting. Also, DMC has to credit all the funds constituting the compensation amount in lieu of octroi from MP state government / Central government to an ESCROW account. The presence of waterfall mechanism accord higher priority to Rs.30.00 Cr. loan as compared to Rs.27.00 Cr. loan. Since these monthly collections will be pooled in the escrow account, the lender will be in a position to ensure timely servicing of debt obligations. Presence of an escrow mechanism is likely to ensure timely servicing of debt obligation subject to effective enforcement of the escrow discipline by the lenders.

Acuite believes that the presence of ESCROW mechanism, DSRA and Waterfall mechanism will be a significant risk mitigating factor from a debt servicing standpoint.

Weaknesses

• **Significant dependence on government**

The owned revenues to total revenues of DMC stood at 64.33 per cent in FY2020 as against 64.48 per cent in FY2019. The owned revenues of DMC stood at Rs.67.86 crores in FY2020 as against Rs.70.01 crore in FY2019. DMC also has access to revenue and capital grants from State Government and Central Government. The cash balances of DMC stood at Rs.70.93 crore as on 31 March 2020 as against Rs.67.49 crore same period last 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 debtor days have increased to 401 days for FY2020 as against 96 days in the last year. DMC has identified additional land under its purview in FY2020. Earlier, DMC used to earlier track its tax collection on a manual basis but since FY2020 DMC started using technology to track its taxes. DMC has accounted for the legacy pending receivables in FY2020 which were identified during the same period.

Acuite believes that the any significant build-up in receivables beyond existing levels will be a key rating sensitivity.

Rating Sensitivities

- Higher than expected collections while improvement in debtor position
- Continued deterioration in the liquidity position marked by elongation in debtor position with deterioration in debt service coverage indicator

Material Covenants

None

Liquidity position: Adequate

DMC has been generating revenue surplus over the past three years (FY18-20) with a range of Rs.11.05 crore to Rs.9.93 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.25.42 crore as on 31 March 2020 whereas the maturing debt obligations stood around Rs.4.00 crores for the same period.

Outlook: Stable

Acuite believes that the DMC will maintain 'Stable' outlook in the medium term on account 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 and increase in dependence on grants and further build-up in the debtor levels.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	105.49	110.29
Surplus/Deficit	Rs. Cr.	9.93	13.67
Total Debt	(%)	28.13	33.54
Interest Coverage Ratio ((Surplus/Deficit + Interest)/Interest)	Times	4.93	5.38

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

Not Applicable

Any other information

None

Applicable Criteria

- Urban Local Bodies - <https://www.acuite.in/view-rating-criteria-57.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Apr-2020	Term Loan	Long Term	25.43	ACUITE A-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.57	ACUITE A-/Stable (Reaffirmed)
21-Jan-2019	Term Loan	Long Term	25.43	ACUITE A-/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.57	ACUITE A-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Aug, 2017	8.40	Jan, 2028	25.43	ACUITE A-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.57	ACUITE A-/Stable (Reaffirmed)
Term Loan	Nov, 2020	8.00	Mar, 2028	30.00	ACUITE A-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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