



Press Release
Dewas Municipal Corporation
November 30, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	27.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	57.00	-	-

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 also reaffirmed 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 reaffirmation

The rating takes into account strategic importance 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 takes comfrom from the presence of escrow account along with waterfall and DSRA mechanism 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. Except for DMC's per capita water supply which stands at 65 percent of the benchmark all its service coverage ratios as per the benchmarks. Sewerage and piped water supply coverage remained at 100%, 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.

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 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.

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

Weaknesses

Improvement in revenues; albeit deterioration in profitability along with significant dependence on GoM (Government of Madhya Pradesh)

The total operating income of DMC in FY2023 (Provisional) increased to Rs.146.87 Cr. reflecting a growth rate of ~10 percent YoY crore as against Rs.133.68 Cr. in FY2022. Despite improvement in revenues, the EBITDA margins of the company witnessed moderation which stood at 19.34 percent in FY2023 (Provisional) compared to 21.62 percent in FY2022 majorly on account of increase in operational expenses. Also, the company reported Profit after Tax (PAT) of Rs.3.22 Cr. in FY2023 (Provisional) against Rs.9.72 Cr. in FY2022. The decline in PAT is led by increase in depreciation expenses and marginal increase in interest expenses. However, the net cash accruals of the company remained stable at Rs.26.62 Cr. in FY2023 (Prov.) as against Rs.27.31 Cr in FY2022. DMC's revenues majorly include tax revenues, rental income from municipal properties assigned revenues & compensation and also revenue grants, contributions & subsidies from government of Madhya Pradesh. 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 credit profile of Madhya Pradesh government will remain a key rating sensitivity towards the rating of DMC.

Higher buildup in receivables

DMC has higher buildup in receivables as reflected by high debtor days of 321 days for FY2023

(Provisional) against 304 days for FY2022. Earlier, DMC used to earlier track its tax collection on a manual basis and since FY2022 DMC started using GPS technology which has led to surge in the taxable lands and increase property tax collections. DMC has accounted for the legacy pending receivables for the new identified taxable lands. However, collections of this receivables remained moderate with the demand raised which led to elevation in receivables.

Rating Sensitivities

- Credit profile of State of Madhya Pradesh
- 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.

All Covenants

Not Applicable.

Liquidity Position Adequate

The net cash accruals stood of DMC remain adequate at Rs.26.62 Cr. against repayment obligation of around Rs.6.41 Cr. in FY2023 (Provisional). The cash and bank balance stood healthy at Rs.40.39 Cr. as on 31 March, 2023 (Provisional) and the current ratio stood at 3.35 times during the same period. DMC has an ESCROW mechanism in place for the repayment of all its term loan obligations. DMC has availed loan from State Bank of India (SBI) to the tune of Rs. 30.00 Cr. which is utilized for maintenance and improvement of water distribution, drainage, city roads, bridges, sewerage, public lighting, water works and other developmental projects and to meet out the contribution required from the entity's side to execute various schemes of Central/State Government such as AMRUT mission of the government. DMC has created and maintained upfront Debt Service Reserve Account (DSRA) equivalent to one quarter principal and interest repayment. The DSRA will be utilized only in case of a shortfall in the cash flow for meeting.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

Not Applicable.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	146.87	133.68
PAT	Rs. Cr.	3.22	9.72
PAT Margin	(%)	2.19	7.27
Total Debt/Tangible Net Worth	Times	0.06	0.06
PBDIT/Interest	Times	9.15	10.82

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 - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.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
01 Sep 2022	Term Loan	Long Term	30.00	ACUITE A Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	12.38	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	14.62	ACUITE A- Stable (Reaffirmed)
30 Mar 2021	Term Loan	Long Term	25.43	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.57	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE A Stable (Assigned)
07 Apr 2020	Term Loan	Long Term	25.43	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.57	ACUITE A- 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	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	12.38	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	30.00	ACUITE A Stable Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.62	ACUITE A- 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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