

## RATING RATIONALE

30 May 2020

### Indore Municipal Corporation

### Brickwork Ratings reaffirms the rating for the NCD Issue amounting to ₹ 170 Crores of Indore Municipal Corporation

#### Particulars

Instrument**	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs) <sup>@</sup>	Tenure	Previous Rating	Present Rating
NCD	170	170	Long Term	BWR AA (SO) Outlook: Stable	BWR AA Outlook: Stable <i>Reaffirmation</i>
<b>Total</b>	<b>170</b>	<b>170</b>	<b>INR One Hundred and Seventy Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of the instrument are provided in Annexure-I

**Note: Structured Obligation rating has been assigned earlier based on credit enhancement in the form of an escrow account for the routing of annuities for servicing term loan installments and build up of DSRA.**

**In accordance with the latest SEBI Cir. No. SEBI/HO/MIRSD/ DOS3/CIR/P/2019/70 dated 13 June 2019, a standalone rating has been assigned as no credit enhancement can be derived from the DSRA /escrow mechanism as per these guidelines. The above change in the rating is not to be construed as a revision in the rating.**

@ The Corporation has raised Rs. 139.90 Crs out of the total issue so far.

#### RATING ACTION:

In accordance with the circular issued by the Securities and Exchange Board of India (SEBI) on 13 June 2019, titled Guidelines for Enhanced Disclosures by Credit Rating Agencies (CRAs), and subsequent clarifications received, Brickwork Ratings (BWR) has changed its criteria with respect to Structured Obligation Ratings and issued fresh criteria for Credit Enhancement Ratings. In light of these changes, the structured obligation (SO) rating as per the above table has been changed to a standalone rating.

Brickwork Ratings (BWR) has reaffirmed BWR AA (Stable) for the NCD Issue of Indore Municipal Corporation (IMC or the corporation). The suffix SO has been removed from the rating as the nature of credit enhancement for the instrument rated is internal.

The ratings continue to derive comfort from the structured payment mechanism, including a DSRA (Debt Service Reserve Account) equivalent to two half-yearly coupon payments, an interest servicing account and sinking fund provisions involving a T-25 structure (which has been confirmed to be functioning efficiently) to ensure timely payments to bondholders, a Y-O-Y increase in revenue income with adequate revenue surplus, availability of healthy cash balance, the strategic and economic importance of the city being the commercial hub of Madhya Pradesh and satisfactory levels of civic services parameters.

The rating is, however, constrained on account of a considerable build-up of receivables (primarily of the past dues of property tax and water tax/charges) and execution risks related to ongoing projects under various schemes.

The outlook has been kept as Stable as the corporation is expected to continue reporting steady growth in its income and revenue surplus.

### **Key Rating Drivers**

#### **Credit Strengths:**

Structured Payment Mechanism: IMC has a structured payment mechanism in place for the timely servicing of both, the interest and principal. The mechanism, which has been functioning efficiently, includes four separate accounts as follows:-

- An **escrow account** in which the corporation's own revenue is being deposited for monthly transfers to the interest payment account and sinking fund account.
- A **DSRA** equivalent to two half-yearly interest payments that have already been created.
- An **Interest Payment Account (IPA)**, managed and monitored by the Debenture Trustee (DT), from which the interest will be serviced on the due date. Monthly transfers from the escrow account are being made to fund the same in line with the terms of the issue.
- A **Sinking Fund Account (SFA)**, managed and monitored by the DT, for the repayment of principal portion as per the repayment schedule. Monthly transfers from the escrow account are being made to fund the same in line with the terms of the issue.

IPA: Monthly transfers from the escrow account are being made to the IPA on a proportionate basis so that adequate funds are available to make the interest payments on the due date. The account is being monitored by the Debenture Trustee (DT), and if there is any shortfall in the account 25 days prior to the due date (T-25), the DT will inform IMC so that the account can be funded 15 days prior to the due date (T-15). In case the shortfall persists, the DT will trigger the payment mechanism, and transfers will be made from the DSRA 10 days prior to the due date (T-10) so that an adequate amount is available for servicing the interest. Funds lying in the IPA can be kept as a fixed deposit with any scheduled commercial bank with a dual rating of AA+ or above.

DSRA: The DSRA has already been created by the corporation with an amount equal to two half-yearly interest payments. Any shortfall in the DSRA shall be replenished from the escrow account. The funds lying in the DSRA can be used to meet any shortfall in the interest payment account and thereafter, can be used to meet any shortfall at the time of the final redemption of bonds. However, the DSRA will not be used to fund any shortfall in the SFA, except at the time of the final redemption of bonds. The DSRA can be kept as a fixed deposit with any scheduled commercial bank with a dual rating of AA+ or above.

SFA: At the end of every month, an amount equivalent to 1/12th of 10% of the bond issue size is being transferred to the SFA. The funds in the account shall be used to redeem the bonds. The account is being monitored by the DT, and if there is any shortfall in the account 25 days prior to the due date (T-25), the DT will inform IMC so that the account can be funded 15 days prior to the due date (T-15). Funds in the SFA can be kept as a fixed deposit with any scheduled commercial bank with a dual rating of AA+ or above or in the form of government securities, state development loans and treasury bills.

Strategic Importance of the City: Indore is the commercial hub of the state of Madhya Pradesh and attracts significant investment from various industries. Indore is home to various industries, ranging from textiles and confectionary to electrical appliances and electronic goods. The city also has one of the largest transshipment centers for truck transport. The city also boasts of being the only city to have both the Indian Institute of Technology (IIT) and Indian Institute of Management (IIM), thus making it an educational hub as well. The considerable infrastructure and economic development in the city has also led to growth in revenues for IMC and is expected to continue favouring the corporation in future as well. The city has also been selected under both the AMRUT (Atal Mission for Rejuvenation and Urban Transformation) and Smart City Mission, leading to considerable development in the city, which will provide additional avenues of revenue generation.

Financial Performance of the Corporation: IMC has reported steady growth in its revenue income and has also been reporting revenue surplus for the past five years. Revenue surplus has remained above Rs. 300 Crs over the last five years. The share of tax revenue remained around 30%; however, the share of non-tax revenue steadily increased from 12% in FY16 to 18% in FY19 on account of an improvement in the standards of civic services, as well as the collection efficiency of fee and user charges. As a result, the corporation's share of its own revenue has increased to 48%, resulting in reduced reliance on assigned revenue. During 9M FY20, the corporation reported cash inflows of Rs. 889 Crs, indicating that the actual realisation of payments is also healthy.

#### **Credit Risks:**

High Receivables: There is a significant build-up of receivables in the books of the corporation, which has been increasing every year. Receivables increased from Rs. 640.02 Crs as on 31 March 2018 to Rs. 829.63 Crs as on 31 March 2019. Consequently, days receivables also increased from 154 days in FY18 to 170 days in FY19. A majority of the receivables pertains to the past dues of property tax and water tax/charges, and the corporation is yet to arrive on an action plan to ensure their recovery. Although the current payments are generally recovered on time, the continuous build-up of receivables is a key risk factor and has to be monitored.

#### **Analytical Approach And Applicable Rating Criteria**

For arriving at the rating, BWR has considered the audited financials of the corporation until FY19 and standards of various civic services. The rating has also derived additional comfort from the structured payment mechanism of the instrument and availability of the DSRA as has also been explained in the earlier parts of the rationale.

Please refer to the applicable criteria at the end.

### Rating Sensitivities

**Positive:** The realisation of past receivables and substantial improvement in civic services standards, coupled with a higher collection efficiency of fee and user charges, shall be considered positive for the rating.

**Negative:** The rating can be revised downwards if there is a pressure on the corporation's liquidity position on account of ongoing projects. Any deviation from the payment mechanism will also be considered negative for the rating.

### Liquidity Position: Adequate

IMC reported net surplus of Rs. 356.66 Crs and cash surplus of Rs. 582.78 Crs for FY19, against its total debt of Rs. 385.68 Crs as on 31 March 2019. The corporation's annual cash generation is quite comfortable in comparison with its debt obligations, providing sufficient liquidity support. Additionally, the corporation's cash balance as on 31 March 2019 was Rs. 348.01 Crs; however, the same may largely be used for the regular capex requirements of the corporation.

### Profile of the Corporation

Indore Municipal Corporation (IMC) is the governing body of the city of Indore, Madhya Pradesh, and caters to a population of nearly 28 lakh citizens. IMC is incorporated under and governed by the Madhya Pradesh Municipal Corporation Act, 1956. Indore Municipality, however, has been in existence since 1870, when it was set-up to provide services such as water supply, drainage, sanitation and waste disposal. The area under IMC is divided into 19 zones and 85 wards of various sizes and populations. IMC is responsible for public education, correctional institutions, libraries, public safety, recreational facilities, sanitation, water supply, local planning and welfare services.

### Key Financial Indicators

Particulars	Unit	FY18 (A)	FY19 (A)
Total Income	Rs. Crores	1516.45	1584.80
Net Surplus	Rs. Crores	363.76	356.66
Cash Balance	Rs. Crores	348.30	348.01
Total Debt	Rs. Crores	284.75	385.68
Municipal Funds & Reserves Balance	Rs. Crores	3220.83	3905.93

### Key Covenants Of The Instrument/Facility Rated: NA

**Non-cooperation With Previous Rating Agency If Any: NA**

**Rating History for the past three years**

Instrument	Current Rating			Rating History		
	Tenure	Amount (₹ Crs)	Rating	2019	2018	2017
NCD	Long Term	170	BWR AA/Stable	BWR AA (SO)/Stable	BWR AA (SO)/Stable	NA
<b>Total</b>		<b>170</b>	<b>INR One Hundred and Seventy Crores Only</b>			

**Complexity Levels Of The Instruments**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference To Applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Public Finance - Municipal & Urban Local Bodies](#)

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**Indore Municipal Corporation  
Annexure I**

**Details of instrument rated by BWR**

Name of the Issue	ISIN Particulars	Amount (Rs. Crs)	Coupon Rate	Issue Date	Maturity Date
Indore Municipal Corporation Series I June 2018	INE00QS07014	139.90	9.25%	29 June, 2018	Between 29 June 2025 and 29 June, 2028

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