

RATING RATIONALE

16 February 2023

Bhopal Municipal Corporation (BMC)

Brickwork Ratings reaffirms the ratings for the Bonds/ Non-Convertible Debentures issue of Rs.175.00 Crores of Bhopal Municipal Corporation

Particulars

Facilities/ Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (19 January 2022)	Present
NCD/Bonds	175.00	175.00	Long Term	BWR AA/Stable Reaffirmed	BWR AA /Stable Reaffirmation
Total	175.00	175.00	INR One Hundred and Seventy-Five Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of Bank Loan Facilities/NCD/Bonds/Commercial Paper are provided in Annexures-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the long term rating at BWR AA /Stable of Bhopal Municipal Corporation (BMC or the corporation). The rating reaffirmation, inter-alia, factors the economic importance of Bhopal, moderate revenues with adequate surplus income, increase in tax revenues in FY22 and improved civic service parameters. It is further supported by a comfortable financial profile with a low loans to reserve ratio of 0.06X in FY22, improvement in the proportion of tax in the overall revenues and improved debt coverage indicators with a healthy generation of cash accruals of Rs. 207.22 Crs in FY22.

The outlook for the corporation remains Stable, considering the stable revenue generation from tax revenues, assigned revenues and compensations and revenues grants, contribution and subsidies, steady progress in ongoing capital expenditure plans and generation of adequate net surplus.

The rating is however, constrained by the high tax receivables (increasing Y-o-Y basis) and implementation risk associated with the ongoing projects being implemented under various schemes.

KEY RATING DRIVERS

Credit Strengths:-

- **Strategic importance of the city:**

Bhopal is among the top 20 cities selected under the first phase for the implementation of the SMART CITY Project. Bhopal's economy is driven primarily by cotton, electrical goods, jewellery and the chemical industry. Over 1200 MSMEs are currently existent in Bhopal, which accounts for more than Rs. 7100 Crs of exports. Mandideep, the industrial suburb of Bhopal, houses many esteemed companies such as Eicher, Crompton Greaves, Procter & Gamble, Larsen & Toubro, Fujitsu and HEG.

- **Moderate coverage of civic services:**

The rating continues to draw strength from the improvements in the water and sanitation sector against the service level benchmarks for urban local bodies set by the Ministry of Urban Development. The service level metrics are expected to improve significantly in the coming years with further investments under AMRUT, SMART CITY and other schemes. The number of toilets as compared to the total family members (individual or community, covered under the Swachh Bharat mission and CM Swachhta mission) and house/family covered with tap for water supply stood at 100% and 96%, respectively, as of FY22.

- **Strong financial risk profile with moderate revenue surplus:**

BMC reported an increase in the total revenue from Rs. 996.19 Crs in FY21 to Rs. 1093.04 Crs in FY22. This is majorly due to an increase in tax revenue and in non-tax revenue through assigned revenue and compensations and fees & user charges. The total revenue was projected to be at Rs. 1086.34 Crs in FY22 which has been surpassed as per audited financials and for FY 23, the total revenue is projected at Rs. 1153.70 Crs. The tax revenue increased from Rs. 326.65 Crs in FY21 to Rs. 331.10 Crs in FY22. The loans to reserve ratio remained comfortable at 0.06x as on 31 March 2022. The corporation's debt protection metrics are comfortable due to a healthy generation of cash accruals of Rs. 207.22 Crs in FY22.

- **Structured payment mechanism:**

BMC has a structured payment mechanism in place for the timely servicing of both the interest and principal. The mechanism is implemented through four separate accounts, which includes the following:

1. An escrow account wherein property tax, water tax, fees and user charges collected by and due to BMC shall be deposited every month in a separate no-lien escrow account for the servicing of the bonds.
2. A DSRA of two half yearly interest payments is maintained at Rs. 16.71 Crs and shall be funded one day prior to the pay-in date.
3. An interest payment account (IPA) is maintained, from which the interest gets serviced on the due date.
4. A sinking fund account (SFA) is maintained, which is managed and monitored by the debenture trustee for the repayment of principal portion as per the repayment schedule.

Credit Risks:-

- **Increasing receivables position:**

BMC reported a 10.66% increase in the receivables position to Rs. 950.27 Crs in FY22 as compared to Rs. 858.71 Crs in FY21. The receivables mainly include the receivables of property taxes, which remains a major concern for the corporation.

ANALYTICAL APPROACH

To arrive at the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has taken a stand alone view on the operational and financial performance of the corporation while arriving at a rating. Furthermore, the rating is supported with the structured payment mechanisms of its cash flows, to meet the interest and principal obligations of the bonds.

RATING SENSITIVITIES

Going forward, an improvement in tax collection from the current levels, the implementation of ongoing projects in a timely manner and a reduction in receivables from the current levels will remain key rating sensitivities for the corporation's rating.

Positive: The outlook may be revised to Positive if the collection improves through measures taken, along with the completion of ongoing projects expected to improve service line parameters, which are in turn expected to generate higher revenues and cash accruals.

Negative: The outlook may be revised to Negative if the corporation fails to implement the ongoing projects in a timely manner, reduces receivables and generates lower-than-estimated revenues/net surplus.

LIQUIDITY POSITION

The liquidity of the corporation remains adequate with a net surplus of Rs. 87.93 Crs generated during FY22 and net cash accruals at Rs. 207.22 Crs. The cash and cash equivalents as of FY22 were at Rs. 473.82 Crs.

COMPANY PROFILE

Bhopal, the capital city of Madhya Pradesh is an emerging metropolis of Central India. Bhopal Municipal Corporation (BMC) is the municipal corporation for the capital city of Madhya Pradesh and is responsible for the civic infrastructure and administration of Bhopal. This civic administrative body administers an area of 463 sq. km. The city is divided into 85 wards. Bhopal is known as the City of Lakes and is very well connected to all the parts of the country. As per census 2011, the population stands at 1,798,218 with a literacy rate of 83.47%. The economy is driven primarily by cotton, electrical goods, jewellery and the chemical industry. Over 1200 MSMEs are currently operational in Bhopal. Tourism is also a thriving industry, with several tourist spots declared as UNESCO heritage sites, lakes and so on. Bhopal has been identified under the project of Global environment city, AMRUT and Smart City mission.

The Government of India launched AMRUT in 2015 as a Centrally Sponsored Scheme. Bhopal has been identified as one of the cities under this scheme, of the 34 cities selected in Madhya Pradesh. AMRUT (Atal Mission for Rejuvenation and Urban Transformation) for BMC is a project of INR 1000 Crs undertaken by both the GOI and BMC. The GOI pitched in with 83% and BMC's share being 17% is met by the NCD issue. All interest commitments have been made on time. Adequate provisions are kept in the Bond Sinking Fund for the redemption of NCD on the due date. The NCD amount is almost used up and the projects are nearing completion and Capitalisation will be done this year.

KEY FINANCIAL INDICATORS (in INR Crs)

BMC reported an increase in the total revenue from Rs. 996.19 Crs in FY21 to Rs. 1093.04 Crs in FY22. This is majorly due to an increase in Tax revenue and in non-tax revenue through assigned revenue and compensations and fees & user charges. The net surplus was reported at Rs. 87.93 Crs in FY22 as against Rs. 82.82 Crs in FY21, majorly on account of increase in both tax and non-tax revenue. The total municipal fund, reserves and grants were reported at Rs. 4817.39 Crs with loans to reserve ratio of 0.06X as on FY22.

FINANCIAL INDICATORS

Key Parameters	Units	FY21	FY22
Result Type		Audited	Audited
Own Tax Revenues	Rs. Crs	326.65	331.10
Total Revenue receipts	Rs. Crs	996.19	1093.04
Net Surplus/ (Deficit)	Rs. Crs	82.82	87.93
Municipal Funds, Reserves and Grants	Rs. Crs	4510.06	4817.39
Loans to Reserves Ratio	Times	0.07	0.06
Tax Revenue to Total Revenue Income	in %	32.79	30.29

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The municipal bonds were raised by BMC towards the funding of its new projects/ development plan with a tenor up to 10 years. The bonds were secured through structure payment mechanism, wherein the property tax, water tax, fees and user charges collected by and due to BMC shall be deposited every month in a separate no-lien escrow account for debt servicing of the bonds to meet its payment obligations in a timely manner. A DSRA equivalent to 2.0x of the half yearly interest on bonds is maintained and shall be funded one day prior to the pay-in date. The total amount collected in an escrow account shall be at least 1.25 times of the debt service amount on an annual basis.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

Rating History for the last three years (included withdrawal and suspended)

Facilities	Current Rating (2023)			2022		2021		2020	
	Tenure	Amount (Rs.Crs.)	Rating	Date	Rating	Date	Rating	Date	Rating
NCDs	Long Term	175.00	BWR AA /Stable (Reaffirmation)	19 Jan 2022	BWR AA /Stable (Reaffirmed)	-	Done in Jan 2022	27Nov 2020	BWR AA /Stable (Reaffirmed)
Grand Total		175.00	(Rupees One Hundred and Seventy-Five Crores Only Only)						

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit 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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Bhopal Municipal Corporation (BMC)

ANNEXURE I

INSTRUMENT (NCD) DETAILS

Instrument	Issue Date	Amount (Cr.)	Coupon Rate	Maturity Date	ISIN Particulars
Bonds/ NCD	26.09.2018	175.00	9.55%	26-09-2028	INE01OI24013
Total		175.00	Rs. One Hundred and Seventy-Five Crores Only		

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