

RATING RATIONALE

26 Feb 2025

Bhopal Municipal Corporation

Brickwork Ratings reaffirms the rating for the Non-Convertible Debenture (NCD) of Rs.175.00 Crs. of Bhopal Municipal Corporation.

Particulars

Instrument**	Amount (Rs. Crs.)		Tenure	Rating#	
	Previous	Present		Previous (27 Feb 2024)	Present
NCD	175.00	175.00	Long Term	BWR AA/Stable Reaffirmation	BWR AA/Stable Reaffirmation
Total	175.00	175.00	Rupees 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, consolidation or instruments are provided in Annexure

RATING ACTION / OUTLOOK

The reaffirmation of the rating of the NCD issued by Bhopal Municipal Corporation (BMC or the Corporation) derives strength from satisfactory financial performance in FY24, low loan-to-reserve ratio, and adequate municipal funds, reserves and surplus. The rating continues to be backed by an upfront Debt Service Reserve Amount (DSRA) that covers two semi-annual coupon payments, an escrow mechanism for the cash inflows of tax revenues, and a debenture trustee (DT) monitored structured payment mechanism to ensure fund availability in the Interest Payment Account (IPA) and Sinking Fund Account (SFA). However, the rating is constrained by the Corporation's moderate operating and net surplus margins, moderate tax collection and service delivery efficiency, and high tax receivables as of 31 Mar 2024.

The Stable outlook reflects the expectation that BMC's performance is likely to remain consistent owing to cash flows from tax revenues and revenue grants. The outlook may be changed to Negative in case of a sustained and significant decline in tax collections, unusual delays in the transfer of grants by the state government, and any breach of NCD issue-related covenants. The outlook may change to Positive in case of a sustained increase in the share of tax revenue in overall revenue, sustained improvement in tax collection efficiency and achievement of service level benchmarks.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The rated NCDs, with an issue size of Rs. 175 Crs., have an upfront DSRA covering two half-yearly coupon payments and a structured payment mechanism (SPM) to address any mismatch or shortfall in cash flows for meeting debt obligations. Under the SPM, property tax, water tax, and fees and user charges collected by and due to BMC shall be deposited each month in a separate no-lien escrow account for debt servicing of the NCD. The bondholders, through the DT, shall have a first pari-passu charge over the escrow account, Interest Payment Account (IPA), Sinking Fund Account (SFA), and Debt Service Reserve account (DSRA).

KEY RATING DRIVERS

Credit Strengths:-

- **The strategic importance of the city:**

Bhopal is among the top 20 cities selected for the first phase of the SMART CITY Project. The city's economy thrives on key industries such as cotton, electrical goods, jewellery, and chemicals. The industrial suburb of Mandideep, adjacent to Bhopal, hosts several renowned companies including Eicher, Crompton Greaves, Procter & Gamble, Larsen & Toubro, Fujitsu, and HEG. The strategic location and robust infrastructure make it an attractive hub for business operations. Additionally, Bhopal has been honoured with the prestigious Garbage Free City - Five Star award by the Swachh Bharat Mission for the year 2024.

- **Improvement in service delivery efficiency:**

BMC has achieved improvement in service delivery efficiency against the various service level benchmarks pertaining to the delivery of civic amenities set by the Ministry of Urban Development. BMC continues to cover 100% of the area under the water supply connection. Per capita water supply has increased to the target level of 135 lcpd, and 95% of the water connections have been metered against the target of 100% leading to 96% cost recovery in water supply services. Coverage of toilets and sewage network service continues to be 100%. The collection efficiency of the sewage network has increased from 36% in FY23 to 40% in FY24 against the target of 40%. The extent of Cost recovery in sewage management has marginally increased from 75% in FY23 to 78% in FY24 against the target of 100%. Household-level coverage of solid waste management services and efficiency of collection of municipal solid waste continues to be 100%. Efficiency in the collection of solid waste management charges also continues to be 100%. BMC has reported 24*7 coverage of the water supply in all public/community toilets. The city has again been awarded the Garbage Free City-Five Star Award under the Swachh Bharat Mission in 2024.

- **Moderate financial risk metrics:**

There has been an improvement in total income in FY24 to Rs. 1234.49 Crs. (FY23: Rs. 1154.20 Crs.). The growth in tax and non-tax revenue were at ~12% and ~5%, respectively, in FY24 over FY23. The improvement in tax revenues was primarily on account of an increase in property tax revenue. The share of tax revenue in total income marginally increased from ~30% in FY23 to ~31% in FY24. Net surplus marginally increased to Rs. 97.70 Crs. (FY23: Rs. 95.70 Crs.). BMC's total net cash accruals were at Rs. 237.09 Crs. in FY24 (FY23: Rs. 237.47 Crs.) against the yearly transfer obligation of ~Rs. 40 Crs. to IPA and SFA combined. BMC has reported IPA, SFA, and DSRA balances at Rs. 3.54 Crs., Rs. 151.11 Crs., and Rs. 22.93 Crs., respectively.

Credit Risks:-

- **Moderate surplus margins and high receivables position:**

BMC's operating and net surplus margins have gradually declined over the years and are at moderate levels currently. The operating surplus margin gradually declined from 28.33% in FY20 to 20.78% in FY24 (FY23: 22.54%). The net surplus margin has also gradually declined from 13.61% in FY20 to 7.91% in FY24 (FY23: 8.29%).

The Corporation's property tax collection efficiency has remained a concern leading to a build-up of high levels of receivables, primarily because of moderate recovery rates of property and water taxes. The receivables position has increased from Rs. 875.55 Crs. on 31 Mar 2023 to Rs. 902.07 Crs. on 31 Mar 2024. The Corporation's ability to sustainably reduce its receivables level remains a rating monitorable.

ANALYTICAL APPROACH - Standalone

To arrive at the ratings, BWR has considered the Corporation's standalone financials, along with the structured payment mechanism consisting of a DT-monitored waterfall mechanism for transferring funds to IPA and SFA, an upfront DSRA comprising two half-yearly coupon dues, monthly build-up of IPA and SFA for scheduled debt servicing, and the replenishment of the DSRA (if utilised) as per the structured payment mechanism.

RATING SENSITIVITIES

The ability of the Corporation to improve the tax revenues, collection efficiency, ensuring adequate timely availability of cash flows, continued support from the State Government and reduction of receivables from the current level will remain the key rating sensitivities.

Positive:

- Sustained improvement in tax collection from current levels
- Sustained reduction in receivables from current levels

Negative:

- Sustained reduction in the tax collection, sustained deterioration in service delivery level, a sharp reduction in the available Municipal Funds, Reserves and Grants position, further increase in the receivables position along with deterioration in debt coverage metrics
- A breach of NCD issue-related covenants

LIQUIDITY POSITION: Adequate

The partial redemption of the BWR-rated NCD will commence on 26 Sep 2025. The Corporation has Rs. 151.11 Crs. in SFA as of 31 Dec 2024 against the required amount of Rs. 43.75 Crs. for partial redemption. Cash & cash equivalent position on 31 Mar 2024 was Rs. 699.44 Crs. covering 2.73 times the outstanding debt. Net cash accruals for FY24 were at Rs. 237.09 Crs. against debt repayment requirements of ~Rs. 22-23 Crs. in FY24 and total debt outstanding of Rs. 255.88 Crs. on 31 Mar 2024. The team loan of Rs. 88 Crs. availed from Bank of Maharashtra (not rated by BWR) is backed by DSRA of 3 months interest and principal payment and escrow mechanism for certain receipts of the Corporation which are different from those escrowed towards the BWR-rated NCD. Any capital expenditure is backed by capital grants on a need basis. Debt servicing of the BWR-rated NCD is backed by channelling of property tax, water tax, and fees and user charges collection through the escrow account and transfer of funds to the IPA and SFA as per the stipulated order of priority.

ABOUT THE CORPORATION

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Public Services	Urban Local Bodies

Bhopal Municipal Corporation (BMC) is the municipal body for the capital city of Madhya Pradesh and is responsible for the civic infrastructure and administration of Bhopal as per the provisions of Madhya Pradesh Municipal Corporation Act, 1956. BMC administers an area of 463 sq. km. The city is divided into 85 wards. 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, Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart City Mission.

The Government of India launched AMRUT in 2015 as a Centrally Sponsored Scheme. Bhopal was identified as one of the 34 cities selected in Madhya Pradesh. AMRUT for BMC was a project of Rs. 1000 Crs. undertaken by both the Government of India (GoI) and BMC. The GoI pitched in with 83% and BMC's share of 17% was met by the BWR-rated NCD issue. The NCD amount has been completely used up and the projects have been completed.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY22	FY23	FY24	9MFY25
Result Type		Audited	Audited	Audited	Unaudited
Total Income	Rs. Crs.	1093.04	1154.20	1234.49	NA
Total Expenditure	Rs. Crs.	867.82	894.09	977.91	NA
Cash Surplus before Depreciation and Interest	Rs. Crs.	225.22	260.10	256.59	NA
Net Surplus/ (Deficit)	Rs. Crs.	87.93	95.70	97.70	NA
Municipal Funds, Reserves and Grants	Rs. Crs.	4817.39	5104.02	4902.64	NA
Loans to Reserves Ratio	Times	0.06	0.05	0.05	NA

NA = Not Available

TERMS OF THE NCD

- The tenor of the NCD is 10 years, and the redemption starts from FY26. BMC has created an interest payment account and a sinking fund account.
- Under the structured payment mechanism (SPM), property tax, water tax, and fees and user charges collected by and due to BMC shall be deposited each month in a separate no-lien escrow account for debt servicing of the NCD.
- The bondholders, through the DT, shall have a first pari-passu charge over the escrow account, Interest Payment Account (IPA), Sinking Fund Account (SFA), and Debt Service Reserve account (DSRA).
- The funds accruing into the Escrow Account will be first utilized to meet the Minimum Balance for stipulated transfers to DSRA, IPA, and SFA.

- The Minimum Balance shall not be used for any purpose other than transfer to the DSRA, IPA and SFA.
- DSRA to be created from its own sources and maintained all time equivalent to two interest payments. Shortfall, in any, in DSRA to have priority over transfer of funds from Escrow Account to IPA and SFA.
- Funds to be transferred to IPA and SFA on a monthly basis as required.
- The surplus funds after meeting the Minimum Balance can be transferred to the BMC General Fund Account.
- The above transfer shall be done on a daily basis except on the last business day of every month. On the last business day of every month, the Minimum Balance maintained as indicated above shall be transferred to the IPA & SFA.
- **Interest Payment:**
 - The DT shall check the amount lying in the credit of IPA at least 25 days prior (T-25) to the interest payment date (T).
 - In case of any shortfall in the amount, the DT shall intimate the BMC of the shortfall and BMC shall make good the shortfall in the IPA by at least 15 days prior (T-15) to the interest payment date (T).
 - In case of shortfall in any amount in IPA 14 days prior to the interest payment date (T), the DT shall trigger the payment mechanism and instruct the bank to transfer the shortfall amount from DSRA to the IPA by 10 days prior (T-10) to the interest payment date (T).
- **Principal Repayment:**
 - The DT shall check the balance in the SFA at the end of the year and in case of any shortfall in the Sinking Fund Account, BMC shall replenish the SFA with the necessary amount to fill the shortfall.
 - The DT shall check the amount lying to the credit of SFA at least 25 days prior (T'-25) to the redemption date (T').
 - In case of any shortfall in amount, the DT shall intimate the BMC of the shortfall and BMC shall make good the shortfall in the SFA by at least 15 days prior (T'-15) to the redemption date (T').
- The DT shall keep the rating agencies informed of any shortfall in DSRA, IPA, and SFA and any transfer from DSRA to IPA.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY:

None with any other CRAs.

ANY OTHER INFORMATION - None

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Instrument /Facility		Current Rating (2025)		2024		2023		2022	
Type	Type	Amount (Rs. Crs.)	Rating	Date	Rating	Date	Rating	Date	Rating
NCD	Long Term	175.00	BWR AA/ Stable Reaffirmation	27 Feb 2024	BWR AA/ Stable Reaffirmati on	16 Feb 2023	BWR AA/ Stable Reaffirmati on	19 Jan 2022	BWR AA/ Stable Reaffirmati on
Total		175.00	Rupees One Hundred and Seventy Five Crores Only						

HYPERLINK/REFERENCE TO APPLICABLE CRITERIA

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

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BHOPAL MUNICIPAL CORPORATION

**ANNEXURE-I
DETAILS OF BANK LOAN FACILITIES RATED BY BWR**

Name of the Bank/Lender	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)	Complexity of the Instrument
Nil	Nil	Nil	Nil	Nil	Nil
Total		Nil	Nil	Nil	
Total - Nil					

**ANNEXURE-II
INSTRUMENT DETAILS**

Instrument	Issue Date	Amount (Rs. Crs.)	Coupon Rate	Maturity Date	ISIN Particulars	Complexity of the Instrument##
NCD	26 Sep 2018	175.00	9.55% p.a.	26 Sep 2028	INE01OI24013	Simple
Grand Total		175.00	Rupees One Hundred and Seventy Five Crores Only			

Note: The NCD is listed in BSE. The interest payment is made every year on 26 Mar and 26 Sep commencing 26 Mar 2019 till 26 Sep 2028. Partial principal redemption will commence on 26 Sep 2025 with redemption of 25% of the face value.

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**ANNEXURE-III
LIST OF ENTITIES CONSOLIDATED**

Name of Entity	% Ownership	Extent of consolidation	Rationale for consolidation
Nil	Nil	Nil	Nil



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