

**Bhopal Municipal Corporation (BMC)**

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

**Particulars**

Facilities/ Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (16 February 2023)	Present
NCD's	175.00	<b>175.00</b>	<b>Long Term</b>	BWR AA/Stable Reaffirmation	<b>BWR AA /Stable Reaffirmation</b>
<b>Total</b>	175.00	<b>175.00</b>	<b>INR One Hundred and Seventy-Five Crores Only</b>		

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

\*\* Details of NCD are provided in Annexure

**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 FY23 (Prov.) 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 and FY23 (Prov.), improvement in the proportion of tax in the overall revenues and improved debt coverage indicators with a healthy generation of cash accruals of Rs. 214.12 Crs in FY23 (Prov.).

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, completion of the Amrut Project for which the NCDs were raised, future 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. Swachh Bharat Mission has awarded the Corporation, Garbage Free City - Five Star for the year 2023 and they expect to retain it in the upcoming years too.

- **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 BMC has covered their target of 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 .

- **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 and FY23 stood at Rs.1125.18 Crs (Prov.). 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. 1153.70 Crs in FY23 and the Provisional figures of FY 23 is recorded as Rs.1125.18 Crs which is in line with the projections. The tax revenue increased from Rs. 331.10 Crs in FY22 to Rs. 362.52 Crs in FY23 (Prov.). The loans to reserve ratio remained comfortable at 0.06x as on 31 March 2023 (Prov.). The corporation's debt protection metrics are comfortable due to a healthy generation of cash accruals of Rs. 214.12 Crs in FY23 (Prov.).

- **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:**

The increase in receivables has been a major concern for BMC. Though there is a slight reduction in receivables from Rs.950.27 Crs as on 31.03.2022 to Rs.930.03 Crs as on 31.03.2023 (Prov) the receivables are on a higher side.

## **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**

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 ensuring timely transfer of funds from the Infrastructure Development Fund in case of any shortfalls in sinking fund/DSRA replenishment will remain the key rating sensitivities.

### **Upward:**

- Improvement in tax collection from current levels and reduction in receivables from current levels remain key rating sensitivities for the corporation's rating.
- Substantial reduction in the receivables position.

### **Downward:**

- The corporation's ability to timely realize the tax revenues will be the major business risk. Receivables of the corporation have been increasing every year which is a major concern.
- Specific credit metrics which may result in a rating downgrade include deterioration in the tax collection, sustained deterioration in service delivery level, a sharp reduction in the available Municipal Funds, Reserves and Grants position, DSCR and ISCR declining to below 1.25 times and deterioration in annual Net Cash Accruals on a sustained basis.

## **LIQUIDITY POSITION : Adequate**

The liquidity position of the Bhopal Municipal Corporation remains adequate with a net surplus of Rs. 214.12 Crs as on 31 March 2023 (Prov) supported by sustained revenue surpluses, sizeable cash and bank balances which are unencumbered and held by way of fixed deposits. The current ratio was adequate at 1.84 times as on 31st March 2022 (Audited). The cash and cash equivalents as on 31st March, 2023 were at Rs. 453.59 Crs (Prov). The current ratio is adequate at 1.76 times as on 31st March 2023 (Prov). Currently, BMC does not have any major repayment in the near to medium term. The principal redemption of NCDs will commence from FY26. The NCD issued has a call and put option at the end of 7th year (i.e., September 2025).

## **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 completely used up and the projects are completed.

### KEY FINANCIAL INDICATORS (in INR Crs)

BMC reported an increase in the total revenue from Rs. 1093.04 Crs in FY22 to Rs. 1125.18 Crs in FY23 (Prov). This is majorly due to an increase in revenue and through assigned revenue and compensations and fees & user charges. The net surplus was reported at Rs. 91.34 Crs in FY23 (Prov) as against Rs. 87.93 Crs in FY22, majorly on account of increase in both tax and non-tax revenue. The total municipal fund, reserves and grants were reported at Rs. 4808.47 Crs as on 31.03.2023 (Prov) with loans to reserve ratio of 0.06X as on FY23 (Prov).

### FINANCIAL INDICATORS

Key Parameters	Units	FY 2020-21	FY 2021-22	FY 2022-23
Result Type		Audited	Audited	Audited
Own Tax Revenues	Rs. Crs	326.65	331.10	NA
Total Revenue receipts	Rs. Crs	996.19	1093.04	NA
Net Surplus/ (Deficit)	Rs. Crs	82.82	87.93	NA
Municipal Funds, Reserves and Grants	Rs. Crs	4510.06	4817.39	NA
Loans to Reserves Ratio	Times	0.07	0.06	NA
Tax Revenue to Total Revenue Income	in %	32.79	30.29	NA

### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

- The NCDs were raised by BMC towards funding of its new projects/ development plan with a tenor up to 10 years. The Debentures were secured through structure payment mechanism 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 debt servicing of the NCD to meet its payment obligations in a timely manner.
- DSRA equivalent to 2.0x of half yearly interest on Bonds is maintained and shall be funded one day prior to the pay-in date. The total amount collected in the Escrow account shall be at least 1.25 times of the Debt Service Amount on an annual basis.
- BMC shall not borrow any further funds against the cash flow of the Escrow Account in case there is a shortfall in contribution to IPA, SFA, or DSRA and the shortfall has not been made good by BMC.

### NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:

*No outstanding rating with other CRA.*

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

Facilities	Current Rating (2024)			2023		2022		2021	
	Tenure	Amount (Rs.Crs.)	Rating	Date	Rating	Date	Rating	Date	Rating
NCDs	Long Term	175.00	BWR AA /Stable (Reaffirmation)	16 Feb 2023	BWR AA /Stable (Reaffirmed)	19 Jan 2022	BWR AA /Stable (Reaffirmed)	Done in Jan 2022	
<b>Grand Total</b>		175.00	<b>(Rupees One Hundred and Seventy-Five Crores Only Only)</b>						

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

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

**Any other Information - NIL**

**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**

**INSTRUMENT (NCD) DETAILS**

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



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