

Pimpri Chinchwad Municipal Corporation

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Bonds*	200.00	CARE AA+; Stable	Revised from CARE AA; Stable

Details of instruments/facilities in Annexure-1.

*Proposed

Rationale and key rating drivers

The revision in the rating assigned to the proposed bond issue of Pimpri Chinchwad Municipal Corporation (PCMC) factors in the proposed Trustee-administered structured payment mechanism with escrow provisioning of designated revenue collections (property tax) towards debt obligations of the bond issuance with priority of debt servicing and stipulated reserves to be maintained in the form of sinking fund and debt service reserve for the bond issuance.

The rating revision also factors in the sustained revenue surplus of the corporation with the corporation reporting consistent revenue surplus (₹1,000 crore on cash basis in FY22) over the last few years and strong liquidity profile with maintenance of strong cash balance.

The rating also factors in the importance of PCMC to the state of Maharashtra with PCMC being the third-largest municipal corporation in the state. PCMC continues to benefit from strong economic base of the Pune city known as an evolving business centre hosting various manufacturing and automobile industries, information technology (IT), education, management, and training institutes. The debt coverage indicators also remained comfortable with total debt to revenue receipts at 4.74x as March 31, 2022, and debt/surplus at 0.37x.

The rating is, however, tempered by the moderate self-reliance of the corporation given the higher share of GST grants in its revenues with own revenue source comprising only 50% of the overall revenue and moderate property tax collection efficiency. While comfort is derived from the track record of receipts of such compensation in a timely manner, the continuity of the same is important to maintain a healthy revenue profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the revenue surplus of the corporation while successfully augmenting its infrastructure needs.
- Improvement in property tax collection to above 80% on a sustained basis.

Negative factors

- Significant decline in the revenue receipts impacting the revenue surplus on a sustained basis.
- Higher-than-envisaged debt level thereby impacting the liquidity profile.
- Non-adherence to the covenants of bonds issuance.

Analytical approach: Standalone considering the structured payment mechanism.

Outlook: Stable

PCMC is expected to maintain a strong financial profile with steady growth in own revenues, consistent revenue surplus generation, comfortable liquidity position and escrow of designated revenue stream with stricter restricted payment covenants.

Key strengths

Strong economic base, efficient operations and service delivery track record

Pune is the second-largest contributor to the GDP of Maharashtra and the level of industrialization is high with Pune being a hub for various industrial set-ups. PCMC is home to the operations of major Indian as well as various multinational companies. It hosts automotive majors, viz., Daimler Chrysler, Force Motors, General Motors, Jaguar Land Rover, Kawasaki, Kinetic Engineering,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Mahindra & Mahindra, Mercedes-Benz India, Premier Ltd., TATA Motors, and Volkswagen, etc. In addition to these, PCMC hosts Rajiv Gandhi Infotech Park in 2800 acres, which houses more than 800 IT companies. PCMC has good infrastructure in place and has a strong track record in terms of coverage and service delivery with about 100% coverage of solid waste collection, 97% coverage of drinking water supply, and 87% coverage of sewerage. Storm water drainage coverage is relatively on lower side. The Corporation has been incurring capex for the improvement in coverage of such civic amenities.

Sustained revenue surplus over the years

The municipal corporation has registered satisfactory growth in the revenue over the last few years with revenue receipts registering a compounded annual growth rate (CAGR) of 6% during FY20-FY22. However, the expenditure grew higher at a CAGR of 18% during the same period which is resulted in PCMC reporting lower surplus. However, the surplus continued to be remained comfortable. The corporation reported revenue surplus of around ₹1,000 crore in FY22 (on cash basis). During FY22, PCMC has reported a growth of 21% in the revenue receipts mainly due to the higher income from fee and user charges. The income from fee and user charges grew by 2.18x from ₹436 crore in FY21 to ₹952 crore in FY22 due to higher collections from grant of fee permits.

Comfortable financial position

PCMC has low debt burden with no outstanding borrowings from any financial institutions apart from the term debt from state government. While the Corporation has proposed bond issuance for funding one of its projects, the capex undertaken by the Corporation over the last few years has been mostly funded from surplus and liquidity reserves maintained. With the stable revenue base and consistent revenue surplus generation, CARE ratings expects the debt coverage indicators to remain comfortable

Structured payment mechanism

The proposed bond issuance is backed by a structure payment mechanism (SPM). The SPM entails the creation of an escrow account of designated revenue source (property tax) with priority for servicing of bonds. Under the SPM, collections under the revenue heads of Property tax collected shall be transferred to the separate escrow account. The salient features of SPM are as follows –

- First, to accumulate the minimum balance in Escrow Account. The minimum balance to be maintained in any month shall be 1.25x of the debt servicing.
- The minimum balance shall not be used for any purpose other than transfer to respective accounts established for servicing debt, i.e., debt servicing reserve account (DSRA), interest payment account (IPA), and sinking fund account (SFA), for each lender/debenture.

The surplus funds after meeting the minimum monthly requirement in escrow account can thereafter be transferred to PCMC HO account. The debenture trustee shall have a lien on the IPA, DSRA and SFA for the exclusive benefit of the bondholders. Based on the structure, the proposed bonds are likely to have coverage of around 9x on a yearly basis.

Liquidity: Strong

The liquidity position of PCMC remains strong with generation of consistent revenue surplus on a y-o-y basis and low debt obligations with debt/revenue receipts at 4.74x in FY22.

Key weaknesses

Lower own revenue source and moderate tax collection efficiency

Own revenue in the form of tax and non-tax revenue comprise only 50% of the overall revenue receipts during last three years. The collection efficiency of tax revenue also has been moderate. The revenue receipts are skewed towards GST compensation receipt from the State Government, which alone forms 48% of the revenue receipt. The Corporation receives the share of GST compensation as per the stipulation in "The Maharashtra Goods and Services Tax (Compensation to The Local Authorities) Act 2017". CARE Ratings makes a note that while the compensation is being received in a timely manner, the susceptibility of the revenue to delay in receipt/regulatory changes exists.

Applicable criteria

- [Policy on default recognition](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Credit Watch](#)
- [Urban Infrastructure Projects](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

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

PCMC is the third-largest municipal corporation in the state of Maharashtra and is governed by The Maharashtra Municipal Corporations Act, 1949 (amended from time to time). PCMC was established on October 11, 1982, to govern the newly-industrialised towns of Chinchwad, Akurdi, Pimpri and Bhosari. Pimpri-Chinchwad is a satellite city of Pune, India, and is at about 15 kms from Pune and 150 kms from Mumbai. PCMC is mainly responsible for the civic administration of the city, maintaining infrastructure facilities, and providing various civic services, such as water supply, solid waste management, sewerage, education, health and others to its citizens. Pune has been the hub of the engineering industry for over five decades and one of the evolving business centres as it hosts various Information Technology (IT) and automotive companies. It has a coverage area of 485 Sq. kms with a population of 31.32 lakh (2011 census).

Brief Financials (₹ crore)	FY21 (A)	FY22(Provisional)	9MFY23\$
Reported revenue receipts	3,387	4,130	2,784
Reported revenue surplus	761	1,076	780
Adjusted revenue surplus**	656	528	780
Adjusted revenue surplus/revenue receipts** (%)	19.99	14.74	28.01
Own revenue/revenue receipts (%)	49.97	51.95	39.01

A: Audited; **Adjusted for incremental debtors and excluding depreciation \$ on receipt basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds (Proposed)	-	-	-	Proposed – 5 years	200.00	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds	LT	200.00	CARE AA+; Stable	1)CARE AA; Stable (03-Aug-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments:

Debt Service Coverage Ratio (DSCR)	<ul style="list-style-type: none"> DSCR on operating surplus: DSCR will not be less than 1.25x of operating surplus (i.e. total adjusted income – total adjusted expenditure). In case the ratio falls below 1.25x, PCMC shall not, without the previous approval of the Trustees to the Debenture Holders, borrow any further amount against the cash flow of the escrow account. Total amount collected in the escrow account shall be at least 1.25x of the Debt Service Amount on an annual basis.
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Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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