

Pune Municipal Corporation

January 05, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Bonds	200.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	200.00 (Rs. Two hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating to the non-convertible debentures (NCDs) of Pune Municipal Corporation (PMC) continues to derive strength from the healthy financial profile of the entity back by the stable growth in receipts and consistent revenue surplus over the last few years. The Corporation also derives significant revenue from own sources with proportion of same at 64% of the overall revenue receipts for FY21 (refers to the period April 1 to March 31) and has strong financial and liquidity position with low debt level and significant liquid funds maintained. The Corporation receives share of GST compensation from the State Government as per the stipulation in "The Maharashtra Goods And Services Tax (Compensation To The Local Authorities) Act 2017", which has a track record of timely receipts on a monthly basis.

The rating also factors in the structured payment mechanism with escrow provisioning of designated revenue collections towards debt obligations of the entity, priority of debt servicing and stipulated reserves maintained in the form of Sinking Fund and Debt Service Reserve for the bond issuance. This apart, PMC continues to benefit from strong economic base of Pune City known as an evolving business centre hosting various manufacturing and automobile industries, Information Technology (IT), education, management and training institutes.

The rating strengths are, however, tempered by moderate collection efficiency with past arrears and shortfalls in utility infrastructure against the set targets by PMC.

Rating Sensitivities

Positive Factors- Factors that could lead to upgrade/positive rating action

- Ability of PMC to increase revenue surplus while successfully augmenting its infrastructure needs
- Improvement in Tax Collection efficiency to above 90% on a sustained basis
- Improved civic service delivery levels to 95% and above on a sustained basis

Negative Factors- Factors that could lead to downgrade/negative rating action

- Higher than envisaged debt level thereby impacting the liquidity profile
- Non-receipt of GST compensation on a sustained basis, impacting the revenue receipts

Detailed description of the key rating drivers

Key Rating Strengths

Strong economic base, efficient operations and service delivery track record: Pune is the second-largest contributor to the GDP of Maharashtra and level of industrialization is high with Pune being a hub for various industrial set ups. PMC has good infrastructure in place and has a strong track record in terms of coverage and service delivery with about 100% coverage of water supply a coverage of sewerage. Though they are shortfalls in the coverage of civic amenities provided by the corporation, the corporation has been incurring capex for the improvement of same.

Satisfactory financial performance in FY21 and H1FY22

The revenue receipts has witnessed continuous growth over the last few years, with gradual increase in both, property tax revenue and non-tax revenue components. During FY21, revenue receipts of PMC remained almost stable with nominal y-o-y decline of 0.79%. While the tax revenue and GST grew marginally by 0.34% and 3.50% in FY21, respectively, low level of non-tax revenue

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

and interest income resulted in dip in the revenue. Non-Tax revenue was impacted mainly due on the lower economic activity during first half of FY21 amid Covid-19 pandemic. Despite the decline in revenue, the corporation reported an adjusted revenue surplus (adjusted for incremental debtors) of Rs.1,499 crore in FY21 as against Rs.1,170 crore. Revenue Surplus/Revenue Receipts (adjusted for debtors) has also been comfortable at 27.61% in FY21 (FY20: 20.71%).

During H1FY22, PMC reported 64% growth in revenue receipts on a y-o-y basis with revenue surplus at Rs.1,769 crore. The resumption of business activities particularly the real estate development, post covid impact has contributed to the revenue growth.

High share of own revenue source

The Corporation derives significant revenue from own sources with proportion of same at 64% of the overall revenue receipts in FY21. The own revenue comprises the tax and non-tax revenue which is levied and collected by the Corporation. The own revenue proportion witnessed reduction from FY18 post abolishing of local body taxes with introduction of GST. Over the past three years, the own revenue share has been close to around 65%

The corporation receives GST compensation monthly from the State Government in the form of grant and GST grant constituted about 30% of the revenue. The corporation is entitled to get GST compensation as per the "The Maharashtra Goods And Services Tax (Compensation To The Local Authorities) Act 2017".

Structured payment mechanism

PMC is following a structured payment mechanism (SPM) through creation of an Escrow account of designated revenue collections, 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 –

- i. Firstly, to build up shortfall in Debt Service Reserve Account (DSRA) account (at all times the DSRA should be maintained as two half-yearly interest payment);
- ii. Secondly, transfer to Interest Payment Account (IPA) for half-yearly interest servicing, which shall be funded on a monthly basis as per the terms of the bond issue;
- iii. Thirdly, transfer to Sinking Fund Account (SFA) on monthly basis, such sums as may be required by the terms of the bond issuance and any shortfall in earlier contributions.

The surplus funds after meeting the minimum monthly requirement in escrow account/DSA can thereafter be transferred to PMC General Fund account. The debenture trustee shall have a lien on the IPA, DSRA and SFA for the exclusive benefit of the bondholders. PMC is maintaining (DSRA) equivalent to two half yearly interest payment amounts, in the form of fixed deposits, which provides sufficient liquidity cushion and is also creating sinking fund reserves for the bullet payment of bonds.

Focus on asset creation

The capital expenditure of the corporation, which is mainly incurred towards development of civic amenities and infrastructure projects, has been steady over the years. The corporation has been consistently incurring capital expenditure of around Rs.1,300 crore over the past few years with most of the capex funded through internal accruals. The capex during FY21 stood at Rs.1,282 crore. The corporation has undertaken a water supply project with a view to provide 24/7 water supply to the city. As on November 30, 2021, the corporation has already incurred 25% of total estimated project cost of Rs.2,300 crore.

Robust financial position

PMC has low debt burden. In FY18, the Corporation raised Rs.200 crore via municipal bonds for the water supply project and has not raised any external borrowings since then. The debt to revenue receipt ratio has been comfortable at 3.39% in FY21 as against 3.37% in FY20.

The water supply project is proposed to be funded through debt of Rs.1,261 crore. However, given the liquidity maintained in form of cash balances, the debt borrowing has been low.

Key Rating Weaknesses

Moderate collection efficiency

The collection efficiency of tax revenue during FY19-21 was 44%, as against 39% during FY17-19. The collection efficiency has been moderated on account of accumulated arrears, a large part of which is under litigation. In addition, the increase in property tax receivables is also on account of PMC levying a penalty of 2% per month to the defaulters which has been resulted into such huge built-up of receivables. Though the overall collection efficiency remained low, the collection efficiency for current demand for property has remained satisfactory at 84.4%.

Liquidity: Strong

The liquidity position of PMC remains strong with generation of consistent revenue surplus on a y-o-y basis and low debt obligations with debt/revenue receipts at 3.39 % in FY21. The Corporation has been consistently maintaining liquid funds of over Rs.2,000 crore over the last 4 years. As on March 31, 2021, PMC has liquid funds (including DSRA, ISRA and Sinking Funds balance) of Rs.3,114 crore.

Analytical approach:

Standalone

Applicable Criteria[Policy on default recognition](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Urban Infrastructure Projects](#)**About the Company**

Established on February 15, 1950, PMC is the second-largest corporation in the state of Maharashtra. The corporation is governed by The Maharashtra Municipal Corporations Act, 1949 (amended from time to time). PMC is mainly responsible for the 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 (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Reported Revenue Receipts	5,939	5,892	3,190
Reported Revenue Surplus	1,455	1,962	1,769
Adjusted Revenue Surplus**	1,170	1,499	-
Adjusted Revenue Surplus/Revenue Receipts** (%)	20.70	27.61	-
Own Revenue/Revenue Receipts (%)	67.60	64.42	61.50

A: Audited; Prov.: Provisional

**Adjusted for incremental debtors and excluding depreciation

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure 4**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds	INE807X08017	June 20, 2017	7.59%	June 20, 2027	200.00	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Jan-21)	1)CARE AA+; Stable (10-Jan-20)	1)CARE AA+; Stable (18-Jan-19) 2)CARE AA+; Stable (11-Jul-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
Debt Service Coverage Ratio (DSCR)	<ul style="list-style-type: none"> • DSCR on operating surplus: DSCR will not be less than 1.5x of operating surplus (i.e. total income – total expenditure + depreciation). • Total amount collected in the escrow account shall be at least 1.25x of the Debt Service Amount on an annual basis. In case the ratio falls below 1.25x, PMC shall not borrow any further amount against the cash flow(s) of the escrow account. No permission to borrow further amount(s) by PMC shall be required, under this head, from the bondholders as long as this condition is satisfied. • PMC shall not borrow any further funds against the cash flow of the escrow account in case there is a shortfall in contribution to Debt Service Account and the shortfall has not been made good by PMC.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Bonds	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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