

Indore Municipal Corporation

December 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	250.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total long-term instruments	250.00 (₹ Two hundred fifty crore only)		
Issuer rating*	-	CARE AA (Is); Stable [Double A (Issuer Rating); Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1.

*The issuer rating is based on the corporation availing and maintaining an overall debt not exceeding ₹900 crore.

Detailed rationale and key rating drivers

The ratings assigned to Indore Municipal Corporation (IMC) for its proposed debt instrument and Issuer rating derive strength from the healthy financial profile of the corporation, backed by the growing revenue receipts (RRs) and sustained revenue surplus over the past few years. The RRs have increased from ₹1,285 crore in FY17 (FY refers to the period from April 01 to March 31) to ₹1,807 crore in FY22, primarily led by growth in non-tax revenue, revenue grants, and assigned revenue. The revenue surplus/RRs (adjusted for incremental debtors) have also been healthy and consistent at an average of 25%. The corporation has comfortable debt coverage metrics with a moderate debt level (debt/surplus at 1.32x as on March 31, 2022) and an adequate liquidity position.

The ratings also factor in the structured payment mechanism with an escrow provisioning of designated revenue collections towards debt obligations of the entity, priority of debt servicing, and stipulated reserves maintained in the form of a sinking fund and a debt service reserve for the bond issuance.

IMC is the largest municipal corporation in the state of Madhya Pradesh and benefits from the growing economic base of the city. The ratings also factor in the strong service delivery track record with renowned solid waste management practices and fair civil infrastructure maintained, with Indore ranked as among the cleanest cities in India.

The ratings strengths are, however, tempered by the moderate collection efficiency and the dependence on the state government for the receipt of the share of the Goods and Services Tax (GST) compensation, which contributes almost around 30% of the RR. 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. Given the growth and industrial development of the city, the capex requirements are on an increasing trend and the ability of the corporation to manage the same while maintaining its financial position will be important from the credit perspective.

Rating sensitivities

Positive factors – Factors that could lead to upgrade/positive rating action

- Growth in the size of the corporation with a sustained revenue surplus.
- Improvement in the property tax collection efficiency above 90% on a sustained basis.

Negative factors – Factors that could lead to downgrade/negative rating action

- De-growth in revenue surplus on a continuous basis.
- Delayed receipt of GST compensation from the state government, impacting the liquidity position.
- Higher-than-envisaged debt level, thereby impacting the liquidity profile.

Detailed description of the key rating drivers

Key rating strengths

Growing economic base, efficient operations, and service delivery track record: IMC is the largest municipal corporation in the state of Madhya Pradesh and is witnessing growing industrialisation. IMC, along with its special purpose

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

vehicle (SPV), Indore Smart City Development Ltd (50% held by IMC and 50% by the Madhya Pradesh Government), is engaged in augmenting the core infrastructure requirements, viz, adequate water supply, assured electricity supply, sanitation, which includes solid waste management, efficient urban mobility and public transport, affordable housing, etc.

IMC has a strong track record in terms of coverage and service delivery, with about 100% coverage of solid waste, sewerage, and stormwater drainage. IMC is the first urban local body (ULB) in India to set up waste management under the public-private partnership (PPP) model and has been ranked as the cleanest city in the country six times consecutively by the Ministry of Urban Development (MoUD) in its Swachh Survekshan Survey. Although there are shortfalls in the coverage of water supply, the corporation is likely to address the same going forward.

Satisfactory financial performance: The RRs have witnessed continuous growth over the period FY17-FY22 (except FY21), with growth led by non-tax revenue components, revenue grants (devolution from the state government), and assigned revenue. The RRs in FY21 were impacted due to the COVID-19 pandemic-related challenges.

IMC has reported a consistent revenue surplus over the said period and with a reduction in debtors built up over the years, the adjusted revenue surplus has witnessed a CAGR of around 30% during the said period (from ₹153 crore in FY17 to ₹440 crore in FY22). Revenue surplus/RRs has also been comfortable at an average of around 25%.

Structured payment mechanism: IMC is following a structured payment mechanism (SPM) for the existing bonds and has proposed the same for the new bond issuance. The proposed bonds are in the nature of green bonds, to be placed as a public issue.

The SPM entails the creation of an escrow account of designated own revenue collections (defined as revenues/cash flows being directly levied and collected or recovered by the IMC) with priority for servicing of bonds. Under the SPM, collections under the own revenue heads (viz, tax revenues [property tax, water tax, advertisement tax, etc], rental income, fees and user charges, sale and hire charges excluding betterment tax and building permission fee) will be transferred to a separate escrow account.

IMC will create a first pari passu charge and escrow mechanism in favour of the bondholders on the own revenues of IMC along with the existing holders of 9.25% of Indore Municipal Corporation Series-I June 2028 bonds. The debenture trustee on behalf of the bondholders will have first pari passu charge (along with the existing bondholders) over the escrow account into which the tax and non-tax receivables will be transferred for debt servicing. The escrowed revenues transferred in the escrow account will be available proportionately for debt servicing requirements of the existing bond issue and the proposed bond issue.

The salient features of the SPM are as follows:

- i. Firstly, to build up a shortfall in the debt service reserve account (DSRA) (at all times, the DSRA should be maintained as two succeeding coupon payments), interest payment account, and sinking fund account.
- ii. Secondly, the transfer to an interest payment account (IPA) for half-yearly interest servicing and sinking fund account for the principle redemption, which will be funded on a monthly basis as per the terms of the bond issue and any shortfall in earlier contributions.

The surplus funds after meeting the minimum monthly requirement in the escrow account can thereafter be transferred to IMC's general fund account. The structure stipulates total collection in the escrow account in any financial year to be at least two times the amount of the annual payments (coupon + principal amount).

IMC is maintaining a DSRA equivalent to two half-yearly interest payment amounts for the existing bonds issued, in the form of fixed deposits (FDs) and is also creating sinking fund reserves for the payment of bonds.

Furthermore, IMC expects to receive a financial incentive from the Government of India (GoI) for the bond issue. The said incentive (as and when received) WILL be utilised to create FDs and the amounts from such FDs will be utilised proportionately for coupon payments over the entire tenure of the non-convertible debentures (NCDs). A lien will be created in favour of the debenture trustee over such FDs throughout the tenure of the NCDs.

Focus on asset creation and cost saving: The capex of the corporation, which is mainly incurred towards the development of civic amenities and infrastructure projects, has been steady over the years. The corporation has been consistently incurring a capex of around ₹600-800 crore over the past few years, with capex-funded grants and borrowings, as well as its own surplus. IMC is also implementing the Pradhan Mantri Awas Yojna (PMAY) scheme, wherein it has undertaken the construction of houses for economically-backwards citizens. An aggregate project cost of ₹1,866 crore is to be funded through the combination of grants, loans, advances, and internal accruals.

Apart from asset creation, IMC has also taken up a cost-saving project and is developing a 60-MW solar project at ₹305 crore, which will be partly funded from the proposed bonds and the rest will be provided by the government as viability gap funding and internal accruals. The project aims to reduce the power cost of IMC by around 17% p.a.

Comfortable financial position: IMC has a track record of fundraising from banks and financial institutions (FIs) for funding its capex plans and had an outstanding debt of ₹579 crore as on March 31, 2022. While the debt levels have witnessed an increase over the past five years, the same has been complemented by growth in the revenue surplus. This has enabled the corporation to maintain healthy coverage metrics with debt/surplus below 2x as on March 31, 2022. The debt service coverage ratio (DSCR) is also expected to remain at a comfortable level for the corporation, based on the current borrowings and capex plans.

Key rating weakness

Lower own revenue source and moderate tax collection efficiency: IMC's own revenue in the form of property tax income, fees and user charges, and other non-tax revenue components comprise only 46% of the overall revenue receipts during the past three years. The collection efficiency of tax revenue has also been moderate at around 64% during FY20-22 (58% during FY18-FY20).

A considerable share of RRs comprises GST compensation receipts from the state government, which alone forms 30% of the RR. The corporation receives the share of GST compensation as per the budgetary allocations for ULBs by the state government (the approximate share of IMC has been around 12%). While the compensation is being received in a timely manner, the susceptibility of revenue to delays in receipt or regulatory changes exists.

Liquidity: Adequate

The liquidity position of IMC is adequate, with sufficient revenue surplus generation and modest cash and balances of ₹373 crore as on March 31, 2022, against debt repayment obligations of ₹61 crore in FY23. Additionally, IMC has been maintaining a DSR, sinking fund in the form of FDs for the outstanding bonds and is expected to maintain the same for the proposed bonds.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Issuer Rating](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Urban Infrastructure Projects](#)

About the company

IMC is the largest municipal corporation in the state of Madhya Pradesh and is governed by the Madhya Pradesh Municipal Corporation Act, 1956 (amended from time to time). IMC covers an area of 530 sq km with a population of 19.94 lakh (2011). The executive power of the IMC is vested in the Municipal Commissioner, an Indian Administrative Service (IAS) officer appointed by the Government of Madhya Pradesh. IMC 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, etc, to its citizens.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23
Reported revenue receipts	1,565	1,807	NA
Reported revenue surplus	590	664	NA
Revenue surplus**	354	440	NA
Revenue surplus/Revenue receipts** (%)	26.67	27.81	NA
Own revenue/Revenue receipts (%)	43.73	45.97	NA

A: Audited NA: Not available.

**Adjusted for incremental debtors and non-cash items.

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 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 (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures (Tentative)	-	January, 2023	-	January, 2032	250.00	CARE AA; Stable
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AA (Is); 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.	Issuer rating-Issuer ratings	Issuer rating	0.00	CARE AA (Is); Stable	-	-	-	-
2.	Debentures-Non-convertible debentures	LT	250.00	CARE AA; Stable	-	-	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
DSRA	Two semi-annual coupon payments
Financial Covenants	Total amounts collected in the escrow account in any financial year will be at least two times the amount of the annual payments (coupon + principal amount)

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

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Simple
2.	Issuer rating-Issuer ratings	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the 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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