

Pimpri Chinchwad Municipal Corporation (Revised)

August 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Bonds-I	200.00	CARE AA+; Stable	Assigned
Bonds-II	200.00	CARE AA+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bond issuances of Pimpri Chinchwad Municipal Corporation (PCMC), factors in Trustee-administered structured payment mechanism (SPM) for bonds with escrow of designated revenue collections towards debt obligations, priority of debt servicing and stipulated reserves maintained as sinking fund and Debt Service Reserve Account (DSRA). Comfort is derived from 1.25x coverage stipulated in the SPM, with PCMC's cashflows comfortably covering them. PCMC has been maintaining stipulated reserves of DSRA and sinking fund as fixed deposit for the outstanding bonds. Similar structure is proposed for the green bonds to be issued.

The rating continues to derive strength from PCMC's healthy financial profile backed by stable growth in receipts and consistent revenue surplus over the last few years. The corporation has been reporting average revenue surplus of ~₹1,000 crore over the past three years with the surplus registering a y-o-y growth of 54% to ₹2,071 crore in FY24 (refers to period April 01 to March 31) over FY23. CARE Ratings Limited (CARE Ratings) expects the revenue surplus to remain comfortable going forward. Liquidity position and debt coverage metrics of the Corporation continue to remain robust.

The rating also factors in PCMC's importance to Maharashtra, with the entity being the third-largest municipal corporation in the state. PCMC continues to benefit from Pune city's strong economic base, known as an evolving business centre, hosting manufacturing and automobile industries, information technology (IT), education, management, and training institutes.

However, the rating is tempered by the Corporation's moderate self-reliance, given the higher share of GST grants in 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 receiving such compensation timely, its continuity 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 revenue surplus of the corporation on a sustained basis.
- Higher-than-envisaged debt level, impacting liquidity profile.
- Non-adherence to the covenants of bonds issuance.

Analytical approach:

Standalone while factoring in comfort from the Trustee-monitored SPM for bond issue, escrow of designated revenue sources, priority towards debt servicing of bonds, creating interest payment account and sinking fund account, and DSRA provision for two semi-annual interest payments.

Outlook: Stable

PCMC is expected to maintain a strong financial profile with steady growth in its revenue, consistently generating revenue surplus, and comfortable liquidity.

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

Detailed description of key rating drivers:

Key strengths

Strong economic base, efficient operations, and service delivery track record

Pune is the second-largest contributor to Maharashtra's GDP and has high-level industrialisation, being a hub for industrial set-ups. PCMC is home to operations of major Indian and multinational companies. It hosts automotive majors, including Daimler Chrysler, Force Motors, General Motors, Jaguar Land Rover, Kawasaki, Kinetic Engineering, Mahindra & Mahindra, Mercedes-Benz India, Premier Ltd., TATA Motors, and Volkswagen, among others PCMC's Rajiv Gandhi Infotech Park spans across 2800 acres, housing more than 800 IT companies. The corporation has good infrastructure and has a strong track record of coverage and service delivery including about 100% solid waste collection, 100% drinking water supply, and 95% sewerage. Storm water drainage coverage is relatively lower. The corporation has been incurring capex for improving coverage of such civic amenities.

Sustained revenue surplus over the years

The municipal corporation registered satisfactory growth in revenue over the last few years, consistent growth in property tax (10% in FY24 over FY23) and non-tax revenue (39% in FY24 over FY23) due to rapid growth in industrialisation and in real-estate market. PCMC reported a surplus of ₹2,071 crore in FY24. In the medium term, it is expected to maintain a strong financial profile and report a surplus of over ₹1,000 crore.

Comfortable financial position

PCMC has a low-debt burden with no outstanding borrowings from financial institutions apart from a term debt from the state government. The corporation has raised bonds of ₹200 crore in fiscal FY24 and has proposed to raise green bonds of ₹200 crore in the current fiscal; FY25. With stable revenue base and consistent revenue surplus generation, CARE Ratings expects debt coverage indicators to remain comfortable despite the proposed borrowing.

Structured payment mechanism

For Bond-1

The bonds are backed by a structured payment mechanism (SPM). The SPM entails creating an escrow account for designated revenue source (property tax) with priority on servicing of bonds. Under the SPM, collections for revenue heads of property tax collected shall be transferred to a separate escrow account. The salient features of SPM include:

- i. Transfer funds collected in escrow account to debt service account (DSA), amount equivalent to defined monthly liability for servicing of debt. This includes interest and debt repayments.
- ii. Build up shortfall in Debt Service Reserve Account (DSRA) (at all times, DSRA should be maintained as two half-yearly interest payment).
- iii. Transfer to Interest Payment Account (IPA) for half-yearly interest servicing, funded monthly, under terms of the bond issue.
- iv. Transfer to Sinking Fund Account (SFA) monthly, such sums as may be required by terms of bond issuance and shortfall in earlier contributions.

Surplus funds after meeting minimum monthly requirement in escrow account/DSA can be transferred to PCMC General Fund account. PCMC maintains (DSRA) equivalent to two-half yearly interest payment amounts as fixed deposits, providing sufficient liquidity cushion. It is also creating sinking fund reserves for bullet payment of bonds on the 5th year.

SPM for Proposed green bonds

The proposed bonds are backed by a structured payment mechanism (SPM). The SPM entails creating an escrow account for designated revenue source (property tax) with priority on servicing of bonds. Under the SPM, collections for revenue heads of property tax collected shall be transferred to a separate escrow account. The salient features of SPM include:

- i. Transfer funds collected in escrow account to Interest Payment Account (IPA) and Sinking Fund Account (SFA), amount equivalent to defined monthly liability for servicing of debt and interest repayments.
- ii. Build up shortfall in Debt Service Reserve Account (DSRA) (at all times, DSRA should be maintained as two half-yearly interest payment).
- iii. Transfer to Interest Payment Account (IPA) for half-yearly interest servicing, funded monthly, under terms of the bond issue.
- iv. Transfer to Sinking Fund Account (SFA) monthly, such sums as may be required by terms of bond issuance and shortfall in earlier contributions.

Surplus funds after meeting minimum monthly requirement in escrow account can be transferred to PCMC General Fund account. PCMC would maintain DSRA equivalent to two-half yearly interest payment amounts as fixed deposits, providing sufficient liquidity cushion and would be creating sinking fund reserves for bullet payment of bonds on the 4th year and 5th year of ₹100 Cr each.

The Debenture Trustee, on behalf of the Debenture Holders shall have pari-passu first ranking charge over the Escrow Account and the Collection Accounts that are being collected/pooled by the Issuer, and exclusive charge on the Interest Payment Account (including the DSRA Amount), Sinking Fund Account and any permitted investment made from this account for the exclusive benefit of the Debenture Holders

Liquidity: Strong

PCMC's liquidity position remains strong with consistent revenue surplus generated y-o-y and low debt obligations with debt/revenue receipts at 7.31% in FY24. The corporation has liquid funds of ~₹5,000 crore as on March 31, 2024.

Key weaknesses

Low own-revenue sources and moderate tax collection efficiency

Own revenue as tax and non-tax revenue comprised ~50% of overall revenue receipts during last three years Tax revenue collection efficiency has also been moderate. Revenue receipts are skewed towards GST compensation receipt from the state government, constituting 41% of the revenue receipt. The corporation receives GST compensation share as stipulated in "The Maharashtra Goods and Services Tax (Compensation to The Local Authorities) Act 2017". CARE Ratings makes a note that while timely compensation is received, revenue is susceptible to delay in receipt/regulatory changes.

Assumptions/Covenants-I

- Debt service coverage ratio (DSCR) on operating surplus: DSCR will not be less than 1.25x of operating surplus (total income – total expenditure + depreciation+ Finance Charges).
- DSRA of two semi-annual coupon payments should be maintained.
- Total amount collected in escrow account shall be at least 1.25x of debt service amount annually. In case the ratio falls below 1.25x, PCMC shall not borrow further amount against cashflow(s) of the escrow account. No permission to borrow further amount(s) by PCMC shall be required, under this head, from bondholders if this condition is fulfilled.
- PCMC shall not borrow further funds against cashflow of escrow account in case there is a shortfall in contribution to debt service account and the shortfall has not been made good by PCMC.

Assumptions/Covenants-II (Proposed green bonds)

- Debt service coverage ratio (DSCR) on operating surplus: DSCR will not be less than 1.25x of operating surplus (total income – total expenditure + depreciation+ Finance Charges + other non-cash expenditures).
- DSRA of two semi-annual coupon payments should be maintained.

- Total amount collected in escrow account shall be at least 1.25x of debt service amount annually. In case the ratio falls below 1.25x, PCMC shall not borrow further amount against cashflow(s) of the escrow account. No permission to borrow further amount(s) by PCMC shall be required, under this head, from bondholders if this condition is fulfilled.
- PCMC shall not borrow further funds against cashflow of escrow account in case there is a shortfall in contribution to Escrow account, IPA and SFA and the shortfall has not been made good by PCMC.

Interest payment and principal repayment mechanism for existing bonds

T = Bond payment date

Date	Event/ employed	Measures if shortfall occurs
Interest Payment Account		
T-25	Trustees will check amount in Interest Payment Account	Intimate PCMC to make good the shortfall in interest payment account 15 days prior to interest payment date.
T-14	Trustees shall re-check amount in interest Payment Account	Trustees will trigger payment mechanism and bank will be instructed to transfer shortfall amount from DSRA to interest payment account 10 days prior to interest payment date. Withdrawal from DSRA should be deposited back in the account.
T	PCMC shall pay interest on due date	
Sinking fund		
T-25	Trustees shall check credit in sinking fund	Intimate PCMC of shortfall and PCMC shall make it good 15 days prior to redemption date
T	PCMC shall repay the principal	

Interest payment and principal repayment mechanism for proposed bonds

T = Bond payment date

Date	Event/ employed	Measures if shortfall occurs
Interest Payment Account		
T-25	Trustees will check amount in Interest Payment Account	Intimate PCMC to make good for the shortfall in interest payment account 10 days prior to interest payment date.
T-9	Trustees shall re-check amount in interest Payment Account	Trustees will trigger the payment mechanism and bank will be instructed to transfer the shortfall amount from DSRA to interest payment eight days prior to interest payment date.
T	PCMC shall pay the interest on due date	
The debenture trustee shall check the balance in the SFA at the end of each year and in case of any shortfall in the SFA, PCMC shall replenish the SFA with the necessary amount to fill the Shortfall		
Sinking fund		
T-45	Trustees shall check credit in the sinking fund	Intimate PCMC of the shortfall and PCMC shall make good the shortfall 15 days prior to redemption date.
T-14	Trustees shall re-check amount in interest Payment	The trustee shall trigger the payment mechanism and issue a final notice to the issuer. On issuance of such notice, the issuer shall fund the shortfall in SFA prior to redemption date.
T*	PCMC shall repay the principal	

*T: Date for sinking fund refers to the 12 period.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Urban Infrastructure Projects](#)

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 Maharashtra, governed by The Maharashtra Municipal Corporations Act, 1949 (amended periodically). PCMC was established on October 11, 1982, to govern the newly industrialised towns of Chinchwad, Akurdi, Pimpri, and Bhosari. Pimpri-Chinchwad is Pune's satellite city about 15 kms from Pune, India and 150 kms from Mumbai. PCMC is mainly responsible for civic administration, maintaining infrastructure facilities, and providing civic services, such as water supply, solid waste management, sewerage, education, health, and others to its citizens. Pune has been a hub for the engineering industry for over five decades and an evolving business centre, as it hosts 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)	FY23(A)	FY24(A)
Reported revenue receipts	4,245	5,417
Reported revenue surplus	1,347	2,071
Adjusted revenue surplus**	1,831	1,950
Adjusted revenue surplus/revenue receipts** (%)	38.72	36.82
Own revenue/revenue receipts (%)	45.50	45.15

A: Audited; **Adjusted for incremental debtors and excluding depreciation

Note: 'these are latest available financial results.'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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	INE0P1K24010	July 28, 2023	8.15%	July 28, 2028	200.00	CARE AA+; Stable
Bonds*	-	-	-	-	200.00	CARE AA+; Stable

*Proposed bonds

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (01-Mar-24)	1)CARE AA+; Stable (03-Mar-23) 2)CARE AA; Stable (03-Aug-22)	-
2	Bonds	LT	200.00	CARE AA+; Stable	-	-	-	-

*LT: Long term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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