Pune Municipal Corporation (Revised)

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Bonds	200.00	CARE AA+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating assigned to the bond issuance of Pune Municipal Corporation (PMC) factors in Trustee-administered structured payment mechanism (SPM) for the bonds with escrow of designated revenue collections towards debt obligations of the entity, priority of debt servicing and stipulated reserves maintained in the form sinking fund and debt service reserve account (DSRA). The rating draws comfort from the 1.25x coverage stipulated in the SPM and cashflows of PMC comfortably covering the same. PMC has been maintaining the stipulated reserves of DSRA and sinking fund in the form of fixed deposits.

The rating continues to derive strength from the entity's healthy financial profile backed by the stable growth in receipts and consistent revenue surplus over the last few years, the corporation being a self-reliant entity with ~70% overall revenue receipts for FY24 (refers to April 01 to March 31) coming from its own revenue sources. The corporation's revenue receipts grew by 19% to ₹11,207 crore in FY24 (FY23: ₹9,426 crore). The revenue surplus to revenue receipts also stood healthy at 38% (FY23: 34%). The rating also factors in PMC's importance to Maharashtra with PMC being the second-largest municipal corporation in the state. PMC continues to benefit from the strong economic base of Pune city known as an evolving business centre hosting manufacturing and automobile industries, information technology (IT), education, management, and training institutes. The corporation receives a share of goods and services tax (GST) compensation from the state government per the stipulation in "The Maharashtra Goods and Services Tax (Compensation to The Local Authorities) Act 2017". There has been consistent and timely disbursal of GST compensation to PMC by the Government of Maharashtra. The rating also continues to factor in the strong liquidity position and comfortable debt coverage metrics.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of PMC to increase revenue surplus significantly while successfully augmenting its infrastructure needs.
- Improvement in tax collection efficiency to above 90% on a sustained basis.

Negative factors

- Significant increase in debt levels impacting the liquidity profile.
- Non-receipt of government grants and dipping in revenue surplus for un-envisaged large-sized projects.
- Non-adherence to the defined SPM and/or other financial covenants of the debenture trustee deed.

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

Outlook: Stable

PMC is expected to maintain a strong financial profile with steady growth in own revenues, consistent revenue surplus generation, and maintaining a comfortable liquidity position.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited'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 gross domestic product (GDP) and the level of industrialisation is high with Pune being a hub for industrial set-ups. PMC has good infrastructure and a strong track record in terms of coverage and service delivery with ~100% coverage of water supply and 96% coverage of sewerage. CARE Ratings Limited (CARE Ratings) notes though there are shortfalls in the coverage of civic amenities provided by the corporation, it has been incurring capex for the improvement of this.

Consistent revenue surplus

The revenue receipts have witnessed continuous growth over the last few years with a gradual increase in property tax revenue and non-tax revenue components. In FY24, PMC reported a growth of 24% in adjusted revenue receipt (adjusted for incremental debtors) from ₹8,496 crore in FY23 to ₹10,516 crore in FY24. Aided by growth in revenue receipts, the corporation reported a growth of 54% in revenue surplus from ₹2,287 crore in FY23 to ₹3,516 crore in FY24. The corporation continued to report a strong surplus in the current fiscal with a surplus of ₹2,027 crore reported in H1FY25 (₹1,936 crore in H1FY24).

High share of own revenue source

The corporation derives significant revenue from its own sources with the proportion of this at 70% of the overall revenue receipts in FY24 (73% in FY23). The own revenue comprises the tax and non-tax revenue which is levied and collected by the corporation. While the own revenue share reduced since FY17 (from 92% in FY17 to 70% in FY24) post-abolishing of local body taxes with the introduction of GST, it has gradually increased (to 70% in FY24 from 64% in FY21) led by high fee income received from building permits backed by heightened real estate activity. The corporation receives GST compensation monthly from the state government in the form of grants and GST grants constituted ~24% of revenue in FY24 (23% in FY23) and the corporation has been receiving this from the government timely. The corporation is entitled to get GST compensation per the "The Maharashtra Goods and Services Tax (Compensation to The Local Authorities) Act 2017".

Trustee-administered SPM

PMC is following an SPM through the creation of an escrow account of designated revenue collections, with priority for servicing of bonds. The SPM is monitored by the debenture trustee for the bond issuance. Under the SPM, collections under the revenue heads of property tax collected shall be transferred to a separate escrow account. SPM's salient features are as follows –

i. To transfer funds collected in the escrow account to the debt service account (DSA), an amount equivalent to the defined monthly liability for servicing of debt. This includes the interest and debt repayment components.
ii. First, to build up the shortfall in the DSRA account (at all times the DSRA should be maintained as two half-yearly interest payments).
iii. Second, transfer to an interest payment account (IPA) for half-yearly interest servicing, which shall be funded monthly per the terms of the bond issue.
iv. Third, transfer to a sinking fund account (SFA) monthly, such sums as may be required by the terms of the bond issuance and shortfall in earlier contributions.

The surplus funds after meeting the minimum monthly requirement in the escrow account/DSA can thereafter be transferred to the 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 provide sufficient liquidity cushion and are also creating sinking fund reserves for the bullet payment of bonds.

Focus on asset creation

The corporation's capital expenditure is mainly incurred towards the development of civic amenities and infrastructure projects and has been steady over the years. The corporation has been consistently incurring capital expenditure of ~₹1,300-₹1,500 crore in the last few years with most capex funded through internal accruals. The capex in FY24 stood at ₹1,587 crore.

Robust financial position

PMC has a low debt burden. In FY18, the corporation raised ₹200 crore through municipal bonds for the water supply project and has not raised external borrowings since then. The corporation had gross debt outstanding at ₹200 crore as on March 31, 2024, and is net debt negative with large liquid funds maintained. With corporations reporting consistent revenue surplus and capex mostly funded through internal accruals, CARE Ratings expects the net debt to remain negative in the medium term.

Liquidity: Strong

PMC's liquidity position remains strong with the generation of consistent revenue surplus year-over-year (y-o-y) and low debt obligations with debt/revenue receipts at 1.90% in FY24. As on March 31, 2024, PMC has cash balance cash equivalents (including DSRA, ISRA and sinking funds balance) of ~₹7,100 crore.

Key weakness

Moderate collection efficiency

The overall collection efficiency of tax revenue (including arrears) has been moderate at an average of 40-45% in the last five years FY20-24. The collection efficiency has been moderate considering accumulated arrears, a large part of which is under litigation. In addition, the increase in property tax receivables is also considering PMC levying a penalty of 2% per month to the defaulters which has resulted in such a huge built-up of receivables. Though the overall collection efficiency remained low, the collection efficiency for current demand for property has remained satisfactory at 69% for FY24.

Assumptions/Covenants

- Debt service coverage ratio (DSCR) on operating surplus: DSCR will not be less than 1.5x of operating surplus (total income – total expenditure + depreciation).
- DSRA of two semi-annual coupon payments have to be maintained.
- The 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 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 further funds against the cash flow of the escrow account in case there is a shortfall in contribution to the debt service account and the shortfall has not been made good by PMC.

Interest payment and principal repayment mechanism

T = Bond payment date

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

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
Financial Ratios – Non-financial Sector
Urban Infrastructure Projects

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Public services	Urban local bodies

Established on February 15, 1950, PMC is the second-largest corporation in Maharashtra. The corporation is governed by The Maharashtra Municipal Corporations Act, 1949 (amended from time to time). PMC is mainly responsible for the city's 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 the hub of the engineering industry for over five decades and one of the evolving business centres as it hosts information technology (IT) and automotive companies. It has a coverage area of 485 sq. Km with a population of 31.32 lakh (2011 census).

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 ($)
Reported revenue receipts	9,426	11,207	4,310
Reported revenue surplus	3,217	4,207	2,027
Adjusted revenue surplus**	2,287	3,516	2,027
Adjusted revenue surplus/Revenue receipts** (%)	27	33	47
Own revenue/Revenue receipts (%)	69	70	63

A: Audited Prov: Provisional
**Adjusted for incremental debtors and excluding depreciation.
$H1FY25 financial is on a receipt basis.
Note: 'The above results are the latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument/facility: 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds	INE807X08017	June 20, 2017	7.59%	June 2027	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 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 (03-Jan-24)	1)CARE AA+; Stable (04-Jan-23)	1)CARE AA+; Stable (05-Jan-22)

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: Not applicable

Note on complexity levels of 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by methodologies congruent with international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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