Pune Municipal Corporation – Municipal Bonds

CMA Ulka Kalaskar
Chief Accounts & Finance Officer
Pune Municipal Corporation
Pune City - Snapshot

8th – Most populous city of India

324 sq. km – Area under PMC (recently 11 villages has been merged)

4 million – Population of PMC

46,17,773 – Vehicles registered

500–600 per day – New cars registered

69 billion USD – GDP of Pune city (5th highest in country)
# Pune City - Strengths

<table>
<thead>
<tr>
<th>Economic strength</th>
<th>Presence of top IT/ITES companies – 2\textsuperscript{nd} Largest center for IT / ITES exports in 2015</th>
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<td>Strong manufacturing base across auto and engineering</td>
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<td>One of the top 5 destinations for Foreign Direct Investment</td>
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<td>Successful startup destination with more than 400 start ups</td>
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<td>With three rivers in the city, potential for developing as a riverfront city</td>
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<td>Graduate workforce &gt;30% ideal for IT/ITES and high technology sectors</td>
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<td>Cultural and natural strengths</td>
<td>Center of the Maratha Empire in the 18th century</td>
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<td>Cultural capital of Maharashtra</td>
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**Municipal Bonds In India**

What is Municipal Bonds?

- Municipal bonds are bonds issued by urban local bodies - municipal bodies and municipal corporations (entities owned by municipal bodies) to raise money for financing specific infrastructure projects.
- These bonds are attracting attention as the ULBs urgently need money to finance infrastructural expenditure. Especially for smart cities and other urban development projects.
- In 2015, SEBI made fresh guidelines for the issue of municipal bonds for enabling the ULBs to mobilize money.
India Ratings and Research (Ind-Ra) has affirmed Pune Municipal Corporation’s (PMC) Long-Term Issuer Rating at ‘IND AA+’. The Outlook is Stable.

CARE assigns AA+ rating to Pune Municipal Corporation’s (PMC) with stable Outlook.
Higher own revenue sources credit positive

- The proportion of PMC’s own revenue in the total revenue income averaged 87.57% during FY12-FY17. The share of grants in the total revenue income remained consistently below 10% during the period. Property, water and local body tax collections were the key drivers of tax collections during the period.

Consistent Revenue Surplus

- PMC’s financial performance was robust during FY12-FY17, indicated by consistent revenue surplus. Its operating ratio (revenue expenditure/revenue income) remained in the range of 0.50x-0.70x during the period. Its operating revenue surplus was 25%-48% of the operating revenue income during FY12-FY17.

Comfortable debt & liquidity position

- PMC’s debt payment/total revenue was 0.26% in FY17 (FY16: 0.37%), indicating the comfortable credit profile of the corporation. Its debt service coverage ratio declined to 9.81x in FY17 from 47.98x in FY16 due to the pre-payment of loans.
PMC Credit Rating – Key rating drivers (2/2)

**Water supply project**

- The key objective of the project is to provide safe and equitable 24×7 metered water to the entire city. PMC has utilized INR41.27 million of the bond proceeds so far and invested the remaining proceeds in a fixed deposit. The construction of reservoirs component of the project, which is underway, is being funded through Atal Mission for Rejuvenation and Urban Transformation grants. The balance amount from the bond proceeds will be used to fund the pipeline and metering works, which are likely to commence from November 2018. PMC targets to complete the water supply project by the end of 2022.

**Adherence to servicing mechanism**

- PMC has a structured payment mechanism in place for the timely servicing of both interest and principal. The mechanism includes an escrow account (where property tax collections are parked), a debt service reserve account, an interest payment account and a sinking fund account. All accounts (escrow, debt service reserve, interest payment and sinking fund) are monitored by the debenture trustee. Property tax due to PMC is collected and deposited every month in a separate no-lien escrow account for the debt servicing of bonds.

**Conditions on further borrowing**

- The ratings are supported by the conditions pertaining to future borrowings by PMC. The total amount collected in the escrow account shall have to be at least 1.25x of the debt servicing requirement on an annual basis.
Advantages of Municipal Bonds

1. Issuing Municipal Bond can fix the liability for the corporation for entire tenor and help corporation to plan other project with better clarity.

2. Municipal bonds have advantages in terms of the size of borrowing and the maturity period, often 10 to 20 years.

3. With appropriately structured and credit enhancement structure municipal bonds can be issued at interest costs that are lower than the risk return profile of individual ULBs.

4. In order to secure best of the rating from the credit rating agency ULBs will make an effort to have fiscal discipline, improved accounting and uniformity in financial reporting.

5. Longer term resource mobilization, which is suitable for long term infrastructure projects.
Pune is one of the few big cities in the country which is not water scarce in terms of per capita availability.

Highly inequitable distribution of available water, with some areas receiving >20 hours, whereas others are getting less than 2 hours of water supply per day.

The 24X7 equitable water supply project will have following major features:

- Construction of reservoirs
- Rehabilitation of water lines in the city
- AMR metering
  - Minimal human intervention and error in billing
  - Avoids measurement of the reversed flow
  - AMR software computes water balance at DMA level, useful in identifying losses
- SCADA system
  - The data collected can be processed and analyzed in real-time.
  - Assists in proper monitoring of the system.
- Computerized billing
  - Efficient database management and retrieval
  - Useful MIS reports for decision making
As per the SEBI Regulations, 2015, a municipality or a Corporate Municipal Entity (CME) should meet certain conditions such as:

1. **No Negative Net Worth**
   The ULB should not have negative net worth in any of three immediately preceding financial years.

2. **Non-Default**
   The municipality should not have defaulted in repayment of debt securities or loans obtained from banks or financial institutions during the last 365 days.

3. **No Wilful Defaulter**
   The corporate municipal entity, its promoter, group company or director(s), should not have been named in the list of the willful defaulters published by the RBI or should not have defaulted of payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any.
**SEBI Guidelines on municipal bonds: Which ULB can issue Municipal bonds? (2/2)**

4 Mandatory Ratings

SEBI instructs that municipal bonds should have mandatory ratings above investment grade for public issue. Financial institutions including banks should be appointed as monetary agencies.

5 Exemptions received from SEBI

Audited financial results for immediate preceding 3 years were asked against which following exemption was given:-

Any issuer proposing to issue debt securities, in FY 2017-18 shall submit:- Audited accounts for the FY 2013-14, 2014-15 and 2015-16 in the information memorandum to the stock exchanges,.
Challenges while Issuing Municipal Bonds

Standardizing the Debt Management across PMC’s internal Departments

Adherence to guidelines issued by SEBI for raising bonds

Upgrading the credit rating from AA to AA+

Completion of the entire activity within the stipulated timelines (Mar to June)
Process of Issuing Municipal Bonds

- **Phase - I**
  - Appointment of Intermediaries

- **Phase - II**
  - Preparation of Information Memorandum and Structuring of the Instrument

- **Phase - III**
  - Finalization of other intermediaries

- **Phase - IV**
  - Launch of the issue/bidding process
Phase I – Appointment of Intermediaries

- Appointment of Merchant banker cum technical advisor
- Appointment of Rating Agencies for the issue
- Appointment of Registrar & Transfer Agent
- Appointment of Trustee as Debenture Trustee
Phase II- Preparation of Information Memorandum and Structuring of the Instrument

- Collection of the data for the IM preparation as per the SEBI guidelines
- Structuring of the bond on the basis of the Project
- Structuring of the repayment mechanism
- Finalization of cash flow mechanism
- Preparation of the draft information memorandum as per SEBI Regulations
**Phase III - Finalization of other intermediaries**

- Creation of a separate escrow account for servicing of a bond.
- Obtain Rating letter and Rating rationale from the selected Rating agencies.
- Signing of the Tri-partite agreement between NSDL & CDSL, Registrar and Issuer.
- Appointment of Bankers to the Issue and opening of Bank Account.
Phase- IV Launch of the issue/bidding process

- Book running (collation of bids submitted)
- Submission of required documents by the issuer to exchange and obtain the in principle approval for listing
- Issue Launch / Opening
- Allotment of Bonds
- Payment of stamp duty and creation of security
- Listing of Bonds
Investors meet with Investors from Pension fund, Mutual fund, Insurance companies & Banks

Resolution passed by PMC General Body

07 Jun 2017

15 Jun 2017

Issuance of GR by State Govt. of Maharashtra

12 Jun 2017

19 Jun 2017

Issuance of Bonds

19 Jun 2017

Listing on Bombay Stock Exchange

22 Jun 2017
Pune Municipal Corporation became the first Municipal Corporation to raise bonds in India after SEBI’s new guidelines.

- **200 Cr**
  - Raised in June 2017

- **6 times**
  - Issue oversubscribed

- **7.59% p.a**
  - Coupon rate

- **10 Years**
  - Repayment period

As per Government of India notification dated 23 March 2018 - Special incentive is issued to PMC amounting to Rs.13 Cr. for every 100 Cr. of bonds issued during the year 2017-18, 2018-19.
**Disclosures and Compliance requirements (1/2)**

According to Circular issued by SEBI in June 2017 for issuance of Municipal Bonds

<table>
<thead>
<tr>
<th>Period</th>
<th>Compliance Task</th>
<th>To whom</th>
</tr>
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<tbody>
<tr>
<td>Yearly</td>
<td>• Annual Audited financial – results (within 6 months from the end of Financial Year)</td>
<td>Bombay Stock Exchange &amp; Trustee to Municipal Bonds.</td>
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<tr>
<td>Half yearly</td>
<td>• Unaudited financial results with 3 months from end of the half year&lt;br&gt;• Utilization of Funds – Certificates from Chartered Accountant&lt;br&gt;• Important ratios like Debt Equity Ratios, Interest service coverage ratio etc.&lt;br&gt;• Maintenance of Asset cover, Credit enhancement facilities and Investors grievances and redressal&lt;br&gt;• Bank certificates to timely servicing of Debts (CA Certificates)</td>
<td>Bombay Stock Exchange &amp; Trustee to Municipal Bonds.</td>
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Disclosures and Compliance requirements (2/2)

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<td>Quarterly</td>
<td>• Maintain 100% asset cover sufficient to discharge principal amount.</td>
<td>Bombay Stock Exchange &amp; Trustee to Municipal Bonds.</td>
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<td></td>
<td>• As per regulation 16 of listing obligation disclosure regulation (LODR)</td>
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<tr>
<td>Periodic</td>
<td>• Certificate stating timely payment of Interest or Principal</td>
<td>Bombay Stock Exchange &amp; Trustee to Municipal Bonds.</td>
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<td>• Fix up of record debt for payment of interest to the holder of debt.</td>
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<td>Continuous</td>
<td>• Registration on SCORES platform of SEBI and continuous monitoring of grievances.</td>
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<td></td>
<td>• Appointment of compliance officer to ensure compliance with SEBI request to continuous disclosure.</td>
<td>SEBI</td>
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Snapshots - Listing on Stock Exchange
Rewards & Recognitions

Skoch Order of Merit “Gold”
Award – June, 2018

Token of Appreciation to
Honorary Members
Thanks!!!