Pune's Pathbreaking Success in the Municipal Bond Market: *A Case Study*

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Introduction

The United Nations (UN) report titled, 'World Urbanization Prospects 2014'* projects that India will add 404 million dwellers to its urban areas between 2014 and 2050. Another UN report titled, 'The World's Cities in 2016'** projects that by 2030, India will have 7 cities with a population of more than 10 million. In this context, a faster, more inclusive and sustainable growth trajectory can be achieved by our country only by reimagining all elements of our urban development ecosystem.

Presently, India is witnessing a dynamic phase in the story of its urban transformation under the 'Smart Cities Mission' launched by the Honourable Prime Minister. The Ministry of Housing and Urban Affairs (Government of India) has also focused its efforts towards achieving high levels of efficiency and equity in the utilization of financial resources for infrastructure development. Our Urban Local Bodies (ULBs) are proactively adopting the holistic paradigm of a systems-based approach in decision making. They are working towards augmenting their financial autonomy by developing data-driven and market-based financial instruments to attract investments into their development agendas.

As the Municipal Commissioner, I am grateful to the enthusiastic and informed citizenry of Pune for their continuous support in implementing several ambitious and pathbreaking projects and policies aimed at making Pune the fountainhead of transformational ideas in the urban development ecosphere in India. As a testament to these initiatives, Pune has emerged the best governed city and the

* United Nations, Department of Economic and Social Affairs, Population Division (2014). *World Urbanization Prospects: The 2014 Revision, Highlights (ST/ESA/SER.A/352).*

** United Nations, Department of Economic and Social Affairs, Population Division (2016). The World's Cities in 2016 - Data Booklet (ST/ESA/SER.A/392).

most equipped to deliver urban reforms in an all-India survey by Janaagraha Centre for Citizenship and Democracy, in the 5th edition of its Annual Survey of India's City-Systems (ASICS) report 2017.

On June 22nd, 2017, Pune became the first city in the country to issue municipal bonds since the publication of 'Issue and Listing of Debt Securities by Municipalities Regulations, 2015' by Securities and Exchange Board of India (SEBI). Together with my colleagues at Pune Municipal Corporation, we developed an innovative solution to the complex issue of establishing synergies in the objectives of the financial markets and ULBs. I believe that introduction of such financial instruments across ULBs in India may prompt them to become prudent and disciplined in the management of their financial resources in their journeys towards becoming more 'liveable' cities. The fact that the exercise of 'credit rating' of cities and towns is gaining momentum in the country is a welcome development in this direction.

This book is an attempt to consolidate and share Pune Municipal Corporation's experiences and learnings from one of its seminal endeavors, namely, the launch of India's largest municipal bonds program envisaged to continue for the next 15 years. Through this publication, I take the opportunity to invite all relevant stakeholders from the private sector, academia, civil society, international organizations and the citizenry to join hands with the Government of India in creating an ecosystem that enables ULBs and financial markets to become 'natural partners' towards making India a developed country.

Kunal Kumar

Commissioner, Pune Municipal Corporation

Preface

Pune is amongst the few cities in the world to acquire for itself several noteworthy accolades like 'Oxford of the East', 'Start-Up City', 'Manufacturing Hub', 'Queen of the Deccan', 'Pensioners' Paradise', 'Cultural Capital of Maharashtra' etc. This phenomenon underscores the fact that the city has provided a welcoming and conducive ecosystem for all aspects of human endeavors. Building on these strengths, Pune now aims to transform itself into 'The Most Liveable City in India' under the framework provided by the 'Smart Cities Mission' envisioned by the Hon. Prime Minister of India.

Pune's rapid geographic and demographic growth entails a big spike in the demand for water. In order to future-proof the city from a potential water crisis, Pune Municipal Corporation (PMC) proactively conceived the ambitious and futuristic '24x7 Water Project'.

The main objectives of this project are as follows:

- Safe and Equitable water supply to all citizens for the next 30 years
- Distribution of water 24 hours every day
- Reduction in the amounts of water losses and 'Non-revenue Water'
- Ensuring Technological, Economical & Environmental sustainability of the water supply service

The above objectives are to be achieved by adopting the following approach:

- Introducing universal smart-metering of water consumption and application of water charges based on the effective water consumption by the consumer
- Conducting water audits by setting bulk flow meters in all stages of the water supply system
- Introducing a SCADA system for timely and effective control of system operations, water quality monitoring and achieving high service level benchmarks

- Undertaking systematic leakage detection and repair activity to bring down the level of 'Non Revenue Water' in the distribution system to the desired level of 15% [2]
- Use of GIS based technologies to integrate geo-spatial and real time data
- Deploying innovative and IEC (Information, Education and Communication) strategies in print and digital media to proactively engage with all citizens

In addition to the '24x7 Water Project' which primarily focuses on the demand & distribution side of the value chain, PMC has undertaken important interventions aimed at increasing the supply & availability of potable water to PMC through projects like 'Bhama-Askhed' (ensuring additional 200 MLD supply), construction raw water conduits and water treatment plants.

PMC has supported the above-mentioned infrastructure initiatives with an elaborate techno-financial-legal policy framework. It has unanimously adopted several progressive and citizen-centric guidelines and policies on adherence to service level benchmarks, stakeholder consultations, telescopic water tariffs and project financing and debt servicing. An example of such progressive policies being put into action is the issue of PMC's municipal bonds to finance the above-mentioned project. PMC's '24x7 Water Project' also provides the city a golden opportunity to put in place reliable, affordable and safe high-speed optic fiber cables (OFC) along with the underground pipe network. This novel utility service has the potential of becoming a robust and reliable revenue stream for PMC as the city leapfrogs into the digital age.

On June 22nd, 2017, Pune added a new chapter in the history of the country's urban transformation. Based on the Prime Minister's vision of financially empowering urban local bodies, it launched India's largest Municipal Bonds program (approx. INR 2264 crores) at the Bombay Stock Exchange, Mumbai. The event was graced by Shri M. Venkaiah Naidu (incumbent Vice President of India and former Minister of Urban Development; Minister of Housing and Urban Poverty Alleviation; and Minister of Information and Broadcasting), Mr. Devendra Fadnavis (Chief Minister of Maharashtra), Mr. Arjun Ram Meghwal (incumbent Union Minister of State in Ministry of Water Resources, River Development & Ganga Rejuvenation and Parliamentary Affairs Government of India and former Union Minister of State, Ministry of Finance; and Ministry of Corporate Affairs) and other senior ministers and officials. This was also the first issuance since the publication of 'Issue and Listing of Debt Securities by Municipalities Regulations, 2015' by Securities and Exchange Board of India (SEBI).

Recognizing the fact that Municipal Bonds can be a useful tool to meet the city's growing infrastructure-financing needs, Pune Municipal Corporation (PMC) proactively worked with Government of Maharashtra (GoM), Union Ministry of Finance (MoF), Union Ministry of Urban Development (MoUD), SEBI, SBI Capital Markets Ltd. (SBI Caps) and advisors from the US Department of Treasury's Office of Technical Assistance (OTA) in developing this new financial asset class. The Prime Minister, while inaugurating the National Institute of Securities Markets in Navi Mumbai on December 24th, 2016, urged SEBI and Department of Economic Affairs to ensure that at least 10 cities in India issue municipal bonds within one year in the context of the 'Smart Cities Mission'. Additionally, the Union Government has proposed to give a compensation of 2% interest subsidy on the total size of the bond issue. Both these events have been pivotal in providing an impetus to PMC's Municipal Bonds program.

PMC raised bonds amounting to INR 200 crores during the first tranche of its 5-year bond program (approx. INR 2264 crores). PMC's Standing Committee and General Body approved a consumption-based telescopic water tariff structure for the next 30 years. This policy will progressively increase the revenues generated from the '24x7 Water Project' leading towards self-sustenance. Additionally, as a part of the structured escrow payment mechanism, a portion of PMC's Property Tax has also been pledged for the debt servicing of the bond program. As per the financial prudence prevailing at different points in time in the future, while simultaneously adhering to the relevant regulatory framework, the bonds may also be partly/fully paid from PMC's several revenue sources. On June 12th, 2017, GoM gave its approval for PMC's bond program.

Additionally, PMC was rated as 'IND AA+/Stable Outlook' by India Ratings and 'CARE AA+/ Stable' for the bond issue by CARE Ratings. The ratings provide an extremely positive assessment of PMC as a bond issuer and give an assurance to investors that the quality of their investment is amongst the best in category. PMC has adopted double entry accounting system under National Municipal Accounting Manual (NMAM) since 2006-2007. With inputs from the US Department of Treasury's Office of Technical Assistance (OTA), it completed an exhaustive 'Debt Capacity Analysis' based on the framework created by Government Finance Officers' Association (US and Canada). PMC can now gauge the approximate amount of debt it can sustain in the future. Using this and several other analyses, PMC prepared a 'Debt Management Policy' to proactively elaborate a roadmap for sustainably servicing its debt in the long run. The setting up of structured escrow mechanisms and appointments of intermediaries to the bond issue (as per SEBI guidelines) was completed. PMC's Municipal Bonds received a positive response from potential investors as they enthusiastically participated in the road show. The issue was over-subscribed by about 6 times. ICICI Prudential Life Insurance Company Ltd. and Bank of Maharashtra emerged as winners in the initial bidding process and quoted an aggressive coupon rate of 7.59%.

The city's glorious journey is based on the twin pillars of its proactive citizenry and the consistent visionary leadership it has received over time. Pune now looks forward to building onto its strengths by setting new benchmarks of urban development in consonance with the 'Smart Cities Mission'. With the issuance of its municipal bonds, Pune is all set to embark on an even faster, equitable and sustainable growth trajectory for the well-being of its citizens.

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- SBI CAPITAL MARKETS LTD.

PARTNERS

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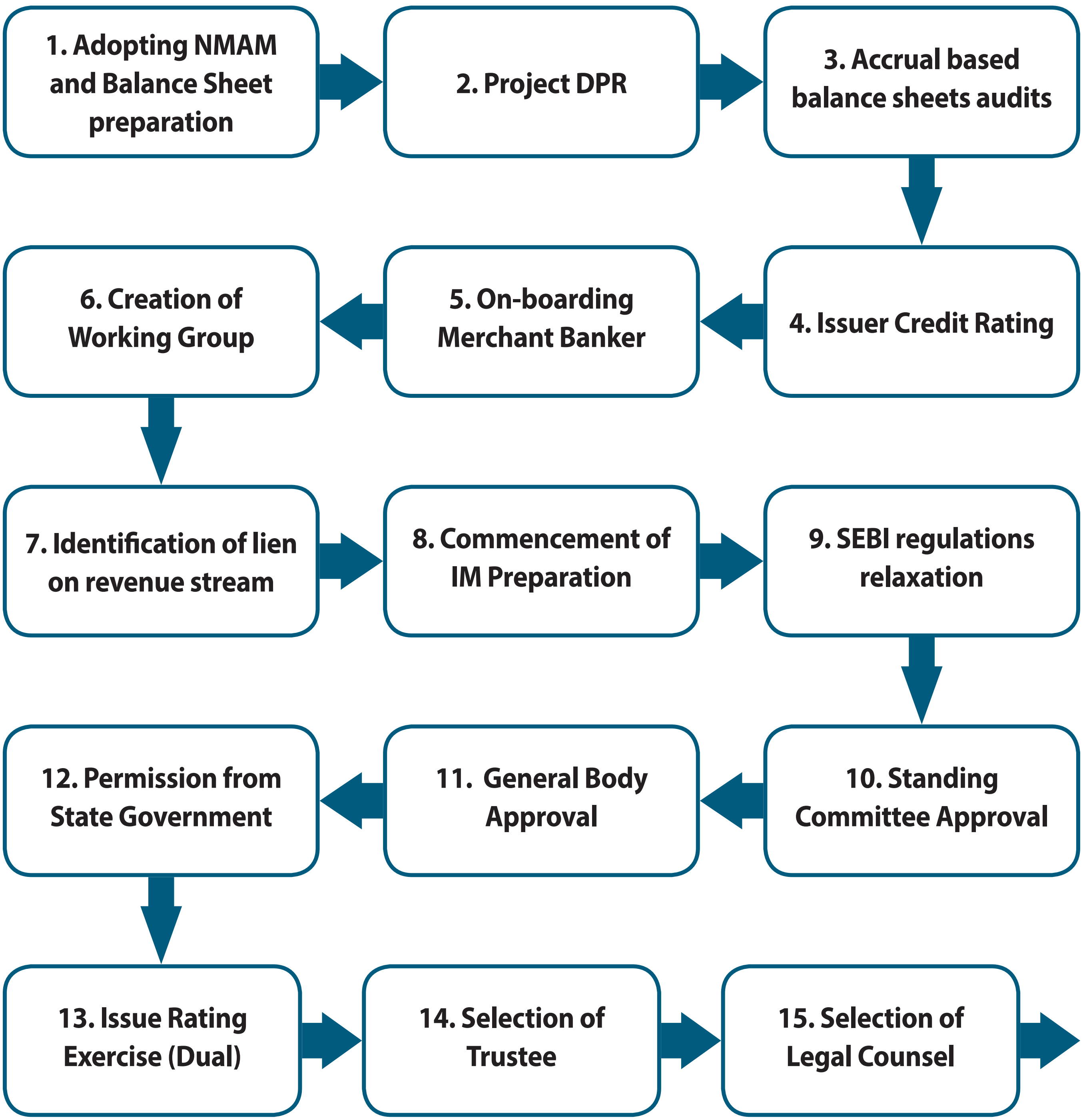
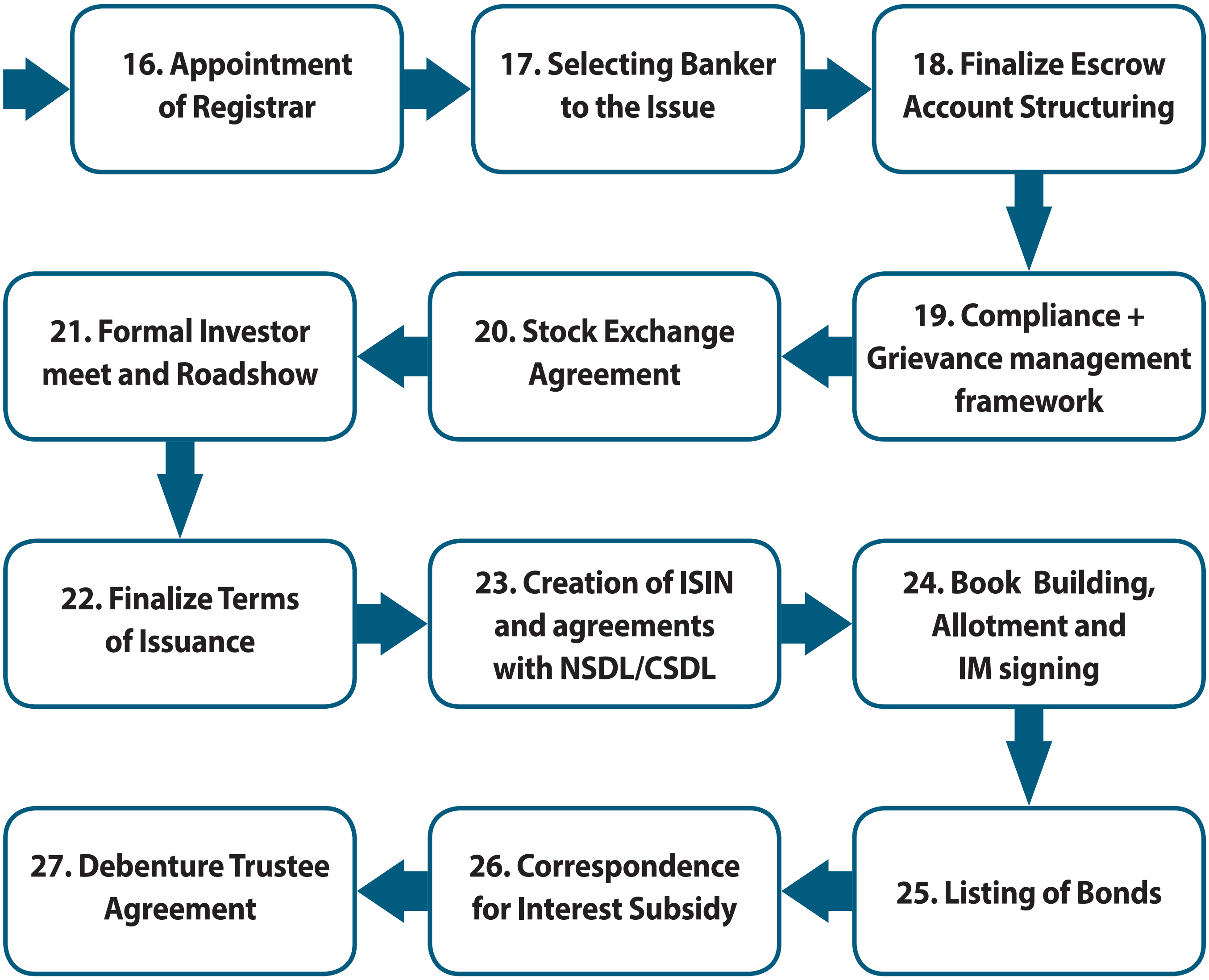
Pune's Municipal Bonds Issuance Process - Summary




16. Appointment of Registrar
17. Selecting Banker to the Issue
18. Finalize Escrow Account Structuring
19. Compliance + Grievance management framework
20. Stock Exchange Agreement
21. Formal Investor meet and Roadshow
22. Finalize Terms of Issuance
23. Creation of ISIN and agreements with NSDL/CSDL
24. Book Building, Allotment and IM signing
25. Listing of Bonds
26. Correspondence for Interest Subsidy
27. Debenture Trustee Agreement

Indicative Gantt Chart - Bond Issue Process

Disclaimer: This Gantt chart is for indicative purpose only.

TERMINOLOGY

While we have attempted to provide a list of relevant definitions, readers are requested to refer to the documents mentioned in the Reference Section of this book and other Government sources for further clarification of the terms used.

Adverse Effect means an adverse effect on:

(a) the, condition (financial or otherwise), operations, performance, properties, assets or prospects of the Issuer;

(b) the ability of the Issuer to perform its obligations under any Transaction Document; or

(c) the validity, legality or enforceability of any Transaction Document; or

(d) the rights or remedies of the Trustee/any Debenture Holder/any Beneficial Owner under any Transaction Document.

Amounts Due shall mean in relation to the Debentures, all Interest due and payable, Default Interest (defined below), and prepayment penalty (if any) payable in relation to the Debentures, costs (including legal costs on full indemnity basis), charges, expenses, commissions, fees (including the remuneration of the Trustee and expenses payable to the Trustee, all taxes, dues, duties, levies, cess including stamp duty, registration and other fees and charges payable by the Issuer with respect to or on the Transaction Documents (defined below) including those payable for the negotiation, preparation, execution, registration, preservation, protection and enforcement of the Transaction Documents, as may be outstanding/payable at any given date, excluding the Redemption Amount of the Debentures and wherever the context may require shall mean the aggregate of aforementioned amounts in respect of the Debentures.

Applicable Law shall mean any Indian statute, law, acts of the state legislature or Indian Parliament, regulation, ordinance, rule, judgment, order, decree, bye-laws, clearances, directives, guidelines, policy requirement, or any governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration having the force of law in India of any of the foregoing, by any authority under law having jurisdiction over the matter in question, whether in effect as of the date of this Deed or thereafter.

Beneficial Owner(s)/Debenture Holder(s) means the persons/bodies, who are, for the time being, owners of the Debentures, holding Debentures in electronic (dematerialised/demat) form, whose names appear in the list of beneficial owner(s) given/held by the Depositories viz., NSDL or CDSL as the case may be.

Business Day means a day on which commercial banks are open for business in the city of Pune and the days when the money market is functioning in Mumbai.

CDSL means Central Depository Securities (India) Limited.

Chief Accounts and Finance Officer (CAFO) - It is a position in an urban local body that oversees its accounts and financial departments.

Debentures shall mean the Debentures issued and allotted in demat form to the Beneficial Owner(s) thereof together with the benefit of the Financial Covenants and conditions endorsed thereon comprising of 2000 (two thousand) unsecured, rated, listed, taxable, non-convertible, redeemable bonds in the nature of debentures each having a face value of INR 10,00,000/- (Indian Rupees Ten lakhs only) aggregating to INR 200,00,00,000/- (Indian Rupees Two hundred crore only).

Debt shall mean a bond or loan raised for the execution of a permanent public work or infrastructure.

Debt Capacity considers the level of debt service (and from that, what implied quantum of debt) that can be comfortably serviced by adjusted operating surplus, by pledged revenues, and by monthly cumulative cash balances, as further defined in the debt capacity analysis section below.

Default Interest shall mean interest payable as mentioned in the relevant clauses of this Deed, which shall be charged over and above the Interest, on all amounts outstanding and due and payable on any given date in accordance with this Deed, from the date of occurrence of Event of Default till the date of payment of the outstanding Redemption Amount and Amounts Due.

DTA shall mean the Debenture Trustee Agreement dated June 19th, 2017, executed between the Issuer and the Trustee.

Escrow Mechanism shall mean the management of the flow of funds deposited by the obligor for servicing its debt obligations in an independent bank account created for this purpose.

Exchange shall mean and include the Stock Exchange on which the Debentures have been listed.

Fee Letter(s) means the letter(s) issued by the Trustee to the Issuer from time to time setting out the fees payable by the Issuer to the Trustee as consideration for performance of its functions under this Deed and other Transaction Documents.

Final Discharge Date shall mean the date on which the Redemption Amount and Amounts Due in respect of the Debentures has been fully and irrevocably paid or discharged as per the terms of the Transaction Documents, to the satisfaction of the Trustee.

Financial Covenants and Conditions

means the covenants and conditions on the part of the Issuer to be observed and performed as set out in the First Schedule hereunder written and as the same may from time to time, be modified in accordance with these presents.

Financial Indebtedness shall mean any indebtedness for or in respect of:

(a) monies borrowed or debit balances at banks and other financial institutions; or

(b) any debenture, debenture note, loan or other instruments of debt; or

(c) any acceptance or documentary credit; or

(d) receivables sold or discounted (otherwise than on a non-recourse basis); or

(e) the acquisition cost of any asset to the extent payable before or after the time of acquisition or possession by that party liable where the advance or deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset; or

(f) any lease entered into primarily as a method of raising finance or financing the acquisition of the asset leased except as per the policy approved by the appropriate authority from time to time; or

(g) any currency swap or interest swap, cap or other arrangement or any other derivative instrument except as per the policy approved by the appropriate authority from time to time; or

(h) any amount raised under any other transaction having the commercial effect of a borrowing or raising of money except as per the policy approved by the appropriate authority from time to time; or

(i) any guarantee, indemnity or similar assurance against financial loss of any person except as per the policy approved by the appropriate authority from time to time.

General Body - It is a statutory body under the Maharashtra Municipal Corporation Act consisting of elected corporators and is the apex legislative body of an urban local body.

General Obligation Bond shall mean a debt security where principal and interest are serviced through tax proceeds of the municipality; but without a defined security; as defined under the SEBI Municipal Bond Guidelines.

Information Memorandum shall mean the information document circulated by the Issuer to the Investors setting out information regarding the Issuer and the Debentures.

Inter-creditor Agreement – The agreement between bond holders and commercial banks that governs the priority and preference of debt service payments in the event that the municipality has bonds and/or commercial bank loans outstanding that have different liens on the same pledged revenue(s).

Interest shall mean interest payable on the Debentures at 7.59%, calculated on an annual basis and which shall be payable bi-annually, on the respective interest payment dates.

Municipal Commissioner - It is a statutory position under the Maharashtra Municipal Corporations Act[4] that heads the administrative wing of an urban local body.

NSDL means National Securities Depository Limited.

Pari-Passu shall mean a practice where the obligor will treat its obligations equally and manage them without any display of preference.

Person shall mean an individual, partnership firm, proprietorship firm, HUF, society, trust, limited liability partnership, joint venture or other entity or a government or any political subdivision or agency thereof and any other body, whether incorporated or unincorporated.

Private Placement Issue shall mean any offer of debt securities or invitation to subscribe to debt securities to a select group of persons by a municipality through issue of a private placement offer letter, as defined under the SEBI Municipal Bond Guidelines[3].

Public Issue shall mean an offer or invitation by the municipality to the public to subscribe to the debt securities, as defined under the SEBI Municipal Bond Guidelines[3].

Redemption Amount shall mean the Subscription Amount and Interest payable on the Final Discharge Date in relation to the Debentures.

Repay shall include **Redemption** and vice versa and repaid, repayable, repayment, redeemed, redeemable and redemption shall be construed accordingly.

Revenue Bond shall mean debt securities which are serviced by revenues from one or more projects; or which are secured by an earmarked or dedicated revenue stream (taxes and/or user fees), as defined under the SEBI Municipal Bond Guidelines[3].

SEBI means Securities and Exchange Board of India.

SEBI Guidelines shall include the following guideline(s)/regulation(s) (as amended from time to time) issued by SEBI and any other guidelines/regulations that may be issued by SEBI from time to time:

(a) SEBI (Debenture Trustee) Regulations, 1993; and

(b) SEBI (Issue and Listing of Debt Securities by Municipalities Regulations) 2015

SEBI Municipal Bond Guidelines shall mean the Securities and Exchange Board of India (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015.

Standing Committee – It is a statutory body under the Maharashtra Municipal Corporations Act[4] consisting of elected corporators and empowered to approve all financial matters of an urban local body.

Tripartite Agreement shall mean the

agreement dated June 19th, 2017, signed between the Issuer, the Trustees and the Escrow Banker (as defined under the Tripartite Agreement) by virtue of which the Issuer has appointed the Escrow Banker to act as the banker for the proposed repayment structure mechanism with respect to the Debentures.

1

Adoption of National Municipal Accounting Manual by Pune Municipal Corporation

The National Municipal Accounting Manual (NMAM)[1], published in December 2004 by Ministry of Urban Development (MoUD), is an important initiative in reforming urban local body accounting in India. In order to develop coherence in national level perspectives of reforms in municipal finance and financial management with that of the various state governments and urban local bodies, this generic framework was recommended[1].

Pune Municipal Corporation (PMC) was at the forefront of adopting this reform. It started preparing its financial statements under the *accrual based double entry accounting system* with the opening balance sheet of FY 2006-07. These have been prepared by PMC with assistance of an independent third party chartered accountant.

Case 1 : Financial statements are already prepared before audit:

Here, the financial statements prepared already bear signatures of the CAFO and Commissioner. They are then audited by a third party auditor.

Case 2 : Financial statements are concurrently prepared along with audit:

Here, the financial statements are prepared and audited simultaneously. They are signed by the Chief Accounts and Finance Officer, Commissioner and Chartered Accountant and the Auditor's involvement is on a continuous basis.

It must be kept in mind that the above financial statements are prepared over and above the receipts and payments statement (cash basis) that the PMC prepares every year during its annual budget process. These statements are then audited by the Municipal Chief Auditor (MCA).

The adherence by PMC to NMAM since its introduction and adoption by the Government of Maharashtra (GoM) provided it a headstart in the bond issue process when compared to most other urban local bodies in the country. Other ULBs may also follow other best practices as per applicable accounting standards of Institute of Chartered Accountants of India (ICAI).

The financial statements are regularly published by PMC on its official website www.pmc.gov.in

2

Preparation of '24x7 Water' Supply Project's detailed report

Pune's rapid geographic and demographic growth entails a big spike in the demand for water. In order to future-proof the city from a potential situation of water crisis, Pune Municipal Corporation (PMC) proactively conceived the ambitious and futuristic '24x7 Water Project'. The main objectives of the project are as follows:

- To prepare capacity in the city to provide clean, safe and equitable supply of water to the entire population of Pune for the next three decades
- To ensure day-long supply of water on all days
- To improve efficiency of the water utility system by reducing the level of water losses and non-revenue water
- To ensure that a technologically, economically and environmentally sustainable water supply service is provided to the city

This project aims to address important problems of the water distribution system currently existing in Pune like variation in quantity and pressure of water supply across the various parts of the city, irrational use of water, non-revenue water, unregistered and illegal water connections, low storage capacity of service reservoirs etc. Some of the measures taken to address these challenges are introduction of universal volumetric based metering of water, extensive application of water audits by introducing bulk flow meters, introduction of SCADA, completion of a systematically planned leakage and repair activity of the water network, augmentation of capacity of existing and proposed dams etc.

The water demand is estimated for the next three decades (upto year 2047) based on the population growth projections. The number of water treatment plants, pumping stations, and storage tanks required by the city are then arrived at. The city has been divided into 6 supply areas[2] and the transmission and distribution network is accordingly proposed to be revamped. The entire project is divided into various phases and will be implemented accordingly.

The cost of the project is estimated to be about INR 2818 crores. The detailed breakdown of the costs, the social and environmental impacts, proposed strategy for implementation, financial viability calculations of the project, can be found in the detailed project report[2] titled *Water Supply System for Pune City - Detailed Project Report,* December 2015, prepared by Studio Galli Ingegneria (SGI) and submitted to PMC. Also, the General Body of PMC (GB) accepted a telescopic tariff policy for water supplied by PMC through a resolution (No. 809 dated: February 16th, 2016) to improve the financial viability of the project.

3

Credit Rating

PMC has adopted to undergo a credit rating exercise since the introduction of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) as per the mission guidelines issued by the MoUD. The adoption of NMAM[1] also facilitated this process. The rating exercise is being done by India Ratings. In 2016, it upgraded PMC's long term issuer rating to "IND AA+" with a stable outlook. The key drivers for these ratings were higher reliance on own revenue resources, consistent and growing revenue surplus, comfortable debt position, relatively limited impact of Local Body Tax abolition, efficient coverage of civic services like water and sanitation against the service level benchmarks set by MoUD for Urban Local Body (ULBs)[5].

Thus, PMC is amongst the highest rated urban local bodies in the country. This gave an assurance to the potential investors in PMC's municipal bonds that their investments would be best in class. PMC also underwent an exercise of dual ratings for its bond issue. India Ratings has assigned Pune Municipal Corporation's (PMC) non-convertible debentures (NCDs) worth INR 200 crores issued with a coupon rate of 7.59% and maturity period of 10 years a final rating of 'IND AA+' with a 'Stable' outlook. The frequency of interest payment for these bonds is semi-annual (June 20th and December 20th of every year) and the principal will be a bullet repayment[6]. Similarly, CARE Ratings has assigned the above mentioned issue as 'CARE AA+' with 'Stable' outlook.

The key drivers for these issue ratings were the structured payment mechanism put in place for the timely servicing of both interest and principal, creation of a sinking fund account, safety preconditions on further borrowings by PMC in case of not adherence to debt servicing requirements, high reliance on PMC's own revenue sources, consistent and growing revenue surplus in a city with a strong economic base, sustained infrastructure spending aimed at equitable economic development of its citizens etc. PMC is also putting in place significant efforts to improve the efficiency of tax collection even further[5,6]. This is an effort to improve upon the existing rating and to maintain it in the future.

4

Creation of a Working Group

The '24x7 Water' supply project is one of the most elaborate, multidisciplinary and novel endeavors undertaken by PMC in its history. The project also aims to achieve very high service level benchmarks. Hence, in the context of a large organization like PMC, with several functional departments and offices, it is imperative to bring all stakeholders on the same table for taking key decisions. Also, several consultants, financial, technical and legal were invited to join the working group discussions on a regular basis. The key action-items resulting as the outcomes of the several frequent and prolonged meetings were noted and followed up on a regular basis by relevant stakeholders. These stakeholders participated in the working group meetings at different stages as per the requirement.

Representatives from organizations mentioned in the Acknowledgements Section of this book along with representatives from CARE Ratings, India Ratings, NSDL, CDSL, PMC's IT Department also coordinated with the members of the working group to make the bond issue process a success. The various Heads of Departments of PMC, officials of the Government of Maharashtra, Government of India also supported the bond issue process by providing information that was used to fill the relevant sections of the information memorandum.

5

On-boarding of Merchant Banker cum Arranger

The decision to issue Municipal Bonds is an important step towards liberating the financial creativity at the urban local body level in India. It introduces a new paradigm in the way financial prudence is perceived in the country. It is an important step towards reducing the excessive dependence of ULBs on grants from the union/state governments and intergovernmental organizations. The successful development of the municipal bond market in India will go a long way towards introducing innovation and creativity in public finance.

PMC had embarked upon a critical public utility project which intends to bring 24x7 water supply to all its residents. It is proposed that this project will be executed within 5 years and bring reliable 24X7 water supply in phases across Pune. The introduction of smart metering will bring down losses substantially and ensure equitable and adequate water supply. PMC had already completed the technical and financial feasibility for the project with the help of an external third party technical consultant. The Detailed Project Report (DPR) was approved by the PMC General Body (GB). Also, the PMC General Body (GB) approved a ~22.5% hike in water tariff for FY17 and a nominal 5% Y-O-Y thereafter till 2047, which may make the project self- sustained.

As Pune was the first city to take this pioneering and futuristic step, it wanted to partner with an organization that had already established its credibility in helping public sector organizations raising capital from debt markets in India and abroad. The Ministry of Urban Development (MoUD) had shortlisted a few investment bankers that could act as arrangers for the bond program for ULBs in India.

PMC then conducted its own short listing process as per its procedure by floating an RFP (request for proposal). This selection was done by PMC's evaluation committee after scrutiny of the Technical Proposals on the basis of their responsiveness to the Terms of Reference and the RFP, applying the evaluation criteria, sub-criteria, and point system specified in the RFP. Each responsive proposal was given a technical score. A proposal was rejected at this stage if it did not respond to important aspects of the RFP or if it failed to achieve the minimum technical score indicated in the RFP.

Financial Proposals were also invited together with the Technical Proposals. Only the Financial Proposal of the technically top-ranked Technical Advisor cum Merchant Banker was opened by the PMC's evaluation committee. The total score was calculated by weighting the technical and financial scores and adding them as per the formula and instructions in the RFP. The Technical Advisor cum Merchant Banker achieving the highest combined technical and financial score was invited for negotiations. All other Financial Proposals were returned unopened after the Contract negotiations were successfully concluded and the contract was signed. After following this meticulous selection process, SBI Capital Markets Ltd. emerged as the winner on both technical and financial criteria.

6

Debt Capacity Analysis

As a purely academic exercise, the debt capacity analysis template[8], provided as an Appendix 2 to this document, provides a tool to help municipal officials coordinate their debt issuance for capital improvements within a debt management framework that is affordable for the municipality's finances, and which protects the municipality's existing or desired credit rating. This analysis in not mandated under the SEBI Guidelines[3] and is purely voluntary in nature. Affordability is defined as providing enough cash flow margins after debt service for unexpected contingencies, pay-as-you-go capital expenditures or contributions to reserves. Once the municipality has set the debt service coverage parameters, the template evaluates the ability of historical finances to service debt on an annualized basis and on a monthly basis, both by overall municipal cash flow available for debt service, and by pledged revenues. The former measure suggests an upward limit on affordable debt service by overall municipal financial performance, while the latter suggests an upward limit on affordable debt service by pledged revenues; following SEBI guidelines that municipal debt must be secured by a dedicated revenue stream. The goal of the municipality is to undertake a debt capacity analysis at least annually and also in advance of any prospective bond offering.

In order to determine what quantum of debt is implied by the affordable level of debt service, the template contains a level annual debt service mortgage style debt modeling tool [refer Schedule 2], which allows the municipality input various debt amounts, interest rates and maturity profiles in order to determine the level of debt that best corresponds to the affordable level of annual debt service. Changes in assumptions for interest rates and maturity profile greatly affect the amount of debt corresponding to a given amount of affordable debt service.

For the initial analysis, the municipality used historical finances, applying a "backward looking" test to calculating debt capacity. Many of the revenue and expenditure categories are subject to a significant amount of volatility, making it impossible at this time to designate a base of from which to reliably forecast financial performance, and calculate a "forward looking" debt capacity test. The municipality set a minimum target debt service coverage ratio by overall free cash balances of 2 times, reflecting the amount of financial margin which it thought was important in order to maintain financial flexibility for unexpected contingencies and appropriations for additional capital expenditures or reserves. It also set a minimum target ratio by pledged property tax revenues of 2 times, since this is a stable and growing operating revenue source; but one which is also important to the funding of basic municipal services, and therefore, cannot be overleveraged. The municipality's bond assumptions included a 10 year repayment period (can be changed in the tool) and a 7.59 % interest rate (can be changed in the tool). In subsequent debt capacity tests, the municipality may use different assumptions, depending upon changes in budgetary needs and upon prevailing bond market conditions.

The assumptions used in this analysis and its conclusions could be shared with several rating agencies, which provide a rating for the municipal corporation, so that the agency can determine to what extent debt affordability also relates to credit quality. For instance, in order to maintain the municipality's high rating, it may need to restrict debt issuance to a level below the maximum affordable level suggested by the analysis. PMC wants to restrict debt issuance to a level that preserves its currently high credit rating.

Revenue Analysis

This section examines trends for the major categories of operating revenue for Pune. The figures for the major revenue categories are inputted into the revenue spreadsheet for the period of years for which the municipality has produced double entry financial results in accordance with the National Municipal Accounting Manual (NMAM)[1]. Additional inputs include total revenues and the current period overdue provision for property taxes; the latter of which is found as an expenditure in Pune's financial reports, but which this modelling tool treats as a deduction from revenue, rather than as an expenditure. The tool then calculates miscellaneous revenues, as well as an adjusted operating revenue figure (by deducting the provision for overdue property taxes). This adjusted operating revenue figure is used throughout the template to calculate the operating balance that is available for debt service, and debt service as a percentage of revenues. The revenue section takes the revenue inputs and calculates the annual growth rates for the major revenue categories, as well as the percentage distribution of revenues by category. It also calculates the provision for overdue property taxes as a percentage of total revenue.

The initial revenue analysis covered six fiscal years, from 2008-09 through 2013-14. Data for the two most recent fiscal years 2014-15 and 2015-16, was not available at the time of this initial analysis. Aggregate signs are positive, in that operating revenues have shown strong growth with growth in the municipality's population and economy, but also because of improving tax collections (this latter point is demonstrated by the fact that the provision for overdue property taxes is declining as a percentage of total revenue).

During the study period, however, there was significant volatility between revenue sources; some of which can be explained by changes in the definition of revenues, and by improving collections. For instance, Octroi tax was replaced by the Local Body Tax and State compensation grants, and that will be replaced in future years by an allocation from the Goods and Services Tax (INR 137 crore/month starting August 2017); property tax collections are improving as more properties are getting registered on the tax rolls, and as collections become more current. This volatility has also resulted in shifts, over the study period in the relative importance of various revenue sources – with property taxes and user fees having the potential to gain a larger share of operating revenues, while the local body tax and interest income may become a smaller share of operating revenues. For these reasons, it is not possible at this time to say that any of the historical financial years represents a base year from which to forecast revenues for a "forward looking" debt capacity test or analysis. The same observation, as will be discussed in the next section, is also true for operating expenditures. Therefore, the initial debt capacity analysis is a "backward looking" test, using historical finances. In the future, revenues may stabilize into more predictable trends and then officials can consider a revenue forecast, which would change this debt capacity analysis into a "forward looking" test.

Expenditure Analysis

This analysis provides the same analysis, and over the same period, as the revenue analysis but for operating expenditures. Inputs include the major expenditure categories and total expenditures, as depicted in the annual financial reports, which include interest on debt and a provision for overdue property taxes. Indian municipal accounting rules treat the provision for overdue property taxes as expenditure. In the debt capacity analysis, the template treats this provision as a deduction from operating revenues than as expenditure. The current interest costs are also backed out of expenditures, since the debt capacity analysis is solving for how much free cash flow is available for debt service, pay-as-you-go capital expenditures and contributions to reserves. Currently, the amount of debt service is very small, so existing debt service is not included in the debt capacity test. In subsequent evaluations, existing debt service schedules and prospective debt service schedules will have to be included.

Finally, it should be noted that Indian municipal accounting rules treat interest costs as an operating expense, but treat principal payments on debt as a capital cost. This template backs out interest costs and the provision for overdue property taxes to calculate an adjusted operating expenditure figure, which is compared to the adjusted operating revenue figure to determine free cash flow available for debt service. The template then calculates the same trend ratios for expenditures as it does for revenues, such as annual growth rates for major expenditure categories, and the percentage distribution of expenditures by category. It also compares the annual growth rates of adjusted revenues and adjusted expenditures in a table and in a graph.

As with operating revenues, operating expenditures have been growing in aggregate as the population and economy increase the demand for services, but expenditure trends also show significant volatility in the growth rates and relative distribution across expenditure categories. For these reasons, it is not possible at this time to say that any of the historical financial years represents a base year from which to forecast expenditures for a "forward looking" debt capacity test or analysis. Therefore, the initial debt capacity analysis will be a "backward looking" test, looking at historical financial results. In the future, expenditures may stabilize into more predictable trends and then officials can consider an expenditure forecast, which would change this debt capacity analysis into a "forward looking" test.

For this initial comparison of historical financial results, it is worth noting that in recent years, the growth rate of operating expenditures have tended to exceed the growth rate of operating revenues, which will have an impact on free and available cash balances. This trend can be expected in a municipality such as Pune, which is experiencing rapid economic and population growth, as well as major redefinition of revenue sources (the latter is a true for all municipalities within the State of Maharashtra). The next few years could show a reversal of this trend, as property tax amnesty programs and the recent demonetization process in India seem to have resulted in a revenue windfall. Periodic adjustments to salaries or to pension contributions, as well as the expected introduction of replacement taxes and new user fees, however, could result in continued volatility in revenue and expenditure growth rates in coming years.

Operating Balance and Annual Debt Capacity

This section has three subsections. The first subsection looks at the operating balance of the municipality; what portion of cash flows is free and available at year end for debt service, or appropriations for pay-as-you-go capital expenditures or contributions to reserves. From previous sections, it copies the adjusted operating revenue and adjusted operating expenditure figures for each year. It then calculates a gross operating surplus. An additional input from the municipality's financial reports is the amount of payables by year. An adjusted operating surplus is calculated by subtracting the payables from the gross operating surplus, providing a more conservative view of the available funds for debt service. The template also calculates accounts payable as a percentage of gross operating surpluses.

This section calculates a debt service capacity based upon a desired debt service coverage level by adjusted operating surplus. The municipality has by policy set the upper limit on allowable debt service, to be no greater than one-half of the adjusted operating surplus (thus, the adjusted operating margin must provide no less than 2 times coverage of debt service). This preserves financial margin for contingencies, plus a certain level of pay-as-you-go capital expenditures and continued contributions to reserves.

The adjusted operating surplus has grown nominally over the study period, but declined as a percentage of adjusted operating revenue, from 48.3% to 37.5%. This reflects both a higher growth rate for operating expenditures than operating revenues, as discussed above, as well as growth in accounts payable.

The second subsection examines the municipality's debt capacity by comparing the adjusted operating surplus to expected debt service for different sized bonds. Subsequent sections contain a mortgage style amortization model for principal and interest payments for different amounts of debt, using common bond terms for this initial analysis of a 10 year amortization period and a 7.59% interest rate. The mortgage model calculates the annual and level debt service payment for each size bond, plus a semi-annual payment for principal and interest and a second semi-annual payment for interest, for each year of amortization, as would be typical for a bond. For this section, the annual debt service payment is compared to the annual adjusted operating surplus, which is the free cash available for debt service. The tool provides a series of calculations by year for each size of bond – DSCR by the adjusted operating surplus, and annual debt service payable relative to both adjusted operating revenues and adjusted operating expenditures.

On an annualized basis, the initial analysis looked at the ability of the municipality to pay debt service on four different sized bonds. The first bond size was for INR 2,200 crores (approximately USD 300 million), which is the amount of debt sanctioned for issuance in support of the municipality's water program. Using the bond structure parameters stated above, the recent years' financial performance would provide ample coverage of debt service by adjusted surplus revenues, and pose only a modest burden on operating revenues and expenditures. The projected debt service on this bond reaches less than half of the prescribed upper limit for annual debt service. Therefore, no additional dedicated reserves would be needed. Nonetheless, a debt service reserve account could provide internal credit enhancement for the bond and might lead to a higher rating.

The second bond was sized for INR 3,350 crore (roughly USD 500 million). This size was picked as a worst case, whereby significant overruns in the water project require a larger debt issuance size, beyond the planned amount of INR 2,200 crore. Recent year financial performance would provide strong DSCR, but not as ample as for the smaller INR 2,200 crore bond. The debt service burden relative to adjusted operating revenue and expenditure would also be moderate, and about 70% of the prescribed upper limit for annual debt service would be reached. Therefore, this size of bond issuance would require moderate dedicated reserves.

The third bond was sized for INR 4,020 crore (roughly USD 600 million). This size was picked because the municipality may want to issue debt for other capital projects, beyond debt for the approved water projects. Recent year financial performance would provide DSCR that is only slightly above the prescribed policy level of 2 times. The debt service burden relative to adjusted operating revenue and expenditure would be moderate-to-high, depending upon the level of volatility expected in operations. Recall that the historical analysis of financial performance showed significant volatility of both major revenue and expenditure sources. Projected debt service would be near the prescribed upper limit for annual debt service (over 80%). This would be the highest amount of debt that current financial performance could accommodate, but since financial margins would be tighter, significant dedicated reserves would be required. This level of debt may also jeopardize the municipality's currently high rating.

The fourth bond was sized at INR 4,690 crore (roughly USD 700 million). This size was picked because the municipality has significant capital improvements plans that span across many service areas, and for which funding gaps still exist. Recent year financial performance would provide DSCR that is at or slightly below the prescribed policy level of 2 times. The debt service burden relative to adjusted operating revenue and expenditure would be significant, providing little margin for contingencies, and crowding out some of the funding that should be available for growing demand for services. Projected debt service would be at the prescribed upper limit for annual debt service. Given growing demand for services, and current budgetary volatility, the analysis suggests that this level of debt would be too high for current financial performance.

The third and final section of this analysis calculates DSCR for each of the bond sizes described above against the property tax collections of 2014-15 and 2015-16. These are two most recent years for which the municipality has data. SEBI requires that a specific revenue source be pledged for a debt issuance, and since property taxes are a growing and reliable form of revenue for the municipality, this revenue source will be pledged for the upcoming bond for the municipality's water projects. Future bond issuances may also pledge this revenue source or other revenue sources. Property tax collections for the 2014-15 levy provide satisfactory debt service coverage for the INR 2,200 crore and INR 3,350 crore bonds, but insufficient debt service coverage for larger bonds, as described above. The 2015-16 levy provides satisfactory debt service coverage for all the bond sizes contemplated above, however, debt capacity should be governed by the budgetary and reserve considerations described above, irrespective of DSCR by pledged revenues, given the municipality's wide range of budgetary needs.

The Debt capacity analysis provides the debt service schedule for the bond sizes and structures described above. If the maturity profile for the bonds becomes less than expected in this study, this would have a negative effect on debt capacity. Similarly, if the interest rate on the bonds is greater than expected in this study, this would have a negative effect on debt capacity.

Monthly Cash Flow

While previous tabs were concerned with a debt capacity analysis using annualized, accrual based financial data, the next two sections consider debt capacity by looking at monthly cash flow based financial data. The theory of these sections is that the strength of cash flows fluctuates during the year, with some period of months where cash balances are rich, but with other periods of months where cash balances are lean. These cash balance peaks and valleys have an impact on how debt service should be structured. This tab looks at monthly property tax collections and monthly cumulative cash balances (cumulative balance after netting receipts and disbursements) for 2014-15 and 2015-16. This monthly data is not in sync with the annual financial data, since annual financial reports are only available up to 2013-14, however, all of the financial years in this study had cash flow surpluses. Subsequent debt capacity analyses can incorporate more up-to-date annual financial data, and better synchronize the analysis of annual debt service capacity with monthly debt service capacity.

Monthly financial data shows that one-half of the property tax levy is usually collected within the first three months of the fiscal year (April-June). The data also shows that the last three months of the fiscal year (January-March) are becoming important collection months for property taxes. As expected, cumulative cash balances have peaks and valleys which strongly correlate to property tax collections. Data for 2015-16, however, shows that the peaks and valleys are may no longer be as extreme, suggesting the growing importance of other revenue sources, as well as one time-events, such as tax amnesty periods, etc.

Demonetization in the fiscal year 2016-17 has also distorted monthly cash flow data. March, the last month of the fiscal year typically shows a dip in available cash balances due to net year-end investment activity (short-term investment maturities, counting as a receipt, versus short-term investment purchases, counting as a disbursement). Whether monthly cash balance peaks and valleys return to be more pronounced (as suggested by 2014-15 data) or remain less pronounced (as suggested by 2015-16 data), June is a strong cash flow month to schedule the larger principal and interest payment, while December (6 months later) is a weaker cash flow month, and a better time to schedule the interest only payment. The template provides some examples of how cumulative cash balances in June and December of 2014-15 and 2015-16 would provide monthly debt service coverage for a given debt amount.

Monthly Balance DSCR

The analysis takes the June and December cumulative cash balances for 2014-15 and for 2015-16 and calculates a DSCR for the June principal and interest payment and for the December interest payment for different bond sizes, over the life of the bonds. This analysis picked two bond sizes. The first was the INR 2,200 crore bond, which is the sanctioned amount of debt for the water project. The second was the INR 4,020 crore bond, which was the suggested debt capacity using the annualized financial data. The June and December cumulative monthly cash balances in 2014-15 and 2015-16 provide satisfactory coverage of debt service for an INR 2,200 crore bond. For the INR 4,020 crore bond, however, DSCR by the June and December cumulative monthly cash balances for 2014-15 and 2015-16 is above 1X (more than 100%), but is below the target margins of protections determined by the municipality. Financial margins are too tight for the immediate months following a principal and interest payment for potential contingencies. This reinforces the conclusion of the annualized analysis above, that this level of debt would require significant dedicated reserves. If the municipality were unable to dedicate significant reserves, then it may want to consider a downward revision in its debt capacity based upon this month cash flow analysis.

7 Internal Departmental Guidelines for Debt Management

As a purely academic exercise, the concerned departments of urban local bodies may want to develop an internal debt management guideline to provide predictability for the organization's issuance of bonds and other forms of indebtedness in support of its long-term capital improvements program.

This exercise is **not mandated** under the SEBI Guidelines[3] and is purely suo-motu in nature. While relevant departments may consider the issuance of debt to be an appropriate method of financing its capital projects, they may also believe that it is important to manage those issuances so as to preserve the organization's strong credit rating and budgetary flexibility. The exercise tries to provide sound administrative guidelines for the acceptable conditions under which organizations may want to issue debt, its form, security and structure, as well as limitations to debt issuance, and financial disclosure requirements for outstanding debt.

The objectives of such an exercise are as follows:

- Departments may want to weigh the cost and maturity profile of its debt issues relative to the needs of its capital improvements program and financial flexibility, and choose which form of debt provides the lowest cost and most advantages.

- The organization will internally appraise in advance of a debt issue, and will manage its debt issuances in a manner that does not result in a lowering of the organization's ratings outlook or in a ratings downgrade.
- Organizations may want to preserve its future financial flexibility, by considering the option of maintaining adequate operating surplus for debt service payments, cash contributions to capital projects and cash reserves.

8

Data Room Creation

The process of issuing municipal bonds entails ULBs complying with several regulations and rules. As and when an intermediary is appointed as per the SEBI guidelines[3], a formal work order defining the 'terms of reference' are signed by the relevant parties involved in that task. The preparation of the information memorandum is a comprehensive exercise and it references several official documents. These documents have to be preserved and their access has to be managed to relevant stakeholders at relevant times. Also, this exercise promotes digitization of records, a much needed activity in the context of a country like India.

The data room creates a systematic archive for all documents relevant to the bond program. It tries to classify the documents into 3 broad categories. They are:

- Bond Program related
- Project Details
- ULBs financial statements

The data room will act as the repository of soft copies of the current and non-current documents related to the bond program and will hold them in trust for the use of future administrators and officials.

9

Exemptions received from SEBI

Regulation 15 (1) (b) of the SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015[3] requires that an issuer making issue of debt securities under these regulations, on a private placement basis, shall submit its accounts prepared in accordance with National Municipal Accounts Manual[1] or in accordance with similar Municipal Accounts Manual adopted by the respective State Government for at least three immediately preceding financial years[9].

After the receipt of feedback about the processes followed by municipalities/ municipal corporations, SEBI noted that the audited accounts for a financial year would be available by the end of the next financial year due to late approval of accounts. The accounts of a financial year, along with the budget for the next financial year, gets approved by the Standing Committee and General Body only in the next financial year. This leads to time lag of over one financial year[9].

For example, as informed by municipalities, if the issue is made in the current financial year (FY) i.e. FY 2016-17, the accounts would be required to be submitted for the FY 2013-14, 2014-15 and 2015-16. In such a case, the municipalities would be able to submit the audited accounts only for the FY 2013-14 and 2014-15. However, for the FY 2015-16, the audited accounts would not be available before the month of June/July 2017[9].

Considering the above operational procedures followed by municipalities (including, but not limited to PMC), SEBI noted that it would be difficult for them to submit the audited accounts for the immediately preceding financial year, in the information memorandum submitted to the stock exchanges, for the private placement issue of debt securities[9].

1. In order to provide an impetus to the Municipal Bond Market in India, SEBI provided the following dispensation to the municipalities with respect to submission of accounts for private placement issues of debt securities under the SEBI Guidelines[3,9]:

    "Any issuer proposing to issue debt securities under these regulations, in the ***FY 2017-18,*** *shall submit the following documents:*

    a) Audited accounts for the financial years 2013-14, 2014-15 and 2015-16 in the information memorandum to the stock exchanges.

    b) For the immediately preceding FY i.e. FY 2016-17, the issuers shall submit the half yearly financial statements, as available (audited or unaudited) as on September 2016.

    However, the audited accounts for the said FY i.e., 2016-17 shall be submitted within one year from the end of that FY (i.e. by March 31st, 2018) to the recognized stock exchanges, where the debt securities have been listed. Such audited accounts shall be displayed on the website of the recognized stock exchanges and the issuer. The issuers shall also be required to provide on request, a copy (physical or electronic) of such audited accounts to its investors."

    The provisions of this circular shall be applicable for the debt securities issued, in accordance with SEBI Guidelines[3] on or after April 1st, 2017[9].

It is a challenge for ULBs to issue municipal bonds if the relaxation given by SEBI on March, 22nd , 2017 [see Reference 9] is not extended in the future.

10

Approval from Standing Committee and General Body of PMC

As per the Maharashtra Municipal Corporations Act[4], the Standing Committee (SC) is empowered to approve all financial matters of PMC. It also approves the different agreements that PMC signs during the course of its business. The standing committee consists of corporators from different political parties and they are democratically elected representatives of the citizens in the city. Often, the senior most elected leaders of political parties take up a position in the standing committee.

The General Body (GB) is like a legislative arm of the governance structure of an urban local body. It is chaired by the Mayor of the city of Pune, the first citizen of the city. In the absence of the mayor, the deputy mayor assumes the responsibility of the Mayor. The GB holds the administrative wing of PMC accountable for their actions. On most sessions of the GB, the Commissioner of PMC who heads the administrative wing is also present to address the issues raised by the members of the GB.

The proposed quantum of money to be raised during the bond program is a significant amount when compared to the annual capital expenditure of PMC. Also, the bond program is proposed to continue for the next 15 years. The amount of debt service for PMC for the first tranche of the bond program is also a significant amount when compared to the 'free cash flows' as explained in the section related to 'Debt Capacity Analysis' and 'Debt Management Policy'.

The standing committee and the GB had previously approved a telescopic tariff policy for the water supply for the city for the next 30 years. This is an important step towards discovering the 'true value of water' in the context of environmental sustainability of the city. Such an approval from the SC and GB has played an important role in increasing the potential revenues that can be generated from the '24x7 Water' supply project. Hence, the project has become financially viable. It also adds to the 'credit enhancement measures' which positively contributes towards reducing the cost of capital while raising capital from the market.

On June 7th, 2017, the GB of PMC, through a resolution (Meeting No. 26, Subject No. 65, Resolution No: 13) approved the proposal for raising bonds necessary for the '24*7 Water' supply project. The details are as follows:

1. GB acknowledged that it was necessary to raise loans / bonds for the '24 x 7 Water' supply project up to the amount of Rs. 2264 crores. The GB resolution stated that if lesser amount is required to set up the project then the amount of debt to be taken by PMC has to reduce proportionately. Also, if additional amount is required, PMC can raise additional bonds. In any case, the value of debt to be raised by PMC has to fall within the range of 80% to 120% of INR 2264 crores. Any amount of debt in excess of 120% of INR 2264 cannot be taken without prior approval from the GB.
2. The Commissioner was given the authority to appoint other intermediaries to the issue in order to get various works done as per SEBI Guidelines[3].
3. As per the improvements/enhancements accepted under the JNNURM, the Pune Municipal Corporation has, since 2006-2007, started following the double entry system as per the National Municipal Accounts Manual[1]. According to this, it is necessary to prepare the books of account at the end of every financial year and they are to be audited. As soon as the financial year ends, the pending provisions for the said year will have to be settled/lapsed. After March 31st or at the end of the financial year, it shall be necessary to finalize the accounts within the following three months.
4. When servicing the debt in a phased manner, provision has to be made to transfer twice the six-monthly repayable amount as an 'advance balance' to the 'escrow account' from the revenue generated from sources like property tax. This will act as a 'debt service reserve fund'. The detailed working of the structured debt service payment mechanism has been elaborated in the appropriate section within this document.
5. As the work for the '24 x 7 Water' supply project will be executed in a phased manner for the next 5 years approximately, the debt will be raised as per the requirements of the project.
6. All debt taken under the GB approval given in this resolution will be treated on a pari-pasu basis.

11

Approval from Government of Maharashtra

As per SEBI Guidelines[3], PMC applied for Government of Maharashtra's [GoM] permission to issue municipal bonds at Bombay Stock Exchange. GoM, under Section 109 of the Maharashtra Municipal Corporations Act[4], agreed to give such permission under the following terms and conditions:

- The debt along with its interest will solely be the liability of PMC. GoM will not underwrite these financial obligations
- PMC will meet its debt service obligations timely through funds channelized through an escrow account opened with a nationalized bank. GoM will not financially contribute towards this endeavor
- The proposed bond program has to be implemented in phases through tranches as per the requirement of capital for the project
- PMC has to submit reports about the progress made in debt service from time to time on a regular basis

The above mentioned approval is dated June 12th, 2017. It can be found on the URL: www.maharashtra.gov.in with reference number 201706121348249025.

12

Interest Subsidy announced by the Union Government

Municipal Bonds (Muni Bonds) are a novel asset class in the Indian debt market, especially in the context of the SEBI Guidelines[3] released in 2015. Muni Bonds are also instruments that achieve a twin target of making urban local bodies financially autonomous and imparting a habit of financial discipline and prudence in managing their finances.

Prime Minister Modi announced during the inauguration of NISM in Mumbai in 2016 that SEBI and Department of Economic Affairs, Ministry of Finance should work in tandem and ensure that at least 10 municipal corporations should issue municipal bonds.

Considering the above mentioned techno-financial-legal benefits and political reasons pertaining to municipal bonds, there is strong case in the favor of urban local bodies to demand tax free status for these bonds wherein the interest earned by the investors from this asset class be exempt from paying income tax. This is one of the most important ways in which large amount of private and public sector investments can be channelized towards improving the quality of life in our cities. Also, this can reduce the upward pressure on the coupon rate of the bonds and thus, make bonds an attractive channel to raise finances from the context of urban local bodies.

The Union Government, after several rounds of discussions decided to introduce a new model whereby Municipal Bonds will not be granted tax free status (and thus not distort the larger bond market) but it will incentivize the municipal corporations to issue bonds to its investors at attractive coupon rates. Union Government has proposed to give a compensation of 2% interest subsidy on the total size of the bond issue[10].

13

Agreement with Bombay Stock Exchange

As per SEBI Guidelines[3], PMC had to list its debentures at a stock exchange registered with SEBI. In this context, PMC established contacts with Bombay Stock Exchange (BSE). BSE is Asia's oldest stock exchange and the biggest in India with respect to the debt market. In the context of this private placement several institutional investors expressed interest in investing in PMC's municipal bonds. BSE's bidding platform is one of the best in the world for such circumstances where a new asset class is being introduced to the market and the coupon rate of the debentures have to be discovered.

An agreement between PMC and BSE was signed on June 16th, 2017. It allowed PMC to make use of the platform provided by BSE to conduct book building process in relation to listing of the debt securities of PMC issued on private placement basis in accordance with SEBI circular CIR/IMD/DF1/48/2016 dated April 21st, 2016.

BSE representatives, along with those from PMC and SBI Caps created the account for uploading relevant information about the bond for potential investors. This included information like the information memorandum, general body resolution of PMC, permission obtained from Govt. of Maharashtra, PMC's financial documents as per SEBI guidelines etc.

After due-diligence, almost 21 institutional investors like pension funds, banks, mutual funds, insurance companies bid for discovering the optimum coupon rate of the bonds on the digital platform provided by BSE.

Also, the listing ceremony was conducted at BSE's central hall. BSE has also appointed a representative to help PMC manage the compliance and Grievance Redressal module on their online platform.

Some of the terms of operation of the platform are as follows:

- PMC shall submit information as may be prescribed by BSE from time to time
- BSE will display all relevant data provided by PMC on its website as per SEBI regulations
- PMC shall redress grievances raised by any participant regarding the private placement of the issue on the platform. However, an aggrieved participant may also approach the exchange for the purpose of Redressal of its grievances against the issuer
- PMC shall be responsible for complying with all the legal/regulatory requirements in relation to the offer made on private placement
- More details can be found in the document titled, "Agreement to be entered into between BSE Ltd. and issuer for using electronic book building software of BSE Ltd. for private placement of debt securities" dated June 16th, 2017.

14

Compliance and Grievance Management Framework

An indicative check list under SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015[3] for Issue of Private, Listed Bonds by Municipalities is given in Appendix 5. Issuer also intends to fully comply with:

- SEBI's letter number CIR/IMD/DF1/60/2017 sent by Richa G. Agarwal, Deputy General Manager, Investment Management Department and Dated: June 19th, 2017 with the subject 'Continuous disclosures and compliances by issuers under SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015'[11].
- SEBI's letter number CIR/CFD/CMD/93/2017 sent by Pradeep Ramakrishnan, Deputy General Manager, Corporate Finance Department, Compliance and Monitoring Division and Forensic Accounting Cell and Dated : August 4th, 2017 with the subject 'Disclosures by listed entities of defaults on payment of interest/ repayment of principal amount on loans from banks / financial institutions, debt securities.'[12]

Investor Service And Grievance Handling Mechanism

Issuer may have an established mechanism for investor service and grievance handling, with a Registrar and transfer agent appointed and the Compliance Officer appointed by the issuer for this purpose, being the important functional nodes.

Some of the key steps undertaken by the issuer for handling investor grievances are enumerated as follows:

1. Issuer intends to follow the practice of resolving the investor complaint within 7 days of receipt of the same. The same applies for Grievances Redressal. The same is to apply whether the complaint was received on the designated email address for investor complaints, or through the Scores Platform or through the BSE. Status of redressed of complaints from BSE and NSE is informed to them through Letters / e-mail
2. Issuer has a designated email-id for handling investor grievances on which investors can register a complaint
3. Employee next in line to the Compliance Officer in the Accounts & Finance Department of the Issuer is responsible for checking the designated investor grievances e-mail ID on a daily basis to check whether any new complaints have been lodged
4. The Compliance Officer shall ensure that the Issuer is registered on the SEBI SCORES platform, as well as other such electronic platform or system of the BSE, and shall check to see if investor complaints have been lodged with any of these external platforms
5. Full details of the complaint are thereafter shared with the Compliance Officer of the issuer as soon as it is received
6. A correspondence either by letter or e-mail is made with the investor who has submitted written complaints acknowledging receipt of the complaint
7. All the investor grievances (hard copy or softcopy) would be updated in an excel register (softcopy) in a specified format on the same day of the receipt of the complaint. This register is monitored by the compliance officer
8. Compliance Officer shall obtain all information available on the complaint which is considered necessary for proper consideration. As complaint may contain aspects related to various departments such as finance, projects, road, legal etc. in such cases information from the respective departments is to be called. Respective departments then make necessary provisions for replying the queries as referred to them along with the necessary document/provision as may be necessary. Compliance Officer will endeavor to reply to the complaint at the earliest.
9. In case the concerned department requires more time to get back to Compliance Officer the same is to be communicated to Compliance Officer. The Compliance Officer may also communicate this delay to the investor, and shall endeavor to resolve the complaint at the earliest.

10. Status Report is obtained periodically from the Registrar in respect of various correspondences and complaints.

11. The Compliance Officer, on behalf of the Issuer shall file with the BSE, on half yearly basis, within thirty working days from the end of each half year a statement giving the following details:

    - Number of investor complaints pending at the beginning of the half year
    - Number of investor complaints received during the half year
    - Number of investor complaints disposed of during the half year
    - Number of investor complaints pending at the end of the half year

Continuous monitoring, tracking and resolving of complaints submitted by the investors using the SEBI SCORES platform can be simplified.

15

Escrow Payment Mechanism for Debt Service and Debenture Trustee Agreement

The Debenture Trust Deed (the "Deed") was signed at Pune on September 15th, 2017 between PMC and SBICAP Trustee Company Limited, having CIN No: U65991MH2005PLC158386 (hereinafter called the "Trustee"). The Members of the Honourable General Body of PMC, the Honourable Standing Committee of PMC authorized the raising of INR 2264 crores from the market in form of municipal bonds in accordance with provisions of Securities and Exchange Board of India (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015, as amended from time to time. The said amount would be raised in tranches and the municipal bonds issued in each such tranche shall rank pari-passu with each other. Thereafter on June 12th, 2017, the State Government of Maharashtra authorized the Issuer (PMC) vide GR Sankirna - 2017/file no 276/UD-33 to raise INR 2264 crores from market in form of municipal bonds as per SEBI Guidelines[3].

Pursuant to the above facts, PMC issued 2000 (two thousand) unsecured, rated, listed, taxable, non-convertible, redeemable bonds in the nature of debentures (hereinafter referred to as "Debentures") each having a face value of INR 10,00,000 (Indian Rupees ten lakhs) of the aggregate nominal value of INR 200,00,00,000/- (Indian Rupees two hundred crore only) (hereinafter referred to as the "Subscription Amount") for cash, in dematerialized form on a private placement basis to certain identified investors (hereinafter referred to as the "Issue"). PMC caused the Debentures to be listed on the Wholesale Debt Market segment of the BSE Limited in accordance with the SEBI Guidelines[3].

The Debenture Trustee (SBICAP Trustee Company Ltd.) has vide its letter June 19th, 2017 (hereinafter referred to as the "Debenture Trustee Consent Letter") agreed to act as the debenture trustee for the benefit of the debenture holders as per the terms of the Information Memorandum (IM) to secure the payment and other obligations of PMC in respect of the issuance of the Debentures.

PMC, as per SEBI Guidelines[3] developed a structured payment mechanism for the effective repayment of interest on the debentures and repayment of the principal. On June 19th, 2017, an agreement was executed between PMC, the Trustee and the Escrow Banker (Bank of Maharashtra, as defined under the Tripartite Agreement) by virtue of which PMC appointed the Bank of Maharashtra to act as the banker for the structured payment mechanism specified there under with respect of the debentures in line with the requirements specified under the SEBI Guidelines[3].

Upon the execution of the Tripartite Agreement, the Issuer has caused the establishing of a no-lien escrow account ("PMC MUNI BONDS ESCROW ACCOUNT" or "Escrow Account") with the Escrow Banker wherein the amounts lying to the credit of the Issuer's property tax account(s) and due to the Issuer would be deposited. Under the Tripartite Agreement the Issuer is required to cause to establish the following accounts with the Escrow Banker in respect of Issue:

(a) for maintaining of reserve for servicing of the interest on Debentures:

"PMC MUNI BONDSDSRA ACCOUNT" (also referred to as the "DSRA Account")

(b) for payment of interest:

"PMC MUNI BONDSINTEREST PAYMENT ACCOUNT" (also referred as "Interest Payment Account");

(c) for repayment of principal amount of the Debentures:

"PMC MUNI BONDSSINKING FUND ACCOUNT" (also referred as "Sinking Fund Account")

PMC has also incorporated a mechanism to ensure a 'rolling coverage' for the Escrow Payment Account. The rolling coverage factor attempts to compensate for potential variance in property tax collections. This mechanism deposits cash in excess of the debt service requirement in the account [refer to Schedule 1]. It then makes the debt service payment when due, and then the excess cash can be remitted back to the municipal general account.

It was agreed that the Trustee would have lien on all of the above accounts for the benefit of the Debenture Holder(s)/Beneficial Holder(s). The Tripartite Agreement inter alia provides for a process of priority (see below) as regards how the proceeds from the property tax accounts of PMC would be utilized through the accounts, and also provides for the interest and principle payment mechanism, thereby laying down the framework of the structured payment for the Issue, and for each subsequent tranche.

1. Process of Priority

1.1 One day prior to the Pay-in-Date, the Issuer shall cause to transfer an amount specified in Schedule - 1 of the respective Issue to the respective DSRA Account.

1.2 On the first Business Day of the month or any time during the month, the Issuer shall cause all the amount(s) lying to the credit of Property Tax Account(s) due to the Issuer to be transferred to the Escrow Account.

1.3 On the first Business Day of the month, the amount lying to the credit of the Escrow Account in any month shall be utilized in the following manner:

(a) On the first instance, an amount equivalent to the difference between the Cumulative Amount under DSRA Account as mentioned under Schedule - 1 of the respective Issue and the amount lying to the credit of the DSRA Account shall be transferred to the DSRA Account.

(b) On the second instance an amount equivalent to the sum(s) mentioned in Interest Amount in Schedule - 1 of the Respective Issue in respect of that particular month shall be transferred to Interest Payment Account.

(c) On the third instance, an amount equivalent to any shortfall in contribution to Interest Payment Account in the previous months shall be transferred to the Interest Payment Account.

(d) On the fourth instance, an amount equivalent to the sum(s) mentioned in Sinking Fund Amount in Schedule - 1 of the respective Issue for that particular month shall be transferred to Sinking Fund Account.

(e) On the fifth instance, an amount equivalent to any shortfall in contribution to the Sinking Fund in the previous months shall be transferred to the Sinking Fund Account.

(f) Any surplus remaining in the Escrow Account after meeting the above payments shall be transferred to PMC MUNI BOND SURPLUS FUND ACCOUNT.

1.4 No further debits shall be made from the Escrow Account without the consent of the Trustee except to meet the shortfall in contribution of Interest

Payment Account, DSRA Account and Sinking Fund Account.

1.5 The Issuer shall be permitted to withdraw the balance amount lying to the credit of the Escrow Account for any month, if any, prior to the last date of that particular month only after:

(a) the amounts lying to the credit of the Escrow Account for any month has been utilized in the manner provided under 1.3 above;

(b) Informing the Trustee and making the contribution required to be made in the DSRA Account, Interest Payment Account and the Sinking Fund Account for the next month in accordance with the manner provided under Clause 1.3 above.

Provided that once the contribution mentioned under Clause 1.5 (b) above has been made, the Issuer shall not be required to make any further contribution in respect of such subsequent month, as required under Clause 1.3 above, for which it has already made the contribution pursuant to Clause 1.5 (b) above.

Notwithstanding what is elsewhere contained in this Agreement, the amounts lying to credit of these Accounts shall not be less than the cumulative amount mentioned under the respective Accounts in Schedule - 1 of the respective Issue.

1.6 The various DSRA Accounts, Interest Payment Accounts, and the Sinking Fund Accounts for each tranches of the Issue shall remain pari-passu to each other.

1.7 The above priority of payment shall be followed strictly till the redemption of Bonds. No amount shall be transferred from the Escrow Account to the PMC MUNI BOND SURPLUS FUND ACCOUNT from the beginning of each month till all the payments mentioned in paragraph 1.3 above have been made.

1.8 Except as provided in this Agreement no further debits shall be allowed in the Escrow Account without the prior written approval of the Trustee.

1.9 The amount lying to the credit of DSRA, Sinking Fund Account and Interest Payment Account can be utilized with the consent of the Trustee towards opening of fixed deposits with scheduled commercial banks with a rating of AA or above.

Provided that all such fixed deposits shall have a lien in favor of the Trustee for the benefit of Debenture Holder(s).

Provided further that there shall be no restriction on the pre-mature withdrawal of such fixed deposits.

1.10 The amount lying to the credit of the Sinking Fund Account can be invested in Government Securities/ or Treasury Bills/Fixed Deposit with scheduled commercial banks with a rating of AA or above.

1.11 All the investments made from the

Sinking Fund Account shall have lien in favour of the Trustee.

1.12 The amount lying to the credit of these accounts shall be utilized for the following purposes:

(a) DSRA Account can be used to meet any shortfall in the Interest Payment Account with the consent of the Trustee;

(b) Interest Payment Account can be used to make interest payment to the Debenture Holder(s);

(c) Sinking Fund can be used to meet the redemption of the Bonds.

1.13 Except as provided in this Agreement no further debits shall be allowed in the DSRA Account, Interest payment Account and the Sinking Fund Account without the prior written approval of the Trustee.

1.14 The Bank shall keep the Trustee informed of any debit(s) made to the Escrow Account, DSRA Account, Interest Payment Account, and the Sinking Fund Account within 7 (seven) days of such debit(s).

1.15 Any surplus amount lying to the credit of the DSRA Account, Interest Payment Account, and the Sinking Fund Account, after meeting all the dues of the Debenture Holder(s) shall be transferred to the Escrow Account.

2. Interest Payment Mechanism

The Trustee shall check the amount lying to the credit of Interest Payment Account at least 25 (twenty five) days prior to the Interest Payment Date. In case of any shortfall in amount, the Trustee shall intimate the Issuer of the shortfall and the Issuer shall make good the shortfall in the Interest Payment Account at least 15 (fifteen) days prior to the Interest Payment Date. In case of any shortfall in amount in the Interest Payment Account at least 14 (fourteen) days prior to the Interest Payment Date, the Trustee shall instruct Escrow Bank to transfer the shortfall amount from DSRA Account to the Interest Payment Account at least 10 (ten) days prior to the Interest Payment Date. The Interest shall be paid by the Issuer on the Interest Payment Date. Any amount drawn from the DSRA Account should be deposited back in the DSRA Account as per the mechanism indicated above. The Trustee shall check the balance in the Sinking Fund Account on the anniversary of the allotment of each Issue and in case of any shortfall in the Sinking Fund Account, the Issuer shall cause to replenish the Sinking Fund Account with the necessary amount to replenish the shortfall. The Trustee shall check the amount lying to the credit of Sinking Fund Account at least 25 (twenty) days prior to the redemption date of each Issue. In case of any shortfall in amount, the Trustees shall intimate the Issuer of the shortfall and the Issuer shall make good the shortfall in the Sinking Fund Account by 15 (fifteen) days prior to the redemption date of each Issue.

The Trustee shall keep the Credit Rating Agency(ies) informed of any shortfall in Interest Payment Account, DSRA Account, Sinking Fund Account and any transfer from the DSRA Account to the Interest Payment Account. Selective duties and responsibilities of the issuer, bank and trustee have been mentioned in the Appendix 4 of this document.

The Debentures constituted and issued in terms of this Deed are unsecured, rated, listed, taxable, non-convertible, redeemable bonds in the nature of debentures of the face value of INR 10,00,000/- (Indian Rupees Ten lakh only) each, aggregating to a nominal value of INR 200,00,00,000/- (Indian Rupees Two hundred crore only) and the same are allotted on private placement basis as per the terms and conditions mentioned in the Information Memorandum and are subject to the conditions mentioned in the Deed.

It has been agreed that payments to be made to the Debenture Holder(s)/Beneficial Owner(s), including payment of interest, payment upon redemption, shall be made by Escrow Banker using the services of electronic clearing services (ECS), real time gross settlement (RTGS), direct credit or national electronic fund transfer (NEFT) into such bank account of a Debenture Holder(s)/ Beneficial Owner(s) as may be notified to PMC by such Debenture Holder(s)/Beneficial Owner(s) or the Trustee (acting on behalf of the Debenture Holder(s)/Beneficial Owner(s)). Also, the Redemption Amount and the Amounts Due and all other monies hereby secured in relation to Debentures shall, inter se between Debenture Holder(s), rank pari-passu without any preference or priority whatsoever on account of date of issue or allotment or otherwise and shall be issued in the form and manner given below:

a. For the purpose of allotment of Debentures in dematerialised form, PMC has upon execution of the Deed, intimated and instructed through the Registrar and Transfer Agent (Karvy Computershare Pvt. Ltd.) NSDL/CDSL to credit the beneficiary account of the allottee(s) with NSDL/CDSL as mentioned in the application form, with the number of Debentures allotted, such communication by PMC in favour of NSDL/ CDSL shall be in such form and manner, as prescribed by NSDL/CDSL from time to time.

b. PMC has requested the Depositories

Particulars	Issue Details
Subscription Amount (INR)	INR 200,00,00,000/- (Indian rupees two hundred crore only)
Number of Debentures	2000 (two thousand only)
Face Value of Debentures	INR 10,00,000/- (Indian rupees ten lakh only)
Interest Rate	7.59 %
Redemption	INR 200,00,00,000/- (Indian rupees two hundred crore only)

through the Registrar and Transfer Agent (Karvy Computershare Pvt. Ltd.), as the case may be, to provide a list of Debenture Holder(s)/Beneficial Owner(s) at the end of day, 1 day prior to the start of the Book Closure Period. This was the list which was considered for payment of interest, repayment of principal and amortisation.

PMC's debentures were listed on the Wholesale Debt Market segment of the Bombay Stock Exchange Limited ("Exchange") and it confirms that they shall continue to be listed on the Exchange till the Final Discharge Date. Thus, PMC shall adhere to all Applicable Laws in respect of the continued listing of Debentures. Also, before initiating any action or exercising any right or performing any duty under the Deed and/or any other Transaction Document, the Trustee shall seek written instructions from the Debenture Holder(s)/ Beneficial Owner(s) and only upon receipt of such instructions shall the Trustee exercise its rights and perform its duties and obligations under each of the documents, agreements, and instruments.

PMC simultaneously with the execution of the Deed, settled and kept apart a sum of INR 1,000/- (Indian Rupees one thousand only), being the initial corpus (hereinafter referred to as the "Initial Contribution") of the trust created in terms of this Deed, to have and hold the same together with all additions or accretions thereto.

Upon the occurrence of any of the "Event of Default" specified in the Deed, the Trustee shall write to PMC by sending a notice stating that an Event of Default has occurred and the action proposed to be taken by the Trustee in terms of this Deed ("Default Notice"). In case of an Event of Default, the Trustee shall have the rights as mentioned in the relevant sections of the Deed. After 30 (thirty) days from the occurrence of an Event of Default, the Trustee may at its discretion and without further notice, institute such proceedings against PMC as it may think fit to enforce repayment of Redemption Amount and Amounts Due as per the Deed.

The Trustee shall hold upon trust any monies received by it under the Transaction Documents and shall, in the first place, by and out of the said monies reimburse itself and/or any receiver and pay, retain or discharge all the costs, charges and expenses incurred in or about the entry, appointment of any receiver, calling in, collection, conversion or the exercise of the powers and trusts under these presents, including its, and any receiver's remuneration as herein provided, and shall apply the residue of the said monies on pari-passu basis for the benefit of Debenture Holders in the following manner, unless otherwise agreed between the Debenture Holders:

- FIRST, in or towards payment of any costs or expenses, if any, incurred or to be incurred by the Trustee/Debenture Holder(s)/ Beneficial Owner(s) towards enforcement of any rights of the Trustee/Debenture Holder(s)/Beneficial Owner(s) under this Deed/any Transaction Documents.
- SECOND, in or towards payment of Default

Interest (if any), Interest due and any other Interest payable on the outstanding Redemption Amount and Amounts Due.

- THIRD, in or towards payment to the Debenture Holder(s)/ Beneficial Owner(s) of all Amounts Due (excluding Interest) on the Debentures owned by them, whether or not such amounts shall be then due and payable.
- FOURTH, in or towards payment to the Debenture Holder(s)/ Beneficial Owner(s) of all Redemption Amount, with respect to the Debentures whether or not such amounts shall be then due and payable.
- FIFTH, in or towards payment of the surplus (if any) of such monies to the Person or Persons entitled thereto.

All other details about the duties and functions of the Trustee are listed in the Deed.

16

Road Show and Investor Community Interactions

After the information memorandum (IM) was drafted its key highlights were shared with the potential investors in an informal setting, SBI Caps was instrumental in identifying these pension funds, mutual funds, banks, life insurance companies who wanted to diversify their portfolio. The new asset class of municipal bonds was very attractive to these big institutional players. The feedback obtained from such informal interactions was useful in making the IM comprehensive and elaborate. It also helped PMC craft its escrow mechanism in a manner that was desirable by these investors and simultaneously in adherence with the SEBI regulations.

About twenty-one institutional investors enthusiastically participated in the dialogue organized in Mumbai. All senior officials of PMC, SBI Caps and technical consultants for the '24x7 Water' project, rating agencies were all in full attendance to interact with potential investors. The discussion included topics like timeline and scope of the project, size of the funding required, details about the various clearances PMC received from the several regulatory and statutory authorities, the proposed escrow mechanism to be adopted for debt service etc. The confidence of investors in these disclosures helped PMC achieve a coupon rate of 7.59% for the first tranche of the bond program with debentures with a maturity of 10 years.

References

[1] National Municipal Accounting Manual, India, Ministry of Urban Development, December 2004, USAID-TCGI Contract No. 386-C-00-04-00119-00

[2] Water Supply System for Pune City - Detailed Project Report, December 2015, prepared by Studio Galli Ingegneria (SGI) and submitted to the PMC

[3] Securities and Exchange Board of India (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015

[4] The Maharashtra Municipal Corporations Act (as modified upto June 9th, 2014)

[5] Anuradha Basumatari, India Ratings Upgrades Pune Municipal Corporation to 'IND AA+'; Outlook Stable, December 30th, 2016, Online (https://www.indiaratings.co.in/PressRelease?pressReleaseID=25974&title=India-Ratings-Upgrades-Pune-Municipal-Corporation-to-%E2%80%98IND-AA%2B%E2%80%99%3B-Outlook-Stable)

[6] Anuradha Basumatari, India Ratings Assigns Pune Municipal Corp's NCDs Final 'IND AA+'; Outlook Stable, June 21st, 2017, Online (https://www.indiaratings.co.in/PressRelease?pressReleaseID=27973&title=India-Ratings-Assigns-Pune-Municipal-Corp%E2%80%99s-NCDs-Final-%E2%80%98IND-AA%2B%E2%80%99%3B-Outlook-Stable)

[7] CARE Ratings, Press Release, Pune Municipal Corporation, June 29th, 2017, Online (http://www.careratings.com/upload/CompanyFiles/PR/Pune%20Municipal%20Corporation-06-29-2017.pdf)

[8] The write-ups and templates about 'Debt Capacity Analysis' and 'Debt Management Policy' have been authored by Mr. William Streeter, Senior Advisor, US Department of Treasury. The above mentioned write-ups and the templates were later updated by Mr. Prasad Thakur, War Room, PMC. Both are members of the working group formed for the PMC's bond program for the '24x7 Water Supply Project'.

[9] Circular CIR/IMD/DF-1/ 25 /2017 dated March 22nd, 2017 by Securities and Exchange Board of India (SEBI). The Circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework".

[10] Curtain Raiser - Listing Ceremony of India's largest Municipal Bond Program tomorrow at BSE Mumbai Dated: June 21st, 2017– Press Information Bureau Mumbai [URL: http://pibmumbai.gov.in/scripts/detail.asp?releaseId=E2017PR1122]

[11] SEBI's letter number CIR/IMD/DF1/60/2017 sent by Richa G. Agarwal, Deputy General Manager, Investment Management Department dated: June 19th, 2017 with the subject "Continuous disclosures and compliances by issuers under SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015" .

[12] CIR/CFD/CMD/93/2017 sent by Pradeep Ramakrishnan, Deputy General Manager, Corporate Finance Department, Compliance and Monitoring Division and Forensic Accounting Cell dated: August 4th, 2017 with the subject "Disclosures by listed entities of defaults on payment of interest/ repayment of principal amount on loans from banks/financial institutions, debt securities etc."

Appendix 1

Indicative Actions taken by Pune Municipal Corporation to comply with the SEBI Guidelines 2015[3]

Indicative actions taken by the PMC corresponding to each section given in the SEBI Guidelines are reffered in this book with the same section numbers.

Chapter I
Preliminary

Important Documents

1.

(1) Not applicable

(2) Not applicable

Definitions

2.

(1) Definitions as mentioned in SEBI Guidelines

(2) As mentioned in SEBI Guidelines

3.

Applicability: This document is non-binding on any entity

Chapter II
Eligibility

4. PMC is eligible to issue debt securities due to compliance with the following:

   a. PMC, which issued debt securities itself, is eligible to raise funds under its constitution

   b. PMC's accounts were prepared in accordance with National Municipal Accounts Manual since 2006-07 i.e., more than three immediately preceding financial years to bond issue

   c. PMC did not have negative net worth in any of the three immediately preceding financial years

   d. PMC did not default in repayment of debt securities or loans obtained from Banks or Financial Institutions, during the last three hundred and sixty five days preceding the bond issue

   e. Not Applicable

   f. Not Applicable

Chapter III
Requirements for Public Issue

This Chapter is not applicable to PMC for this issue.

Chapter IV
Listing of Debt Securities

Mandatory listing

14. PMC has listed its bonds on Bombay Stock Exchange.

Conditions for listing of debt securities issued on private placement basis.

15.

1. PMC listed its bonds on Bombay Stock Exchange, Mumbai, on June 22nd, 2017.

   a) PMC issued general obligation bonds with Property Tax as pledged Revenue.

   b) PMC had prepared its accounts in adherence with the NMAM with some exemptions received from SEBI. These exemptions have been described in the appropriate section above.

   c) Not applicable

   d) Not applicable

   e) PMC did not solicit or collect funds by issue of debt securities, except by way of private placement.

   f) The minimum subscription amount per investor was not less than INR. 25,00,000. Both, ICICI Prudential and Bank of Maharashtra invested INR 100 crores each.

   g) PMC obtained credit rating in respect of the debt securities from Care Ratings and India Ratings. Both agencies awarded "AA+" rating.

   h) PMC issued debt securities in dematerialized form.

   i) PMC has made all disclosures as provided in Schedule I of SEBI Guidelines.

Chapter V

Requirements for both Public Issues and Private Placement

Asset Cover

16. PMC has maintained an equivalent of "100 % asset cover sufficient to discharge the principal amount at all times for the debt securities issued" in the form of a structured payment mechanism for debt service using an escrow account.

Buy Back

17. PMC has not provided for the buy-back option.

Prohibitions of mis-statements in the offer document

18.

1) Relevant disclosures made in the Information memorandum
2) Not Applicable

Creation of Security for Secured Debentures

19.

1) PMC's debentures are unsecured. However, Property Tax has been declared as a pledged revenue source for servicing debt for the first tranche of bonds. Its value is sufficient for the due repayment of the amount of debentures and interest thereon. PMC has adopted a structured payment mechanism for debt service using an escrow account.
2) Not Applicable
3) PMC has created structured payment mechanism for debt service using an escrow account.
4) PMC utilised the issue proceeds only after the documents for creation of security were executed.

Trust Deed

20.

1. PMC has executed a trust deed for securing the issue of debentures in favour of a debenture trustee (SBICAP Trustee Company Ltd.), within three months of the closure of the issue.
2. The contents of the trust deed signed by PMC is in consonance with SEBI (Debenture Trustees) Regulations, 1993.

3. PMC has complied with this clause.

Redemption and Roll-over

21.

1) PMC has redeemed the debt securities in terms of the offer document as per the SEBI Guidelines.
2) PMC does not intend to roll-over the debt securities issued.
3) Not Applicable
4) Not Applicable
5) Not Applicable
6) Not Applicable

Debenture Redemption Reserve

22.

(1) Not Applicable

(2) Not Applicable

Chapter VI
Conditions for Continuous Listing and Trading of Debt Securities

Continuous Listing Conditions

23.

1) PMC will comply with conditions of listing including continuous disclosure and other requirements specified by SEBI in general and those specified in Schedule V to these regulations (see the relevant section in this document on Compliance and Continuous Disclosure).
2) Not Applicable
3) PMC will follow procedures laid down in the SEBI Guidelines in case there is a change in its ratings.
4) PMC will comply with this clause.
5) PMC will comply with this clause.
6) PMC will comply with this clause.
7) PMC will comply with this clause.

Accounting and Audit

24.

1) PMC prepares its accounts in accordance with the National Municipal Accounting Manual.

2) PMC's accounts are audited by an independent auditor appointed by the Municipal Corporation, as permissible under its constitution/state legislation governing itself.

3) PMC has appointed an independent auditor to audit the bank account for issue proceeds and separate escrow account with earmarked revenues at regular intervals.

Trading and Reporting of Debt Securities

25.

1) The debt securities issued by PMC on a private placement basis, which are listed on Bombay Stock Exchange, shall be traded and such trades shall be cleared and settled in a recognized Clearing Corporation subject to conditions specified by SEBI Guidelines.

2) The trading lot for privately placed debt securities issued by PMC is Rupees Ten lakhs only.

3) Relevant entities may comply with SEBI Guidelines 2015.

4) PMC will comply with this clause

Chapter VII
Obligations of Intermediaries and Issuers

Obligations of monitoring agency and trustee.

26.

1) Not Applicable

2) Relevant entities may comply with SEBI Guidelines 2015.

3) Relevant entities may comply with SEBI Guidelines 2015.

4) SBICAP Trustee Company Ltd. has been appointed as the debenture trustee and will be vested with the requisite powers for protecting the interest of holders of debt securities.

5) The debenture trustee shall make disclosures as per SEBI Guidelines.

6) The debenture trustee shall carry out its duties and perform functions under the SEBI Regulations.

7) The debenture trustee shall make

disclosures about material events as per SEBI Guidelines.

8) The debenture trustee shall supervise the implementation of conditions regarding creation of security for the debt securities as per SEBI Guidelines

Obligations of the Issuer and Merchant Banker

27.

1) PMC has disclosed all the material facts in the offer documents issued or distributed to the private institutional investors and has ensured that all the disclosures made in the offer document are true, fair and adequate and there are no misleading or untrue statements or mis-statements in the offer document.

2) PMC's various departments have provided the information published in the IM and have certified the information's authenticity. SBI Caps, the merchant banker, has verified and confirmed that the disclosures in the offer documents are true, fair and ensure that the issuer is in compliance with these regulations.

3) The merchant banker has ensured that all transaction specific disclosures required are complied with.

4) Not Applicable

5) Not applicable

6) No person from PMC shall employ any device, scheme or artifice to defraud in connection with issue or subscription or distribution of debt securities which are listed or proposed to be listed on a recognized stock exchange.

7) PMC and SBI Caps have adopted a structured payment mechanism for debt service using an escrow account.

Chapter VIII
Miscellaneous

Sanction for violations

28. PMC will comply with SEBI Regulations.

Power to remove difficulties

29. PMC will follow all regulations.

SCHEDULE I
of SEBI GUIDELINES

See Regulation 6(2)

Disclosures

1. Not Applicable
2. PMC has made the below-mentioned disclosures:

A. General Information

1. PMC (issuer of securities) has mentioned the relevant Act under which it is incorporated and governed.
2. PMC has disclosed its General Body Resolution authorizing the borrowing and list of authorized signatories.
3. PMC has complied with the relevant acts.
4. PMC has disclosed a copy of budget documents for the last 3 years.
5. PMC has given an undertaking as per SEBI Guidelines.
6. PMC has provided all information.
7. PMC paid back all its debt before listing its bonds on the Bombay Stock Exchange. It has also created a pari-passu relation between all subsequent tranches of bond/loan issues under the present bond/loan program.
8. Not applicable
9. PMC has provided these details to the relevant authorities.

PMC has submitted the following disclosures to the Debenture Trustee in electronic form (soft copy) at the time of allotment of the debt securities:

1. The relevant Act under which the issuer of such securities is incorporated and governed.
2. Copy of the Resolution authorizing the borrowing and list of authorized signatories.
3. Copy of the necessary Resolution(s) for the allotment of debt securities.
4. Copy of budget documents for last 3 years containing actual financial performance and/or revised estimates.

B. PMC and other relevant entities will comply with SEBI Guidelines. This information is also contained fully/partially in the Information Memorandum.

C. PMC and other relevant entities will comply with SEBI Guidelines.

This information is also contained fully/partially in the Information Memorandum.

D. PMC and other relevant entities will comply with SEBI Guidelines. This information is also contained fully/partially in the Information Memorandum.

E. PMC and other relevant entities will comply with SEBI Guidelines. This information is also contained fully/partially in the Information Memorandum.

F. PMC and other relevant entities will comply with SEBI Guidelines. This information is also contained fully/partially in the Information Memorandum.

SCHEDULE II
of SEBI GUIDELINES

[See Regulation 7 (10)]

Format For Due Diligence Certificate At The Time Of Filing The Offer Document By An Issuer Or A Corporate Municipal Entity With Registrar Of Companies And Prior To The Opening Of The Issue: PMC has provided the necessary information.

SCHEDULE III
of SEBI GUIDELINES

[See Regulation 7 (11)]

Format of Due Diligence Certificate to be Given by the Debenture Trustee before Opening of the Issue: Relevant entity will comply with this requirement.

SCHEDULE IV
of SEBI GUIDELINES

[See Regulation 9 (1)]

Format of Issue Advertisements for Public Issues: Not applicable.

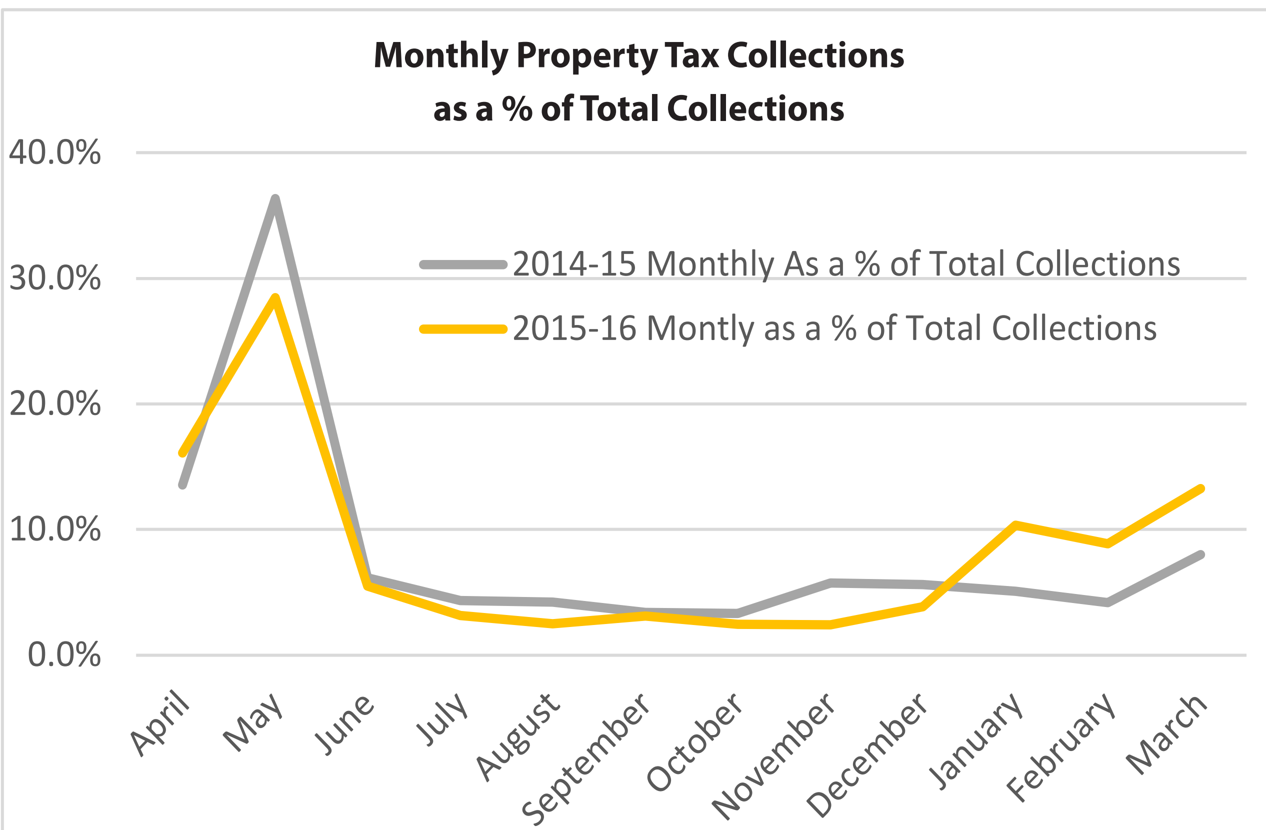
SCHEDULE V
of SEBI GUIDELINES

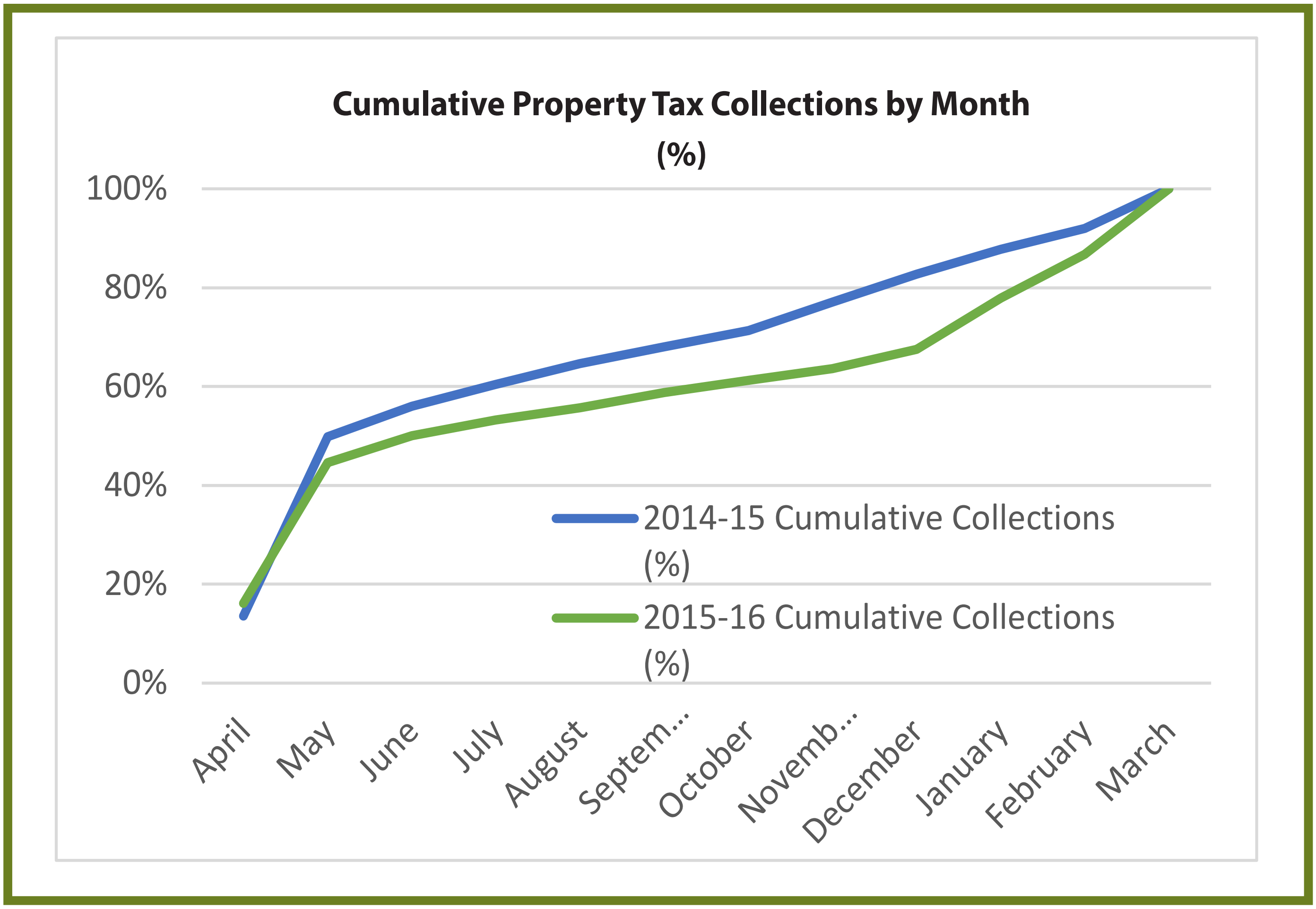
[See Regulation 23 (1)]

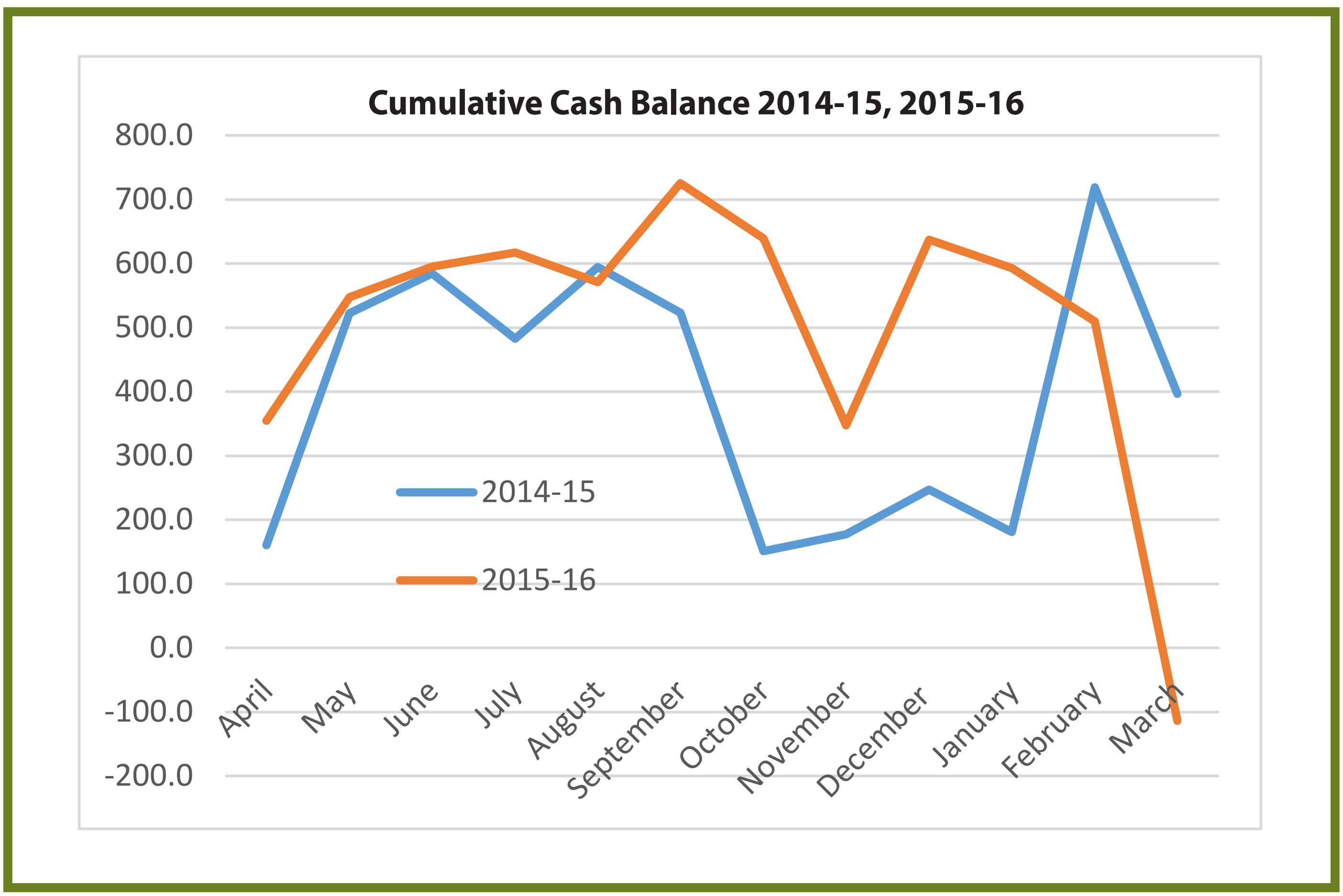
Periodic Disclosures to be made by Issuers: PMC will comply with all periodic disclosure requirements as per the various SEBI Guidelines and letters [Please refer to the relevant section in this document].

Appendix 2

Indicative Template used in the Debt Capacity Analysis




Cumulative Property Tax Collections by Month
(%)
100%
80%
60%
40%
20%
0%
2014-15 Cumulative Collections (%)
2015-16 Cumulative Collections (%)
April
May
June
July
August
Septem...
October
Novemb...
December
January
February
March


Cumulative Cash Balance 2014-15, 2015-16
800.0
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
-100.0
-200.0
2014-15
2015-16
April
May
June
July
August
September
October
November
December
January
February
March

Indicative Ratio Analysis for the scenario where the debt is INR 2200 crore with a coupon rate of 8.5% and maturity of 15 years

INR 2,200 Crore Bond, 15 Year Maturity at 8.5% (USD 330 million)	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Annual Debt Service	2,64,92,50,151	2,64,92,50,151	2,64,92,50,151	2,64,92,50,151	2,64,92,50,151	2,64,92,50,151	2,64,92,50,151
DSCR by Adj. Operating Surplus (X)	3.0	3.6	2.1	1.1	1.6	1.4	1.8
Debt Service as a % of Adj. Revenues	16.3%	13.6%	11.4%	10.0%	8.5%	8.5%	7.6%
Debt Service as a % of Adj. Expenditures	37.2%	31.8%	20.3%	21.9%	18.0%	16.4%	14.8%
Ann. DS as a % of Ann. DS Capacity	50.6%	42.0%	70.9%	140.4%	93.0%	107.3%	83.1%

Disclaimer : The numbers indicated in the table describe only one of the many scenarios that influence the ratio analysis excercise. They have no resemblance to real-life situations.

Definitions:

- Adjusted (Adj.) Operating Surplus available for debt service, appropriations = Gross Operating surplus before debt service, appropriations, payables - Mandatory Contribution to projects - Accounts Payable
- Adjusted Operating Surplus = (Adjusted Operating Surplus available for debt service, appropriations)/1.5
- Adjusted Operating Revenues = Total Revenue - Current Period Overdues Provision Property Tax, Rental
- Adjusted Operating Expenditures before debt service & appropriations = Provision for overdues (netted against income) - Interest on debt

Appendix 3

Relevant Sections of Maharashtra Municipal Corporations Act[4] in the context of Debt Management Policy

Appendix 3 [A]: Maharashtra Municipal Corporations Act Conditions for Municipal Bond Issuance

(Sec. 109)

The Municipal Corporation may, with the previous sanction of the State Government, borrow or re-borrow debentures on the security of any immovable property vested in the Corporation, or proposed to be acquired under this Act, or any tax which it is authorized to levy

(i) a loan shall only be raised for the execution of a permanent work, for which the cost should be spread over a term of years

(ii) no loan shall be raised unless the State Government has approved the terms and method by which the loan is to be raised and repaid

(iii) the period within which the loan is to be repaid shall in no case exceed sixty years

Where a loan is raised for the repayment of a previous loan, the period within which the subsequent loan is to be repaid shall not extend beyond the unexpired portion of the original loan. No portion of any sum borrowed or re-borrowed for any work shall be applied to the payment of salaries; except such share of salaries and allowances of municipal officers employed in part for the preparation of project related plans, estimates, construction or supervision; as the Standing Committee may fix to be paid from sum borrowed or re-borrowed.

The Municipal Corporation may apply a sinking fund towards the discharge of a loan, until such loan is wholly discharged;

the sinking fund shall not apply for any other purpose.

Appendix 3 [B]: Maharashtra Municipal Corporations Act Debt Disclosure Requirements

(Sec. 126)

(1) The Commissioner shall, at the end of each year, prepare a statement showing—

(a) the loans borrowed in previous years for which the Corporation is liable and which have not been completely repaid before the commencement of the year, with particulars of the amount outstanding at the commencement of the year, the date of borrowing and the annual loan charges

(b) the loans borrowed by the Corporation in the year with particulars as to the amount and the date of borrowing and the annual loan charges

(c) in the case of every loan for which a sinking fund is maintained, the amount of accumulation on the sinking fund at the close of the year showing separately, the amount paid to the credit of the fund in the year

(d) the loans repaid in the year and in the case of the loans repaid in installments or by annual drawings, the amounts repaid in the year, and the balance due at the close of the year

(e) the particulars of securities in which the sinking funds have been invested or reserved therefore

(2) Every such statement shall be laid before a meeting of the Corporation and shall be published in the Official Gazette and a copy of such statement shall be sent to the [State] Government.

Appendix 4

Selective Duties and Responsibilities of the Issuer, Bank and Trustee

1. Duties of the Issuer

i. Immediately upon the execution of the tripartite agreement between the Issuer, Bank and Trustee, the Issuer shall ensure that the amounts deposited in the Property Tax Account(s) are transferred to the Escrow Account and in no case such transfer shall be later than the start of each month.

ii. The Issuer shall keep the Trustee informed of all the Property Tax Account(s) and share the statements with the Trustee for all such Account(s). Any change in Property Tax Account(s) including addition of the Account(s) should be informed to the Trustee.

iii. Immediately upon execution of this Agreement, the Issuer shall provide the necessary standing instructions to the Escrow Banker for priority of transfer from the Escrow Account to the other accounts as specified above.

iv. The Issuer shall ensure that there are sufficient funds available in the Property Tax Account, on the first Business Day of every month, to transfer relevant funds to the DSRA Account, Interest Payment Account and Sinking Fund Account.

v. Issuer shall inform to the Escrow Banker, the amount to be transferred to DSRA Account at least 2 (two) days prior to such transfer.

2. Duties of the Escrow Banker

i. Escrow Banker shall ensure that funds are first transferred to DSRA Account, Interest Payment Account and Sinking Fund Account, as per the priority mentioned in this Agreement, thereafter to be transferred to the PMC MUNI BOND SURPLUS FUND ACCOUNT.

ii. Escrow Banker shall ensure that funds are not transferred to the PMC MUNI BOND SURPLUS FUND ACCOUNT unless the relevant amounts are deposited in DSRA Account, Interest Payment Account and

Sinking Fund Account.

iii. Escrow Banker shall comply with directions of the Trustee, in case of any shortfall of funds in such Accounts.

iv. The Escrow Banker shall be bound to comply with the instructions of the Trustee for transfer of any amount from the DSRA Account to the Interest Payment Account. The Escrow Banker shall not allow any debits to these Accounts other than as mentioned in this Agreement without the consent of the Trustee.

v. The Escrow Banker shall share the annual statements of these Accounts with Trustee and the Credit Rating Agency(ies) during the tenure of Bonds.

3. Duties of Trustee

i. The Trustee shall ensure that any surplus funds in these Accounts are released only after all the dues of the Debenture Holders are settled.

ii. The Trustee shall check the amount in the above mentioned accounts 25 days prior to interest payment date and in case of any shortfall, direct the Issuer to transfer the requisite funds to the relevant Account.

iii. In case the Issuer fails to transfer the funds 15 days before interest payment date to relevant Account, it shall instruct the Bank to transfer the requisite funds to said Accounts.

iv. The Trustee shall have the right to obtain necessary information from the Escrow Banker regarding funds in Accounts.

v. The Issuer and Trustees shall keep the Credit Rating Agency(ies) informed in case of any change in the Escrow Banker.

Appendix 5

Indicative Checklist under SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015 for Issue of Private, Listed Bonds by Municipalities

Documents to be created before issue opening:

1. Copy of the Committee Resolution/ Municipal Corporation authorizing the borrowing and list of authorized signatories.
2. An undertaking from the issuer for creation of charge (in case of Secured Debt Securities)
3. In principle approval from Stock Exchange
4. Disclosure Document
5. Credit Rating Letters
6. Latest Annual report
7. Listing Agreement

Documents to be created after allotment:

1. Copy of the Resolution(s) for the allotment of debt securities
2. List of Allottees
3. Credit Corporate Action Letters

Event-based Disclosures:

1. Certificate to the Stock Exchange within 5 working days of the Interest and/or Principal becoming due that the timely payment has been made
2. Approval from the Stock Exchange for any material changes (such as coupon rate, redemption or otherwise)
3. Notice to the Stock Exchange at least 7 working days (excluding date of intimation and record date) prior to fixing of record

date for payment of Interest and/or principal

Periodic disclosures as per Schedule V of the regulations

Half-yearly disclosures/submissions –

1. Unaudited Financial Results (within 3 months)
2. Certificate from the Chartered Accountant for utilization of the Issue proceeds for the project
3. A Report containing status of implementation of the project which is being financed, along with the reasons for delay, if any.
4. Project Development report along with the certification by the Project Engineer (to the Trustees, Rating Agencies, Stock Exchange and also to be disseminated to the public)
5. Report on material adverse changes which may affect servicing of the bonds
6. Ratios like Debt Equity Ratio, Debt Service Coverage Ratio, Interest Service Coverage Ratio
7. Half-yearly return on servicing of bonds, Credit Enhancement facilities and Investor Grievance & Redressal
8. A CA/Bank certificate for timely servicing of bonds
9. A statement to the stock exchanges within 30 days giving the following details:
   a. Number of investor complaints pending at the beginning of the half year
   b. Number of investor complaints received during the half year
   c. Number of investor complaints disposed of during the half year
   d. Number of investor complaints pending at the end of the half year

Annual disclosures/submissions –

1. Annual Audited financial results along with Annual Report (within 6 months)
2. Soft copies of Annual Report to all the bond holders on their registered email address
3. Review of rating by the Credit Rating Agency every year

PMC will also fully comply with SEBI's letter number CIR/IMD/DF1/60/2017 sent by Richa G. Agarwal, Deputy General Manager, Investment Management Department dated: June 19th, 2017 with the subject "Continuous disclosures and compliances by issuers under SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015".

Appendix 6

Indicative list of stages to be completed for the private placement of Municipal Bonds as suggested by SBI Capital Markets Limited

1. The relevant Act under which the PMC of such securities is incorporated and governed
2. Committee Resolution/ Municipal Corporation authorizing the borrowing and list of authorized signatories.
3. Necessary Resolution(s) for the issuance and allotment of debt securities
4. Budget documents for last 3 years containing actual financial performance and/or revised estimates along with the details of related party transactions
5. An undertaking from the issuer stating that the necessary documents for the creation of the charge, where applicable, including the Trust Deed would be executed within the time frame prescribed in the relevant regulations/act/rules etc., and the same would be uploaded on the website of the recognized Stock Exchange where the debt securities have been listed, within five working days of execution of the same
6. Any other particulars or documents that the recognized stock exchange, where the debt securities have been listed, may call for, as it deems fit
7. An undertaking that permission/consent from the prior creditor for a second or pari-passu charge being created, where applicable, in favor of the trustees to the proposed issue has been obtained
8. Name and contact details of the monitoring agency
9. Details of the separate escrow account opened for servicing of debt securities with earmarked revenue, wherever applicable
10. Name and address of the following:-
    a. Head office/quarters of the Issuer

b. Compliance officer of the Issuer

c. Complete Details of the Official In-charge of dealing with investor grievances related to the Municipal Bonds, his/her address, phone number, email ID, etc.

d. Chief Accounts and Finance Officer or equivalent of the Issuer

e. Arrangers, if any, of the instrument

f. Trustee of the issue

g. Registrar to an issue

h. Credit Rating Agency(ies) of the issue and

i. Auditors of the Issuer

j. The relevant Act under which the issuer is incorporated and governed

11. Comprehensive Disclosure regarding the Risk Factors, including project risks, operational risks, credit risks, liquidity risks, etc.

12. Details of Mayor/Deputy Mayor including date of appointment, etc.

13. Details of Commissioner/Deputy Commissioner including date of appointment, etc.

14. Details of any Reorganization or Reconstruction in the last 1 year

15. Details of the members of the Committee approving the project/various standing Committees relating to Taxation/Finance/Accounts/Audit/Infrastructure

16. Details of the Auditors

17. Details of Trustee

18. A brief summary of the business/activities of the Issuer and its project for which funds are to be raised

19. Performance with respect to key financial and operational parameters for the last 3 years

    a. Abridged Balance Sheet, Income and Expenditure and Receipts and Payments Accounts for the last three years with major heads;

    b. Link to the web page where the entire financials of the Municipal Body can be accessed should be given

    c. Financial Parameters

    d. Operational Parameters

20. Status of reforms with respect to e-governance, cost recovery on water supply & Solid Waste Management (SWM), property tax, double entry accounting and others, as specified by MoUD and authorities concerned

21. Details of Issuer’s outstanding borrowing

22. Any material event/development or change having implications on the financials/credit quality (e.g. any material regulatory proceedings against the Corporation, resulting in material liabilities, restructuring event etc.) at the time of the issue which may affect the issue or the investor’s decision to invest/continue to invest in the debt securities

23. The detailed rating rationale(s) adopted (not older than one year on the date of opening of the issue)/credit rating letter issued (not older than one month on the date of opening of the issue) by the rating agencies shall be disclosed
24. Credit Enhancement Mechanisms with complete details
25. The security is backed by a guarantee or letter of comfort or any other document/ letter with similar intent, a copy of the same shall be disclosed. In case such document does not contain detailed payment structure (procedure of invocation of guarantee and receipt of payment by the investor along with timelines), the same shall be disclosed in the offer document
26. In case there is an escrow mechanism for the repayment of the interest/principal, details of the same should be given
27. The names of the debenture trustee(s) shall be mentioned with statement to the effect that debenture trustee(s) has given his consent to the Issuer for his appointment. This also needs to be mentioned in all subsequent communications sent to the holders of debt securities.
28. Names of all the recognized stock exchanges where the debt securities are proposed to be listed clearly indicating the designated stock exchange
29. Penal interest payable by the Municipal Corporation in case of delay in execution of Trust Deed and charge documents
30. Additional interest to be paid, above the Coupon Rate, in case of default in payment of Interest and/or principal redemption on the due dates
31. Penal interest payable by the Municipal Corporation in case of delay in listing of debt securities from the deemed date of allotment
32. DRR/such other reserve creation - relevant regulations and applicability
33. Issue/instrument specific regulations - relevant details (Relevant Act, RBI guidelines, etc.)
34. Procedure for deciding and adjusting payment dates (in response to days when payment can't be made due to any reason like sudden bank holiday
35. List of documents which have been executed/will be executed in relation to the issue
36. Investor Grievances Mechanism
37. Such other details necessary for the investors to make a well-informed decision regarding their investment in the proposed issue
38. Declaration signed by the Mayor and Commissioner of the concerned Municipal Body stating that the offer document contains true, fair and adequate information to enable investors to make a well-informed decision regarding their investment in the proposed issue.

Schedule 1

Indicative Amounts to be paid into the Escrow Account as per the Structured Payment Mechanism

Schedule 1

Name of the Issuer	**Pune Municipal Corporation**
Issue Amount	Rs. 200 Crores
Deemed Date of Allotment	20-June-17
Pay-in Date	20-June-17
Redemption Date	20-June -27
Tenor	10 Years
Interest Payment Frequency	Semi-Annual
Interest Payment Date	20th December & 20th June every year till redemption
Coupon	7.59% p.a.

Indicative amounts suggested that may be transferred to DSRA account, Interest Payment account and Sinking Fund account

Rs. in crores

DATE/ MONTH	DSRA			INTEREST PAYMENT			SINKING FUND		
	AMOUNT	TRANSFER	CUMULATIVE	AMOUNT	TRANSFER	CUMULATIVE	AMOUNT	TRANSFER	CUMULATIVE
19-Jun-17	15.18		15.18						
Jul-17	15.18		15.18	1.52		1.52	1.67		1.67
Aug-17	15.18		15.18	1.52		3.04	1.67		3.34
Sep-17	15.18		15.18	1.52		4.56	1.67		5.01
Oct-17	15.18		15.18	1.52		6.08	1.67		6.68
Nov-17	15.18		15.18	1.52		7.6	1.67		8.35
Dec-17	15.18		15.18	1.27	7.59	1.27	1.67		10.02
Jan-18	15.18		15.18	1.27		2.54	1.67		11.69
Feb-18	15.18		15.18	1.27		3.81	1.67		13.36
Mar-18	15.18		15.18	1.27		5.08	1.67		15.03

Schedule 2

Indicative Mortgage Style Debt Modeling Tool

Mortgage Style Debt Service Schedule: INR 200 Crores Bond

User-Input Fields: (All figures in INR)

Loan Amount:	2,00,00,00,000
Interest Rate (%):	7.59%
Number of Years:	10
Number of Payments Per Year:	1

Fixed Calculations:

Scheduled Ann. Payment Amount:	29,25,70,379
Total No. of Payments:	10
Total DS Payment Amount:	2,92,57,03,786
Total Interest Paid:	92,57,03,786

Payment Year	Start Balance	Total Annual Debt Service Payment	Annual Principal Payment	Annual Interest Payment	Semi-Annual Interest Payment	Ending Balance
1	2,00,00,00,000	29,25,70,379	14,07,70,379	15,18,00,000	7,59,00,000	1,85,92,29,621
2	1,85,92,29,621	29,25,70,379	15,14,54,850	14,11,15,528	7,05,57,764	1,70,77,74,771
3	1,70,77,74,771	29,25,70,379	16,29,50,273	12,96,20,105	6,48,10,053	1,54,48,24,498
4	1,54,48,24,498	29,25,70,379	17,53,18,199	11,72,52,179	5,86,26,090	1,36,95,06,299
5	1,36,95,06,299	29,25,70,379	18,86,24,850	10,39,45,528	5,19,72,764	1,18,08,81,448
6	1,18,08,81,448	29,25,70,379	20,29,41,477	8,96,28,902	4,48,14,451	97,79,39,971
7	97,79,39,971	29,25,70,379	21,83,44,735	7,42,25,644	3,71,12,822	75,95,95,237
8	75,95,95,237	29,25,70,379	23,49,17,100	5,76,53,278	2,88,26,639	52,46,78,137
9	52,46,78,137	29,25,70,379	25,27,47,308	3,98,23,071	1,99,11,535	27,19,30,829
10	27,19,30,829	29,25,70,379	27,19,30,829	2,06,39,550	1,03,19,775	0

Author Profile

Mr. Kunal Kumar, IAS, is the incumbent Municipal Commissioner at Pune Municipal Corporation. He has been working in the state of Maharashtra since 1999 and has served across various cities. He has a bachelor's degree in Electrical Engineering from the Indian Institute of Technology (IIT), Roorkee and a Masters in Public Management from Lee Kuan Yew School of Public Policy at National University of Singapore jointly conducted with the John F. Kennedy School of Government at Harvard University.

Under his stewardship, Pune was ranked 2nd in the country in the "Smart Cities Mission Challenge" conducted by the Government of India. The project and process innovations introduced by him have given a fillip to the city's productivity. His contributions to the city transcend sectors like urban-mobility, public finance, water resource management, solid waste management, e-Governance etc. Initiatives like the launch of India's largest Municipal Bonds program, Pune Metro (Phase-1), Special Purpose Vehicle (SPV) for riverfront development, Pune Open Data Portal, 'Maza Swapna, Smart Pune' (citizen engagement activity), City Command Control Centre, Bus Rapid Transit System (BRTS) & procurement of buses, Pune Bicycle Plan, 'Lighthouses of Pune' (sustainable livelihood initiative), Digital Literacy Centers, Solid Waste Management Projects etc. have already started benefitting the city. His leadership role in making contributions to the 'Smart Cities Mission' was commended by the Government of India through Prime Minister of India's decision to commemorate the first anniversary of the mission in the city of Pune. His direction and leadership has helped Pune Municipal Corporation receive several international and national accolades like Pune emerging as the best governed city and the most equipped to deliver urban reforms in an all-India survey by Janaagraha Centre for Citizenship and Democracy, in the 5th edition of its Annual Survey of India's City-Systems (ASICS) report 2017, its selection in the '100 Resilient Cities Programme' (pioneered by The Rockefeller Foundation), recognition at the World Smart City Awards in Barcelona (2016-17), Second highest ranked city in India in the Mercer 2017 Quality of Living Index, Skoch Award – 'Gold Category', INDOSAN Award 2016, V. Ramachandran award for Participatory Budgeting etc.

He has been a recipient of several awards throughout his illustrious career, including, but not limited to, Business World award for the 'Smart City Person of the Year 2017', Skoch Award for 'The City Manager of the Year Award 2017', Prime Minister of India's Award for excellence in 'Aadhar based Governance' (as District Collector of Aurangabad), 'Best e-Governed District' (during his stint in Jalgaon), 'Certificate of Appreciation' from the Manthan Award South Asia 2009, etc.

Author Profile

CMA Ulka Kalaskar is holding the position of Chief Accounts & Finance Officer since 2002 at Pune Municipal Corporation. She has completed her Masters degree in Commerce faculty from Savitribai Phule University of Pune and was awarded Cost Management Accountant (CMA) from The Institute of Cost Accountants of India. She has professional experience of over 25 years in the Accounts, Audit and Financial domains. She started her career in an International firm which was a member of "Nexia International–Worldwide". During her tenure of around 10 years, she has undertaken major assignments in Internal Audit as well as routine audit of various multinational companies like BBTCL- Formica India Ltd, Greaves Ltd, Godrej General Electric Appliances, Mantri Housing & Construction Ltd., Chowgule Industries Ltd., handled stock assignments of Greaves Ltd. at all branches in India, also handled statutory audit of Nationalised Bank, assisted the Statutory Auditor for finalization of Accounts in companies like Hind Condenser, Greaves Ltd., Larsen & Toubro Ltd., Global Wireless Technology Ltd., and also maintenance of books of accounts for clients till the stage of filing of their returns.

As Chief Accounts and Finance Officer in Pune Municipal Corporation, her role includes developing the budget of the Municipal Corporation, implementation of budget reconciled with actual financial position of corporation which is an important part of financial management, converting single entry accounting system to double entry accounting system - as an important reform under earlier centrally sponsored schemes, ensuring overall computerization of department and finalization of accounts, involved in raising loans/funds from open market for infrastructure and development of the city, maintaining the records of provident fund and contributory pension scheme, preparation of balance sheet of Pune Municipal Corporation. Currently PMC is implementing an ERP project, under which she is working on the execution of SAP in Finance department. She is also handling other responsibilities like, Chairperson of Committee constituted under Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal Act, 2013), working as a Treasurer of Kamgar Kalyan Nidhi and AIDS Society etc. She is involved in Social activities like working for Students Welfare Association, Pune where the trust is looking after meals and accommodation for the economically backward students from rural areas coming to Pune for their studies.

She has been closely involved in preparing participatory budget since 2006 for PMC, under which suggestions from citizens were called for making the provisions in the budget. The suggestions are properly scrutinized and according to its feasibility, the same are provided for in the respective budget. With her focused vision & persistent hard work, PMC received the SKOCH Gold Award & V. Ramachandran award for Participatory Budget. Her cognizant experience helped PMC rating as highest rated ULB in India with AA+ /Stable rating based on its strong operating cash flows and limited debt on its Balance Sheet and raising India's largest Municipal Bond issue. She has also been awarded with CMA - Young Achiever Award in 2014 under the category of Public-Service Sector (Female), CMA - CFO Award in 2016 under the category of Service Sector – Large Scale (Female) and awarded with CFO NEXT100 in 2017.

Author Profile

Mr. Kunal Mandwale is the incumbent Dy. Chief Accounts and Finance Officer (Dy. CAFO) at Pune Municipal Corporation (PMC). He has completed his B.Com., LLB., and Diploma in Tax Laws from Savitribai Phule University of Pune, Fellow Company Secretary from Institute of Company Secretaries of India and Government Diploma in Financial Management from All India Institute of Local Self Government.

He has over 13 years of professional experience out of which 9 years have been post receiving his membership. At PMC, he is responsible for conducting surprise tests and audits of various departments. He also approves procurement decisions regarding materials and consumables. He is a single point of contact on financial correspondence between PMC's various departments and the Chief Auditor, Local Fund Audit team, Accounts General's audit team and the Government of Maharashtra. He assists the CAFO in preparation of financial statements on an annual basis. He has been appointed as the Compliance Officer for India's first and largest listed municipal bonds program and manages correspondence between all intermediaries appointed for the issue as per SEBI's Guidelines.

He is an expert on People's Representation Act 1955, Maharashta Municipal Corporations Act 1949, Municipal Finance /Public Finance, Securities Laws, SEBI Guidelines, Corporate laws, Industrial laws and labor laws. His work for the municipal bonds program has been recognized by the Commissioner of Pune. He has also been appreciated by officers of the Election Commission of India, namely, The Expenditure Observer and the District Election Officer, for ensuring free and fair elections in the areas under his jurisdiction.

Author Profile

Mr. Prasad Thakur is a founding member of the 'War Room – City Transformation Unit' at Pune Municipal Corporation (PMC). His workstreams include public finance, international partnerships, environmental sustainability and smart-city projects. He has received a dual degree from the Indian Institute of Technology, Bombay (IITB) with a bachelor's in Electrical Engineering and master's in Microelectronics. He is also an alumnus of the flagship Post Graduate Diploma in Management program of the Indian Institute of Management, Ahmedabad (IIMA).

He has authored and contributed to several articles and reports published by international organizations like The World Bank, International Solar Energy Society, Climate Policy Initiative (USA), ICLEI (Germany), The Hindu (Business Line on campus edition, India), Metrology Research Institute (Finland) etc. At PMC, he has managed a portfolio of 35+ projects, including the first and largest listed municipal bonds program in India for which he has received a 'Letter of Appreciation' from the Municipal Commissioner of the city. Previously, he worked with the Mahindra and Tata Groups in the areas of clean energy and smart mobility.

He is a recipient of prestigious scholarships like CIMO (Govt. of Finland), National Talent Search (NCERT, Govt. of India), MHRD (Govt. of India) etc. He was invited to 'Rashtrapati Bhavan' (office of the President of India) to share his ideas in the education sector by the National Innovation Foundation, India. He was featured in the 'Top 50' young leaders selected from both countries by the Indo-German Young Leaders' Forum. He was chosen to be a part of the 21-member global team to attend the World Governance Expedition in the United Kingdom. During his tenure as the Chairperson of the Forum for Industry Interaction (India's largest student consulting body), he forged project based partnerships with several governments, private sector corporations, NGOs, academic institutions, start-ups and chambers of commerce like the Confederation of Indian Industry (CII), FICCI, Business Club India-France in Marseille etc. He has chaired several student delegations at national and international conferences on topics like clean energy, trade and commerce, innovation, union budget, government-consultancy services, etc.

Pune Municipal Corporation added a new chapter in the country's urban transformation saga by launching the first and largest listed municipal bonds program in India. This case study is an attempt to narrate the journey of the urban local body in achieving this feat. It will positively help other similar urban local bodies understand the processes and decision-making activities behind this pioneering endeavor and can act as a catalyst in the development of a robust municipal bond market in the country.

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