

Indore Municipal Corporation – Green Bond Issue

08-February-2023

Indore Municipal Corporation- Green Bond Issue

Summary:

Indore Municipal Corporation has come up with Public issue by Indore Municipal Corporation of rated, listed, taxable, secured, redeemable, non-convertible green municipal bonds of face value of Rs. 1,000/- each, (comprising of 4 (four) separately transferable and redeemable principal parts (“STRPP”) namely 1 STRPP A of face value of Rs. 250/-, 1 STRPP B of face value of Rs. 250/-, 1 STRPP C of face value of Rs. 250/- and 1 STRPP D of face value of Rs. 250/-, for an amount aggregating up to Rs. 244 crores (“Total Issue Size”). The bonds will have a base issue of up to Rs. 122 crores (“Base Issue Size”) with an option to retain oversubscription up to Rs. 122 crores (“Green Shoe Option”) aggregating to an amount of up to Rs. 244 crores. The issue will open for subscription from **February 10, 2023 to February 14, 2023**. The company will be paying an interest of **8.25% p.a.** on these bonds payable half yearly. The maturity of the STRPPs are between 3 to 9 years. Allotments, shall be made on date priority basis i.e., a first-come first-serve basis, based on the date of upload of each Application in to the Electronic Book with stock exchanges (i.e., NSE and BSE), in each Portion subject to the Allocation Ratio indicated herein above.

The proposed NCDs issue has been rated **‘IND AA+/Stable’ by India Ratings and CARE AA; Stable’ by Care Ratings**.

Objects of the Issue:

Indore Municipal Corporation (IMC) is the chief municipal body of Indore city. Presently, Shri Pushyamitra Bhargav is the Mayor and Smt. Pratibha Pal, IAS, is the Commissioner (Nagar Aayukt) of the Issuer. IMC is covered under AMRUT Scheme of Government of India. Also, Indore Municipal Corporation holds 50% equity shareholding of Indore Smart City Development Limited (ISCDL) which has been incorporated as a Special Purpose Vehicle under the Companies Act, 2013 to implement the smart city proposal of Indore Municipal Corporation under Smart City Mission (SCM). ISCDL has been involved in successful completion of several projects. IMC has been the recipient of various awards/appreciations. IMC provides urban civic services in an area of 276 square kms to a population of around 3.5 million under its jurisdiction. The municipal area is divided into 19 zones and 85 wards of various sizes and population. IMC is the largest municipal corporation in the state of Madhya Pradesh and benefits from the growing economic base of the city.

The Indore Municipal Corporation has been constituted under Article 243Q(1)(c) of the Constitution of India, 1949 and established in the year 1956 under the Madhya Pradesh Municipal Corporation Act, 1956, which was then the applicable act for constitution of municipal corporations in the State of Madhya Pradesh.

The issue proceeds will be utilized towards funding capital expenditure for the Project that will be installed in 60 MW Ground Mounted Captive Solar PV Power Plant at identified land with an area of 165.20 acres and 45.64 acres, respectively, at village Samraj and Ashukhedi. The said identified land has been allotted to IMC on a lease basis by the Collector, Khargone for the purpose of setting up the Project on an annual land rent of Rs. 0.05 crores. The allotment of land shall remain valid till the duration of the operation of the said Project.

IMC will be eligible to receive incentive from Ministry of Housing and Urban Affairs Government of India under Atal Mission for Rejuvenation and Urban Transmission 2.0 (“**AMRUT 2.0**”). AMRUT 2.0 was launched with the objective of making cities ‘Aatma Nirbhar’ and water secure. Under AMRUT 2.0, the first 20 urban local bodies on ‘first come, first serve’ basis during the mission period to issue municipal bonds, and in case of issuers who have already issued municipal bonds the subsequent bonds issued meeting the definition of green bonds by SEBI, will be eligible for incentives. An incentive of Rs. 10 crore will be given for every Rs. 100 crore of green bonds issued subject to a limit of Rs. 20 crore per urban local body.

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What are green bonds

- Green bonds are bonds issued by any sovereign entity, inter-governmental groups or alliances and corporates with the aim that the proceeds of the bonds are utilised for projects classified as environmentally sustainable. Over the last few years, Green Bonds have emerged as an important financial instrument to deal with the threats of climate change and related challenges.
- Green Bonds offer investors a platform to engage in good practices, influencing the business strategy of bond issuers. They provide a means to hedge against climate change risks while achieving at least similar, if not better, returns on their investment.
- Proceeds of these bonds can be invested in renewable energy, clean transportation, energy efficiency, climate change adaptation, sustainable water and waste management, pollution and prevention control and green buildings. These bonds encourages energy efficiency in resource utilization, reduce carbon emissions, promote climate resilience and adaptation, and improve natural ecosystems and biodiversity, especially in line with sustainable development goals' principles.
- India sold its first tranche of sovereign green bonds on 25 January 2023, raising 80 billion rupees by issuing 5-year and 10-year paper, with the yield 5-6 basis points below that of comparable government securities.

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Issuer	Indore Municipal Corporation
Security Name	8.25% IMC STRPP A 2026, 8.25% IMC STRPP B 2028, 8.25% IMC STRPP C 2030, 8.25% IMC STRPP D 2032
Issue Size	Public issue by Indore Municipal Corporation of rated, listed, taxable, secured, redeemable, non-convertible green municipal bonds of face value of Rs. 1,000/- each, (comprising of 4 (four) separately transferable and redeemable principal parts (“STRPP”) namely 1 STRPP A of face value of Rs. 250/-, 1 STRPP B of face value of Rs. 250/-, 1 STRPP C of face value of Rs. 250/- and 1 STRPP D of face value of Rs. 250/-, for an amount aggregating up to Rs. 244 crores (“Total Issue Size”). The bonds will have a base issue of Rs 122 crore with a green shoe option of similar amount.
Issue opens	Friday, February 10, 2023
Issue closes	Tuesday, February 14, 2023
Allotment	First Come First Serve Basis, Compulsory in demat form
Face Value	Each NCD has a face value aggregating to Rs 1,000 (Rupees One Thousand only). Each NCD would comprise of 4 (Four) STRPPs having different ISINs (i.e. 1 STRPP A, 1 STRPP B, 1 STRPP C and 1 STRPP D), with each STRPP having a face value of Rs. 250/- (Rupees Two Hundred and Fifty only)
Issue Price	Face Value of Rs. 1,000/- per NCD consisting of 4 (Four) STRPPs (i.e. 1 STRPP A, 1 STRPP B, 1 STRPP C and 1 STRPP D) with face value of each STRPP being Rs. 250/- (Rupees Two Hundred and Fifty only)
Nature of Instrument	Secured, Redeemable Non-convertible green municipal bonds
Minimum Application	Rs. 10,000 (i.e. 10 NCDs comprising of 10 STRPP A, 10 STRPP B, 10 STRPP C and 10 STRPP D)
In Multiples of	In multiple of 1 (One) NCD (comprising of 1 STRPP A, 1 STRPP B, 1 STRPP C and 1 STRPP D) thereafter.
Minimum Subscription	75% of the Base Issue Size i.e. Rs. 122.0 crore
Listing	NCDs are proposed to be listed NSE
Seniority	Senior (to clarify, the claims of the NCD Holders shall be superior to the claims of any unsecured creditors, subject to applicable statutory and/or regulatory requirements)
Rating	‘IND AA+/Stable’ by India Ratings and CARE AA; Stable’ by Care Ratings.
Security Cover	The Issuer shall also maintain a minimum 125% security cover on the outstanding principal of the NCDs plus accrued interest/coupon thereon, at all times.

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Security	<ul style="list-style-type: none"> The principal amount of the NCDs ('Green Bonds') together with all the interest/coupon due and payable on the NCDs, as well as costs, charges, all fees, remuneration of Debenture Trustee and expenses payable in respect thereof shall be secured by way of: first pari passu charge over present and future receivables pertaining to own revenues (i.e., tax revenues, fees and user charges, rental income, sale and hire charges excluding betterment tax and building permission fee) of the Issuer with minimum cover of 1.25 times of the total amount borrowed along with interest thereon and other expenses; First pari passu charge over the Escrow Account maintained with Kotak Mahindra Bank wherein the own revenues/cash flows of the Issuer are getting transferred into from the collection accounts and all the collection account(s) where the own revenues/cash flows of the Issuer are collected/pooled, in each case to the extent of the such own revenues/cash flows collected and/ or pooled belongs to the Issuer; Exclusive charge over the Interest Payment Account (including the DSRA Amount) and Sinking Fund Account being opened for the Issue, the funds lying in each such account and any investment(s) made from these account(s); <p>The security interest/ security documents stipulated above shall be collectively referred to as the "Security".</p>
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Specific Terms for Ncds

Particulars	Secured NCDs			
Type of Instrument	Secured NCDs			
Face Value / Issue Price of NCDs (Rs./ NCDs)	Rs.1,000 per NCD comprising of 1 STRPP A of Face value of Rs.250, 1 STRPP B of Face value of Rs.250; 1 STRPP C of Face value of Rs.250 and 1 STRPP D of Face Value of Rs.250			
STRPP with different ISIN\$	STRPP A	STRPP B	STRPP C	STRPP D
Tenor	3 Years	5 Years	7 Years	9 Years
Face value per STRPP (Rs.)	Rs. 250	Rs. 250	Rs. 250	Rs. 250
	Aggregating to Rs. 1,000 (i.e. 1 NCD)			
Coupon (%) for NCD Holders in Category I, Category II, Category III & Category IV	8.25% p.a. payable half yearly	8.25% p.a. payable half yearly	8.25% p.a. payable half yearly	8.25% p.a. payable half yearly
Effective Yield (% per annum) for NCD Holders in Category I, Category II, Category III & Category IV	8.41%	8.41%	8.41%	8.42%
Frequency of Interest Payment	Half yearly	Half yearly	Half yearly	Half yearly
Mode of Interest Payment	Through Various Modes available			
Maturity (from the Deemed Date of Allotment)	3 Years	5 Years	7 Years	9 Years

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Amount (Rs./ NCD) on Redemption Day/ Maturity for NCD Holders in Category I, Category II, Category III & Category IV	STRPP A - at the end of the 3rd anniversary of the Deemed Date of Allotment for STRPP A;	STRPP B – at the end of the 5th anniversary of the Deemed Date of Allotment for STRPP B;	STRPP C – at the end of the 7th anniversary of the Deemed Date of Allotment for STRPP C; and	STRPP D – at the end of 9th anniversary of the Deemed Date of Allotment for STRPP D.
Put and Call Option	NA			

Upon Allotment, an Investor will be allotted all 4 STRPPs of an NCD against the equivalent amount invested by such Investor. However, subsequent to listing, the Trading Lot shall be of 1 (one) STRPP forming part of any NCD, bearing individual ISIN will be tradable by the NCD Holders.

Capital structure relating to project which funds are proposed to be mobilized:

A summary of capital cost and sources of funds for the Project are presented in the table below:

S. No.	Description	Total Project Cost (Rs. in Crores)
1	IMC Contribution (including Gol/GoMP grants and internal accruals)*	At least 20%
2	External Borrowing (Net proceeds of the Issue)	242.09**
	Total Outflow	305

*The Issuer confirms that in accordance with Regulation 18 B of SEBI ILMDS the contribution of the Issuer for the Project for which funds are being raised shall not be less than 20% (Twenty percent) of the cost of the Project, which shall be contributed from its internal resources or grants that may be in cash or kind. The Issuer shall contribute any shortfall in Project cost after factoring in the actual Net proceeds from the internal accruals/grants.

**Assuming the Issue is fully subscribed and the Corporation retains oversubscription as per the Offer Document. Further, the expenses for determining the Net Proceeds are indicative and are subject to change depending on the actual level of subscription to the Issue and the number of Allottees, market conditions and other relevant factors.

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Who Can Apply?

Category I (Institutional Investors)	Category II (Non-Institutional Investors)	Category III (High Net-worth Individual, ("HNIs"), Investors)	Category IV (Retail Individual Investors)
<ol style="list-style-type: none"> 1. Public financial institutions, scheduled commercial banks, Indian multilateral and bilateral development financial institutions which are authorised to invest in the NCDs; 2. Provident funds and pension funds each with a minimum corpus of Rs. 25 crores, superannuation funds and gratuity funds, which are authorised to invest in the NCDs; 3. Alternative Investment Funds, subject to investment conditions applicable to them under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012; 4. Resident Venture Capital Funds registered with SEBI; 5. Insurance companies registered with the IRDAI; 6. State industrial development corporations; 7. Insurance funds set up and managed by the army, navy, or air force of the Union of India; 8. Insurance funds set up and managed by the Department of Posts, the Union of India; 9. Systemically Important Non-Banking Financial Company registered with the RBI and having a net-worth of more than Rs. 500 crores as per the last audited financial statements; 10. National Investment Fund set up by resolution no. F.No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India; and 11. Mutual funds registered with SEBI. 	<ol style="list-style-type: none"> 1. Companies within the meaning of Section 2(20) of the Companies Act, 2013; 2. Statutory bodies/ corporations and societies registered under the applicable laws in India and authorised to invest in the NCDs; 3. Co-operative banks and regional rural banks; 4. Trusts including public/private charitable/religious trusts which are authorised to invest in the NCDs; 5. Scientific and/or industrial research organisations, which are authorized to invest in the NCDs; 6. Partnership firms in the name of the partners; and 7. Limited liability partnerships formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (No. 6 of 2009); 8. Association of Persons; and 9. Any other incorporated and/ or unincorporated body of persons. 	<p>High net-worth individual investors - resident Indian individuals or Hindu Undivided Families through the Karta applying for an amount aggregating to above Rs. 10,00,000 across all NCDs in this Issue.</p>	<p>Retail individual investors – resident Indian individuals or Hindu Undivided Families through the Karta applying for an amount aggregating up to and including Rs.10,00,000 across all NCDs in this Issue and shall include retail individual investors, who have submitted bid for an amount not more than Rs.5,00,000 in any of the bidding options in the Issue (including Hindu Undivided Families applying through their Karta and does not include NRIs) through UPI Mechanism.</p>

Who are not eligible to apply for NCDs?

The following categories of persons, and entities, shall not be eligible to participate in the Issue and any Applications from such persons and entities are liable to be rejected:

- Minors without a guardian name* (A guardian may apply on behalf of a minor. However, Applications by minors must be made through Application Forms that contain the names of both the minor Applicant and the guardian);

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- Foreign nationals NRI inter-alia including any NRIs who are (i) based in the USA, and/or, (ii) domiciled in the USA, and/or, (iii) residents/citizens of the USA, and/or, (iv) subject to any taxation laws of the USA;
- Persons resident outside India and other foreign entities;
- Foreign Institutional Investors;
- Foreign Portfolio Investors;
- Non Resident Indians;
- Qualified Foreign Investors;
- Overseas Corporate Bodies**;
- Foreign Venture Capital Funds; and
- Persons ineligible to contract under applicable statutory/ regulatory requirements.

*Applicant shall ensure that guardian is competent to contract under Indian Contract Act, 1872

** The concept of Overseas Corporate Bodies (meaning any company, partnership firm, society and other corporate body or overseas trust irrevocably owned/held directly or indirectly to the extent of at least 60% by NRIs), which was in existence until 2003, was withdrawn by the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies) Regulations, 2003. Accordingly, OCBs are not permitted to invest in the Issue.

Allocation Ratio

Institutional Portion	Non-Institutional Portion	High Net Worth Individual Portion	Retail Individual Investor Portion
25% of the Overall Issue Size	25% of the Overall Issue Size	25% of the Overall Issue Size	25% of the Overall Issue Size

Credit Rating:

The NCDs proposed to be issued pursuant to this Issue have been rated 'CARE AA; Stable' by CARE Ratings Limited ("CARE") vide its letter dated December 07, 2022 which was subsequently revalidated vide its letters dated January 03, 2023 and January 27, 2023 and "IND AA+/Stable" by India Ratings vide its letter dated December 06, 2022 which was subsequently revalidated vide its letters dated January 03, 2023 and January 30, 2023.

In case of default in payment of interest and/or principal redemption on the due dates, the Issuer shall pay an additional interest at the rate of 2% p.a. over the respective Coupon Rates of the Bonds for the defaulting period.

Liquidity and Exit Options:

The Bonds are proposed to be listed on the NSE.

Allotments in case of oversubscription:

In case of an oversubscription of the overall Issue, for the purpose of allotment oversubscription will considered Portion wise and allotments to the maximum extent, as possible, will be made on date priority basis i.e. on first come first-serve basis, based on the date of upload of each application into the electronic book of the stock

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exchanges (i.e., NSE and BSE), in each Portion subject to Allocation Ratio, i.e. full allotment of the NCDs to the Applicants on a first come first basis up to the date falling 1 (one) day prior to the date of oversubscription and thereafter proportionate allotment of NCDs to the applicants from the date of oversubscription (based on the date of upload of each Application on the electronic platform of the stock exchanges (i.e., NSE and BSE), in each Portion) upto the last day of the Issue Period.

Company Background:

IMC is the governing body of the city of Indore in the state of Madhya Pradesh. The municipal corporation consists of democratically elected members, is headed by a mayor and administers the city's infrastructure and public services. IMC provides urban civic services in an area of 276 square kms to a population of around 3.5 million under its jurisdiction. The municipal area is divided into 19 zones and 85 wards of various sizes and population.

Competitive Strengths

- Growing economic base, efficient operations, and service delivery track record
- Satisfactory financial performance
- Structured payment mechanism
- Focus on asset creation and cost saving
- Comfortable financial position

Structured Payment mechanism

1. IMC shall open the following accounts for servicing the Coupon and principal amount of the NCDs for the exclusive benefit of the NCD Holders:

a. Interest Payment Account

- The Interest Payment Account is an account from which the interest payments on the NCDs will be serviced and the Required DSRA Amount (as hereinafter defined) will also be maintained as per the requirements of the SEBI circular in relation to 'Continuous disclosures and compliances by listed entities under SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015' dated November 13, 2019 bearing reference no. SEBI/HO/DDHS/CIR/P/134/2019.
- For ensuring maintenance of the Required DSRA Amount, the Interest Payment Account shall be funded 1 (One) day prior to the date of Allotment with an amount equal to the 2 (Two) succeeding Coupon payments required to be paid by IMC in respect of the NCDs ("Required DSRA Amount"). The amounts lying in, or credited into, the Interest Payment Account from time to time towards maintenance of the Required DSRA Amount, shall be hereinafter referred to as the "DSRA Amount". In the event of any utilisation from the DSRA Amount, the Issuer shall be obliged to replenish the same as per the Interest Payment Mechanism below.
- Further, as the interest liability would progressively come down after the peak, IMC would be permitted to take out the excess DSRA progressively under intimation to the Debenture Trustee, subject to: (i) no unresolved breach of any covenant or event of default, (ii) no shortfall in any of the Interest Payment Account (including the Required DSRA Amount) or the Sinking Fund Account.

b. Sinking Fund Account

The Sinking Fund Account is an account from which the principal redemptions of the STRPPs/NCDs will be made.

c. Escrow Account

As defined above under the head 'Escrow Account' of this term sheet

2. The following amounts will be required to be transferred to the Interest Payment Account and the Sinking Fund Account from the Escrow Account each year (Each year here means each period of 12 months from the Deemed Date of Allotment until the Maturity Date and is also referred to as '12-month block') on first priority basis along with the existing bond holders:

a. Interest payment Account (IPA) – Half-yearly interest amount shall be divided into five equal parts and each part shall be transferred to IPA every month for 5 months. Accordingly, 20% of the half yearly coupon payment (along with any further interest payable (by whatsoever name called) as per the terms of the issuance and any shortfall in earlier contribution) shall be transferred to IPA each month as follows: -

- (i) 1st half year - from 1st to 5th Month
- (ii) 2nd half year - from 6th to 10th Month

b. Sinking Fund Account (SFA) – The transfers shall be made to the sinking fund account each year in relation to each of the STRPPs.

Key Risk and Concerns:

- IMC's proposed Project is subject to the risk of unanticipated delays in implementation and cost overruns. Any such unanticipated delays in implementation and cost overruns of the Project may have an adverse impact on its operations, reputation and cash flows.
- IMC's financing agreements impose certain restrictions on operations, and failure to comply with operational and financial covenants may adversely affect the operations and reputation.
- IMC is involved in a dispute with the Ministry of Defense in relation to an unsecured borrowing availed by PHED, Government of Madhya Pradesh during the years 1975 to 1987.
- IMC does not have access to records and documents pertaining to its constitution.
- A considerable share of revenue receipts comprises GST compensation, any delay in receipt of GST compensation from the Government of Madhya Pradesh may have an adverse impact on the liquidity position.
- Any inability to obtain, renew or maintain the statutory and regulatory permits and approvals which are required for installation and operation of the Project may have a material adverse effect on IMC's ability to complete the Project on a timely basis or at all.
- Leakage of tax collections may affect volume of collections and accumulation of funds for future development, and on IMC's future execution capabilities and revenue collections.
- IMC is eligible for grants from Government of India, Ministry of Housing and Urban Affairs for funding the Project out of the proceeds of this Issue.
- IMC is dependent on grants and support in the form of budgetary allocation from Central and State Government for its operations.
- The current demand collection ratios of IMC are inconsistent.
- IMC's ability to pay Coupon and redeem Principal in accordance with the terms of the Issue is subject to various factors affecting the IMC's financial condition.

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- Considering the nature of IMC and non-applicability of SARFAESI, recovery proceeding, if any, initiated in case of any default might take longer which may have a negative impact on the ability of the investor to recover the Investors' dues.
- Changes in interest rate may affect the price of Green Bonds. Any increase in rate of interest are likely to have a negative effect on the price of Green Bonds.
- There may be no active market for the Green Bonds on the platform of the Stock Exchange. As a result, the liquidity and market prices of the Green Bonds may fail to develop and may accordingly be adversely affected.
- Any downgrading in credit rating of Green Bonds may adversely affect the value of Green Bonds and thus the ability to raise further debts.
- Legal investment considerations may restrict certain investment.
- Changes in Government Policies may affect the collection of revenue of IMC and may also affect the management of the expenditure.
- The Green Bonds are subject to the risk of change in law.
- IMC is exposed to operational risks, including employee negligence, petty theft, burglary and embezzlement and fraud by employees or third parties, which could harm results of operations and financial position.
- Political Scenario prevailing in India might risk IMC's operations. Periodic elections and/ or rotation of the officers might pose a risk to the operations of the IMC since a change in the government might shift the policy focus for the municipal corporation which will impact the ongoing activities of IMC.
- Material changes in regulations to which IMC is subject could impair its ability to meet payment or other obligations.

Key Operational and Financial Parameters

Key Financial Figures (Rs in crore)	FY20	FY21	FY22
Revenue Income	1,619.47	1,508.10	1,739.95
Revenue expenditure (excluding interest and depreciation)	959.60	943.12	1,107.88
Operating revenue Surplus	659.87	564.98	632.07
Interest expense	28.61	31.57	35.44
Principal repayment (outside sinking Fund)	30.50	37.44	57.69
Contribution to Sinking fund	13.99	13.99	13.99
Revenue Surplus	631.26	533.41	596.63
Capital Income	251.76	692.04	365.87
Capital Expense	817.48	628.49	708.83
Capital Surplus	(610.22)	12.12	(414.63)
Overall Surplus	21.04	545.52	182.00
Deposits and Advances (net)	456.03	462.90	448.53
Initial Cash/Bank balance	348.01	234.69	473.81
Change in Cash/Bank balance	(113.32)	239.13	(100.86)
Final Cash / Bank Balance	234.69	473.81	372.95
Initial Sinking fund Balance	10.49	24.48	38.47

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Change in sinking fund	13.99	13.99	13.99
Final sinking fund balance	24.48	38.47	52.46
Total Debt	354.18	648.45	579.43
Total Expenditure	1,850.19	1,654.62	1,923.82
Total Revenue	1,871.23	2,220.14	2,105.82
Ratio of Total Expenditure/ Total Revenue	0.99	0.75	0.91
Cash Surplus / Total Revenue	0.36	0.32	0.30
Ratio of Debt Service / Total Revenue	0.05	0.06	0.06

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