

April 05, 2021

Sangli Miraj and Kupwad Municipal Corporation: Rating upgraded; removed from ‘Issuer Not Cooperating’ category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	Nil	Nil	[ICRA]BBB (Stable); upgraded from [ICRA]B+(Stable) and removed from ‘Issuer not Cooperating’ category
Total	-	-	

*Instrument details are provided in Annexure-1

Rationale

The upgrade of the issuer rating assigned to the entity and its removal from ‘Issuer Not Cooperating’ category takes into account the cooperation of the entity in providing information to review the rating. The issuer rating was earlier downgraded because of lack of information to review the rating and accordingly was placed under the ‘Issuer Not Cooperating’ category. The assigned rating considers the Sangli Miraj and Kupwad Municipal Corporation’s (SMKMC) importance to the State Government of Maharashtra (GoM) as a provider of key municipal services to the cities Sangli, Miraj and Kupwad and support from the state government in the form of various grants. The SMKMC receives significant amount of revenue grants from the GoM, particularly the compensation against the Local Body Tax (LBT), which can be utilised for the payment of employees’ salaries, pensions and dearness allowances, which constitute a major chunk of the revenue expenditure (~71% of revenue expenditure in FY2020) for the urban local body (ULB). ICRA notes that the timeliness of the disbursements, particularly the compensation grant against LBT is consistent and uniform with monthly disbursements in dedicated accounts by the 5th of every month and provides significant comfort and reduces the chances of any delays in meeting critical revenue expenditures. ICRA also notes that the SMKMC receives its share of stamp duty collected under its jurisdiction and grants from the Central/state governments for urban infrastructure projects under various schemes on a regular basis. As a result, the SMKMC has a consistent track record of a revenue surplus position, which has enabled it to partly fund its other revenue expenditures and capital expenditure as well to an extent.

The rating, however, remains constrained by the SMKMC’s limited own revenue base, given the weak property tax base and weak overall collection efficiency (<50% during FY2020). ICRA also takes into account the lack of track record of introduction and upward revision of key rates and user charges. These are critical for the overall financial position of the SMKMC, given the rise in the operation and maintenance (O&M) costs, post the recent commissioning of the key projects. ICRA notes that the property tax collections during FY2020, particularly in the month of March 2020, were significantly impacted due to the Covid-19 related disruptions and the subsequent lockdowns in the country. However, most of the current arrears have been collected during Q3 and Q4 of FY2021, which is likely to keep the overall collection efficiency as per previous years. The service levels of the SMKMC in the areas of sewerage, drainage and water supply coverage remain moderate. The rating is also constrained by the risks associated with the execution of large projects under various schemes. While the Corporation has a track record of executing large projects, successful execution of such projects within the budgeted cost and estimated timeframe would remain critical, going forward. Nevertheless, ICRA believes that the SMKMC will derive support from the state government for funding the project, which would partially mitigate the project execution risks.

The Stable outlook assigned to the rating reflects ICRA’s expectations that the ULB would continue to benefit from the steady and timely transfer of rule-based grants from the state government and a comfortable liquidity position. The outlook may be revised to Positive if the SMKMC is able to demonstrate substantial growth in own revenues, resulting in strong cash accruals and strengthening of the overall financial risk profile. Conversely, the outlook may be revised to a Negative if any delays in transfer of revenue grants from the state government weaken its liquidity position.

Key rating drivers and their description

Credit strengths

Importance of the ULB to the state government as a provider of urban infrastructure and basic services - The SMKMC is responsible for providing civic services and basic amenities to the cities of Sangli, Miraj and Kupwad. The key services rendered by the Corporation are urban planning, construction and maintenance of roads and drains, water supply, sewerage, SWM, street lights and amenities such as shopping stalls, community halls, playgrounds, parks/gardens, etc.

Support from the state government in the form of various grants, mostly rule-based - The ULB enjoys strong financial linkages with the state government as reflected by the transfer of various grants and compensations from the GoM, which can be utilised for the payment of salaries, critical revenue expenditures and capital expenditures. ICRA notes that the timeliness of the disbursements, particularly the compensation grant against the Local Body Tax (LBT), is consistent and uniform with monthly disbursements in dedicated accounts by the 5th of every month, provides significant comfort in meeting critical revenue expenditures.

Revenue surplus position - The Corporation generated revenue surpluses during the last several years due to regular transfer of revenue grants from the state government, moderate non-tax revenues and low O&M expenditure. ICRA expects the revenue surplus position of the ULB to decline marginally during FY2021 on account of lower tax and non-tax collection during the pandemic period. Although, timely transfer of rule-based revenue grants from the GoM is likely to keep the impact minimal.

Credit challenges

Limited property-tax base and low collection efficiency: The SMKMC's property-tax base has remained limited in the past along with a low overall collection efficiency of less than 50% during the last three years. Moreover, the total user charges for collection for water supply has remained low (5% of total revenue income in FY2020) and the overall collection efficiency of the same has remained less than 40%, resulting in low own revenues during the past years.

Moderate service levels in some areas and limited demonstration of ability to revise key rates and charges – The service levels of the ULB have been less-than-satisfactory in the areas like water supply coverage, storm water drainage and sewerage. Moreover, the property tax rates and the user charges have not seen any substantial increase during the past years, which has limited the ULB's ability to fund such projects on its own. Further, given the consistent increase in O&M cost, introduction and upward revision of key rates and user charges would remain critical for the overall financial position of the SMKMC.

Risks associated with execution of large projects – ICRA notes that the SMKMC undertakes various projects to cover the gaps in the existing service levels, on a regular basis. While the Corporation has successfully implemented such projects in the past, its ability to execute these within the budgeted costs and estimated timeframe will remain critical.

Liquidity Position: Adequate

As on March 31, 2020, the SMKMC had no external debt outstanding in its books of accounts and it does not have any plans to raise fresh debt in the near to medium term. Moreover, the liquidity position of the SMKMC is expected to be supported by the timely transfer of rule-based grant from the state government and adequate cash balances of more than Rs. 350 crore as on March 31, 2020.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the ULB is able to demonstrate a significant increase in its own revenue base, thereby reducing its dependence on fund transfers from the state government, an improvement in its property tax coverage (>90%) and collection efficiency (~80%) along with timely revision in the property tax rates.

Negative factors – ICRA could downgrade the rating if the SMKMC's own revenues declines significantly resulting in a revenue deficit and its dependence on the state government grants increases significantly, particularly in meeting its regular revenue expenditure. Any additional expenditure passed on by the state government without any funding support, and/or any major debt-funded capital expenditure could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Urban Local Bodies
Parent/Group Support	The assigned rating factors in the ULB's importance to the state government as a provider of urban infrastructure and basic services as well as its strong operational and financial linkages with the state government.
Consolidation/Standalone	Standalone

About the company

The Sangli Miraj and Kupwad Municipal Corporation (SKMC) was established in 1998 by merging the erstwhile Municipal Councils of Sangli, Miraj and Kupwad. The SMKC, being an urban local body (ULB), provides municipal services to the cities of Sangli, Miraj and Kupwad situation in Sangli district of Maharashtra. According to Census 2011, the SMKC, covering an area of 118.18 km²., serves a total population of 5.03 lakh. The ULB is administered by the Urban Development Department of the Government of Maharashtra (GoM) as per provisions of the Maharashtra Municipal Corporations Act 1949. The ULB jurisdiction is divided into 38 municipal wards and is governed by an elected body (Council), headed by a Mayor, while the Commissioner acts as the chief executive, overseeing its everyday functioning.

Key financial indicators (actuals)

	FY2018	FY2019	FY2020
Revenue income (Rs. crore)	210.85	223.96	220.23
Revenue expenditure (Rs. crore)	134.68	149.49	170.74
Revenue balance (Rs. crore)	76.17	74.47	49.49
Overall balance (Rs. crore)	64.23	202.58	92.80
Revenue balance / Revenue income (%)	36.13%	33.25%	22.47%
(Principal + Interest) / Revenue income (%)	0.0%	0.0%	0.1%
(Revenue balance + Int.) / (Int. + Debt repayment) (times)	2,539.00	1,489.40	215.17
Debt/Revenue income (%)	0%	0%	0%

Source: SMKMC, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in			
						FY2020	FY2020		FY2019
						Apr-05-2021	Dec-24-2020	Sep-25-2019	Jul-15-2019
1	Issuer rating	Long-term	Nil	Nil	[ICRA]BBB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB (Stable); ISSUER NOT COOPERATING	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details: Not Applicable

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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