

February 06, 2017

Eluru Municipal Corporation

Instrument	Rating Action
Issuer Rating	IrBBB (Stable) / Assigned

Rating Action

ICRA has assigned the long-term issuer rating of IrBBB (pronounced I R triple B) to the Eluru Municipal Corporation (EMC).¹ The outlook on the long-term rating is stable.

Rationale

The assigned rating derives comfort from the EMC's importance to the State Government as a provider of key municipal services to the city of Eluru, the headquarter of Godavari district. Such importance is reflected by the regular financial support received by the EMC from the Government of Andhra Pradesh (GoAP). The rating also derives comfort from the revenue-surplus position of the corporation, which enables it to part-fund its capital expenditure requirement from internal sources. Moreover, the regular receipt of rule-based assigned revenues from the GoAP supports the corporation's liquidity position to some extent. The rating also factors in the EMC's satisfactory collection level of municipal solid waste (MSW) and a high coverage of population for water supply services as well per-capita water supply level.

The assigned rating is constrained by moderate property tax collection efficiency and low collection efficiency of water supply charges. Moreover, ICRA notes that the irregular revision of property-tax rates and water supply charges negatively impact the growth of revenues of the EMC. Additionally, the corporation does not provide sewerage services at present and scientific treatment of solid waste management is nearly absent in the city.

Further, the rating is also impacted by the risk associated with execution of large projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), given the EMC's lack of experience in handling large and complex projects. Nevertheless, ICRA expects that the EMC will derive support from the State Government for funding the project and for capacity building of the municipal staff. This is likely to mitigate the risks related to the execution of a large project.

Key Rating Drivers and Description

Credit Strengths

- **Healthy revenue surplus position:** The sustained revenue surplus position of the EMC during FY2012 to FY2015 has enabled the corporation to fund a part of its capital expenditure from internal resources
- **Formula-based transfer of assigned revenues:** The EMC's revenues are augmented by regular and formula-based transfer of assigned revenues from the State Government, which supports the corporation's liquidity position to some extent
- **Satisfactory service level indicators:** The EMC's service level in the areas of solid waste management, street lights and drainage are satisfactory

Credit Weaknesses

- **Weak information systems:** The information systems of the corporation remain weak with instances of inconsistency in data, even though the municipal accounts are regularly audited
- **Moderate collection efficiency:** The EMC has moderate property tax collection efficiency and low collection efficiency of water-supply charges. Moreover, at 40%, the proportion of unaccounted water in the EMC is high which negatively impacts the non-tax revenues of the corporation.
- **Weak service indicators:** Lack of sewerage network and the scientific treatment of municipal solid waste in the city are nearly absent.
- **Risk related to execution of large projects:** Sizeable capital outlay is required for the execution of large capital projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT). This could stretch the cash flows of the Corporation. Moreover, given the lack of experience of the municipal staff in handling large projects, some delay in completion of projects is anticipated, which could further increase the cost of the project.

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



Analytical approach

Links to applicable criteria

Urban Local Body Rating Methodology

<<http://www.icra.in/Files/Articles/Urban%20Local%20Bodies-%20Aug%202016.pdf>>

Assessing Credit Quality of State Government Finances

< <http://www.icra.in/Files/Articles/Rating%20Methodology%20Aug%202015.pdf>>

Corporate Credit Rating: A Note on Methodology

<<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>>

Entity Profile

In 1866, the urban local body (ULB) in Eluru was established as a municipality and was subsequently upgraded to a municipal corporation in 2005. The EMC is governed by the Andhra Pradesh Municipal Corporations Act 1994 (Act), which is administered by the Municipal Administration and Urban Development Department (DMA), GoAP. The EMC manages the municipal services in Eluru city, which is located in Godavari district of Andhra Pradesh. The EMC covers an area of 11.52 square kilometre (sq. km.) and serves a population of 2.18 lakh (as per Census 2011). The major functions of the EMC include water supply, solid waste management and construction, repair and maintenance of roads and streetlights in its area. The corporation is divided into 50 wards and is supervised by an elected body, the council, consisting of ward councillors, elected for a period of five years. The Council further elects a Mayor, who heads the deliberative wing of the corporation. The Commissioner, appointed by the State Government, heads the executive wing of the ULB, and is responsible for all the activities carried out by the Corporation. In FY2015, the EMC generated a revenue surplus of Rs. 12.6 crore on a total revenue receipt of Rs. 27.8 crore compared to a revenue surplus of Rs. 9.1 crore on a total revenue receipt of Rs.23.0 crore in FY2014.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: This is a fresh rating exercise

Complexity level of rated instrument:

This is an issuer rating exercise, no instrument is rated

Annexure I

Details of instruments: Not applicable

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