

October 25, 2017

Palakkad Municipality

Summary of Rated Instruments

Instrument	Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	IrB+(Stable) ; Assigned

Rating action

ICRA has assigned the long-term issuer rating of IrB+ (pronounced I R B plus) to the Palakkad Municipality (PKDM/Municipality).¹ The outlook assigned to the long-term rating is Stable.

Rationale

The assigned rating takes into consideration the importance of the PKDM as the sole agency responsible for providing civic services in Palakkad town and stable transfers from the State Government of Kerala (GoK). The rating is also supported by the satisfactory service standards especially in solid waste management, surfaced road network and street lights. The rating, however, is constrained by the PKDM's revenue deficit position in the past years, and a limited revenue base of the AMPL at present. The rating is also impacted by the risk associated with the execution of large projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), given the PKDM's lack of track record in handling such projects in the past. Nevertheless, ICRA believes that the PKDM will derive support from the GoKe for funding the projects and for capacity-building of the municipal staff. This is likely to mitigate the risks related to execution of any large projects.

Key rating drivers and description

Credit strengths

- Importance of the municipality to the state government
- Stable transfers from the state government
- Satisfactory service standards

Credit weaknesses

- Weak information systems
- Revenue deficit position
- Moderate size and low growth
- Risk related to execution of large projects

Description of key rating drivers

The PKDM provides basic civic services in Palakkad town, which also serves as headquarter for Palakkad district. As a sole agency responsible for providing civic services in a district centre, role of the PKDM is important for the state government. The state government provides strong financial support to the PKDM in the form of various grants, both revenue as well as capital. A majority of such grants are based on the recommendation of the State Finance Commission and therefore are rule based and stable in nature. A rule based and stable transfer of grants from the state government provides a comfort to the liquidity position of the Municipality to an extent. A majority of the households in the town have a compost unit in their backyards, in which organic waste is treated and only inorganic/recyclable waste is collected by the Municipality. While around 70% of the roads are surfaced in the town, which have an adequate coverage of street lights, coverage of drains is low at present. Overall the Municipality has satisfactory service

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

standards in terms of waste collection and surfaced roads. However, scope for improvement remains in drainage. Also, maintaining the existing service standards, especially in solid waste management, would remain a challenge for the PKDM going forward.

The information system of the municipality remains weak with instances of inconsistency in data and absence of accrual based audited accounts. Successful implementation of key reforms related to e-governance in property tax and grievance redressal, and effective accrual based accounting system would be critical for the PKDM. The Municipality generated a revenue deficit in FY2016 and FY2015, though it was nominal in absolute terms. Similarly, the budget estimates for FY2017 also estimated a revenue deficit higher than that in FY2016. A deficit in revenue account limits the Municipality in executing capital projects, which are required to improve/maintain the service standards in the town. The revenue receipt (RR) of the Municipality has remained at moderate level in the past years. Moreover, in the absence of any upwards revision in key taxes and charges, the growth in RR has been negligible. Additionally, the collection efficiency of property tax has remained low in the past years. Considering the consistent increase in the cost of operations, growth in revenues would be critical for the PKDM. The size of capital projects executed by the Municipality in the past years has been small, thereby limiting its ability to execute large projects. The PKDM is exposed to the risk associated with the timely execution of the proposed projects, which are quite large in comparison to the current size of its operations.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:

[Rating Methodology for Urban Local Bodies](#)

[Rating Methodology for State Government Finances](#)

Entity Profile:

Palakkad Municipality (PKDM), established in 1866, is a Municipality governed under the Kerala Municipality Act 1994 (Act). The Municipality manages the civic services in Palakkad town, which serves as headquarter for Palakkad district located in Central Kerala. The town is the key commercial centre of the Palakkad district. There are no major industrial areas in the PKDM's administrative area. However, the town serves as a key urban centre for the industries located along the Palakkad-Coimbatore region. According to Census 2011, the town had a total population of 130,955 and an area of 26.60 sq km.

The PKDM is the provider of the basic civic services and amenities to the inhabitants of the town and the key services extended by the Municipality are construction and maintenance of roads and drains, solid waste management, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens etc.

In FY2016, as per the receipt and payment statement, the PKDM generated a revenue deficit of Rs. 9.60 crore² on a total revenue receipt of Rs. 23.56 crore as compared to a revenue deficit of Rs. 4.57 crore on a total revenue receipt of Rs. 28.01 crore in FY2015.

² 100 lakh = 1 crore = 10 million

Key Financials:

Particulars	FY2015	FY2016
Revenue income (Rs. crore.)	28.01	23.56
Revenue expenditure (Rs. crore)	32.58	33.16
Revenue balance (Rs. crore)	(4.57)	(9.60)
Overall balance (Rs. crore)	(1.88)	(6.90)
Revenue balance / Revenue income (%)	-16.30%	-40.76%
(Principal + Interest) / Revenue income (%)	-	-
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	-	-
Debt / Revenue income (%)	0%	0%

Source: RMC and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table: Rating History

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018 October 2017	FY2017	FY2016	FY2015
1	Issuer Rating	Long Term	NA	IrB+(Stable)	--	--	--

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Issuer rating on long-term scale	-	-	-	NA	IrB+(Stable)



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