

Maheshtala Municipality

April 12, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	[ICRA]BB+ (Stable); Assigned
Total	Nil	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term issuer rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Maheshtala Municipality (MM)¹. The outlook on the long-term rating is Stable.

Rationale

The assigned rating takes into consideration the MM's importance as a provider of urban infrastructure and basic services to the Maheshtala city and support from the state government in the form of various grants. The MM receives significant amount of revenue and capital support from the Government of West Bengal (GoWB), particularly for payment of discretionary expenses like employees' salaries, pensions and electricity bills, which constitute a major chunk of revenue expenditure for an urban local body (ULB). Additionally, the share of non-tax revenues in the total revenue income of the municipality has remained relatively high during the past years. Consequently, the municipality has generated large revenue surpluses in the past, which has enabled it to partly fund its capital expenditure requirements to an extent.

The rating is, however, constrained by the tax revenue base of the MM, given a weak economic profile of the Maheshtala and modest coverage of taxable services. Moreover, the overall collection efficiency of property tax has remained low at around 40% during the recent years. ICRA also notes that the municipality does not collect any user charges for water supply from the residential users at present, like other ULBs in the state, which impacts its financial position to an extent. The rating also factors in the municipality's modest service levels and coverage of key functions as well as inadequacy of staff in key departments. While arriving at the rating, ICRA has also taken into account the MM's weak Management Information System (MIS) with instances of inconsistency in data. While ICRA notes that the municipality is constructing a large hospital on its own, its lack of experience in executing relatively complex projects may affect successful execution of such projects within the budgeted cost and estimated timeframe, going forward. Nevertheless, ICRA believes that the MM will derive support from the state government for funding of the projects and for capacity building of the municipal staff, which would partially mitigate the project-execution risk.

Going forward, the MM's ability to improve its own revenue base by exploiting various tax and non-tax avenues available to it under the West Bengal Municipal Act, 1993, increase in property-tax collection efficiency and change in the overall economic profile of Maheshtala would remain critical to the financial position of the municipality.

Outlook: Stable

ICRA believes that the MM will continue to benefit from the support it derives from the state government in the form of various grants. The outlook may be revised to Positive if there is a substantial growth in the municipality's own revenue, thereby strengthening its revenue balance position. The outlook may be revised to Negative if there is de-growth in the municipality's own revenue and an increase in its revenue expenditure, adversely impacting the MM's financial profile.

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

Key rating drivers

Credit strengths

Importance of the ULB as a provider of urban infrastructure and basic services: The municipality is responsible for the provision of civic services and basic amenities to Maheshtala. The key services rendered by the municipality are urban planning, construction and maintenance of roads and drains, water supply, solid-waste-management (SWM), street lights and amenities such as markets, community hall, playgrounds, parks/ gardens, schools, hospital/ health centre etc.

Support from the state government in the form of various grants: The ULB receives significant support from the Government of West Bengal in the form of revenue grants, particularly for payment of discretionary expenses like salaries and pensions of employees, and electricity bills. Additionally, it received grants from the Central/ state governments for urban infrastructure projects under various schemes.

Relatively high share of non-tax revenues, which reduces its dependence on the state government to some extent: The revenue base of the MM has been supported by relatively high share of its non-tax revenues (more than 50%) compared to its total revenue income during the last five years.

Revenue surplus position: The municipality has generated revenue surplus during the last five years on account of relatively higher income from non-tax revenues and moderate operations and maintenance expenditure along with reimbursement of critical revenue payments by the state government.

Credit challenges

Relatively small size of tax revenue base: The MM's own sources of revenues have remained limited in the past, leading to high dependence on the GoWB for transfer of funds for critical revenue payments. However, the dependence is moderated to some extent by the relatively high share of non-tax revenues.

Modest coverage and collection efficiency of property tax: The MM's property-tax base and collection efficiency have remained modest in recent years due to the weak economic profile of Maheshtala. Moreover, the MM does not collect water tax, keeping the overall tax revenue at a low level. Further, the MM's track record of finding new sources of revenues by imposing user charges and revising key tax rates is poor.

Modest service levels and coverage of key functions – The municipality's service standards in sewerage coverage, solid-waste management, water supply, roads and drainage remained modest, which entails investment in these areas to improve the existing service standards to the desired levels.

Inadequacy of staff in key departments – The MM has a significant number of vacant positions, especially in critical functions like health and sanitation, water supply and sewerage, revenue and administration, which impacts the overall performance of the municipality.

Lack of track record in executing large projects – ICRA notes that the MM is required to undertake large projects to cover the gaps in the existing service levels. Given the ULB's lack of track record in executing large and complex projects, its ability to execute these projects within the budgeted costs and estimated timeframe will remain critical.

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 Governments](#)

About the company:

Established in 1993 as an ULB, the Maheshtala Municipality (MM) provides urban infrastructure services to Maheshtala, which is located on the eastern bank of Hooghly river in the South 24 Parganas district of West Bengal. Maheshtala is a part of the area covered by the Kolkata Metropolitan Development Authority (KMDA). According to Census 2011, the MM, covering an area of 44.18 sq. km., serves a total population of 4.49 lakh. The MM is governed by the West Bengal Municipal Act, 1993. The Council of the MM comprises 35 Ward Councillors and is headed by a Chairman, who is elected by the Ward Councillors. The executive powers of the Council are vested with the Chairman-in-Council (CIC). The Executive Officer, appointed by the state government, along with various department heads support the CIC in managing the functions of the ULB. The key services extended by the ULB are construction and maintenance of roads and drains, water supply, solid-waste-management (SWM), street lights and amenities such as market, community hall, playgrounds, parks/ gardens, schools, hospital/ health centre etc.

In FY2017, the MM generated a revenue surplus of Rs. 22.43 crore² on a total revenue income of Rs. 41.84 crore compared to a revenue surplus of Rs. 14.80 crore on a total revenue income of Rs. 33.33 crore in FY2016.

Key financial indicators (unaudited)

Particulars	FY2016	FY2017
Revenue income (Rs. crore.)	33.33	41.84
Revenue expenditure (Rs. crore)	18.53	19.41
Revenue balance (Rs. crore)	14.80	22.43
Overall balance (Rs. crore)	3.29	34.93
Revenue balance / Revenue income (%)	44.42%	53.61%
(Principal + Interest) / Revenue income (%)	0%	0%
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	1052547%	2882252%
Debt/ Revenue income (%)	0%	0%

Source: MM and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Issuer Rating	Long Term	NA	NA	[ICRA]BB+ (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

² 100 lakh = 1 crore = 10 million

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BB+ (Stable)

Source: MM and ICRA research

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