

November 29, 2022

## Shirpur-Warvade Municipal Council: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term loans	7.68	1.90	[ICRA]BB+(Stable); rating reaffirmed
Long Term – Unallocated	-	5.78	[ICRA]BB+(Stable); rating reaffirmed
<b>Total</b>	<b>7.68</b>	<b>7.68</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation considers the Shirpur-Warvade Municipal Council's (SWMC) importance to the Government of Maharashtra (GoM) as a provider of key municipal services to the twin cities of Shirpur-Warvade and support from the GoM as well as the Government of India (GoI) in the form of various grants. SWMC receives a significant amount of revenue and capital grants from the GoM, particularly for payment of employees' salaries, pensions and dearness allowances, which constitute a major chunk of the revenue expenditure (~45% of revenue expenditure in FY2022) for the urban local body (ULB). As a result, SWMC has a consistent track record of revenue surplus position, notwithstanding a deficit reported in FY2021 on account of a sharp increase in establishment and operations and maintenance (O&M) expenses during the pandemic year. The rating also takes comfort from SWMC's satisfactory collection efficiency of property tax (average of 83% in the last three years) and water supply charges (average of 63% in the last three years), although the base of these revenues remains small. ICRA notes that the property tax base of the SWMC is likely to increase from FY2023 with the addition of new properties and reassessment of existing properties, which would increase its revenue base to some extent. The service levels of SWMC in the areas of municipal solid waste (MSW) collection, sewerage, water supply, surfaced road network and streetlights continue to remain satisfactory.

The rating, however, remains constrained by SWMC's low own revenue base, given a weak economic profile of the twin cities, as reflected by the small base of its key revenues. In addition, a high proportion of slum dwellers (29% of total population) restricts the revenue raising capability of the ULB. Introduction and upward revision of key rates and user charges would also remain critical for the overall financial position of SWMC, given the rise in the O&M costs, post the commissioning of large projects in the recent past. The rating is also constrained by the risks associated with the execution of large projects under various schemes. While the council 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 SWMC will derive support from the state government for funding the project, which would partially mitigate project execution risks.

The Stable outlook emphasises ICRA's opinion that the ULB will continue to benefit from the support it derives from the state government in the form of various grants, and a revenue surplus position, enabling it to sustain its adequate liquidity position.

### Key rating drivers and their description

#### Credit strengths

**Importance of the ULB as a provider of urban infrastructure and basic services** –SWMC is responsible for providing civic services and basic amenities to Shirpur-Warvade city. The key services rendered by the council are urban planning, construction and maintenance of roads and drains, water supply, sewerage, SWM, streetlights and amenities such as shopping stalls, community halls, playgrounds, parks/gardens, etc.

**Support from the GoM and the GoI in the form of various grants** – The ULB receives significant support from the GoM in the form of revenue grants, particularly for the payment of salaries, dearness allowance and pensions of employees. However, ICRA notes that the timeliness of the disbursements is not uniform, which led to a partial delay in the salary payments in the past. Additionally, it receives grants from the Central/state governments for urban infrastructure projects under various schemes on a regular basis.

**Satisfactory service levels and coverage of key functions** – SWMC's service levels in the areas of MSW collection (100% collection), surfaced road network (around 95%) and streetlights (around 39 lights per km) remain satisfactory. Moreover, service levels in the areas of water supply (100% coverage with 24x7 supply) and sewerage (100% coverage) have improved significantly after the completion of the associated projects.

### Credit challenges

**Low base of property tax and user charges** – SWMC's property tax base remained low in the past (9% of total revenue income in FY2022), given the weak economic profile of the twin cities. However, the overall collection efficiency of the property tax remained satisfactory at 88% and 83% in FY2021 and FY2022, respectively in spite of being impacted in the few months of the year mainly on account of disturbance in the collection mechanism caused by the pandemic and the subsequent lockdown in the country. While the total user charge collection for water supply remained small (9% of total revenue income in FY2022), the overall collection efficiency of the same has remained more than 95% during the earlier years, barring the last three years.

**Limited track record of introducing or revising key rates and charges** – The property tax rates, and the user charges have not seen any substantial increase during the past years. Given the rise of O&M cost with the recent commissioning of key projects, introduction and upward revision of key rates and user charges would remain critical for the overall financial position of SWMC. The council has reported a revenue deficit of Rs. 1.52 crore in FY2021 mainly on account of a significant increase in establishment costs and O&M expenses during the pandemic period. However, it returned to revenue surplus position in FY2022.

**Risks associated with execution of large projects** – ICRA notes that SWMC undertakes various projects to cover the gaps in the existing service levels on a regular basis. While the council 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, 2022, SWMC had a term loan outstanding of Rs. 3.89 crore and annual debt repayment obligations in FY2023 stand at ~Rs. 0.32 crore, which is likely to be met through the council's own balance and the annual surplus generated during the year. Going forward, the liquidity position of SWMC is expected to be supported by the timely revenue grant transfers from the state government and adequate closing cash balances of Rs. 69.16 crore as on March 31, 2022, which also include its own free balance of more than Rs. 5.00 crore.

### Rating sensitivities

**Positive factors** – The rating can be upgraded if there is a substantial growth in the council's own revenue, thereby strengthening its revenue balance position on a sustained basis.

**Negative factors** – Pressure on the rating could arise if there is a decline in the share of support grants from the state government and any major deterioration in the revenue balance position, leading to a deterioration in liquidity on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Urban Local Bodies</a>
Parent/Group support	The assigned rating factors in SWMC's importance to the GoM as a provider of urban infrastructure and basic services within the city, as well as its strong operational and financial linkages with the GoM.
Consolidation/Standalone	Standalone

## About the ULB

Established in 1869, the Shirpur-Warvade Municipal Council (SWMC) provides urban infrastructure services to the twin cities of Shirpur and Warvade. The city is in the Dhule district of Maharashtra, around 380 km from Mumbai. The city houses the famous temples of Balaji and Pataleshwar, many educational institutes and India's first as well as Asia's largest gold refinery. According to Census 2011, SWMC, covering an area of 17.90 sq. km., serves a total population of 76,905. The body is governed by the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. SWMC's council comprises 30 ward councillors and is headed by a president, who is directly elected by the citizens along with the ward councillors. SWMC's regular operations are supervised by the chief officer, who is appointed by the state government and is supported by the heads of various departments.

Key services extended by the ULB are construction and maintenance of roads and drains, water supply, sewerage, solid waste management, streetlights and amenities such as shopping stalls, community halls, playgrounds, parks/gardens etc. Apart from basic municipal services, SWMC also owns and operates a 200-bed super speciality hospital.

## Key financial indicators

Standalone (Actuals)	FY2021	FY2022
Revenue income (Rs. crore.)	33.85	40.33
Revenue expenditure (Rs. crore)	35.36	39.47
Revenue balance (Rs. crore)	(1.52)	0.86
Closing cash balance (Rs. crore)	53.18	69.16
Revenue balance / Revenue income (%)	(4%)	2%
(Principal + Interest) / Revenue income (%)	1.6%	1.8%
(Revenue balance + Interest) / (Interest + debt repayment)	(2.28)	1.65
Debt / Revenue income (%)	12%	10%

Source: SWMC; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (crore) as on Oct 31 <sup>st</sup> 2022	Date and Rating in	Date & Rating		
						FY2022	FY2021	FY2020
					Nov 29, 2022	Sep 24, 2021	Sep 30, 2020	Jun 07, 2019
1	Term Loans	Long-term	1.90	1.90	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Unallocated	Long-term	5.78	-	[ICRA]BB+ (Stable)	-	-	-

Source: SWMC

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based - Term loans	Simple
Long Term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	2015	10.25%	FY2031	1.90	[ICRA]BB+(Stable)
NA	Unallocated	NA	NA	NA	5.78	[ICRA]BB+(Stable)

Source: SWMC

#### Annexure II: List of entities considered for consolidated analysis: Not Applicable

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