

July 10, 2017

Karimnagar Municipal Corporation

Summary of rated instrument

Instrument*	Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	IrBBB (Stable); assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term issuer rating of IrBBB (pronounced I R triple B) to Karimnagar Municipal Corporation (KMC)¹ The outlook on the long-term rating is Stable.

Rationale

The assigned rating derives comfort from the healthy financial profile of the KMC, provider of key municipal services in Karimnagar town, located in Karimnagar district of Telangana. The rating takes into account the revenue-surplus position of the corporation, which enables it to part-fund its capital expenditure requirements from internal sources. The KMC's own tax and non-tax revenues contribute substantially to the total revenue receipts of the corporation. Low dependence on grants from the state or the central government and regular rule-based transfers of assigned revenues from the State Government support the assigned rating.

However, while the KMC's property tax collection efficiency is nearly 100%, the collection efficiency of water-charges is moderate. In addition, at present there are no metered water connections in the town and the per-capita water supplied by the KMC is lower than the norm. The rating is constrained by lack of timely revision of property-tax rates and water charges, which limit the corporation's ability to increase its revenue base as well as to meet the rising cost. In addition, ICRA notes that the service levels of the corporation, in terms of collection of municipal solid waste (MSW) and coverage of road network, street lights, water supply and drains remain moderate, which may impact the citizen's willingness to pay higher taxes and charges. The absence of user charges for solid waste management (SWM) limits the corporation's ability to fund additional projects such as scientific treatment and disposal of MSW, which is absent in the city.

ICRA notes that the KMC proposes large outlays for various projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), which could stretch its cash flows. Moreover, given the limited track record of the corporation in executing large projects, the timely execution of these projects within the budgeted costs would be critical for its financial position going forward. In addition, adequate number of staff coupled with continuity of such staff, especially in critical functions, would be crucial for the timely implementation of key projects and reforms, going forward.

Key Rating Drivers

Credit Strengths

- Benefits from proximity to Hyderabad
- Healthy contribution of own tax and non tax revenues
- Regular and formula-based transfer of assigned revenues from the State Government
- Consistent revenue surplus position of the KMC during FY2013 to FY2016
- Healthy collection efficiency of property tax

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

Credit Weakness

- Weak information system
- Moderate service-level indicators of water supply and collection efficiency and absence of metered connections
- Less-than-satisfactory service standards in sewerage network
- Absence of scientific treatment of municipal solid waste indicate weak performance of service level indicators.
- Risk related to execution of large projects

Description of key rating drivers

Karimnagar, a mineral rich district, benefits from its proximity to Hyderabad, the main business centre in Telangana; Karimnagar is likely to attract investment in infrastructure as it has been selected under the GoI's Smart Cities Mission, which augurs well for the development of the city.

In addition, own tax and non-tax revenues contributed more than 70% to the total revenue receipts of the KMC during FY2013 to FY2016, indicating limited reliance on grants from the State Government. Moreover, KMC's revenues are augmented by regular and formula-based transfer of assigned revenues from the State Government with limited dependence on state or central grants. revenue surplus position of the KMC during FY2013 to FY2016 has enabled it to fund a part of its capital expenditure from internal resources. Overall, the revenue surplus position of the KMC during FY2013 to FY2016 has enabled it to fund a part of its capital expenditure from internal resources.

While the collection efficiency of property tax collections is 100%, the service level indicators of water supply are moderate, as indicated by below the norm per capita water supply per day, moderate collection efficiency and absence of metered connections. Moreover, the lack of access to the sewerage network and the absence of scientific treatment of municipal solid waste indicate weak performance of service level indicators.

In addition, the Management Information System (MIS) of the corporation remains weak with instances of data inconsistency. ICRA also notes that the KMC has proposed to execute key projects under the AMRUT and other schemes. The total cost of project under the AMRUT scheme is likely to be Rs. 175 crore², which is expected to be funded in the ratio of 50% by the Government of India (GoI), 20% by the Government of Telangana, and 30% by the KMC. ICRA notes that some of the gaps in the existing service levels are proposed to be covered under the AMRUT projects. However, adequate staff in key functions and timely execution of these projects within the budgeted costs will remain critical. Also, given the large outlay towards projects, the financial position of the KMC would be adversely impacted if the project assets after commissioning are unable to generate adequate revenues to partly fund the operations and maintenance (O&M) costs, which are expected to increase significantly, going forward.

Analytical Approach

For arriving at the rating, 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](#)

² 100 lakh=1 crore=10 million

Entity Profile

The KMC was upgraded to a municipal corporation in 2005 from a selection-grade municipality. KMC is governed by the Andhra Pradesh Municipal Corporations Act 1994 (Act). It manages the municipal services in Karimnagar town, in the Karimnagar district of Telangana. The KMC covers an area of 23.85 square kilometers (sq. km.) and serves a population of 2.6 lakh (as per Census 2011). Its major functions include water supply, solid waste management and construction, repair and maintenance of roads and streetlights in its area. Divided into 50 municipal wards, an elected body, headed by a Mayor, administers the corporation while the Commissioner acts as the executive head overseeing its everyday functioning.

In FY2015, the KMC generated a revenue surplus of Rs. 12.6 crore on a total revenue receipt of Rs.38.9 crore compared to a revenue surplus of Rs.12.3 crore on a total revenue receipt of Rs.35.3 crore in FY2014.

Key Financials of the ULB

	FY2015	FY2016
Revenue income (Rs. crore)	38.96	43.31
Revenue expenditure (Rs. crore)	26.32	27.40
Revenue balance (Rs. crore)	12.64	15.91
Overall balance (Rs. crore)	30.39	28.61
Revenue Balance / Revenue Income (%)	32%	37%
(Principal + Interest) / Revenue income (%)	NA	NA
(Revenue balance + Int.) / (Int. + debt repayment) (%)	NA	NA
Debt/Revenue Income (%)	NA	NA

Note: NA - Not Applicable

Source: ULB 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 July 2017	FY2017	FY2016	FY2015
1	Issuer Rating	Long Term	NA	IrBBB (Stable)	--	--	--

Complexity level of rated instrument:

This is an issuer rating exercise, no instrument is rated

Annexure I
Details of instruments:

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	IrBBB (Stable)



**Name and Contact Details of the Rating Analyst(s):
Analyst Contacts**

Mr. Jayanta Roy
+91 33 2287 6617
jayanta@icraindia.com

Ms. Manish Pathak
+91 124 4545 397
manishp@icraindia.com

Ms. Neetika Shridhar
+91 124 4545 305
neetika.shridhar@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500