March 12, 2021

Jagtial Municipality: [ICRA]BB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BB (Stable); assigned

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into consideration the Jagtial Municipality's (JM) importance to the Government of Telangana State (GoTS) as a provider of key municipal services and other basic amenities to the Jagtial town. The rating considers the urban local body's (ULB's) revenue surplus position of Rs. 2-4 crore during FY2016 to FY2019, which enabled it to fund a part of its capital expenditure from internal resources. However, it reported a revenue deficit of ~Rs. 0.2 crore in FY2020 owing to an increased establishment and operational and maintenance (O&M) expenditure. ICRA notes that the JM derives significant financial benefit as its permanent staff are designated as state government employees and their salaries are paid directly by the GoTS. Nevertheless, the ULB derives most of its receipts from own tax and non-tax revenues, indicating limited reliance on the state government, especially through discretionary grants.

The rating, however, remains constrained by the JM's limited revenue base, given its low property tax base and inadequate revision in key charges, such as the property tax, in the past. The receipts from the property tax were low at ~Rs. 5-5.50 crore in the last three years. However, the ULB's property tax collection efficiency remained healthy at over 90% during FY2018 to FY2020. The collection efficiency declined in FY2021 due to the impact of the Covid-19 pandemic. ICRA also notes that the tax revenues are expected to be lower in FY2021 because of a 50% waiver on the property tax announced by the GoTS for certain categories. However, the revenue deficit grant by the GoTS as a compensation for the waiver is expected to mitigate the impact. Further, the upward revision of key rates and user charges would remain critical for the overall financial position of the JM, given the rise in the O&M costs and wages. Also, the service indicators in key areas, such as water supply, is less than satisfactory and the ULB does not have any sewerage network. The rating is also constrained by the risks associated with the execution of large projects under various schemes. Further, the JM does not have a track record of executing large projects. Hence, successful execution of such projects within the budgeted cost and estimated timeframe would remain critical, going forward. Nevertheless, ICRA believes that the JM will derive support from the state government for funding and executing the projects, which would partially mitigate the project execution risks.

The Stable outlook on the long-term rating reflects ICRA's belief that the ULB will continue to benefit from its strong operational and financial linkages with the state government, its revenue surplus position and adequate liquidity.

Key rating drivers and their description

Credit strengths

Importance of the ULB to state government as a provider of urban infrastructure and basic services – The JM is responsible for providing civic services and basic amenities to the Jagtial town. The key services rendered by the municipality are urban planning, water supply, construction and maintenance of roads and drains, solid waste management (SWM), street lights and amenities such as playgrounds, parks/gardens etc.

Revenue surplus position – The ULB witnessed a revenue surplus position of Rs. 2-4 crore during FY2016 to FY2019, which enabled it to fund a part of its capital expenditure from internal resources. However, the JM reported a revenue deficit of ~Rs. 0.2 crore in FY2020 owing to an increased establishment and O&M expenditure.

Limited dependence on the state government, especially through discretionary grants – The ULB derives most of its revenues from tax and non-tax sources, with low dependence on the state government. However, it derives significant financial benefit as its permanent staff are designated as state government employees. Consequently, their salaries are paid directly by the GoTS.

Credit challenges

Limited revenue base despite healthy collection efficiency – The revenue base of the ULB is limited, given its low property tax base and inadequate revisions in key charges, such as the property tax, in the past. The receipts from the property tax were low at ~Rs. 5-5.50 crore in the last three years. Nonetheless, the JM's property tax collection efficiency remained healthy at ~90% during FY2018 to FY2020. However, the collection efficiency declined in FY2021 due to the impact of the pandemic. Further, the tax revenues are expected to be lower in FY2021 because of a 50% waiver on the property tax announced by the GoTS for certain categories. However, revenue deficit grant by the state government as a compensation for the waiver is expected to mitigate the impact.

Expected increase in operating costs with limited revenue growth – The operating costs of the ULB are expected to increase, given the consistent rise in the wage bill of the contractual/temporary staff and an incremental O&M costs towards fresh infrastructure. Also, the revenue growth has been limited as the property tax rates and user charges have not seen any substantial increase in the past. The upward revision of key rates and user charges would remain critical for the overall financial position of the JM.

Less-than-satisfactory service levels in key service areas – The JM's services the areas of water supply are less than the desired level with water supply of 108 litres per capita per day (LPCD). The ULB does not have any sewerage network either. However, with 100% collection efficiency of municipal solid waste (MSW) more than 70% surfaced road network and adequate street lights (more than 30 lights per km), the JM's services in these areas remain at satisfactory levels.

Risks associated with executing large and complex projects – The ULB does not have a track record of executing large projects and therefore, successful execution of such projects within the budgeted cost and estimated timeframe would remain critical, going forward. Lack of adequate staff could impact the execution. However, ICRA believes that the JM will derive support from the state government for funding and executing the projects, which would partially mitigate the project execution risks.

Liquidity position: Adequate

As on March 31, 2021, the JM had no outstanding debt. However, ICRA expects the ULB to avail fresh term loan of around Rs. 4.00 crore in FY2022 to part fund some of its proposed projects, the repayment of which would start in FY2023. The future debt service obligations would be met through the annual revenue surpluses generated by the ULB. Going forward, the liquidity position of the JM is expected to be supported by its sizeable cash and bank balances of Rs. 38.4 crore as on March 31, 2020, which would be adequate to cover any immediate capex or proposed debt servicing, although a large part of the same is earmarked towards specific projects.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the ULB witnesses a consistent growth in its revenue income while maintaining healthy revenue balances.

Negative factors – Pressure on the rating may arise if the revenue balance and liquidity position of the ULB deteriorate on a consistent basis. Any additional expenditure responsibility passed on by the state government without any funding support, and/or any major debt-funded capital expenditure could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Urban Local Bodies
Parent/Group Support	The assigned rating factors in the ULB's importance to the GoTS as a provider of urban infrastructure and basic services as well as its strong operational and financial linkages with the state government
Consolidation/Standalone	Standalone

About the entity

Jagtial Municipality (JM), constituted in 1952, provides urban infrastructure services to the town of Jagtial and is governed by the Telangana Municipalities Act, 2019. The JM covers an area of 30.3 sq. km. and serves a population of 1.20 lakh (projected for FY2021). The limits of the ULB were expanded in 2018 as seven nearby villages were merged with it. Its main functions include water supply, SWM and construction, repair and maintenance of roads and street lights in its area. The JM is divided into 48 municipal wards and is governed by an elected body (Council), headed by a Chairperson, while the Commissioner acts as the chief executive, overseeing its everyday functioning.

Key financial indicators (audited)

	FY2019	FY2020
Revenue income (Rs. crore)	12.8	12.6
Revenue expenditure (Rs. crore)	9.5	12.7
Revenue balance (Rs. crore)	3.3	-0.2
Closing cash and bank balance (Rs. crore)	31.3	38.4
Revenue Balance / Revenue income (%)	34.7%	-1.6%
(Principal + Interest) / Revenue income (%)	0%	0%
(Revenue balance + Interest) / (Interest + debt repayment) (%)	NA	NA
Debt/Revenue Income (%)	0%	0%

Source: Entity and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					12-Mar- 2021	-	-	-
1	Issuer rating	NA	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 click here

Annexure-1: Instrument details

Not applicable

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