

March 12, 2021

Jawaharnagar Municipal Corporation: [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 Jawaharnagar Municipal Corporation's (JMC) limited revenue base, 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. 4.1 crore in FY2020. However, the ULB's property tax collection efficiency remained healthy over 90% in 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 Government of Telangana State (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 JMC, given the rise in the operation and maintenance (O&M) costs and wages. Also, the service indicators in key areas, such as water supply, are less than satisfactory and the ULB does not have any sewerage network. ICRA notes that the water supply and sewerage network to Jawaharnagar town are currently taken care by the Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB). The rating is also constrained by the risk associated with the execution of large projects under various schemes. Further, the JMC 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 JMC will derive support from the state government for funding and executing the projects, which would partially mitigate the project execution risks.

The rating, however, derives comfort from the JMC's importance to the GoTS as a provider of key municipal services and other basic amenities to the Jawaharnagar town. The rating considers the revenue surplus position of the JMC in FY2020. ICRA notes that the ULB derives a significant financial benefit as its permanent staff are designated as state government employees and their salaries are paid directly by the state government. 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 ULB derived about 100% of its revenue income from own revenues in FY2020.

The Stable outlook on the long-term rating reflects ICRA's opinion 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 JMC is responsible for providing civic services and basic amenities to the Jawaharnagar town. The key services rendered by the corporation are urban planning, construction and maintenance of roads and drains, solid waste management, street lights and amenities such as playgrounds, parks, gardens etc.

Limited dependence on the state government especially through discretionary grants – The ULB derives the major portion of its revenues from tax and non-tax sources with a low dependence on the state government. However, the ULB derives a

significant financial benefit as its permanent staff are designated as the state government employees. Consequently, their salaries are paid directly by the state government.

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. 5.00 crore in FY2020. Nonetheless, the JMC's property tax collection efficiency remained healthy at ~90% in 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 growth in revenues – 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 operation and maintenance (O&M) cost towards fresh infrastructure. Also, the revenue growth has been limited as the property tax rates and the user charges did not witness any substantial increase during the past years. An upward revision of key rates and user charges would remain critical for the overall financial position of the JMC.

Less-than-satisfactory service levels in key service areas – The JMC's service levels in the areas of water supply are less than the desired—water supply of 42 litres per capita per day (LPCD)— and the ULB does not have any sewerage network. Further, the drainage coverage and surfaced road network are also low. However, other service indicators such as the collection efficiency of municipal solid waste (MSW, ~100%) and streetlights (more than 30 lights per km) 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. Moreover, lack of adequate staff could impact the execution. However, ICRA believes that the JMC 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, 2020, the entity 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, repayment of which would start in FY2023. The future debt service obligations would be met through the annual revenue surplus generated by the ULB. Going forward, the liquidity position of the ULB is expected to be supported by its sizeable cash and bank balances of Rs. 5.6 crore as on March 31, 2020, which would be adequate to cover any immediate capex or proposed debt servicing, although a 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 the 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 GoT 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

Jawaharnagar Municipal Corporation (NMC), an urban local body (ULB), was recently constituted in 2019. It was converted into a municipality from a gram panchayat in April 2019. In July 2019, it was converted into a municipal corporation. The ULB provides urban infrastructure services to the Jawaharnagar town and is governed by the Telangana Municipalities Act 2019 (Act). The NMC covers an area of 24.78 sq. km. and serves a population of 1.70 lakh (projected as on date). Its main functions include solid waste management and construction, repair and maintenance of roads and streetlights. The ULB is divided into 28 municipal wards and is governed by an elected body (Council) headed by a Mayor, while the Commissioner acts as the chief executive overseeing its everyday functioning.

Key financial indicators (audited)

	FY2020
Revenue income (Rs. crore)	4.9
Revenue expenditure (Rs. crore)	3.7
Revenue balance (Rs. crore)	1.2
Closing cash and bank balance (Rs. crore)	5.6
Revenue balance / Revenue income (%)	24.5%
(Principal + Interest) / Revenue income (%)	0%
(Revenue balance + Interest) / (Interest + debt repayment) (%)	NA
Debt/Revenue Income (%)	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	Date & Rating in	
					FY2020	FY2019	FY2018	
1	Issuer rating	Long-term	Nil	Nil	12--Mar- 2021 [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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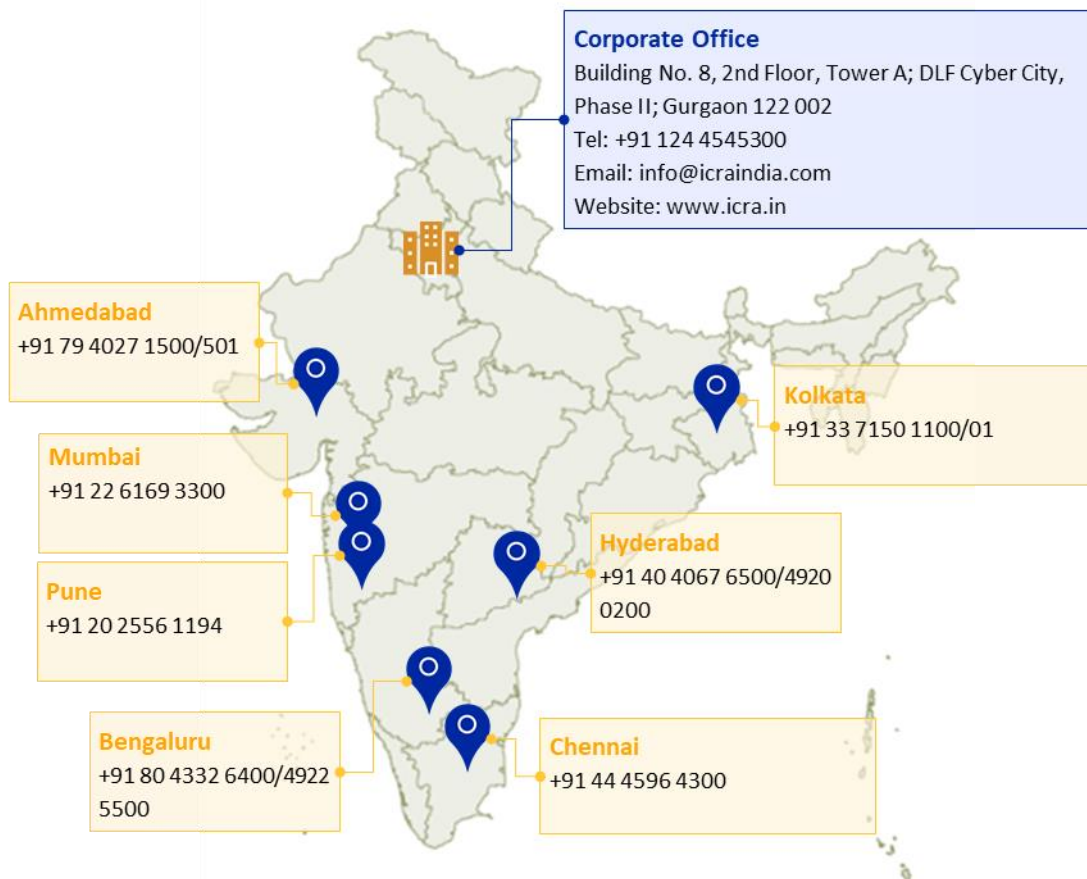
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