April 11, 2017

Raipur Municipal Corporation

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

Rating action

ICRA has assigned the long-term issuer rating of IrBBB+ (pronounced I R triple B plus) to the Raipur Municipal Corporation (RMC/Corporation).[1] The outlook assigned to the long-term rating is Stable.

Rationale

The assigned rating derives comfort from the status of the RMC as the largest urban local body (ULB) in Chhattisgarh and the strategic importance of Raipur city in the State. Raipur used to be state capital till the year 2012, after which the capital has shifted to the new state capital, Naya Raipur, adjacent to Raipur. The city is also an economic as well as industrial hub of the State. The rating also takes into consideration the RMC's growing revenue base in recent years, although it is estimated to have declined sharply during FY2016. However, ICRA notes that this decline was largely due to the stoppage of revenue support grant from the Government of Chhattisgarh (GoCG) and a marginal decline in assigned revenues. ICRA notes that the RMC's revenue base is largely dependent on the transfers from the State Government, particularly compensation against abolishment of Octroi, and revenue support grant along with emergency grant, which accounted for nearly 45% of the total revenue receipts (RR) during the period FY2013-15. However, the rule-based nature of a majority of the transfers by the GoCG based on the recommendations of the State Finance Commission (SFC) provides stable cash flows and mitigates the risk of dependence on the State Government to a large extent. The rating is also supported by the revenue enhancement measures taken by the RMC during FY2017, as reflected by an upwards revision in property tax rates, which is likely to support the revenue growth in the medium term. The assigned rating is further supported by the regular transfer of grants from the GoCG for various projects, which enables the RMC to carry out a majority of its projects, which are necessary to improve as well as maintain the service standards of the key services like solid waste management, water supply, drainage, roads and streetlights.

ICRA, however, notes that the RMC's own revenue base has remained relatively low as a percentage of its total RR in the last five years. The RMC's ability to improve its own revenue base by exploiting various tax and non-tax avenues available to it under the Act would be critical for its healthy financial position going forward. Additionally, significant increase in employee costs over the years has had an adverse impact on the financial position of the RMC, reflected by revenue deficit balance in two out last five years. As of now the Corporation has a comfortable liquidity position, but that has been a result of large capital grants received from the State/Central Governments, which has not been utilised by the Corporation so far. Also, ICRA believes that moderate service levels in terms of collection level of municipal solid waste (MSW) and coverage of road network, street lights, water supply and drains may adversely impact the citizen's willingness to pay higher taxes and charges, also reflected by the modest growth in tax revenues over the years. ICRA also notes that the absence of user charges for solid waste management (SWM) limits the RMC's ability to fund additional projects such as scientific treatment and disposal of MSW, which is currently absent in the city. Although the Corporation has implemented reforms such as an accrual-based accounting system and introduction of e-governance in key functions till date, effective implementation of other initiatives such as proposed revenue enhancement measures would be a key determinant of the RMC's ability to improve its overall performance.

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

Key rating drivers and description

Credit Strengths

- **Strategic and economic importance of the city to the GoCG:** The RMC, which provides civic services to Raipur city, is the largest ULB in the State. The city is the hub of economic and industrial activities in Chhattisgarh. Also, the new capital of the State, Naya Raipur is being developed adjacent to Raipur.
- **Rule-based transfers from the State Government:** Grant released by the GoCG as a compensation against the abolition of Octroi along with a share in stamp duty collected in the city by the State Government have remained a regular source of revenue for the RMC in the past years. Rule based nature of these transfers which accounted for nearly 25% of the total RR of the RMC over the last few years, provides a comfort to the financial position of the RMC.
- **Revenue enhancement measures taken by the Corporation:** The RMC has made an upward revision in its property tax rates w.e.f. April 1, 2016, which is likely to support revenue growth in the medium term as the GoCG has stopped providing any revenue support grants to ULBs in the State since FY2016.
- **Significant growth in capital project grant from the GoCG:** The GoCG has scaled up the urban development and administrative grants to the RMC over the years for carrying out urban infrastructure projects on construction and maintenance of roads, street lights, water supply and solid waste management

Credit Weaknesses

- **Weak information systems:** The management information system (MIS) of the Corporation remains weak with instances of inconsistency in data.
- **Moderate growth in own revenues coupled with stoppage of revenue support grants from the GoCG:** Modest growth in own revenues of the RMC along with stoppage of revenue support grants by the GoCG since FY2016 is likely to put pressure on the financials of RMC.
- **Significantly high establishment costs:** Significant increase in employee costs over the years has had an adverse impact on the financial position of the RMC, reflected by revenue deficit balance in two out last five years.
- **Moderate service levels and coverage of key functions:** The Corporation's service standards in water supply, drainage, roads and streetlights have remained at moderate levels which means a large investment needs to be made to improve the service standards to acceptable levels. Absence of scientific treatment and disposal of municipal solid waste along with moderate collection efficiency at present.
- **Risk related to execution of large projects**: A sizeable capital outlay is required for the execution of large projects under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart Cities Mission. This could stretch the cash flows of the Corporation. Moreover, given the limited track record of the Corporation in executing large projects, timely execution of these projects within the budgeted costs would be critical for the RMC's financial position going forward.

Analytical approach:

Links to applicable criteria:

Corporate Credit Rating – A Note on Methodology
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

Urban Local Body Rating Methodology
<http://www.icra.in/Files/Articles/Urban%20Local%20Bodies-%20Aug%202016.pdf>

Assessing Credit Quality of State Government Finances
< http://www.icra.in/Files/Articles/Rating%20Methodology%20Aug%202015.pdf>

Entity Profile

In 1973, the ULB in Raipur was established as a municipality and, subsequently, it was upgraded to a Municipal Corporation in 1980. The Raipur Municipal Corporation (RMC) is governed by the Chhattisgarh Municipal Corporation Act, 1961 (Act), which is administered by the Urban Administration and Development Department (UADD), GoCG. According to Census 2011, RMC, covering an area of 178.35 sq. km., serves a total population of 10.48 lakh. The RMC, which provides civic services to Raipur city, is the largest ULB in the State. The city is the hub of economic and industrial activities in Chhattisgarh. Also, the new capital of the State, Naya Raipur is being developed adjacent to Raipur. The key services extended by the Corporation are construction and maintenance of roads and drains, water supply, solid waste management, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens etc.

In FY2016, as per the revised estimates, the RMC generated a revenue deficit of Rs.16.42 crore[2] on a total revenue receipt of Rs.182.32 crore as compared to a revenue surplus of Rs.5.53 crore on a total revenue receipt of Rs.201.87 crore in FY2015.

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	FY2016	FY2015	FY2014
				April 2017	--	--	--
1	Issuer Rating	Long Term	NA	IrBBB+(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 Details of Instrument

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)

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