

May 03, 2017

Jalna Municipal Council

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	IrBB(Stable) ; assigned
*Instrument details are provided in Annexure-1		

Rating action

ICRA has assigned a long-term issuer rating of IrBB (pronounced I R double B) to the Jalna Municipal Council ('JMC' or 'the council')¹. The outlook on the long-term rating is Stable.

Rationale

The assigned rating takes into account the JMC's importance to the state government of Maharashtra (GoM) as a provider of key municipal services to the city of Jalna. The rating also positively factors the rule-based transfers of grants from the state government, which assists the council in making non-discretionary payments like salaries and pensions. The rating further factors in the revenue surplus position of JMC during the last four years, which enables it to partly fund its capital expenditure from internal sources to that extent. ICRA also notes the satisfactory service levels provided by JMC in relation to construction of roads, street lights and collection of municipal solid waste (MSW).

The rating, however, is constrained by JMC's weak information systems with instances of inconsistencies in data. Additionally, the relatively small size of the council's revenue base and the low collection efficiency of key revenues, property tax and water charges, remain a concern. The rating also factors in JMC's less-than-satisfactory service standards in the areas of sewerage, scientific treatment and disposal of MSW. ICRA notes that JMC proposes large outlays for various projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) as well as other urban infrastructure schemes, which could stretch the cash flows of the council. Moreover, given the limited track record of the council in executing large projects, the timely execution of these projects within the budgeted costs would be critical for JMC's financial position, going forward. The effective implementation of key reforms such as an accrual-based accounting system and e-governance in key functions would be important determinants of JMC's ability to improve its overall performance.

Key rating drivers

Credit strengths

- Revenue surplus position during the last four years; although the same has been supported by the rule based transfers from the state government
- Satisfactory service levels in the areas of solid waste collection, roads and street lights at present

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

Credit weaknesses

- Weak information systems with instances of inconsistency in data
- Relatively small size of revenue base at present
- Low collection efficiency of property tax and water charges
- Lack of sewerage network and scientific treatment and disposal of MSW, is a potential concern for the hygiene of the city and will require large capital outlays.
- Risks related to execution of projects

Description of key rating drivers

JMC receives a compensation grant from the GoM in lieu of octroi, which was abolished in the city. The council also receives a share in the stamp duty collected in the city by the state government. These transfers collectively contributed 58-65% of JMC's total revenues between FY2013 and FY2016. Though the rule based nature of these transfers provides comfort, the frequency of such transfers has been irregular as reflected by the inconsistencies in the amounts received over the last four years. Aided by these transfers the council has been reporting revenue surplus during the last four years. The revenue surplus has been employed by JMC to partly fund its capital expenditure. Over the years, JMC has incurred expenditure for the construction and maintenance of roads, installation and maintenance of streetlights and collection of solid waste. JMC's service levels in these areas have been satisfactory.

The management information system (MIS) of the council, however, remains weak with instances of inconsistencies in data. While the accounts of the council are regularly audited, it does not maintain accrual-based accounts. Additionally, the city lacks a sewerage network and a scientific MSW treatment and disposal unit. JMC's collection efficiency of property taxes and water charges remained low during FY2012–FY2016, averaging at ~41% and ~44%, respectively. This constrained JMC's own revenues, which comprised 15-19% of its total revenue receipts between FY2013 and FY2016. Given that the transfers from the state government are not regular, growth in the council's own revenues would be critical to maintain revenue surplus position and fund the cash flow mismatches in future years. The JMC has also proposed large capital outlays for various projects totalling to Rs. 363 crore, which would primarily (75%) be funded by the Government of India (GoI) and the GoM under AMRUT. The remaining 25% is proposed to be contributed by JMC (Rs. 90.75 crore). The timely execution of these projects within the budgeted costs will remain critical. Given the large outlays, the financial position of JMC would be adversely impacted if the project assets, after commissioning, are unable to generate adequate revenues to part fund the operations and maintenance (O&M) costs, which are expected to increase significantly, going forward.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:

Rating Methodology for Urban Local Bodies

<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>

About the entity

JMC, being an urban local body (ULB), provides civic services to the Jalna city. Jalna is situated on the banks of the Kundalika river and is the premier commercial centre of the Marathwada region of Maharashtra. The city serves as headquarter for the Jalna district, which has a high concentration of steel industries, agro-based industries, spinning-ginning mills, etc. According to Census 2011, JMC, covering an area of 83.69 sq. km., serves a total population of 2.86 lakh. It is governed by the Maharashtra Municipal Corporation and Municipal Councils Act, 1994. The council of JMC, comprising 54 ward councillors, is headed by a president who is elected by the ward councillors. The executive wing is headed by a chief officer, who is appointed by the GoM and is supported by the head of various departments.

The key services extended by the ULB are water supply, construction and maintenance of roads and drains, solid waste collection, street lights and amenities such as shopping stalls, community hall, playgrounds, and parks/gardens, among other civic amenities.

In FY2016, JMC generated a revenue surplus of Rs. 0.90 crore on a total revenue income of Rs. 33.76 crore compared to a revenue surplus of Rs. 5.20 crore on a total revenue income of Rs. 33.33 crore in FY2015.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2017 May 2017	FY2016	FY2015	FY2014
1	Issuer Rating	Long Term	NA	IrBB(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

Annexure-1
Instrument Details

Name of the instrument	Date of Issuance/ Sanction	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Issuer rating on long-term scale	-	-	-	NA	IrBB(Stable)

Contact Details

Analyst Contacts

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Manish Pathak

+91 124 4545 397

manishp@icraindia.com

Roshni Suvarna

+91 22 6114 3457

roshni.suvarna@icraindia.com

Relationship Contact

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