

June 15, 2017

## Mysuru City Corporation

### Summary of Rated Instruments

| Instrument    | Rated Amount<br>(Rs. Crore) | Rating Action          |
|---------------|-----------------------------|------------------------|
| Issuer rating | Nil                         | IrA(Stable) / assigned |

#### Rating action

ICRA has assigned a long-term issuer rating of IrA (pronounced as I R A)<sup>1</sup> to the Mysuru City Corporation (MCC). The outlook on the long-term rating is stable.

#### Rationale

The assigned rating derives comfort from the status of the MCC as the second-largest urban local body (ULB) in the state of Karnataka, and its importance to the Government of Karnataka (GoK) as a provider of key municipal services to the city of Mysuru, which has significant economic and cultural importance. The rating also considers the comfortable financial profile of the MCC, with steady growth in revenue income, consistent revenue surplus reported by the MCC (during the last five fiscals ending FY2017) and adequate liquidity position with cash balances exceeding Rs. 190 crore<sup>2</sup> as on March 31, 2017. In addition to the stable growth in its own revenue base – with equal contribution from property tax collections and non-tax revenues (which primarily includes user charges) – the MCC's overall financial profile is aided by the regular financial support from the GoK through the release of grants. The rule-based nature of most of the transfers, based on the recommendations of the State Finance Commission (SFC), lends stability to cash flows. The rating also positively factors in the satisfactory service levels of MCC in key functions, including solid waste management (SWM), water supply and sewerage among others, which reduce capital expenditure requirement to an extent going forward and help meet the required service standards.

The rating is however, constrained to an extent by the expected increase in operating and capital costs, which could strain the overall financial position of the MCC. The anticipated rise in expenditure is on account of the proposed widening of the operational jurisdiction of the MCC with addition of adjoining areas in the near term as well as capital works to be executed as part of various projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT). The demonstrated ability of the corporation to effect a periodical increase in tax rates and user charges coupled with regular receipts of grants lends comfort, buffering the impact on revenue surplus position to an extent. The rating also considers the risks associated with the timely execution of the capital projects within the budgeted costs and time, which would be critical for supporting its financial position and a moderately high dependence on grants from the GoK to meet its operational and capital requirements (average own income to total revenue income being ~50% during the last four fiscals). ICRA notes that the corporation has effectively implemented reforms such as an accrual-based accounting system and introduction of e-governance in critical functions till date. The effective implementation of other initiatives, such as the proposed revenue enhancement measures, would be a key determinant of the MCC's ability to improve its overall performance going forward.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>2</sup> 100 lakh = 1 crore = 10 million

## **Key rating drivers**

### **Credit strengths**

- Strategic importance to the State Government, being the second largest ULB in the state, illustrated by the regular funding support received in the form of rule-based transfer of grants from the GoK
- High credit quality of the State Government
- Demonstrated ability of the corporation to effect periodical increase in tax rates and user charges; steady improvement in own revenue receipts recorded over a period of time, with the ULB generating revenue surplus over the last five years and also enjoying healthy liquidity position
- Satisfactory service levels across key municipal services, in the areas of SWM, water supply, sewerage, roads and street lights at present

### **Credit weaknesses**

- Expected increase in operating costs with the implementation of various projects towards improving quality of municipal services, accentuated by likely widening of operational jurisdiction of the MCC to include adjoining areas; steady increase in property tax rates and user charges effected over the years likely to buffer the impact on revenue surplus position to an extent
- Risks related to the execution of capital projects under the AMRUT scheme within the budgeted cost and time
- Moderately high dependence on grants from the State Government to support increasing operating costs and funding requirements towards infrastructure projects; however, a large part of such transfers is rule-based and thus provides comfort

## **Description of key rating drivers**

The MCC, which provides civic services to the Mysuru city, is the second-largest ULB in the state. Importance of Mysuru's strong economic and cultural base is evidenced by the presence of a large number of commercial establishments in the city, supporting property tax revenues of the corporation. The MCC has reported revenue surplus over the years, aided by steady growth in its own revenues and continuous funding support from the GoK (regular rule-based grants apart from the periodic release of discretionary grants). While the property tax collections have recorded steady growth, collection efficiency has remained at moderate levels (average of 75% during the last four fiscals). In FY2017, the MMC has taken various steps, such as geographical information system (GIS)-based survey, revaluation of all properties, door-to-door collection drives and issuance of demand notices to improve the overall tax base and collection efficiency. In addition, the recent hike in property tax rates is expected to result in the improvement in tax collections, going forward. The corporation's own revenue base is also aided by the non-tax revenue collections under user charges (towards water supply, sewerage and SWM) and fee for building development / licence etc. The liquidity position of the MCC remains comfortable, with the revenue surplus being utilised towards funding its capital works.

The MCC has achieved satisfactory service levels across key service functions, including SWM, water supply and sewerage. In addition to its improving efforts towards treatment of municipal solid waste (MSW) generated, SWM collection efficiency of the MCC stands at a comfortable 95%, supported by its door-to-door collection and segregation at source efforts. Services under water supply is characterized by near 100% coverage and healthy per capita supply levels, with the current user charge collections limited by about 30% non-revenue water (NRW) level. Performance across other functions is also satisfactory, with coverage under sewerage at more than 90% and average road length per square kilometre and number of streetlights per kilometre of road length being at comfortable levels. The levy of user charges

for key functions, including water supply, sewerage and SWM totalling about 15% of the overall revenue income, should support funding of its rising operation and maintenance costs.

The MCC has proposed to execute a number of projects in the near future, which could impact the revenue surplus position owing to the expected growth in operating costs as against a more gradual increase in user charges. Majority of the investments under AMRUT is proposed to be incurred towards strengthening its water supply network (to further improve efficiency and reduce NRW levels). Overall, investment requirement is expected to be accentuated by the proposed addition of adjoining areas to the jurisdiction of the corporation in the near term. The MCC has a planned capital outlay of ~Rs. 190 crore for the execution of projects under AMRUT (of which more than Rs. 150 crore would be towards water supply). The same is likely to stretch the overall cash flows of the corporation, with the expected growth in own revenue base and timely receipt of operating grants from the GoK likely to buffer the impact on revenue surplus and liquidity position to an extent.

### **Analytical approach**

For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

### **Links to applicable criteria**

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>

### **About the entity**

The MCC, which attained City Corporation status in 1977, is responsible for providing municipal services to the City of Mysuru. It is governed by the Karnataka Municipalities Act, 1964. The key services extended by the ULB are water supply, construction and maintenance of roads and drains, solid waste management, street lights and amenities such as shopping stalls, community hall, playgrounds, and parks/gardens, among other civic amenities. The MCC comprises of 65 Ward Councillors and is headed by a Mayor who is elected by the Councillors. The executive wing is headed by a Municipal Commissioner, who is appointed by the GoK and is supported by the head of various departments.

Mysuru is the second-largest city in the state and is the administrative headquarters of the Mysore District, located at a distance of 135 km. from the state capital, Bengaluru. Mysuru is an important educational, cultural, commercial and administrative centre in the state and is also a renowned tourist and heritage destination. The information technology (IT) and tourism sectors are the key revenue generating sectors in the district. According to Census 2011, the MCC – covering an area of 128.42 sq. km. – serves a total population of 9.2 lakh in the city.

In FY2016, the MCC generated a revenue surplus of Rs. 98.04 crore on a total revenue income of Rs. 332.61 crore, compared to a revenue surplus of Rs. 53.60 crore on a revenue income of Rs. 247.93 crore in FY2015.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:  
Table:**

| S. No. | Name of Instrument | Current Rating (2017) |                          |                  | Chronology of Rating History for the past 3 years |        |        |
|--------|--------------------|-----------------------|--------------------------|------------------|---|--------|--------|
|        |                    | Type                  | Amount Rated (Rs. crore) | FY2018           | FY2017  | FY2016 | FY2015 |
|        |                    |                       |                          | <b>June 2017</b> | -   | -      | -      |
| 1      | Issuer rating      | Long Term             | NA                       | IrA(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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

| <b>Name of the instrument</b> | <b>Date of issuance</b> | <b>Coupon rate</b> | <b>Maturity Date</b> | <b>Size of the issue (Rs. crore)</b> | <b>Current Rating and Outlook</b> |
|-------------------------------|-------------------------|--------------------|----------------------|--------------------------------------|-----------------------------------|
| Issuer rating on long term    | -                       | -                  | -                    | NA                                   | IrA(Stable)                       |

## Contact Details

### Analyst Contacts

**Jayanta Roy**

+033-7150 1120

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Manish Pathak**

+0124- 4545 397

[manishp@icraindia.com](mailto:manishp@icraindia.com)

**Balaji M**

+044-4596 4317

[balaji.m@icraindia.com](mailto:balaji.m@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto: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](http://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](http://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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto:jayantac@icraindia.com)

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