

July 03, 2017

Wanaparthi Municipality

Summary of rated instruments

Instrument*	Rated Amount (in 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 minus)¹ to the Wanaparthi Municipality (WPM). The outlook on the long-term rating is Stable

Rationale

The assigned rating takes into account the strong support from the Telangana Government to the WPM with respect to the payment of salaries to the permanent staff of the urban local body (ULB). This has resulted in the municipality's revenue-surplus position and has provided it with liquidity support to a large extent. The rating is also supported by the high share of the municipality's own revenue in the total revenue income, which has been sufficient to finance its committed revenue expenditure, providing it with the flexibility to fund a part of its capital expenditure from internal resources. The collection efficiency of property tax, which has been a major revenue contributor for the WPM, has also been satisfactory.

The rating, however, is constrained by the small (albeit steadily increasing) size of the municipality's revenue base with limited growth during the past years. Also, its weak information management system with instances of data inconsistency and inadequate service standards in delivering critical civic amenities in the region with respect to water supply, road and sewerage treatment are negatives. Further, weak service delivery along with a high proportion of slum dwellers in the region restricts the revenue-raising capability of the WPM. This also implies that the municipality will require large investments in the slum-dominated areas to bridge the gaps in the region's service level. The WPM's ability to improve its revenue base by exercising various tax and non-tax avenues available to it would be critical for sustaining its financial position going forward.

Key rating drivers

Credit strengths

- Strong support from the state government; payment of salaries to the permanent staff of the ULB by the Government of Telangana (GoT), which has an adequate credit quality, provides liquidity support to a large extent
- The WPM's revenue surplus position enables it to fund a part of its capital expenditure from internal resources
- Satisfactory collection efficiency of property tax, which is a major revenue contributor

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 data inconsistency
- Relatively small size of the revenue base at present
- Less-than-satisfactory services levels in key services, indicating a substantial requirement of investment by the WPM
- Presence of a huge slum population within the municipal limits

Description of key rating drivers

The GoT (which has an adequate credit quality) supports the WPM in the payment of salaries to the permanent staff of the ULB, providing liquidity support to a large extent. Although the WPM reported revenue deficits in FY2015 because of the payment of electricity bills accumulated over the past years, it recorded revenue surplus of 50% and 48% in FY2016 and FY2017 respectively. This enabled the municipality to fund a part of its capital expenditure from internal resources.

The WPM's own revenue base from tax and non-tax revenues steadily improved during FY2015-FY2017 and stood above 70% during the period. This indicates the municipality's low dependency on the state government for the transfer of assigned revenues or grants. Further, the WPM's own revenue receipts have been adequate to fund its committed revenue expenditure which has been steady at ~40% of the WPM's revenue receipts during FY2015-FY2017. Though the overall collection efficiency for the property tax has been volatile in the past, it improved to above 85% during the last two fiscals ending FY2016, which accounted for most of the revenue receipts of the WPM.

The management information system (MIS) of the ULB also remains weak with instances of data inconsistency. Though the municipality's revenue base steadily increased during FY2015-FY2017, it remained relatively small with revenue receipts in the range of Rs. 5-9 crore owing to limited growth during the period. The WPM's performance level, in terms of delivering critical civic amenities in the region, has been unsatisfactory for water supply, road and sewerage treatment. Road-side drains cover only 74% of the roads and storm water drain coverage is at around 4% of the total road length. The per capital water supplied stood low at 11.4 litres per capital day as the region has water-shortage problems. The road density stood low at ~4 km road per sq km with 22 street lights per km. The WPM has 100% efficiency for solid waste collection. However, the municipality does not undertake segregation and recycle yet. It does not have sewerage network either.

The slums account for 48% of the total population in the WPM. Weak service delivery, along with high proportion of slum dwellers in the region, restricts the revenue-raising capability of the municipality. This implies that it will require large investments in the slum-dominated areas to bridge the gaps in the region's service level.

Analytical approach

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

Links to applicable criteria

- Urban Local Body Rating Methodology
<https://www.icra.in/Rating/ShowMethodologyReport/?id=388&Title=Urban Local Bodies&Report=Urban Local Bodies, Rating Methodology, Aug 2016.pdf>
- Assessing Credit Quality of State Government Finances
<https://www.icra.in/Rating/ShowMethodologyReport/?id=387&Title=State Government Finances&Report=State Government Finances, Aug 2015.pdf>

About the entity

The WPM, being an ULB, provides civic services to the Wanaparthy town. The town is the headquarter of the recently-formed Wanaparthy district of Telangana and is located at a distance of around 150 km from the state capital, Hyderabad. The major economic activity in the region is agriculture, which primarily includes sugar, rice, fruits and vegetables. According to Census 2011, Wanaparthy covers an area of 27.34 sq km and has a population of 61,170, of which 48% are slum dwellers.

The ULB is governed by the provisions of the Telangana State Municipalities Act, (TSM Act) 1965. The major functions of the WPM include water supply, solid waste management, repair and maintenance of roads, street lighting and amenities like shopping stalls, community hall, playgrounds, parks/gardens. The council of the WPM comprises 26 Ward Councillors headed by a Chairperson. The executive wing is headed by a Municipal Commissioner, who is appointed by the GoTS and is supported by the head of various departments.

As per the revised estimates of FY2017, the WPM generated a revenue surplus of Rs. 4.24 crore² on a total revenue receipt of Rs. 8.80 crore compared with a revenue surplus of Rs. 4.04 crore on a revenue receipt of Rs. 8.14 crore as per the audited results of FY2016.

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 (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating July 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Issuer Rating	Long Term	NA	IrBB-(stable)	NA	NA	NA

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
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Issuer Rating on LT Scale	-	-	-	-	IrBB-(stable)

Source: WPM

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