

July 10, 2017

Udupi City Municipal Council

Summary of rated instruments

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

Rating action

ICRA has assigned a long-term issuer rating of IrBBB- (pronounced I R triple B minus) to the Udupi City Municipal Council (UCMC).¹ The outlook on the long-term rating is stable.

Rationale

The assigned rating takes into account the UCMC's importance to the Government of Karnataka (GoK) as a provider of key municipal services to Udupi. The rating also positively factors in the rule-based transfers of grants from the GoK, which assists the council in making non-discretionary payments like salaries, pensions and electricity bills. Moreover, the rating considers the revenue surplus position of the UCMC during the last four years, which can mainly be attributed to the grants received from the GoK. A revenue-surplus position provides flexibility to the council in planning and prioritising its capital expenditure.

The rating, however, is constrained by the UCMC's weak information management system with instances of inconsistency in data, especially in financial statements. The rating also factors in the less-than-satisfactory service standards in terms of roads, street lights, storm water drains and sewerage. ICRA notes that the UCMC proposes large outlays for various projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and other government schemes, which may stretch the cash flows of the council. Given the UCMC's limited track record in executing large projects, the timely execution of these projects within the budget would be critical for its financial position, going forward. ICRA notes that the council has implemented reforms such as the accrual-based accounting system. However, effective implementation of other key reforms, such as introduction of e-governance in key functions and revenue enhancement measures, would be important determinants of the UCMC's ability to improve its overall performance. An adequate number of staff along with continuity of such staff, especially in critical functions, would be crucial for the timely implementation of key projects and reforms, going forward.

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

Key rating drivers**Credit strengths**

- Rule-based transfers of grants from the state government, which has a high credit quality
- Surplus revenue during the last four years mainly due to grants received from the state government
- Healthy size of own revenue sources, growing at a steady rate
- Satisfactory service levels in terms of water supply and solid waste management; though significant scope for improvement in other areas remains

Credit weaknesses

- Weak information system
- Less-than-satisfactory service levels in terms of roads, sewerage, street lights and storm water drainage
- Lack of adequate staff in key departments
- Risk related to execution of large projects

Description of key rating drivers:

The council receives rule-based grants from the GoK on recommendation by the State Finance Commission (SFC). The grants from the GoK have been regular and are the main source of the ULB's revenue. Such grants accounted for 57% of the total revenue in FY2016. The council managed to generate revenue surplus of 69% of the total revenue income in FY2016. This was mainly on account of steady flow of revenue grants from the GoK in proportion to the revenue expenditure incurred by the council. The size of the council's own revenue is healthy on account of a growing base of property tax and steady increase in user charges with a satisfactory collection efficiency of ~80%. The water supply and solid waste management have also been satisfactory with water supply at 188 litres per capita per day (lpcd) and waste collection efficiency of 91%.

However, other service indicators remains less-than-satisfactory with only 20 street lights per kilometre of road length and 56% of the roads being surfaced. The sewerage facilities cover only 18% of the total ULB area. The management information system (MIS) of the council is weak with instances of inconsistency in data. ICRA also notes that the UCMC has proposed to execute key projects under the AMRUT scheme. The total cost of the project under the AMRUT scheme is Rs. 131.53 crore², which is funded in the ratio of 50% by the Government of India (GoI), 20% by the GoK, and 30% by the UCMC. ICRA notes that some of the gaps in the existing service levels are proposed to be covered under the AMRUT projects. However, adequate staff in key functions and timely execution of these projects within the budgeted costs will remain critical. Also, given the large outlay towards projects, the financial position of the UCMC 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:

[Urban Local Body Rating Methodology](#)

[Assessing Credit Quality of State Government Finances](#)

² 100 lakh = 1 crore = 10 million

About the entity

The UCMC, an urban local body (ULB), provides civic services to Udupi city, the headquarter of Udupi district. The city is located in West Karnataka and is around 60 km away from Mangaluru and 422 km away from the state capital, Bengaluru. The ULB in Udupi was first established in 1935, which was later notified as a City Municipal Council in 1995. According to Census 2011, the UCMC, which covers an area of 69.28 sq. km., serves a total population of 1.25 lakh. It is governed by the Karnataka Municipalities Act, 1964. The council of the UCMC, comprising 29 Ward Councillors, is headed by a President, who is elected by the Councillors. The executive wing is headed by a Commissioner, who is appointed by the GoK and is supported by the heads of various departments.

The key services extended by the ULB include water supply, sewerage, 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 others.

In FY2016, the UCMC generated a revenue surplus of Rs. 28.13 crore on a total revenue income of Rs. 56.38 crore compared to a revenue surplus of Rs. 22.13 crore on a total revenue income of Rs. 42.57 crore in FY2015.

Key Financial Indicators:

Table:

	FY2015	FY2016
Revenue income (Rs. crore)	42.57	56.38
Revenue expenditure (Rs. crore)	20.44	28.25
Revenue balance (Rs. crore)	22.13	28.13
Overall balance (Rs. crore)	6.44	10.87
Revenue Balance / Revenue Income (%)	52.0%	49.9%
(Principal + Interest) / Revenue income (%)	0.0%	0.0%
(Revenue balance + Int.) / (Int. + debt repayment) (%)	24228.8%	153690.3%
Debt/Revenue Income (%)	0.0%	0.0 %

Source: ULB and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years:

Table:

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018	FY2017	FY2016	FY2015
				July 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

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	IrBBB-(Stable)

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About ICRA Limited:

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