

July 11, 2017

## Machilipatnam Municipality

### 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 plus) to the **Machilipatnam Municipality** (MPM or municipality).<sup>1</sup> The outlook on the long-term rating is stable.

### Rationale

The assigned rating takes into account the MPM's importance to the Government of Andhra Pradesh (GoAP) as a provider of key municipal services to the city of Machilipatnam. The rating also takes into consideration the revenue-surplus position of the municipality, though the same has been on account of payment of salaries and pension of the permanent staff directly by the state government. The rating is also supported by the high share of the municipality's own revenue in the total revenue income, indicating a relatively low dependence on the state government for funding its regular expenditure. The rating also draws comfort from the satisfactory service indicators for the collection of municipal solid waste (MSW) and coverage of street lights and roads.

The rating, however, is constrained by the MPM's weak information management system with instances of data inconsistency. The moderate size of the municipality's revenue base with a limited growth also impacts the assigned rating. The city lacks a sewerage network, and a scientific treatment facility for of MSW, which adversely impacts the overall hygiene of the city and willingness of the citizens to pay taxes and user charges. The overall collection efficiency of property tax has remained low over the past four years. Further, the rating is also impacted by the risk associated with timely execution of projects within the budgeted cost under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme. Nevertheless, ICRA expects that the MPM will continue to derive support from the state government for funding the projects and for capacity building of the municipal staff. This is likely to mitigate the risks related to execution of a large project.

### Key rating drivers

#### Credit strengths

- Strong support from the state government; payment of salaries to the permanent staff of the ULB by the GoAP, which has an adequate credit quality; this provides liquidity support to a large extent
- Revenue surplus position of the MPM enables the municipality to fund a part of its capital expenditure from internal resources
- A high share of own revenues in the total revenue income, indicates limited reliance on grants from the state government, though indirectly supported by the GoAP
- Satisfactory service indicators for the solid waste management, street lights, and surface road

<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.

**Credit weaknesses**

- The information systems of the municipality remain weak with instances of data inconsistency
- Low property tax collection efficiency, limits the revenue base to that extent
- Modest service indicators in the areas with lack of sewerage network and the absence of scientific treatment of municipal solid waste, indicates requirement of substantial investment
- The capital requirement for the execution of projects under the AMRUT could stretch the cash flows of the municipality. Moreover, any delay in completion of such projects due to lack of adequate resources could further increase the cost of the project

**Description of key rating drivers**

The municipality has enjoyed revenue surplus position over the past four years supported by payment of salaries and pension of permanent staff directly by the state government. The revenue surplus position has enabled it to fund a part of its capital expenditure from own revenues. The municipality's own tax and non-tax revenues contributed to more than 62% of revenues during FY2013 to FY2016 indicating limited reliance on grants from the state government. Moreover, MPM's revenues are augmented by regular and formula-based transfer of assigned revenues, which also limit its dependence on the state or central government grants. The MPM has 99% solid waste collection efficiency and has put up 29 street lights per km of road and 91% surface road coverage.

However, other service indicators remain modest with the lack of sewerage network in the city and the absence of scientific treatment of solid waste. The absence of user charges for solid waste management (SWM) limits the municipality's ability to fund additional projects such as scientific treatment and disposal of MSW, which are absent in the city. Moreover, the overall collection efficiency of property tax remained low over the past four years. The management information system (MIS) of the ULB remains weak with instances of data inconsistency. ICRA also notes that the MPM has proposed to execute key projects under the AMRUT and other schemes. The total cost of the current projects under the AMRUT scheme is Rs. 37.25 crore<sup>2</sup>, which is funded in the ratio of 50% by the Government of India (GoI), 20% by the GoK, and 30% by the MPM. ICRA notes that some of the gaps in the existing service levels are proposed to be covered under the AMRUT projects. However, adequate personnel in key functions and the timely execution of these projects within the budgeted costs will remain critical. Also, given the large outlays towards projects, the financial position of the MPM would be adversely impacted if the project assets after commissioning are unable to generate adequate revenues to partly 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

Rating Methodology for Urban Local Bodies

Assessing Credit Quality of State Government Finances

Rating Methodology for State Government Finances

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

**About the entity**

The MPM, an urban local body (ULB) was constituted as a municipality in 1866 and is governed by the Andhra Pradesh State Municipalities Act 1965 (Act). It manages the municipal services of Machilipatnam town, which is located in Krishna district of Andhra Pradesh. The MPM covers an area of 26.27 sq. km. and serves a population of 1.70 lakh (as per Census 2011). Its main functions include water supply, solid waste management and construction, repair and maintenance of roads and streetlights in its area. The municipality is divided into 42 municipal wards, and is governed by an elected body (council) headed by a Chairperson, while the Commissioner acts as the executive head overseeing its everyday functioning.

**Key Financials:**

	<b>FY2015</b>	<b>FY2016*</b>
Revenue income (Rs. crore)	19.28	20.68
Revenue expenditure (Rs. crore)	10.40	14.36
Revenue balance (Rs. crore)	8.88	6.32
Overall balance (Rs. crore)	12.44	-1.87
Revenue Balance / Revenue Income (%)	46%	31%
(Principal + Interest) / Revenue income (%)	0%	0%
(Revenue balance + Int.) / (Int. + debt repayment) (%)	NA	NA
Debt/Revenue Income (%)	0%	0%

Source: Machilipatnam Municipality and ICRA research, \*Estimates

**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	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](http://www.icra.in)

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

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

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