July 11, 2017

Miryalaguda 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) to the **Miryalaguda Municipality** (MLGM or municipality).[1] The outlook on the long-term rating is stable.

Rationale

The assigned rating takes into account the MLGM's importance to the Government of Telangana (GoT) as a provider of key municipal services to the city of Miryalaguda. The rating also takes into consideration the revenue-surplus position of the municipality, though nominal at the absolute level, and 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, however, is constrained by the MLGM's weak information management systems with instances of data inconsistencies. The modest size of the municipality's revenue base with a limited growth during the past years in the absence of any upward revision in taxes and charges also impacts the assigned rating. Although the current collection efficiency of property tax has been healthy, overall collection efficiency has been moderate over the past two years limiting revenue growth. The city lacks a sewerage network, and other service indicators like water supply, streetlight coverage, storm water drains coverage, and surface road coverage have been moderate, which adversely impacts the willingness of the citizens to pay taxes and user charges. 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 MLGM 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 Government of Telangana (GoT), which has an adequate credit quality, provides liquidity support to a large extent
- Revenue surplus position of the MLGM, though nominal in absolute value, 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 a limited reliance on grants from the state government, though indirectly supported by the GoT

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

Credit weaknesses

- The information systems of the municipality remain weak with instances of inconsistencies in data
- The revenue receipts (RR) of the municipality has remained at a moderate level in the past years with minimal growth in the absence of any upwards revision in key taxes and charges
- Modest service indicators with lack of the sewerage network, lower water supply, and modest surface road, drainage, and streetlight coverage
- 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 on account of the 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 part of its capital expenditure from own revenues. However, ICRA notes that the revenue surplus has been modest with limited growth over the past few years in the absence of upward revisions in taxes and charges. Moreover, although the current collection efficiency of property tax has been healthy, overall collection efficiency has been moderate over the past two years limiting revenue growth.The municipality's own tax and non-tax revenues contributed to 79% of revenues in FY2016 indicating limited reliance on grants from the state government. MLGM's revenues are augmented by regular and formula-based transfer of assigned revenues, which also limit its dependence on state or Central Government grants.

However, other service indicators remain modest with the lack of sewerage network, inadequate water supply, and modest surface road and streetlight coverage. The management information system (MIS) of the ULB remains weak with instances of inconsistencies in data. ICRA also notes that the MLGM 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. 34.53 crore[2], which is funded in the ratio of 50% by the Government of India (GoI), 20% by the GoT, and 30% by the MLGM. 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 MLGM 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

[2] *100 lakh = 1 crore = 10 million*

About the entity

The MLGM was constituted as a municipality in 1984 and is governed by the Telangana State Municipalities Act 1965 (Act). It manages the municipal services in Miryalaguda city covering an area of 28.36 sq. km. and serves a population of 1.1 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 36 municipal wards, and is governed by an elected body (council), while the Commissioner acts as the executive head overseeing its everyday functioning.

Key Financial Indicators:

Particulars	FY2015	FY2016*
Revenue income (Rs. crore.)	15.0	14.5
Revenue expenditure (Rs. crore)	13.0	9.6
Revenue balance (Rs. crore)	2.0	4.9
Overall balance (Rs. crore)	4.6	10.7
Revenue balance / Revenue income (%)	14%	34%
(Principal + Interest) / Revenue income (%)	-	-
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	NA	NA
Debt / Revenue income (%)	0	0

Source: MLGM 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

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)

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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.

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