

November 23, 2017

## Hajipur Municipal Council

### Summary of Rated Instruments

Instrument	Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	[ICRA]B+(Stable) ; Assigned

### Rating action

ICRA has assigned the long-term issuer rating of [ICRA]B+ (pronounced ICRA B plus) to the Hajipur Municipal Council (HMC/Corporation).<sup>1</sup> The outlook assigned to the long-term rating is Stable.

### Rationale

The assigned rating derives comfort from the HMC's importance to the Government of Bihar (GoB) as a provider of key municipal services in Hajipur and rule-based transfers of assigned revenues and grants from the state government, which assists the council in making non-discretionary payments like salaries, pensions and electricity bills. The rating also takes into consideration the HMC's revenue surplus position in the last three years. ICRA also notes the significant growth in the expenditure towards projects related to construction of roads, streetlights, sewerage, water-supply projects and solid-waste management, which were funded by matching grants from the state government.

The rating, however, is constrained by the HMC's significantly weak information systems with instances of inconsistency in data, small size of the HMC's own revenues, which limits its ability to fund the cash-flow mismatch in case of irregular transfers from the GoB, and less-than-satisfactory service standards in the areas of water supply, roads, street lights, solid-waste management and drainage. Moreover, the poor service levels in key services adversely impact the citizen's willingness to pay various taxes and charges and accept any upward revision in taxes. ICRA notes that, going forward, a significant amount of capital expenditure will be required by the HMC to improve these services to a desired level. ICRA also notes that the ability of the HMC to improve its own revenue base, by exploiting various tax and non-tax avenues available to it under the Bihar Municipal Act, 2007 (Act), would be critical to improve its financial position, going forward.

ICRA notes that the HMC proposes a large outlay for various projects (Rs. 101.1 crore<sup>2</sup> during FY2017 to FY2019), which would primarily (90%) be funded by the Government of India (GoI) and the GoB under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme. The remaining 10% is proposed to be contributed by the HMC (Rs. 10.1 crore). ICRA notes that the financial position of the HMC would be adversely impacted if the project assets, after commissioning, are unable to generate adequate revenues to part fund the Operations & Maintenance (O&M) costs, which are expected to increase significantly, going forward. Although the council has implemented reforms such as regular audit of financial statements, and introduction of e-governance in some functions till date, effective implementation of other key initiatives such as shifting to accrual-based accounting system and revenue enhancement measures would be key determinants of the HMC's ability to improve its overall performance. Finally, adequate number of staff, coupled with continuity of such staff, especially in critical functions, would be crucial for timely implementation of key projects and reforms, 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 and description

### Credit strengths

- **Rule-based transfers from the state government:** Grant released by the GoB under the State Finance Commission (SFC) for payment of salaries and operations, and maintenance of key municipal services such as water supply, roads and drains.
- **Revenue-surplus position in the last three years:** The corporation's own revenue base has increased consistently over the years, albeit on a small base. Also, the HMC has generated a revenue surplus in the past years.

### Credit weaknesses

- **Weak information systems:** The management information system (MIS) of the corporation remains weak with instances of inconsistency in data.
- **Low share of own revenues:** The HMC's own sources of revenue have remained low (although increasing) primarily on account of poor coverage of residential and commercial properties under the property tax ambit.
- **Less-than-satisfactory service levels:** The service levels for the key functions have remained very poor.
- **Lack of staff in key departments:** The HMC suffers severe shortage of manpower, as reflected in high vacancy in key departments.
- **Moderate credit quality of the GoB, which provides significant financial support to the HMC:** The corporation's own revenue base is limited at present and therefore it depends significantly on the finances from the state government, the credit quality of which is moderate.
- **Risk related to execution of large projects:** A sizeable capital outlay is required for the execution of large drainage projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT). This could stretch the cash flows of the corporation. Moreover, given the limited track record of the corporation in executing large projects, timely execution of these projects within the budgeted costs would be critical for the HMC's financial position, going forward.

### Analytical approach:

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

### Links to applicable criteria:

[Rating Methodology for Urban Local Bodies](#)

[Rating Methodology for State Government Finances](#)

### Entity Profile:

The Hajipur Municipal Council (HMC), being an urban local body (ULB), provides civic services to Hajipur city, the head-quarter of West Champaran district. According to Census 2011, the HMC, covering an area of 19.64 sq. km., serves a total population of 1.47 lakh people. The HMC is governed by the Bihar Municipal Act, 2007 (Act), which is administered by the Urban Development and Housing Department (UDHD), Government of Bihar (GoB). The highest decision-making authority of the ULB is its council, which is formed every five years by electing ward councillors from each of the 39 municipal wards. The council is headed by a Chairman, who is elected by the ward councillors. The overall operations of the ULB are managed by the Executive Officer (EO), who is appointed by the State Government. The heads of the respective departments support the EO in managing the services of the HMC. The key services extended by the ULB are construction and maintenance of roads and drains, water supply, solid-waste management, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens etc.

In FY2016, the HMC generated a revenue surplus of Rs. 6.86 crore on a total revenue income of Rs. 13.68 crore compared to a revenue surplus of Rs. 7.24 crore on a total revenue income of Rs. 13.99 crore in FY2015.

**Key Financials:**

<b>Particulars</b>	<b>FY2015</b>	<b>FY2016</b>
Revenue income (Rs. crore.)	13.99	13.68
Revenue expenditure (Rs. crore)	6.75	6.83
Revenue balance (Rs. crore)	7.24	6.86
Overall balance (Rs. crore)	8.69	10.69
Revenue balance / Revenue income (%)	52%	50%
(Principal + Interest) / Revenue income (%)	-	-
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	-	-
Debt / Revenue income (%)	0%	0%

Source: HMC and ICRA research

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

**Any other information:** Not applicable

**Rating history for last three years:**

**Table: Rating History**

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018	FY2017	FY2016	FY2015
				November 2017	--	--	--
1	Issuer Rating	Long Term	NA	[ICRA]B+(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**  
**Details of Instrument**

<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 scale	-	-	-	NA	[ICRA]B+(Stable)

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