

Badepally Municipality

January 10, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]B+ (Stable); Assigned

Rating action

ICRA has assigned a long-term issuer rating of [ICRA]B+ (pronounced ICRA B plus)¹ to the Badepally Municipality(BDM)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating takes into account the strong support from the Government of Telangana State (GoTS) to the BDM in the form of grants and payment of salaries to the permanent staff of the urban local body (ULB), which provides liquidity support to the municipality. The rating is also supported by the healthy share of the municipality's own revenue in the total revenue income, and 100% collection efficiency of property tax, which has been one of the major sources of revenue for the BDM.

The rating however, is constrained on account of the small size of the municipality's revenue base though steadily increasing but with a limited growth during the past years, and revenue deficit in FY2017 leading to dependence on grants from the state government. The rating considers revenue deficit of the BDM in FY2017, weak information-management systems with instances of inconsistency in data, and the BDM's inadequate service standards in delivering critical civic amenities in the region with respect to water supply, road, and sewerage treatment. Further weak service delivery along with high proportion of slum dwellers in the region restricts the revenue raising capability of the BDM. This also implies that the BDM would require large investments in the slum-dominated areas to bridge the service-level gaps in the region. The ability of the municipality 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.

Outlook: Stable

ICRA believes the BDM will continue to benefit from the strong support of GoTS. The outlook may be revised to 'Positive' if the revenue base of the municipality increases substantially leading to growth in revenue receipts (primarily from own revenue avenues) covering revenue expenditure and resulting in revenue surplus position, thereby, strengthening the financial risk profile. The outlook may be revised to 'Negative' if the revenue deficit widens weakening liquidity position.

¹ 100 lakh = 1 crore = 10 million

² 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

Strong support from the Government of Telangana State (GoTS) – The BDM receives support in terms of capital grants received and payment of salaries to the permanent staff of the ULB by the GoTS, which has an adequate credit quality, providing liquidity support to the BDM.

Healthy collection efficiency of property tax- The BDM had healthy collection efficiency of 100% for property tax, which is one of the key revenue generators of the BDM for the past two years. Higher collection efficiency of property tax has supported the high share of own revenues (over 70% in the past two years) for the ULB. However, collection efficiency of water charges has been modest at 33% for FY2017.

Credit challenges

Small size of revenue base with revenue deficit in FY2017 – The BDM's revenue base is small with revenue receipts of Rs. 2.6 crore for FY2017. Moreover, the BDM had revenue deficit of Rs. 1.4 crore in FY2017 owing to high establishment, and operation & maintenance expenditure. The BDM had to rely on grants from the GoTS and existing cash to meet the revenue deficit.

Weak information systems - The management information system (MIS) of the ULB is weak with instances of inconsistency in data.

Less-than-satisfactory service indicators – The BDM's performance level in terms of delivering critical civic amenities in the region has been unsatisfactory with respect to water supply, road and sewerage treatment. The per-capita water supplied is very low at 42 liters per-capita per day; however, ICRA notes that the region has sufficient underground water to meet the requirements. The road density stood low at 8.2 km road per sq. Km with 21 street lights per kilometre which is unsatisfactory. The municipality also does not have sewerage network or solid-waste treatment plant. Moreover, the BDM does not have storm water drains; however, road side drains coverage is healthy at 82.4%.

Presence of high slum population within the municipal limits - The slums account for ~37% of the total population in the BDM. Weak service delivery along with the high proportion of slum dwellers in the region restricts the revenue raising capability of the BDM. This also implies that the BDM would require large investments in the slum-dominated areas to bridge the service-level gaps in the region.

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](#)

About the entity:

The BDM, being an ULB, provides civic services to the Badepally town. The town is located in Mahbubnagar district of Telangana and is at a distance of around 90 km from the state capital, Hyderabad. Badepally covers an area of 10.37 sq. km. and has population base of 32,598, of which, ~37% is accounted by slum dwellers.

The major functions of the BDM involve water supply, solid-waste management, repair and maintenance of roads, street lighting and amenities such as shopping stalls, community hall, playgrounds, parks/gardens, among other civic amenities. The council of the BDM comprises 20 Ward Councillors. The executive wing is headed by a Municipal Commissioner, who is appointed by the GoTS and is supported by the heads of various departments.

As per the revised estimates of FY2017, the BDM generated a revenue deficit of Rs. 1.4 crore on a total revenue receipt of Rs. 2.6 crore compared to a revenue surplus of Rs. 0.1 crore on a revenue receipt of Rs. 2.5 crore as per the audited results of FY2016.

Key financial indicators

	FY 2016	FY 2017 (Estimates)
Revenue income (Rs. crore.)	2.5	2.6
Revenue expenditure (Rs. crore)	2.4	4.0
Revenue balance (Rs. crore)	0.1	-1.4
Overall balance (Rs. crore)	2.0	0.3
Revenue balance / Revenue income (%)	4%	-53%
(Principal + Interest) / Revenue income (%)	-	-
(Revenue balance + Interest) / (Interest + Debt repayment) (%)	NA	NA
Debt / Revenue income (%)	NA	NA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Issuer Rating	Long-term	NA	NA	January 2018 [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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]B+ (Stable) Source: BDM

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