

Hooghly-Chinsurah Municipality

April 10, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	[ICRA]BB-(Stable); Assigned
Total	Nil	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term issuer rating of [ICRA]BB- (pronounced ICRA double B minus) to the Hooghly-Chinsurah Municipality (HCM)¹. The outlook on the long-term rating is Stable.

Rationale

The assigned rating takes into consideration the HCM's importance as a provider of urban infrastructure and basic services to Hooghly and Chinsurah cities and support from the state government in the form of various grants. The HCM receives significant amount of revenue and capital support from the Government of West Bengal (GoWB), particularly for payment of discretionary expenses like employees' salaries, pensions and electricity bills, which constitute a major chunk of revenue expenditure for an urban local body (ULB). ICRA notes the HCM's high level of property-tax collection efficiency, which has remained more than 80% over the last two years.

The rating is, however, constrained by the low own revenue base of the HCM, given a weak economic profile of Hooghly and Chinsurah cities and limited coverage of taxable services. ICRA also notes that the municipality does not collect any user charges for water supply from the residential users at present, like other ULBs in the state, which impacts its financial position to an extent. Low level of own revenue coupled with volatility in government grants led to a revenue deficit in FY2016. Despite an increase in the level of such grants during FY2017, steep increase in the establishment expenditure as well as operation and maintenance (O&M) expenses led to further revenue deficit. The rating also factors in the municipality's less-than-satisfactory service levels and coverage of key functions as well as inadequacy of staff in key departments. While arriving at the rating, ICRA has also taken into account the HCM's weak Management Information System (MIS) with instances of inconsistency in data and its lack of experience in executing relatively complex projects, which may remain critical to successful execution of such projects within the budgeted cost and estimated timeframe, going forward. Nevertheless, ICRA believes that the HCM will derive support from the state government for funding of the projects and for capacity building of the municipal staff, which would partially mitigate the project-execution risk.

Going forward, the HCM's ability to improve its own revenue base by exploiting various tax and non-tax avenues available to it under the West Bengal Municipal Act, 1993, maintain its property-tax collection efficiency and change in the overall economic profile of Hooghly and Chinsurah cities would remain critical to the financial position of the municipality.

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

Outlook: Stable

ICRA believes that the HCM will continue to benefit from the support it derives from the state government in the form of various grants. The outlook may be revised to Positive if there is a substantial growth in the municipality's own revenue, thereby strengthening its revenue balance position. The outlook may be revised to Negative if there is de-growth in the municipality's own revenue and an increase in its revenue expenditure, adversely impacting the HCM's financial profile.

Key rating drivers

Credit strengths

Importance of the ULB as a provider of urban infrastructure and basic services – The municipality is responsible for the provision of civic services and basic amenities to Hooghly and Chinsurah cities. The key services rendered by the municipality are urban planning, construction and maintenance of roads and drains, water supply, solid-waste-management (SWM), street lights and amenities such as markets, community hall, playgrounds, parks/ gardens, schools, hospital/ health centre etc.

Support from the state government in the form of various grants – The ULB receives significant support from the Government of West Bengal in the form of revenue grants, particularly for payment of discretionary expenses like salaries and pensions of employees, and electricity bills. Additionally, it received grants from the Central/ state governments for urban infrastructure projects under various schemes.

Credit challenges

Relatively small size of own revenue base – The HCM's own sources of revenues have remained significantly low in the past, leading to high dependence on the GoWB for transfer of funds for critical revenue payments. The property-tax base of the HCM has remained low in the recent years due to weak economic profile of Hooghly and Chinsurah cities. The non-tax revenues also remained low historically. Further, the HCM's track record of finding new sources of revenues by imposing user charges and revising key tax rates is poor.

Revenue deficit position in the recent past – The municipality's revenue balance was negative in FY2016 primarily due to a decline in the level of revenue grants from the state government. Despite an increase in the level of such grants during FY2017, a steep increase in the establishment expenditure as well as operation and maintenance expenses led to a further revenue deficit.

Less-than-satisfactory service levels and coverage of key functions – The municipality's service standards in solid-waste management, water supply, roads and drainage have been observed to be less than satisfactory, which entails investment in these areas to improve the existing service standards to the desired levels.

Inadequacy of staff in key departments – The HCM has a significant number of vacant positions, especially in critical functions like health and sanitation, water supply and sewerage, revenue and administration, which impacts the overall performance of the municipality.

Lack of track record in executing large projects – ICRA notes that the HCM is required to undertake large projects to cover the gaps in the existing service levels. Given the ULB's lack of track record in executing large and complex projects, its ability to execute these projects within the budgeted costs and estimated timeframe will remain critical.

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 Governments](#)

About the company:

Established in 1865 as an ULB, the Hooghly-Chinsurah Municipality (HCM) provides urban infrastructure services to Hooghly and Chinsurah cities. The cities are located in the Hooghly district of West Bengal and at a distance of around 45 km from Kolkata, and also are a part of the Kolkata Metropolitan Area (KMA). According to Census 2011, the HCM, covering an area of 17.29 sq. km., serves a total population of 1.77 lakh. The HCM is governed by the West Bengal Municipal Act, 1993. The Council of the HCM comprises 30 Ward Councillors and is headed by a Chairman, who is elected by the Ward Councillors. The executive powers of the Council are vested with the Chairman-in-Council (CIC). The Executive Officer, appointed by the state government, along with various department heads support the CIC in managing the functions of the ULB. The key services extended by the ULB are construction and maintenance of roads and drains, water supply, solid-waste-management (SWM), street lights and amenities such as market, community hall, playgrounds, parks/ gardens, schools, hospital/ health centre etc.

In FY2017, the HCM generated a revenue deficit of Rs. 0.92 crore² on a total revenue income of Rs. 24.12 crore compared to a revenue deficit of Rs. 0.18 crore on a total revenue income of Rs. 22.01 crore in FY2016.

Key financial indicators (unaudited)

Particulars	FY2016	FY2017
Revenue income (Rs. crore.)	22.01	24.12
Revenue expenditure (Rs. crore)	22.18	25.04
Revenue balance (Rs. crore)	-0.18	-0.92
Overall balance (Rs. crore)	7.63	4.89
Revenue balance / Revenue income (%)	-0.80%	-3.81%
(Principal + Interest) / Revenue income (%)	0%	0%
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	-1304%	-5577%
Debt/ Revenue income (%)	0%	0%

Source: HCM and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				April 2018	-	-	-
1 Issuer Rating	Long Term	NA	NA	[ICRA]BB- (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

² 100 lakh = 1 crore = 10 million

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]BB- (Stable)

Source: HCM and ICRA research

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