

## North Dum Dum Municipality

April 16, 2018

### Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	[ICRA]BB (Stable); assigned
<b>Total</b>	<b>Nil</b>	

### Rating action

ICRA has assigned the long-term issuer rating of [ICRA]BB (pronounced ICRA double B) to the North Dum Dum Municipality (NDDM/ Municipality)<sup>1</sup>. The outlook on the long-term rating is Stable.

### Rationale

The assigned rating takes into account the NDDM's importance to the Government of West Bengal (GoWB), as a provider of key municipal services to the city of North Dum Dum. ICRA also factors in the NDDM's reasonable share of own revenues to the total revenue income, which resulted in a revenue surplus position in the past. The rating also positively factors in the support from the GoWB in the form of various grants, which assist the Municipality in making non-discretionary payments like salaries, pensions and electricity bills. The NDDM also receives support in terms of interest-free loans from various state government departments for carrying out major capital projects in the area, which provide operational and financial support to the NDDM.

The rating, however, is constrained by the NDDM's low coverage of its property tax net, which limits its own revenue potential and increases its dependence on various transfers from the GoWB. ICRA takes notes of the large outstanding liabilities of around Rs. 20.1 crore towards arrears of water supply, which is likely to have an adverse impact on the financial position of the NDDM. However, since the amount due is under dispute, a clarity on the nature of outstanding has not been received and the same remains a contingent liability. Further, the NDDM has a large number of vacant positions, especially in critical functions like health, sanitation and water supply, which is likely to impact the overall performance of the Municipality, though some comfort is drawn from the contractual staff that the municipality employs. ICRA notes that, going forward, a significant amount of capital expenditure will be required by the NDDM to improve its service levels of sewerage coverage, provision of street lights and drainage to a desired level. ICRA has also taken into account the NDDM's weak Management Information System (MIS) with instances of inconsistency in data, coupled with 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 NDDM will derive support from the state government for funding the projects and for capacity-building of the municipal staff, which would partially mitigate project execution risks.

Going forward, NDDM'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 (Act) would be critical for its healthy financial position 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

## Outlook: Stable

ICRA believes the NDDM will continue to benefit from the support that it derives from the state government in the form of various revenue and capital 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 a Negative if the dependency on the government increases, or if there is de-growth in the Municipality's own revenue, adversely affecting the financial profile of the NDDM.

## Key rating drivers

### Credit strengths

**Importance of the ULB as a provider of urban infrastructure and basic services:** – The North Dum Dum Municipality, which provides civic services to North Dum Dum city including a major portion of Netaji Subhas Chandra Bose International Airport. The airport, being one of the largest in eastern India, comes under the jurisdiction of three major urban local bodies (ULBs) in the state, one being North Dum Dum.

**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. The NDDM also receives support in terms of interest-free loans from various state government departments for major capital projects in the area, which provides operational and financial support to the Municipality.

**Revenue surplus position** – The Municipality has generated revenue surpluses during the last few years on account of moderate operations and maintenance expenditure and reimbursements of critical revenue payments by the state government. Establishment costs account for over 50-60% of the total revenue expenditure, reimbursements of these expenses through grants or direct payments by the GoWB helps the NDDM in maintaining a revenue surplus position.

### Credit challenges

**Weak information systems:** The management information system (MIS) of the Municipality remains weak with instances of inconsistency in data.

**Low property tax base and average collection efficiency:** The weak economic profile of the North Dum Dum city has resulted in the NDDM's modest property tax base in recent years as witnessed from 9-11% contribution of tax revenues to the total revenue income. Moreover, the NDDM does not collect user charges towards water supply, keeping the overall tax revenue at a low level. Further, the collection efficiency of the property tax has remained at an average level of ~50-55%, which limits the NDDM's own revenue potential, although gradual improvement has been visible in the last three years.

**Large outstanding liabilities for payment of water supply bills** – The NDDM has significant amount of outstanding liabilities towards payments of water supply bills, which are likely to have an adverse impact on its financial position. However, the amount due is under dispute as clarity on the nature of outstanding has not been received and the ULBs are in consultation with the state government.

**Lack of adequate staff in key departments** – The NDDM has a large number of vacant positions, especially in critical functions like health and sanitation, water supply, revenue and administration which is likely to impact the overall performance of the municipality.

**Lack of track record in executing large projects** - ICRA notes that the NDDM is planning to execute large projects to cover the gaps in existing service levels of sewerage coverage, storm water drainage system, provision of street lights, etc. Given the ULB's lack of track record in executing large projects, ability to execute these projects within the budgeted costs 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 municipality

Established in 1870 as a ULB, North Dum Dum Municipality (NDDM) is one of the oldest municipalities in West Bengal and it provides urban infrastructure services to the North Dum Dum city. The city is a part of the Kolkata Metropolitan Area (KMA). According to Census 2011, the NDDM, covering an area of 26.45 sq. km, serves a total population of 2.49 lakh and is governed by the West Bengal Municipal Act, 1993. The Council comprises 34 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, supports the CIC in managing the ULB's functions.

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, schools, hospital/health centre etc.

In FY2017, the NDDM generated a revenue surplus of Rs. 1.1 crore<sup>2</sup> on a total revenue income of Rs. 36.5 crore as compared to a revenue surplus of Rs. 1.0 crore on a total revenue income of Rs. 29.2 crore in FY2016.

## Key financial indicators (Unaudited)

Particulars	FY2016	FY2017
Revenue income (Rs. crore.)	29.2	36.5
Revenue expenditure (Rs. crore)	28.2	35.4
Revenue balance (Rs. crore)	1.0	1.1
Overall balance (Rs. crore)	(5.6)	3.4
Revenue balance / Revenue income (%)	3.4%	3.1%
(Principal + Interest) / Revenue income (%)	-	-
(Revenue balance + Interest) / (Interest + Debt repayment) (%)	105539.5%	-
Debt/ Revenue income (%)	10.1%	8.1%

Source: NDDM and ICRA research

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

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

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)(As on December 31, 2017)	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](http://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 on long-term scale	NA	NA	NA	NA	[ICRA]BB (Stable)

Source: NDDM and ICRA research

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