

Durgapur Municipal Corporation

May 02, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB- (Stable); assigned

Rating action

ICRA has assigned the Issuer rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Durgapur Municipal Corporation (DMC or Corporation)¹. The outlook on the long-term rating is Stable

Rationale

The assigned rating derives comfort from the DMC's status as one of the largest urban local bodies (ULB) in West Bengal and its importance to the state government as a provider of key municipal services in the city of Durgapur, which is of significant industrial and economic importance for West Bengal. The rating also takes into consideration the DMC's healthy overall cash and bank balance, and the considerable support from the Government of West Bengal (GoWB) in terms of various revenue and capital grants, which help in the non-discretionary payments and support infrastructure development and provides comfort to the overall liquidity position of the corporation. Further, it also receives longer tenure loans at a subsidised interest rate from the Government departments, which provide operational and financial support to the DMC. ICRA also notes its revenue surplus position in the past due to relatively higher own source of revenues, though it has been fluctuating over the years. The revenue-surplus position enabled the DMC to part fund its capital expenditure from internal sources.

The rating, however, is constrained by the DMC's low property-tax base and its low collection efficiency of arrear and current property tax demand, which is a steady source of revenue. The moderate service levels in the areas of road coverage, street lights and solid-waste-management (SWM), despite considerable capex incurred in the recent past by the DMC, also impact the assigned rating. Further, a large number of vacant positions, especially in critical functions like revenue, health, SWM and water supply, impacts the overall performance of the corporation and adversely impacts the citizen's willingness to pay various taxes and charges. Further, the rating is also impacted by the risk associated with the execution of large projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and various other schemes within the budgeted costs. ICRA notes that the financial position of the DMC would be adversely impacted if the project assets are unable to generate adequate revenues to part fund the operation and maintenance (O&M) costs, post commissioning of the same.

Going forward, the DMC's ability to improve its own revenue base, by exploiting various tax and non-tax avenues available to it under the West Bengal Municipal Corporation Act, 2006 (Act), improve its property-tax collection efficiency and change in the overall economic profile of Durgapur cities would be critical to improve the financial position of the corporation.

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 the DMC will continue to benefit from the strong support of the GoWB. The outlook may be revised to Positive if the revenue base of the corporation increases substantially, backed by an increase in own revenue sources. This shall lead to growth in revenue receipts covering revenue expenditure and resulting in revenue surplus position thereby, strengthening the financial risk profile. Conversely, the outlook may be revised to Negative in case of considerable decline in revenue generation through its own sources or in case it becomes revenue deficit, thus weakening the liquidity profile of the corporation.

Key rating drivers

Credit strengths

Strategic and economic importance: The DMC, as an urban local body (ULB), provides urban infrastructure services to the city of Durgapur, which is one of the largest cities in terms of both population as well as area in the state. Additionally, Durgapur is an important industrial and economic hub of the state.

Support from the state government in the form of various grants: The DMC receives a significant amount of 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, electricity and water bills, which provide a comfort to the cash flow position of the corporation and generates revenue surplus position to an extent. Additionally, it also receives grants from the Central/state governments for urban infrastructure projects under various schemes. Furthermore, the DMC also receives loans from various Government departments to fund infrastructure projects, at subsidised interest rates and for a relatively longer tenure, which provides operational and financial support to the corporation.

Revenue surplus position - The corporation has shown a consistent track record of a revenue surplus position in the past years. This is primarily due to relatively higher contribution from its own source of revenues, which primarily includes tax and non-tax revenues. This has enabled the corporation to fund a part of the capital expenditure from internal sources. Nevertheless, revenue surplus has remained inconsistent over the past few years, primarily due to inconsistency in fee-based non-tax revenues of the corporation.

Credit challenges

Low property tax base and low collection efficiency - The corporation has high pending arrears of property tax, which are dues from various government departments, industrial and commercial units under its jurisdiction. Such dues also consist several sick/ghost units, which have closed since a long time. The corporation has faced challenges in collecting these long-pending dues and hence the arrear collection has remained poor at around 7-8% during the last few years. Further, the overall collection efficiency remains in the range of ~25-35% of total demand, indicating a low collection efficiency for property-tax which is a stable source of revenue.

Moderate service indicators - The DMC's performance level in terms of delivering critical civic amenities in the region has been moderate with respect to road coverage, street light and solid-waste-management, as represented by the low road density of 4.8 km road per sq. km with 20 street lights per kilometer and municipal solid waste (MSW) collection efficiency of ~70%. Further, the corporation has no sewerage network and a solid waste treatment plant. This also means considerable investment would be required to improve the existing service standards to desired levels.

Lack of adequate staff in key departments – The DMC has many vacant positions, especially in critical functions like revenue, health, solid-waste-management and water supply, which impacts the overall performance of the corporation to a certain extent.

Risk associated with execution of large projects: ICRA notes that the DMC is planning to execute large projects to cover the gaps in existing service levels. Timely execution of 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 Corporation:

Durgapur city, which is situated in the Burdwan District of West Bengal, is the one of the largest cities in West Bengal in terms of both area of 154.20 sq. km and population of 5,63,557 as per 2011 census. Located 173 km from Kolkata, it is an important industrial and economic hub of the state. The DMC as a ULB is primarily the provider of the basic civic services and amenities to the inhabitants of the city. It is governed by the West Bengal Municipal Corporation Act, 2006 (Act). The Council comprises 43 Ward Councilors, and is headed by a Mayor, who is elected by the Ward Councilors. The executive powers of the Council are vested with the Mayor-in-Council (MIC). The Municipal Commissioner, appointed by the state government, along with various department heads support the MIC 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, street lights and amenities such as shopping complex, community hall, playgrounds, parks/gardens etc.

In FY2017, the DMC achieved a revenue surplus of Rs. 9.32 crore on a total revenue receipt of Rs. 67.71 crore as compared to a revenue surplus of Rs. 7.82 crore on a total revenue receipt of Rs. 83.81 crore in FY2016.

Key financial indicators (Unaudited)

Particulars	FY2016	FY2017
Revenue income (Rs. crore.)	83.81	67.71
Revenue expenditure (Rs. crore)	75.99	58.39
Revenue balance (Rs. crore)	7.82	9.32
Overall balance (Rs. crore)	1.44	16.28
Revenue balance / Revenue income (%)	9%	14%
(Principal + Interest) / Revenue income (%)	2%	2%
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	409%	618%
Debt / Revenue income (%)	4%	4%

Source: DMC and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (2019)			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
1 Issuer Rating	Long Term	NA	NA	May 2018 [ICRA]BBB-(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 on long-term scale	NA	NA	NA	NA	[ICRA]BBB- (Stable)

Source: DMC and ICRA research

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Manish Pathak

+91 124 4545 397

manishp@icraindia.com

Nishant Lakkar

+91 33 7150 1122

nishant.lakkar@icraindia.com

Nandan Shah

+91 22 6169 3353

nandan.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents