

Titagarh Municipality

May 15, 2018

Summary of rated instruments

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

Rating action

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

Rationale

The assigned rating takes into consideration the TM's importance as a provider of urban infrastructure and basic services to Titagarh and its proximity to Kolkata, the capital of West Bengal. The rating also takes into consideration the support from the Government of West Bengal (GoWB) in terms of various grants, both revenue as well as capital in nature. These grants assist the Municipality in making non-discretionary payments as well as in supporting infrastructure development and providing comfort to its overall liquidity position. Further, it receives loans with relatively longer tenor and at a subsidised interest rate from Government departments, which provide operational and financial support to the TM.

The rating, however, is constrained by the moderate scale of the Municipality's revenue base due to a low property tax base and low collection efficiency of the same, which is a stable source of revenue for the Municipality. Further, it also considers the less-than-satisfactory municipal service indicators in the areas of drainage, as well as the lack of a solid waste treatment facility, which impacts the city's cleanliness, to a certain extent. The rating also takes into account the significantly high slum population in the city (70% of the total population), which exerts pressure on the Municipality's financials as the ability of this segment of the population to pay for services is limited. The rating also considers the Municipality's weak management information system (MIS) with instances of inconsistency in data and lack of clarity on available information. The risk associated with the timely execution of projects within the budgeted cost under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme as well as other schemes was also considered while assigning the rating. ICRA notes that the Municipality's financial position would be adversely impacted if the project's assets, after commissioning, are unable to generate adequate revenues to partly fund operation and maintenance (O&M) costs, which are expected to increase in the coming years. Nevertheless, ICRA believes that the Municipality will continue to derive support from the state government for funding the project, which would mitigate project execution risks to a certain extent.

Going forward, the TM'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, increase its property tax collection efficiency and change in the overall economic profile of the city would remain critical for the healthy financial position of the Municipality.

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

Outlook: Stable

ICRA believes the TM will continue to benefit from the support that 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 affecting the TM'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 Titagarh city, which is on the outskirts of Kolkata, the capital of West Bengal. The residents commute daily to Kolkata, resulting in high demand for basic services.

Support from the state government in the form of various grants - The ULB receives a significant amount of support from the GoWB in the form of revenue grants, particularly for the payment of discretionary expenses like salaries and pensions of employees. This provides comfort to the Municipality's cash flow position and generates a revenue surplus position, to an extent. Additionally, it also received grants from Central/state governments for urban infrastructure projects under various schemes. Furthermore, the TM receives loans from the GoWB to fund infrastructure projects at a subsidised interest rate and for a relatively longer tenure, which provides it with operational and financial support.

Credit challenges

Relatively small size of tax revenue base and low collection efficiency - The TM's own source of revenues, in terms of tax revenue, has remained limited in the past leading to high dependence on the GoWB for the transfer of funds for critical revenue payments. Furthermore, the Municipality 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 of several sick/ghost units (mostly jute mills), which have closed a long time back. The Municipality faces challenges in collecting these long-pending dues and, hence, the arrear collection has remained weak in the range of 7% to 21% during FY2013-FY2017, barring FY2016, where the arrear collection improved up to 37% because of several steps undertaken by the Municipality for arrear collection. Moreover, the overall collection efficiency remains in the range of 28% to 50% of total demand during FY2013-FY2017, indicating a low collection efficiency for property tax, which is a stable source of revenue.

Presence of high slum population and moderate service indicators - The ability of the slum population, which accounts for 70% of the total population in the Municipality, to pay for services is limited. This exerts pressure on the Municipality's financials given the large amount of O&M expenses incurred for several basic civil amenities. This also implies that the Municipality would require large investments in slum-dominated areas to bridge the service level gaps.

Inadequate staff in key departments - The TM has a significant number of vacant positions especially in critical functions like health and sanitation, water supply and sewerage, revenue and administration, which impacts its overall performance.

Weak information systems - The Municipality's management information system (MIS) remains weak with instances of inconsistency in data and availability of the latest audited accounts.

Risk related to execution of large projects - ICRA notes that the Municipality is required to undertake large projects to cover the gaps in 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 municipality:

Established in 1895 as an urban local body (ULB), Titagarh Municipality provides urban infrastructure services to Titagarh. The city is a part of the area covered by the Kolkata Metropolitan Development Authority (KMDA). According to Census 2011, the TM, covering an area of 3.39 sq km, serves a total population of 1.17 lakh. The TM is governed by the West Bengal Municipal Act, 1993. The TM's Council comprises 23 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, supports the CIC in managing the ULB's functions, along with various department heads.

Key services extended by the ULB are construction and maintenance of roads and drains, water supply, solid waste management, sewerage, street lights and amenities such as community halls, playgrounds, parks/gardens, etc.

In FY2017, the TM generated a revenue surplus of ₹3.12 crore² on total revenue income of ₹18.45 crore compared to a revenue surplus of ₹1.88 crore on a total revenue income of ₹15.28 crore in FY2016.

Key financial indicators (Unaudited)

Particulars	FY2016	FY2017
Revenue income (₹ crore)	15.28	18.45
Revenue expenditure (₹ crore)	13.40	15.33
Revenue balance (₹ crore)	1.88	3.12
Overall balance (₹ crore)	7.37	5.89
Revenue balance / Revenue income (%)	12.32%	16.90%
(Principal + Interest) / Revenue income (%)	1.00%	0.79%
(Revenue balance + Interest) / (Interest + Debt repayment) (%)	2100.94%	4233.28%
Debt / Revenue income (%)	-	-

Source: TM and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

² 100 lakh = 1 crore = 10 million

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (₹ crore)	Amount Outstanding (₹ crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					May 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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (₹ crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BB-(Stable)

Source: TM and ICRA research

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Nishant Lakkar

+91 33 7150 1122

nishant.lakkar@icraindia.com

Manish Pathak

+91 124 4545 397

manishp@icraindia.com

Srideep Datta

+91 22 6114 3451

srideep.datta@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