

Krishnanagar Municipality

August 13, 2018

Summary of rated instruments

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

*Instrument details are provided in annexure-I

Rating action

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

Rationale

The assigned rating takes into consideration the KM's importance as a provider of urban infrastructure and basic services to the Krishnanagar city and support from the state government in the form of various grants. The KM receives significant amount of revenue and capital support from the Government of West Bengal (GoWB), particularly for payment of non-discretionary expenses like employees' salaries, pensions and electricity bills, which constitute a major chunk of revenue expenditure for an urban local body (ULB). Consequently, the Municipality has generated revenue surplus in the past, which has enabled it to partly fund its capital expenditure requirements to an extent. The rating also factors in high property tax coverage and collection efficiency of the Municipality in recent years. ICRA notes that the KM's overall property-tax collection efficiency improved to 96% in FY2017 compared to 92% in FY2016 on account of various measures taken in FY2017.

The rating is however constrained by the KM's relatively small size of own revenue base and modest service level as well as coverage of key functions. ICRA also notes that it 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, given the large amount of operation and maintenance (O&M) expenses incurred for water supply. The rating also factors in the Municipality's inadequacy of staff in key departments. While arriving at the rating, ICRA has also taken into account the KM's weak management information system (MIS) with instances of inconsistency in data and its lack of experience in executing relatively complex and large 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 KM 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, the KM'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 in property-tax collection efficiency and change in the overall economic profile of the Krishnanagar city would remain critical to the 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 that the KM 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 KM'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 the Krishnanagar city. The key services rendered by the ULB are urban planning, construction and maintenance of roads and drains, water supply, solid waste management (SWM), street lights and amenities such as shopping stalls, 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 GoWB in the form of revenue grants, particularly for payment of non-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.

Healthy coverage and collection efficiency of key revenues: The KM's property-tax coverage and collection efficiency have remained high in recent years due to healthy economic profile of the Krishnanagar city and strict measures taken to improve the collections. The non-tax revenues also remained on a higher side in recent years. However, the base of such own revenues of the ULB remains relatively small.

Revenue surplus position: The Municipality has generated revenue surplus during the last four years on account of moderate operations and maintenance expenditure along with reimbursement of critical revenue payments by the state government. However, the size of the surplus has remained small in absolute value.

Credit challenges

Relatively small size of own revenue base: The KM's own sources of revenues have remained limited in the past, leading to high dependence on the GoWB for transfer of funds for critical revenue payments. Further, the KM's track record of finding new sources of revenues by imposing user charges and revising key tax rates is poor.

Modest service levels and coverage of key functions – The Municipality's service standards in sewerage coverage, SWM, 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 KM 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 KM 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:

Constituted in 1864, the Krishnanagar Municipality (KM) as an ULB provides urban infrastructure services to the Krishnanagar city. The city is the district headquarters of Nadia district of West Bengal, located at a distance of approximately 89 Km from the state capital, Kolkata. According to Census 2011, the KM, covering an area of 15.96 sq. km., serves a total population of 1.53 lakh. The KM is governed by the West Bengal Municipal Act, 1993. The Council of the KM comprises 24 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, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens, schools, hospital/health centre etc.

In FY2017, the KM generated a revenue surplus of Rs. 4.02-crore² on a total revenue income of Rs. 24.29-crore compared to a revenue surplus of Rs. 3.22-crore on a total revenue income of Rs. 23.29-crore in FY2016.

Key financial indicators (unaudited)

Particulars	FY2016	FY2017
Revenue income (Rs. crore.)	23.29	24.29
Revenue expenditure (Rs. crore)	20.08	20.27
Revenue balance (Rs. crore)	3.22	4.02
Overall balance (Rs. crore)	2.57	0.37
Revenue balance / Revenue income (%)	13.80%	16.54%
(Principal + Interest) / Revenue income (%)	-	-
(Revenue balance + Interest)/ (Interest +Debt repayment) (%)	-	-
Debt/ Revenue income (%)	-	-

Source: KM 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 (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					-	-	-
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-I: 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: KM and ICRA research

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