East Delhi Municipal Corporation

February 02, 2018

Summary of rated instruments

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

Rating action

ICRA has assigned a long-term issuer rating of [ICRA]BB- (pronounced ICRA double B minus) to the East Delhi Municipal Corporation (EDMC)[1]. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating takes into account the EDMC's strategic and economic importance to the Government of National Capital Territory of Delhi (GoNCTD) and the Government of India (GoI) as a provider of municipal services to a part of the National Capital Territory of Delhi (NCTD/Delhi). New Delhi, the capital of India, is located at the centre of the Delhi city. The city houses headquarters of various ministries, departments and public sector undertakings of the GoI. The rating is also supported by the EDMC's strong linkage with the GoNCTD as reflected by various transfers in the form of grants. Additionally, the assigned revenues such as share in stamp duty and electricity user charge, and collection of entry toll from commercial vehicles have grown significantly during the recent years. Such rule-based and regular transfers as well as share in various revenues provide comfort to the EDMC's financial position to an extent.

The rating also takes into account the satisfactory service standards of the corporation in the areas of solid-waste management (SWM), roads, street lights and drainage. However, scope for improvement remains in some areas such as increasing the treatment capacity of municipal solid waste (MSW). Also, adequate operation and maintenance (O&M) of the existing infrastructure would be critical for the corporation to maintain the existing service levels. The corporation has implemented a number of reforms such as e-governance and accrual-based accounting, which support effective service delivery and governance.

The rating, however, is constrained by the revenue deficit position of the corporation for the last four years. ICRA also notes the low coverage of the EDMC's property tax net, which limits its own revenue potential and increases its dependence on various transfers from the GoNCTD. While large number of properties remains out of the EDMC's tax net, the corporation have to provide civic services in such areas. Moreover, a high establishment expenditure limits the EDMC's flexibility in providing services and maintaining the existing service levels. The corporation has large amount of liabilities, which includes arrears towards previous pay revision of the corporation staff and advances from the state government.

Outlook: Stable

ICRA believes that the East Delhi Municipal Corporation will continue to get support from the GoNCTD in the form of rule-based transfers, and grants. However, relatively high establishment expenditure and payment of salary arrears

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

would result in a revenue-deficit position during the next five years. The outlook may be revised to 'Positive' if the EDMC's own revenue witnesses more-than-expected growth. The outlook may be revised to 'Negative' if the already stretched liquidity position further deteriorates on account of a decline in the revenues or/and more-than-expected expenditure towards establishment.

Key rating drivers

Credit strengths

Strategic and economic importance of the EDMC, which provides civic services to a part of the NCTD: The EDMC provides municipal services to the eastern part of Delhi, which is a Union Territory with a Legislative Assembly. The city of Delhi, apart from including the national capital, New Delhi, serves as a major centre for political, administrative and commercial activities. The EDMC covers around 8-9% of Delhi and serves more than 20% of Delhi's population.

Strong linkage of the EDMC with the GoNCTD as reflected by various transfers: More than one-third of the EDMC's revenue income is constituted by the various transfers from the GoNCTD, which includes grants as per the implementation of the State Finance Commission and reimbursement towards health and education services. A major part of these transfers is rule based and regular in nature, which provides a comfort to the liquidity position of the EDMC. Additionally, around 33% of the EDMC's total revenue income is constituted by a share in stamp duty and electricity user charge, and collection of entry toll from commercial vehicles. Such rule-based and regular revenue sharing provides assured and stable cash flows with consistent growth for the corporation.

Credit challenges

Revenue deficit position for four years: Because of muted growth in tax revenues, the corporation's revenue income has not been able to cover its revenue expenditure over the last four years, resulting in a revenue deficit position over the last four years.

Payment of outstanding liabilities to exert pressure on liquidity: The corporation have large amount of liabilities, which includes arrears towards previous pay revision of the corporation staff and advances from the state government. ICRA expects that the payment of arrears to the staff in phases, which would result in high revenue deficit, leading to a further deterioration in the already-stretched liquidity position.

Dependence on discretionary grants and advances from the GoNCTD for meeting shortfall: The establishment expenditure to revenue income ratio of the NDMC is significantly high at ~101%, thereby leading to limited availability of funds to service debt liabilities and cover other functions like operations and maintenance. As a result, the corporation is dependent on discretionary grants and loans from the GoNCTD to meet its shortfall, as witnessed over the last two years, when the ULB was unable to service its interest and principal-repayment obligations and the government advanced loans.

Low coverage under the property tax net: At present, the corporation has approximately 7 lakh properties under its jurisdiction. However, only 2.5 lakh properties are covered under the tax net. A significant gap in coverage limits the corporation's own revenue potential and increases its dependence on the transfers of the state government. Nonetheless, the EDMC has planned various initiatives such as household survey to increase the coverage, to increase the coverage.

High establishment expenditure limits the corporation's ability to increase its O&M expenses: The corporation's major expense over the year has been towards the salary and other retirement benefits of its employees, accounting for almost 85% of its total revenue expenditure over the past few years, which limits its financial flexibility. Also, high fixed cost, which is consistently growing, reduces the growth in revenue balance of the corporation, thereby limiting the corporation.

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 Government Finance]

About the entity:

The EDMC, being an urban local body (ULB), provides civic services in the eastern part of the National Capital Territory of Delhi (NCTD/Delhi). Delhi is a Union Territory with a State Legislative Assembly and therefore is also known as a city-state. The city is a major hub for political, administrative and economic activities. New Delhi, the capital of India, is located at the centre of the city. The city houses headquarters of various ministries, departments and public sector undertakings of the GoI. The city is also a major hub for commercial activities for the whole of North India and also houses a large number of small and medium industries. The city had a population of 1.10 crore as per the Census 2011 and covered an area of 1,484 sq.km. Within the city, the EDMC, covering an area of 105.98 sq. km., serves a total population of 39.48 lakh (Census 2011).

The EDMC was carved out of the erstwhile Municipal Corporation of Delhi (MCD) in April, 2012 by the GoNCTD. The erstwhile MCD was established and governed by the Delhi Municipal Corporation (DMC) Act 1957, which was passed in the Parliament of India and notified by the Ministry of Home Affairs (MHA), GoI. The erstwhile MCD was trifurcated into three separate ULBs as per an Amendment Act passed in the Legislative Assembly of the NCTD and notified by the Department of Urban Development, GoNCTD. At present, the EDMC, along with the other two ULBs (South Delhi Municipal Corporation and North Delhi Municipal Corporation) are governed as per the provisions of the DMC Act and the subsequent Amendment Act.

The highest decision-making authority of the ULB is its Council, which is formed every five years by electing Ward Councillors from each of the 64 municipal wards. The Council is headed by a Mayor, who is elected by the Ward Councillors. The Council is supported by various committees, members of which are nominated from among the Councillors. The overall operations of the ULB are managed by the Municipal Commissioner (MC), who is appointed by the supervising authority, as per the provision of the act. The Heads of the respective departments support the MC in managing the services of the EDMC.

The key services extended by the ULB are SWM, construction and maintenance of roads and drains, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens etc. The ULB also provides health and education services.

In FY2017, the EDMC generated a revenue deficit of Rs. 230.27 crore on a total revenue income of Rs. 1,350.13 crore compared to a revenue deficit of Rs. 149.17 crore on a total revenue income of Rs. 1,212.39 crore in FY2016.

Key financial indicators (audited)

	FY 2016	FY 2017
Revenue income (Rs. crore)	1,212.39	1,350.13
Revenue expenditure (Rs. crore)	1,361.56	1,580.40
Revenue balance (Rs. crore)	(149.17)	(230.27)
Overall balance (Rs. crore)	168.63	121.80
Revenue Balance / Revenue Income (%)	-12%	-17%
(Principal + Interest) / Revenue income (%)	0%	0%
(Revenue balance + Int.) / (Int. + debt repayment) (%)	-	-
Debt/Revenue Income (%)	88%	105%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
					Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	February 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 (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating				NA	[ICRA]BB- (Stable)

Source: EDMC

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