

New Town Kolkata Development

| Instrument | Amount | Rating Action |
|---------------|--------|-----------------------|
| Issuer Rating | Nil | IrA-/Stable; assigned |

ICRA has assigned an IrA- (pronounced I R A minus) rating to the New Town Kolkata Development Authority (NKDA).¹ The outlook on the long-term rating is 'stable'.

The assigned rating derives comfort from the strategic importance of New Town to the State Government as a planned city and an emerging hub for Information Technology (IT) and IT-enabled services (ITES), NKDA's growing revenue base in recent years, and a comfortable liquidity position at present, as reflected by NKDA's healthy cash and bank balance and a debt-free status. Building permission fees, which constituted a significant portion of NKDA's revenues over the years, will continue to dominate its revenue composition, in the medium to long term, as over 70% of the total plots in New Town are under development stage, and the building plans for these plots will be submitted to NKDA for approval over time in future. The assigned rating is also supported by NKDA's revenue surplus position, which enables it to fund a majority of its own capital expenditure from internal sources. The West Bengal Housing Infrastructure Development Corporation Limited (HIDCO) develops the entire area under New Town and gradually hands them over to NKDA for operation and maintenance (O&M), which has kept NKDA's capex at moderate levels in the past. NKDA has a favourable demographic profile of its population as reflected by a large proportion of working population and the absence of any slum pockets in the area. The rating also favourably factors in NKDA's plan to introduce property tax during 2016-17, which is likely to augment its revenue base, although ICRA notes that smooth implementation of property tax and achieving satisfactory collection efficiency, given the absence of a past track record, would be a key rating sensitivity going forward.

The New Town area, in the process of development, has the advantage of planned growth. The rating factors in NKDA's satisfactory collection level of municipal solid waste (MSW) and a high coverage of population for key services like water supply, sewerage and drainage facilities. Further, a majority of the roads in NKDA's jurisdiction are surfaced and have adequate coverage of streetlights and drains. However, ICRA notes that NKDA does not collect water supply fees from most of residential users at present like other urban local bodies (ULBs) in the State, and scientific treatment of solid waste is also absent in the city.

The rating, however, is constrained by NKDA's limited revenue base at present, despite a healthy growth in recent years, on account of a lack of property tax at present and the State Finance Commission (SFC) transfers from the Government of West Bengal (GoWB), both of which are steady revenue sources for other ULBs. The rating is also constrained by the moderate credit quality of the GoWB, although dependence of NKDA on the State Government finances is limited at present.

ICRA believes that considering the proposed increase in the scale of NKDA's services and an estimated increase in the population, maintaining the current levels of service provisions would be a challenge for NKDA in the future years.

ICRA notes that NKDA proposes a large outlay for various projects (Rs. 70.67 crore² during FY2017), along with the proposed Smart City Mission (SCM) projects (Rs. 1,532 crore during the next five-year period) which would primarily be funded by matching contributions from the Government of India (GoI) and the GoWB and contributions from HIDCO/NKDA. HIDCO, along with NKDA, would be funding around 25% (Rs. 386 crore) of the total SCM outlay, which is likely to be spread over a period of five years. The proposed SCM projects are expected to be implemented by a special purpose vehicle (SPV), in which the GoWB, NKDA and HIDCO would be shareholders. ICRA notes that the financial position of NKDA would be adversely impacted if the project assets, after commissioning, are unable to generate adequate revenues to part fund the O&M costs, which are expected to increase significantly going forward. However, planned introduction of property tax on all categories of users, during FY2017, is likely to assist NKDA in meeting a majority of its own funding requirements for the SCM projects and related O&M costs.

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

² 100 lakh = 1 crore = 10 million



Entity Profile

The New Town Kolkata Development Authority (NKDA) was constituted by the Government of West Bengal (GoWB) under the New Town Kolkata Development Authority Act, 2007 for managing various civic services and amenities within New Town, Kolkata. The Act came into effect, retrospectively, from December 28th, 2006 and it extended to the whole of the New Town area. Currently, NKDA covers an area of 30 square kilometres (Sq. Km.) and serves a population of 36,541, as per the NKDA survey in December 2014.

NKDA's major functions involve providing water supply, drainage and sewerage, solid waste management (SWM) and repair and maintenance of roads and street lighting in its area. It is divided into three Action Areas (AA), referred to as AA-1, AA-2 and AA-3. The overall functions of NKDA are supervised by a committee, members to which are nominated by the GoWB, headed by a Chairman.

Recent Results

In FY2015, as per the annual report, NKDA generated a revenue surplus of Rs. 29.58 crore on a total revenue receipt of Rs. 52.19 crore, as compared to a revenue surplus of Rs. 25.07 crore on a total revenue receipt of Rs. 35.77 crore in FY2014. During the first nine months in 9MFY2016, the entity generated a revenue surplus of Rs. 24.29 crore on a total revenue receipt of Rs. 38.71 crore. As on March 31, 2015, NKDA had a cash and bank balance of Rs. 186.95 crore.

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