

September 24, 2021

## Shirpur-Warvade Municipal Council: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	7.68	7.68	[ICRA]BB+ (Stable); reaffirmed
<b>Total</b>	<b>7.68</b>	<b>7.68</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation considers the Shirpur-Warvade Municipal Council's (SWMC) importance to the Government of Maharashtra (GoM) as a provider of key municipal services to the twin cities of Shirpur-Warvade and support from the GoM as well as the Government of India (GoI) in the form of various grants. SWMC receives a significant amount of revenue and capital grants from the GoM, particularly for payment of employees' salaries, pensions and dearness allowances, which constitute a major chunk of the revenue expenditure (~47% of revenue expenditure in FY2021) for the urban local body (ULB). As a result, SWMC has a consistent track record of a revenue surplus position, notwithstanding a small deficit reported in FY2021 on account of a sharp increase in establishment and operations & maintenance expenses during the pandemic year. However, ICRA notes that the accounts have not been sent for audit yet, and certain capital grants which have been utilised for incurring critical revenue expenditure in FY2021 are likely to be regrouped once the accounts are finalised and audited. The rating also takes comfort from SWMC's high collection efficiency of property tax (average of 88% in the last three years) and water supply charges (average of 72% in the last three years), although the base of these revenues remains small. ICRA notes that the property tax collections in FY2021, particularly in March 2021, were higher on account of arrear collection for the previous year (FY2020), when the same was significantly impacted due to the Covid-19 related disruptions. The service levels of SWMC in the areas of municipal solid waste (MSW) collection, sewerage, water supply, surfaced road network and street lights continue to remain satisfactory.

The rating, however, remains constrained by SWMC's low own revenue base, given a weak economic profile of the twin cities, as reflected by the small base of its key revenues. In addition, high proportion of slum dwellers (29% of total population) restricts the revenue raising capability of the ULB. Introduction and upward revision of key rates and user charges would also remain critical for the overall financial position of SWMC, given the rise in the operation and maintenance (O&M) costs, post the recent commissioning of the key projects. The rating is also constrained by the risks associated with the execution of large projects under various schemes. While the council has a track record of executing large projects, successful execution of such projects within the budgeted cost and estimated timeframe would remain critical, going forward. Nevertheless, ICRA believes that SWMC will derive support from the state government for funding the project, which would partially mitigate project execution risks.

### Key rating drivers and their description

#### Credit strengths

**Importance of the ULB as a provider of urban infrastructure and basic services** – SWMC is responsible for providing civic services and basic amenities to Shirpur-Warvade city. The key services rendered by the council are urban planning, construction and maintenance of roads and drains, water supply, sewerage, SWM, street lights and amenities such as shopping stalls, community halls, playgrounds, parks/gardens, etc.

**Support from the GoM and the GoI in the form of various grants** – The ULB receives significant support from the GoM in the form of revenue grants, particularly for the payment of salaries, dearness allowance and pensions of employees. However, ICRA notes that the timeliness of the disbursements is not uniform, which led to a partial delay in the salary payments in the past. Additionally, it receives grants from the Central/state governments for urban infrastructure projects under various schemes on a regular basis.

**Satisfactory service levels and coverage of key functions** –SWMC’s service levels in the areas of MSW collection (100% collection), surfaced road network (more than 90% surfaced) and street lights (more than 30 lights per km) remain satisfactory. Moreover, service levels in the areas of water supply (100% coverage with 24x7 supply) and sewerage (100% coverage) have improved significantly after the completion of the associated projects.

## Credit weaknesses

**Limited property tax base and user charges** –SWMC’s property-tax base has remained low in the past (13% of total revenue income in FY2020), given the weak economic profile of the twin cities. However, the overall collection efficiency of the property tax has remained above 95% during the earlier years, barring FY2020 and FY2021. The collection efficiency in FY2020, particularly in March 2020, remained lower largely on account of the disturbance in the collection mechanism caused by the pandemic and the subsequent lockdown in the country. ICRA notes that a large part of the arrear collection of the property tax is done in the last two weeks of March every year. Similarly, while the total user charge collection for water supply remained small (7% of total revenue income in FY2021), the overall collection efficiency of the same has remained more than 95% during the earlier years, barring the last two years.

**Ability to introduce or revise key rates and charges** – The property tax rates and the user charges have not seen any substantial increase during the past years. Given the rise of O&M cost with the recent commissioning of key projects, introduction and upward revision of key rates and user charges would remain critical for the overall financial position of SWMC. The council has reported a minor revenue deficit of Rs. 0.78 crore in FY2021 (provisional) largely on account of a significant increase in establishment costs and O&M expenses during the pandemic period.

**Risks associated with execution of large projects** – ICRA notes that SWMC undertakes various projects to cover the gaps in the existing service levels on a regular basis. While the council has successfully implemented such projects in the past, its ability to execute these within the budgeted costs and estimated timeframe will remain critical.

## Liquidity position: Adequate

As on March 31, 2021, SWMC had a term loan outstanding of Rs. 3.92 crore and the annual debt repayment obligation in FY2022 stands at ~Rs. 0.50 crore, which is likely to be met through the council’s own funds and the annual surplus generated by SWMC. Going forward, the liquidity position of SWMC is expected to be supported by the timely revenue grant transfers from the state government and adequate closing cash balances of Rs. 28.61 crore as on March 31, 2021.

## Rating sensitivities

**Positive factors** – A substantial growth in SWMC’s own revenue, thereby strengthening its revenue balance position, could result in a rating upgrade.

**Negative factors** – A decline in the share of support grants from the state government and any major deterioration in the revenue balance position could put pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Urban Local Bodies</a>
Parent/Group Support	The assigned rating factors in SWMC's importance to the GoM as a provider of urban infrastructure and basic services within the city, as well as its strong operational and financial linkages with the GoM
Consolidation/Standalone	Standalone

## About the company

Established in 1869, the Shirpur-Warvade Municipal Council provides urban infrastructure services to the twin cities of Shirpur and Warvade. The city is in the Dhule district of Maharashtra, around 380 km from Mumbai. The city houses the famous temples of Balaji and Pataleshwar, many educational institutes and India's first as well as Asia's largest gold refinery. According to Census 2011, SWMC, covering an area of 17.90 sq. km., serves a total population of 76,905. The body is governed by the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. SWMC's Council comprises 30 Ward Councillors and is headed by a President, who is directly elected by the citizens along with the Ward Councillors. SWMC's regular operations are supervised by the Chief Officer, who is appointed by the state government and is supported by the heads of various departments.

Key services extended by the ULB are the construction and maintenance of roads and drains, water supply, sewerage, solid waste management, street lights and amenities such as shopping stalls, community halls, playgrounds, parks/gardens etc. Apart from basic municipal services, SWMC also owns and operates a 200-bed super speciality hospital.

## Key financial indicators (actuals)

	FY2019	FY2020	FY2021
Revenue income (Rs. crore.)	28.02	31.55	33.57
Revenue expenditure (Rs. crore)	26.91	28.81	34.35
Revenue balance (Rs. crore)	1.11	2.75	(0.78)
Closing cash balance (Rs. crore)	39.04	55.89	28.61
Revenue balance / Revenue income (%)	4%	9%	-2%
(Principal + Interest) / Revenue income (%)	2.03%	2.24%	3.0%
(Revenue balance + Interest) / (Interest + debt repayment)	2.81	4.47	(0.18)
Debt/ Revenue income (%)	17%	14%	12%

Source: ICRA research; Note: FY2021 numbers are provisional

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	Date & Rating in			
					FY2021	FY2020	FY2019	
				Sep-24-2021	Sep-30-2020	Jun-7-2019	Apr-30-2018	
1 Term Loan	Long-term	7.68	2.20	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	

\* As on March 31, 2021

## Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015	10.25%	Up to FY2031	7.68	[ICRA]BB+ (Stable)

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

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