

Hospet City Municipal Council

April 13, 2018

Rating Action

ICRA has removed its earlier rating of [ICRA]BBB- (Stable)¹ from the 'ISSUER NOT COOPERATING' category as the entity has now submitted its 'No Default Statement' ("NDS") which validates that the entity is regular in meeting its debt servicing obligations. The entity's rating was moved to the 'ISSUER NOT COOPERATING' category in November, 2017.

The assigned rating takes into account the Hospet City Municipal Council's (HCMC) importance to the State Government of Karnataka (GoK) as a provider of key municipal services to the city of Hospet. The rating also positively factors the rule-based transfers of grants from the GoK, which assists the council in making non-discretionary payments like salaries, pensions and electricity bills. The rating further factors in the revenue surplus position of the HCMC during the last four years, which is attributed majorly to the grants received from the GoK. A revenue surplus position provides flexibility to the council in planning and prioritising its capital expenditure to that extent. The rating considers healthy collection efficiency of property tax over the past four years, and satisfactory service levels in the areas of sewerage network and road side drains coverage.

The rating, however, is constrained by the HCMC's weak information management systems with instances of inconsistencies in data. The rating also factors in the HCMC's relatively small size of own revenue base, low collection efficiency of user charges (water charges), and less-than-satisfactory service standards in the areas of solid waste management, water supply, street lights, and road coverage. ICRA notes that the HCMC proposes large outlays for various projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) as well as other urban infrastructure schemes, which could stretch the cash flows of the council. Moreover, given the limited track record of the council in executing large projects, the timely execution of these projects within the budgeted costs would be critical for the HCMC's financial position going forward. ICRA notes that the council has implemented reform such as accrual-based accounting system. However effective implementation of other key reforms such as introduction of e-governance in key functions and revenue enhancement measures would be important determinants of the HCMC's ability to improve its overall performance. Finally, adequate number of staffs coupled with continuity of such staffs especially in critical functions would be crucial for the timely implementation of key projects and reforms going forward.

The previous detailed rating rationale is available on the following link: [Click here](#)

¹ With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120
jayanta@icraindia.com

Manish Pathak

+91 124 4545397
manishp@icraindia.com

Nithya Debbadi

+91 40 40676515
nithya.debbadi@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