

February 06, 2017

Vijayawada Municipal Corporation

Instrument	Rating Action
Issuer Rating	IrA- (Stable) / Assigned

Rating Action

ICRA has assigned the long-term issuer rating of IrA- (pronounced I R A minus) to the Vijayawada Municipal Corporation (VMC/Corporation).¹ The outlook on the long-term rating is stable.

Rationale

The assigned rating derives comfort from the healthy financial profile of the VMC, provider of key municipal services to the city of Vijayawada, a major trading and business centre in Andhra Pradesh (AP). The assigned rating derives comfort from the revenue-surplus position of the Corporation, which enables it to part-fund its capital expenditure requirements from internal sources. The assigned rating takes into account the substantial contribution of the VMC's own tax and non-tax revenues to the total revenue receipts of the Corporation. The low dependence on grants from the state or the central government and regular rule-based transfers of assigned revenues from the State Government support the assigned rating.

Vijayawada is one of the suburbs of the under-construction state capital of AP, Amravati, and forms part of the Andhra Pradesh Capital Region (APCR), the metropolitan area surrounding Amravati. The rating factors in the positive outlook for the growth of the VMC's revenues in the long term, based on the expected improvement in the property-related transactions due to Vijayawada's favourable location.

However, while the VMC's property tax collection efficiency has been satisfactory, the rating is constrained by the irregular revision of property-tax rates, which negatively impact the growth of revenues. Moreover, while the per capita water supplied by the VMC is higher than the norm, the rating takes into account the low proportion of metered water connections as well as less than 50% coverage of piped water supply connections to households. These factors limit the Corporation's ability to increase its non-tax revenue base. Moreover, the VMC's performance in terms of service provisions, such as sewerage network and municipal solid waste management remains at a moderate level. For instance, at present only a limited percentage of households in Vijayawada are connected to the sewerage network and the scientific treatment of collected municipal solid waste is nearly absent in the city.

Further, the rating is also impacted by the risk associated with timely execution of large projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), given the VMC's lack of experience in handling large and complex projects. Nevertheless, ICRA expects that the VMC will derive support from the State Government for funding the project and for capacity-building of the municipal staff. This is likely to mitigate the risks related to execution of a large project.

Key Rating Drivers and Description

Credit Strengths

- **Favourable location:** Vijayawada is one of the suburbs of the state capital, Amravati, which is being developed as a world-class city. Vijayawada, being a part of the Andhra Pradesh Capital Region (APCR) is likely to attract investment in infrastructure, which augurs well for the development of the city.
- **Healthy revenue surplus position:** The sustained revenue surplus position of the VMC during FY2013 to FY2015 has enabled the Corporation to fund a part of its capital expenditure from internal resources.
- **Substantial reliance on own revenues:** The high share of tax and non-tax revenue receipts in the total revenue receipts of the VMC indicates substantial reliance on revenue receipts.
- **Formula-based transfer of assigned revenues:** The VMC's revenues are augmented by regular and formula-based transfer of assigned revenues from the State Government with limited dependence on state or central grants.
- **Satisfactory collection efficiency:** The VMC's collection efficiency of property tax (current) and water supply charges (current) are satisfactory.

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

Credit Weakness

- **Weak information systems:** The information systems of the corporation remain weak with instances of inconsistencies in data, even though the municipal accounts are regularly audited.
- **High proportion of unaccounted water:** At 58%, the proportion of unaccounted water in the VMC is quite high, partly led by high wastage of water. This negatively impacts the non-tax revenues of the Corporation. Moreover, the percentage of metered water supply; connections in the VMC are low.
- **Weak service indicators:** At present, only a limited population in the VMC has access to the sewerage network and the scientific treatment of municipal solid waste in the city is nearly absent.
- **Risk related to execution of large projects:** Sizeable capital outlay is required for the execution of large capital projects under Atal Mission for Rejuvenation and Urban Transformation (AMRUT). This could stretch the cash flows of the Corporation. Moreover, given the lack of experience of the municipal staff in handling large projects, some delay in completion of projects is anticipated, which could further increase the cost of the project.

Analytical Approach

Links to applicable criteria

Urban Local Body Rating Methodology

<<http://www.icra.in/Files/Articles/Urban%20Local%20Bodies-%20Aug%202016.pdf>>

Assessing Credit Quality of State Government Finances

< <http://www.icra.in/Files/Articles/Rating%20Methodology%20Aug%202015.pdf>>

Corporate Credit Rating: A Note on Methodology

<<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>>

Entity Profile

The VMC was upgraded to a municipal corporation in 1981 from a selection grade municipality and is governed by the Andhra Pradesh Municipal Corporations Act 1994 (Act). It manages the municipal services in Vijayawada city, in the Krishna district of Andhra Pradesh, which is also one of the main trading and business centres in the state. The VMC covers an area of 61.88 square kilometers (sq. km.) and serves a population of 10.4 lakh (as per Census 2011). Its major functions include water supply, solid waste management and construction, repair and maintenance of roads and streetlights in its area. Divided into 59 municipal wards, an elected body, headed by a Mayor, administers the Corporation while the Commissioner acts as the executive head overseeing its everyday functioning.

In FY2015, the VMC generated a revenue surplus of Rs.97.3 crore on a total revenue receipt of Rs.322.6 crore as compared to a revenue surplus of Rs.51.92 crore on a total revenue receipt of Rs.254.6 crore in FY2014.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: This is a fresh rating exercise

Complexity level of rated instrument:

This is an issuer rating exercise, no instrument is rated

Annexure I

Details of instruments: Not applicable



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