

Rating Rationale

Kullu Municipal Council

8 May 2017

Brickwork Ratings assigns an Issuer rating of BWR B+ Outlook: Stable to Kullu Municipal Council.

Rating	Rating Type	Outlook
BWR B+ (Pronounced as BWR Single B plus)	Issuer	Stable

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

BWR has relied on the unaudited financials upto FY15, SLIP data provided by municipal Council, SAAP of 2015-16 and 2016-17 and other information/clarifications provided by the Urban Local Body.

The rating reflects modest economic base, favorable legislative framework, high literacy rate, tourist footfall levels and income from user fees. These rating strengths are partially offset by low demographic and economic base, revenue deficits, gap in service levels against the benchmarks set by MOUD and substantial dependence on state and central government grants for its revenue and capital expenditure.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating factors the small population of 18853 (as per census 2011) which makes generating incremental tax revenues a challenge: inability of the corporation to raise revenues from the high tourist footfalls which puts pressure on the town infrastructure and lack of adequate manpower and resources to improve the revenues and service line efficiencies.

The rating also factors difficult terrain of the municipal area and extreme climatic conditions due to which additional expertise and cost is required for development and maintenance of infrastructure.

The rating considers municipal council's growth in revenue from user fees from FY11 to FY15; central and state government aid for improvement in service levels like water supply and sewerage and service levels in water supply coverage being satisfactory.

However, the rating is constrained by lack of resources with council resulting in inability to operate and maintain its road infrastructure low sewerage and solid waste management service levels, low cost recovery for the service lines.

Going forward, ability of the council to generate revenues from user fees from the tourists and from various service lines from its citizens, augmenting tax collection system and self-sustainability would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes that the Kullu Municipal Council Credit risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and surplus show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and surplus margins show lower than expected figures.

About the Municipality

Kullu is a Municipal Council city in district of Kullu, Himachal Pradesh. The Kullu city is divided into 11 wards for which elections are held every 5 years. The Kullu Municipal Council has population of 18,536 of which 9,608 are males while 8,928 are females as per report released by Census India 2011.

Financials – Kullu Municipal Council

The holding tax contributes to 1.29% of the Revenue Receipts. Other non-tax revenue are Fairs fee, Tehbazari fee, rent from municipal properties etc.

Kullu Municipal council revenue surplus has fluctuated during FY13-FY15. The council reported revenue deficit of Rs 0.22 Crs during FY15 against revenue surplus of Rs 1.61 Crs in FY14.

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For print and digital media

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Note on complexity levels of the rated instrument:

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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