



Rating Rationale

Khanna Municipal Council

29 June 2017

Brickwork Ratings assigns an Issuer Rating of BWR B+ (Outlook: Stable) to Khanna Municipal Council (KMC)

Particulars:

Entity	Rating Type	Tenure	Rating*
Khanna Municipal Council	Issuer	Long Term	BWR B+ (Pronounced BWR Single B Plus) Outlook : Stable

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

Khanna is a city and a municipal council, in Ludhiana District, which lies in the Malwa region of Punjab state. Khanna is home to Asia's biggest grain market, and is well known for its handicrafts and industries in the iron & steel, agro-based, and textile sectors.

Rationale/Description of Key Rating Drivers/Rating Sensitivities:

In determining the rating, BWR has factored in KMC's below average standards of civic services in the city which are reflected by low per capita supply of water at 67 LPCD as against MoUD benchmark of 135 LPCD, low coverage of water supply connections at 28% as against MoUD benchmark of 100% with low level of metering of water connections at 50% as against MoUD benchmark of 100% and low recovery at 50% for water supply services. Further, sewerage connections are at 45% with no sewerage treatment plant and non-availability of scientific methods for solid waste management. There is absence of storm water drainage systems in the city, lack of public transportation systems and large investment requirements to implement various projects & reforms. Khanna Municipal Council reported revenue deficit of Rs. 0.91 Cr. in FY16.

BWR, however, draws comfort from the moderate economic base, above average literacy rate of 83.55%, moderate collection efficiency of property tax, and progress made by KMC in implementing various key reforms. The rating also factors in its status as an Atal Mission for Rejuvenation and Urban Transformation (AMRUT) city in Punjab and various other projects & initiatives taken by KMC to augment the level of services in the city.

Going forward the ability of KMC to arrange required funds in a timely fashion for completion of various projects & reforms, concerted efforts for improving civic services and overall urban infrastructure, implement GIS effectively to ensure monitoring of various civic services and timely collection of user charges as well as property tax, generate additional sources of revenue, and achieve the level of e-services as per requirements shall remain key rating monitorables.



Rating Outlook: Stable

BWR believes that Khanna Municipal Council's 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 Council is able to achieve the estimated progress in the implementation of various projects and reforms. The rating outlook may be revised to 'Negative' if the progress in the projects and reforms is lower than the expectations.

About Khanna City:

Khanna is situated in the Ludhiana district of Punjab. The city is an ancient town which came into existence 500 years ago. History reveals that Sher Shah Suri built a number of sarais (inns) at every 12 to 15 miles along the Delhi-Lahore road. It derives its name from the Punjabi word "Khanna", which literary means one quarter. This city was named so due to its small size, as it was one fourth of the size of a normal city.

The city is now spread over an area of 32 km, with a population of 128,137 with approximately 27,000 households. The city has a moderate literacy rate among AMRUT cities in the state with an average literacy rate of 83.55%, which is higher than the state (75.84%) and the country (74.04%).

Khanna has the largest grain market in Asia, followed by the grain market of Rajpura (Punjab). Khanna is also considered as industrial hub having various industries like rice shelling, iron & steel, cattle feed amongst others

About Khanna Municipal Council:

Khanna has a municipal council established since 1931. The municipality is supervised by an elected body, the Council ward councilors who are elected for a term of five years and headed by the elected President. The town is divided into 27 wards according to its population, and representatives are elected from each ward.

The Administrative Body is headed by the Executive Officer and consists of the Superintendent, General Branch, and Municipal Engineer, Engineering Branch. The members of the administrative body come from the state public services/engineering services and are appointed by the state government to manage the administrative affairs of the Municipality.

Council's Financial Performance:

KMC has reported Revenue of Rs. 31.84 Crs for FY16 as against Rs. 30.43 Crs for FY15. Council reported revenue deficit of Rs. 0.91 Crores in FY16 against a revenue surplus of 1.93 Crs in FY15. Revenue from tax contributed to 20.38% of the total revenue receipts. Property Tax is the major component of the total tax revenue followed by water tax.



Note: We have classified the receipt & payment items into revenue and capital accounts based on our understanding of the same and the financial analysis has been carried out on best efforts basis.

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Public Finance - Municipal and Urban Local Bodies](#)
- [Approach to Financial Ratios](#)

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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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About Brickwork Ratings

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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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