



Rating Rationale

Kollam Municipal Corporation

8 February 2017

Brickwork Ratings assigns Issuer Rating of BWR BB+ for Kollam Municipal Corporation (KMC).

Particulars

	Tenor	Rating Assigned*
Issuer Rating	Long Term	BWR BB+ (Outlook: Stable)

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating factors the basic civic service delivery standards maintained by the Corporation, reasonable infrastructure in place, the revenue surplus position over the last three years, moderate economic base, progress made by KMC in implementing key reforms and Kollam’s status as an Atal Mission for Rejuvenation and Urban Transformation (AMRUT) city in Kerala. The rating also takes into consideration KMC’s performance with respect to its dependence on the State’s finances, comfortable debt position and moderate financial profile of Kollam Municipal Corporation. KMC has undertaken various reforms in recent years to strengthen the local self-governance as a part of the AMRUT programme, KMC has committed to undertake certain time-bound reforms. However, progress in implementation of reforms under AMRUT has been slow in view of the general elections in 2015-16, change in State government/Corporation Council and pending approvals/administrative/technical sanctions of the State Government on certain issues.

The rating is constrained by the increasing dependence on Central and State government grants, low overall collection efficiency (60%), shortage of trained and professional manpower leading to inadequate managerial & technical capacity, limited resource mobilization strategies and poor maintenance of environmental hygiene. The rating also factors the weak service provision indicators, especially in sewerage (Coverage of sewerage network services 0%), solid waste management (Collection Efficiency 0%) and storm water drainage systems (Coverage of Storm water drainage network 25%), which could reduce the ability of the Corporation to levy appropriate user charges. Additionally, the flexibility of the Corporation to levy/increase user charges or taxes without approvals from the State Government is limited. The subdued collection performance could limit KMC’s revenue growth going forward. The payment of salary arrears of the Corporation staff from FY18 following the implementation of the 10th Pay Commission would result in higher revenue expenditure that could exert pressure on KMC’s finances.



Decline in support from the State Government in terms of adequacy, timeliness and availability of funds under various grants and AMRUT scheme could also strain the revenue profile of the Corporation.

Going forward, timely receipt of grants from various government sources, concerted efforts for improving the urban infrastructure through significant investment in terms of storm water drainage and sewerage systems, timely implementation of key projects and reforms, increased collection efficiency through periodic revision and implementation of taxes & user charges, effective measures to enhance revenue administration efficiency, generation of additional revenue sources and implementation of technological solutions to ensure citizen friendly service delivery systems would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes the Kollam Municipal Corporation'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 revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Corporation

Initially proclaimed as Municipal Board in 1888, Kollam became a Municipality in 1921. Kollam Municipality was reconstituted as a Corporation on 1st October 2000 by including four nearby Panchayats namely Sakthikulangara, Kilikolloor, Vadakkevila and Eravipuram. KMC serves a population of 3.49 lakh (Census 2011) in the State of Kerala. KMC is divided into 55 wards and extends over an area of 77.21 square kms. Kollam is fairly important for the State's trade and commerce and is the centre of the country's cashew trading and processing industry. It is also an important hub for the State's marine products industry, with the port of Neendakara being the centre for trawlers and ice plants. Coir production is also a major industrial activity. Around 70% of the workforce is engaged in agriculture. The Kerala Municipality Act 1994 (KM Act) governs all functions in KMC. In Kollam city, the water supply system and sewerage is under the control of Kerala Water Authority (KWA), a parastatal body. Obligatory functions of KMC mainly include providing civic services such as construction and maintenance of roads, storm water drainage, solid waste management, sanitation, streetlights, playgrounds, urban transport, green parks, education, health services etc.

The main decision making body of KMC is the Council, comprising elected representatives. The Council is headed by the Mayor and each ward is represented in the municipal council by an elected councilor. The day-to-day operations are looked after by the administrative wing headed by the Secretary.



Corporation Financial Performance

On a provisional basis, KMC has achieved income of Rs 204.98 Crs in FY 16 as against Rs 102.40 Crs in FY 15. Gross surplus reduced to Rs 0.66 Crs in FY 16 as against Rs 7.96 Crs in FY 15, on account of significant increase in depreciation and programme expenditure.

Hyperlink/Reference to applicable Criteria

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

Bodies

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

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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