



## Rating Rationale

### Patiala Municipal Corporation

23 May 2017

## Brickwork Ratings assigns an Issuer Rating to Patiala Municipal Corporation (PMC)

### Particulars:

Entity	Rating Type	Tenure	Rating*
Patiala Municipal Corporation	Issuer Rating	Long Term	BWR BB+ (Pronounced BWR Double B Plus) Outlook : Stable

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

Patiala, an erstwhile important princely state, situated in Malwa region of south-eastern part of Punjab, is the administrative capital of Patiala district and one of the larger cities in the state. It is an architecturally and culturally significant city and has a large number of monuments of historical importance. Netaji Subhas National Institute of Sports (NSNIS), Asia's largest sports institute, is located in the city. It is also an important city for business and trade. Headquarters of the erstwhile State Bank of Patiala were also located there.

### Rationale/Description of Key Rating Drivers/Rating Sensitivities:

The rating of Patiala Municipal Corporation (PMC) has factored in, amongst other things, consistent improvement in its total revenue income along with high share of self-generated income vis-a-vis total revenue income, improvement in collection of tax efficiency owing to increase in income from property tax, consistent decline in dependency on assigned revenues and grants over the past two years which are further expected to decline over the medium term.

However, on the expenditure side, establishment expenses have increased significantly to 71.49% of the total expenses, followed by O&M expenditure in FY16 resulting in a revenue deficit as against a revenue surplus in the previous year. Debt servicing outflow is also expected to increase in FY17.

The rating draws comfort from the expected decline in revenue deficit owing to anticipated increase in property tax collections over the medium term with the implementation of GIS (Geographic Information System) which will put into place a property data base thereby helping the municipality to increase property tax collection & other usage charges in the current financial year.

Other factors which have been considered is the progress made by PMC in scientific treatment and disposal of solid waste by setting up of an integrated solid waste management plant with capacity to process 610 TPD (tons per day) of solid waste and which is expected to commence



servicing all towns in Patiala district in the current year. PMC has also proposed investments under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme to augment the level of services like city bus services, water supply and sewerage connections.

These rating strengths are partially offset by the lack of adequate water supply coverage in FY16, though Patiala city has relatively higher coverage than most cities of Punjab in terms of water supply and sewerage network. Water supply coverage was ~ 76% and sewerage network coverage was 97% in 2016. Other factors include absence of transportation management systems and storm water drainage systems; area under the usage of small parks/playgrounds is also much less than the prescribed norms of 20-25%.

Going forward, the ability of PMC to generate revenue surplus along with its increase in total revenue income significantly, maintain its higher own revenue percentage, implement the GIS based database project as per schedule/estimate, implement the other sources of revenue by generating income from solid waste management, collecting advertisement charges from road side hoardings etc., develop infrastructure and improve civic service level indicators against MoUD benchmarks over the medium term, shall remain key rating determinants.

### **Rating Outlook: Stable**

BWR believes that **Patiala 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 Corporation 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 and revenue deficit continues to remain over the medium term.

### **About Patiala City:**

Patiala is the fourth largest city of Punjab state with a total population of 446,246 as per 2011 census. It is situated in Malwa region of south eastern part of Punjab. The city is spread over an area of 66 sq. km and is divided into 51 wards. Patiala was one of the first cities in Punjab to establish a degree college. It has emerged as a major education center in the state. The city has a literacy rate of 85.78%, which is higher than the national average of 76.70%. The city is famous for its traditional and cultural attire viz. *Turbans, Paranda, Patiala Salwar* and *Jutti*.

### **About Patiala Municipal Corporation:**

Patiala Municipal Corporation was created in 26th September 1997 under the Punjab Municipal Act, 1911. The Municipality is supervised by an elected body, the Council, comprising ward councilors, who are elected for a term of five years. The town is divided into 51 wards and representatives are elected from each ward. The administrative body is headed by the Commissioner and consists of Joint Commissioner and departmental heads of Building & Roads department and Operations & Maintenance department, besides other functionaries.



### Corporation's Financial Performance:

On a provisional basis, PMC has reported a Revenue Income of Rs. 79.91 Crs in FY16 as against Rs. 76.02 Crs in FY15 and a Revenue Deficit of Rs. 3.33 Crs in FY16 as against Revenue Surplus of Rs. 2.79 Crs in FY15.

*Note: LMC's financials are still in the process of audit and therefore, we have classified the receipt & payment items into revenue and capital accounts based on our understanding of the same and the financial analysis of LMC has been carried out based on our best efforts.*

### Hyperlink/Reference to applicable Criteria:

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

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#### Note on complexity levels of the rated instrument:

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#### About Brickwork Ratings

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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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