

Tiruvannamalai Municipality

June 8, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer Rating	-	CARE B(Is); Stable [Single B (Issuer Rating); Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1

The rating is subject to overall debt level of Rs. 17 crore

Detailed Rationale & Key Rating Drivers

The rating of Tiruvannamalai Municipality factors in its stressed financial condition marked by a revenue deficit position since FY13. The rating is further constrained by increasing debt burden of the municipality, low tax base, low self-reliance, low collection efficiency of tax and user charges, its inability to cover its establishment and administrative expenditure from its own revenue source and its increasing debt burden.

The rating has also taken into consideration the increase in capital expenditure undertaken by the Municipality towards creating infrastructure, park improvement and office buildings. Additionally, the economic profile of the region which is favoured tourist destination being a famed temple town has also been taken into account.

Going forward, the ability of Tiruvannamalai Municipality to improve its own revenue, and move to a revenue surplus would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Growth in Capital expenditure: Although the capital expenditure has recorded a growth rate of 10% during FY12-FY15, same has declined by 62% in FY15 to grow by 11.2% in FY16. Predominantly projects towards Roads and water supply are undertaken under capital expenditure. In addition, projects towards park improvement and office buildings are undertaken. All these projects are financed from grants.

Key Rating Weaknesses

Declining revenue receipts: Revenue receipts of the Municipality have contracted during in FY15, after recording a 22% growth in FY14. It was also lower than that in FY13. This decline in revenues can be largely attributed to the decline in receipts under the devolution fund and other incomes (rents, lease of land, road restoration charges etc.). Tax revenues on an average accounted for 17% of the revenues of the Municipality during FY12 – FY15. There has been a moderation in the tax revenues in FY15. The tax base of the Municipality is low as the region is predominantly a religious place. As per data provided by the municipality the revenue receipts for FY16 stood at Rs.19.24 cr.

Revenue expenditure growing faster than revenue receipts: The Municipalities revenue receipts are not sufficient to cover its establishment and Operations & maintenance expenditure owing to a faster increase in revenue expenditure in FY15 and FY16. The increase in revenue expenditure can be ascribed to the increase in operation and maintenance and establishment expenditure. Operation and maintenance expenditure has been increasing since FY13 on account of increase in fuel, power and labour charges.

Revenue Deficit: The finances of the Municipality have been stressed in recent years with it recording a revenue deficit since FY13. The revenue deficit has been widening during FY13-15. The ratio of revenue deficit to revenue receipt too has been increasing consistently over the years.

Low self-reliance: The municipality is heavily dependent upon the devolution funds received from government and hence exhibits a low level of self-reliance with only 40% of its revenues being accounted by its own revenues viz. tax and non-tax revenues.

Low level of collection efficiency: The Municipality has low collection efficiency of its taxes and user charges. The collection efficiency has declined from 53% since FY13 to 40% in FY16.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Weak civic Infrastructure: Tiruvannamalai has a weak civic infrastructure with water supply and storm water drainage coverage at around 60%. Around 30% of the municipality is covered under sewerage system and 60% under solid waste collection.

Increase in debt burden: The debt of the municipality has increased since FY13 from Rs 13.05 cr to Rs 16.56 cr in FY16.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Issuer Rating](#)

[CARE's Methodology for Urban Infrastructure Projects](#)

About the Municipality

Tiruvannamalai is a temple town and a major pilgrimage centre in Tiruvannamalai district in Tamil Nadu. It has been declared as a Special Grade Municipality in 2008. The Municipality is spreads over 13.64 sq. km km and is divided in to 39 municipal wards. As per 2011 census, the population of the town stands at 1,44,683 of which 44,594 comprises of the slum population.

The region is well connected by road and rail network and airport.

Trade, commerce and service activities such as transport, communication, storage are the major contributors to the economy of the town. The region sees a large number of tourists.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating	-	-	-	0.00	CARE B (Is) ; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating	Issuer rating	0.00	CARE B(Is)	-	-	-	-

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