

Vellore Municipal Corporation

June 8, 2017

Ratings

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

Details of instruments/facilities in Annexure-1

The rating is subject to overall debt level of Rs.391 crore.

Detailed Rationale & Key Rating Drivers

The rating is constrained primarily by the high level of debt, low self-reliance for revenues, low collection efficiency of tax revenue and user charges and shortfalls in civic infrastructure. The rating is further constrained by the Corporation's inability to cover its establishment operations & maintenance expenditure from its own revenue.

The rating finds support in the improvements in financial profile of Vellore Municipal Corporation (VMC) in recent years with it reporting a revenue surplus in FY14 and FY15 compared to a revenue deficit position in FY13. The economic profile of the region, Vellore being the leather hub of the country, too has been taken into consideration.

Going forward, the ability of VMC to maintain the consistency in revenue receipts, improve collection efficiency, and increase self-reliance and to sustain the current level of debt would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Steady Growth in revenue receipts: VMC has recorded healthy growth in revenue receipts in FY14 and FY15, with growth rates of 28% and 19% respectively. As per provisional financial statements for Fy16, the revenue receipts stood at Rs.85.20 cr for Fy16

Tax revenue of the Municipal Corporation, which accounts for 23% of its income, has been recording a sustained increase over the years. It increased by 23% to Rs 16.26 crore in FY14 and by 13% to Rs 18.35 crore in FY15.

Devolution funds to the corporation, which account for the highest share of its revenue at 44%, have seen a significant increase during FY14 and FY15. Fees and User charges, which account for 25% of the revenue of VMC, have been declining over the years. It declined by 19.21% in FY14 and by 8.34% in FY15.

Revenue surplus: VMC recorded a deficit in FY13; however it recorded a surplus in the next two years. The revenue surplus declined in FY15 to Rs 4.79 crore from Rs 9.65 crore in FY14.

Key Rating Weaknesses

Low self-reliance 1: The corporation has low self-reliance with less than 50% of its revenues comprising of own revenue sources – tax and non-tax sources. The own revenue to revenue receipts has been declining over the years. The own revenue to Revenue receipts declined from 60.18% in FY13 to 40.67% in FY15.

Low Level of Collection Efficiency: The overall tax collection efficiency of the corporation is low at less than 50%. The collection efficiency of the corporation has declining over the years. It declined from 47.6% in FY13 to 46.4% in FY14 which declined further to 43.4% in FY15.

Revenue Expenditure: Revenue expenditure has grown by 8.3% during FY13-15. The revenue expenditure has seen fluctuations in growth rates. After declining by 9.72% in FY14, the revenue expenditure increased by 29.82% to Rs 81.52 crore in FY15. As per provisional financial statements for FY16, the revenue expenditure stood at Rs.80.20 cr for FY16.

Establishment expenditure accounts for the highest share of around 37% in revenue expenditure followed by other income (18.76%) and operations & maintenance (18.16%). VMC's own revenues have been found to be insufficient to cover its establishment and operations & maintenance expenditure.

High level of Debt: The Corporation has very high level of outstanding Debt. The outstanding loans of Vellore consists of loans from Government & LIC (o/s in FY15: Rs. 12.27) and TNUDF (o/s in FY15, Rs. 378.7 cr). Debt to RR ratio is has been increasing over the years; it stands at more than 400% in FY15.

Analytical approach: Standalone

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

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 Corporation**

Vellore is the headquarters of the Vellore district. The town was constituted as a third grade municipality in 1866. It was promoted to first grade municipality during 1947 and was granted the status of a municipal corporation in August 2008. The Corporation has 60 wards. Vellore City Municipal Corporation area spread over an extent of 87.73 sq km. As per the 2011 census, Vellore has a population of 5.04 lakh.

The functions of the municipal corporation are devolved into six departments; general administration, engineering, revenue, public health, city planning and information technology.

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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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 BB (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	-	CARE BB (Is)	-	-	-	-

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