

Credit Assessment Report of Nagar Nigam Firozabad

1. Scope

Infomerics Valuation And Rating Pvt. Ltd. (Infomerics) has undertaken a credit assessment study on Nagar Nigam Firozabad (NNF) in order to assign an Issuer Rating as per the Mandate Agreement signed on December 9, 2016. Credit Assessment essentially refers to evaluation of creditworthiness of an entity after factoring inter alia its quality of management, the segment in which it is operating, its span of operations, financial strength and future outlook. For this purpose, Infomerics has relied on Audited Accounts for Financial Year 2014-2016 alongwith the supporting Schedules, Budget Estimate for FY2017 and various operational & project details furnished by NNF and the clarifications obtained from NNF.

2. Background

Firozabad, one of the cities in the state of Uttar Pradesh, is also known as City of Bangles.

There are various categories of Urban Local Bodies like Nagar Palika, Nagar Nigam and so on in Uttar Pradesh. Earlier, Firozabad was classified as a “Nagar Palika” type of ULB and has now been upgraded as ‘Nagar Nigam’. Now it is called as Nagar Nigam Firozabad (NNF). Firozabad is located in north central India, in Uttar Pradesh, 40 kms from Agra and around 240 kms away from Delhi. Firozabad railway station comes on the Delhi-Howrah trunk route of the Indian Railways.

Firozabad is known for artistic glassware in different colours and shades used in chandeliers and other items. About 400 glass manufacturing units are registered in Firozabad, producing different types of glass products. They use natural gas as the fuel. Half of the production of these units is exported. Nowadays, blowing/modelling is done by the Pot Furnace and Regenerative Tank furnace in the factories. Firozabad with the changing time has entered into new era of Glass Manufacturing and it has become a major hub for manufacturing different Glass based items. Its glasswares made significant forays globally and to diversify its industrial base, it is encouraging ancillary industries including Chemicals and Packaging.

All types of glass items, including jars, candle stands, glasses, flower vases, electric wares (such as decorative lights, bulbs) are manufactured in Firozabad. These articles are painted

with vivid colours and innovative patterns. Etching is done on some products to enhance their beauty. Decoration work is also done on some products by fixing other material on them.

3. Management & Administration

The election to the ULB is conducted by the State Election Commission. The electoral roll for every ward is prepared under the superintendence and direction of State Election Commission. At present, NNF is divided into 70 wards for which elections are held once in every five years. NNF is governed by a Mayor-in-council which works under the strictures of the Uttar Pradesh Municipalities Act, 1916. The Mayor-in-council is headed by the mayor who works alongwith a member of councilors representing the wards. Currently, NNF does not have any mayor as the last one has been suspended due to allegations of fraudulent activities. Therefore, the entire operations handled by the Commissioner who is the executive head of NNF.

Shri Pramod Kumar is the current Commissioner of NNF. Being the administrative head, he brings with him the rich administrative experience to execute the day-to-day works and functioning of the NNF. He is assisted by a team of experienced officials.

4. Population

As per Census 2011, the population of NNF is 6.04 Lakhs. The birth rate, death rate and infant mortality rate have declined over the last few years. NNF's, Female Sex Ratio is of 892 which is lower against state average of 912. Literacy rate of NNF is 60.51% which is lower than state average of 67.68 %. As per the Census 2011, the varied break-ups of population are as below:

Particulars	Nos. in Lakhs	% of total population
Total Population	6,03,797	100.00
Male Population	3,21,612	53.26
Female Population	2,82,185	46.74
Literate Population	3,65,340	60.51
Male Literacy	2,08,427	64.81
Female Literacy	1,56,913	55.61

5. Operation

NNF is involved in a gamut of activities such as water supply, sewerage disposal, street lighting, health & sanitation, roads & bridges and horticulture. NNF gets the grants from GOI

and State government under AMRUT Mission for development activities such as improvement in water supply services, sewerage system and green spaces.

Brief overview on the various operations of NNF is mentioned below.

Augmentation of City Water Supply

NNF's main source of water supply is underground water. NNF has total 189 tubewells with total capacity of 141.75 Millions of liters per day (MLD). Along with this, it has 20 elevated reservoirs with storage capacity of 20.90 MLD. Currently, there is no zoning in the city but new Detailed Project Report (DPR) is under process wherein the city is proposed to be divided in six zones. At present, the storage capacity is not sufficient to meet the city's water demand. The total road length is 710 Kms, out of which water supply distribution network is covered up to 656 km and remaining 54 km will get covered by FY2021. Any water related project planning & designing and construction/implementation work are undertaken by UP Jal Nigam & ULB. Smaller projects like branch lines, gaps in pipe line and operations & maintenance activity are done by NNF. NNF has conducted assessment related to Non-revenue Water (NRW) level and that comes to 35%. NNF has focus into minimizing NRW by regularising unregistered water connections, increasing collection efficiency and introduction of metering systems for billing under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme. The present status of water supply service level is summarized below.

Sr. No.	Indicators	Present Status	MOUD Benchmark
1	Coverage of water supply connections	39.86%	100%
2	Per capita supply of water	214 LPCD	135 LPCD
3	Extent of metering of water connections	0%	100%
4	Extent of non-revenue water	50.0%	20%
6	Quality of water supplied	90.0%	100%
7	Cost recovery in water supply services	59.33%	100%
8	Efficiency in collection of water supply related charges	88.8%	90%

*LPCD – Litre per capita per Day

*MOUD – Ministry of Urban Development

Water Project under AMRUT Scheme

NNF has project plan for improvement in water services over the present scenario.

Objective	Project cost (Rs.)
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	in crores)
To achieve the universal coverage	0.60
To improve the quality of water	2.00
Total project cost	2.60

The project cost will be funded to the extent to 50% by Government of India (GOI) under AMRUT scheme and remaining 50% by UP state government.

Sewerage Facility

The sewerage system in NNF is not good in terms of coverage and services. Coverage of sewerage network services is low with only 54% connected to municipal sewerage. There is no separate system for storm water. All roles and responsibility related to policy, planning and design, construction and implementation are undertaken by UP Jal Nigam, whereas, operations and maintenance activities are undertaken by NNF. There is no decentralised waste treatment system existing in the city. Present status of sewerage network and service level of NNF is appended below.

Sr. No.	Indicators	Existing service level (%)	MOUD Benchmark (%)
1	Coverage of latrines (individual or community)	83.24	100
2	Coverage of sewerage network services	54	100
3	Efficiency of collection of sewerage	8.0	100
4	Efficiency in treatment: Adequacy of sewerage treatment capacity	4.28	100

The Sewerage Treatment Plant (STP) of 32 MLD has been set up by Joint District Foundation under AMRUT Yojana for sewerage treatment.

Sewerage Project under AMRUT Scheme

Sr. No.	Project Name	Year of implementation (Proposed)	Year of completion (Proposed)	Estimated cost (Rs crore)
1	Decentralize Waste Management for 60372 Household	2017	2020	36.22
2	Installation of sewer suction and jetting machine 5 Lac X 0.15	2017	2020	0.75
3	Installation of Sewer network of 551.201 km @ 60 Lac/km	2017	2020	330.72
4	Collection of Sewerage	2017	2020	1.5
5	Construction of 1 STPs (11 MLD in Main City Zone)@ 1.5 Cr/MLD-	2017	2020	16.5

The project cost will be funded to the extent to 50% by GOI under AMRUT scheme and remaining 50% by UP state government.

Green Spaces and Parks

NNF has many green spaces and gardens in various sectors across the city. There are total 101 parks in the city, which only 11 parks have boundary walls and remaining parks either having plinth level boundary walls or no boundary. NNF has prepared park wise inventory and are planning to develop some of the parks to attract large numbers of citizens. The city is planning to increase the green coverage by developing five parks per year. Total project cost is Rs.1.03 crore per year and will be funded to the extent of 50% by GOI under AMRUT scheme and remaining 50% by UP state government.

Public Works Department

Public Works Department of NNF supervises various street construction and repairing related functions within its command area. It mainly focuses on construction and repairing of streets& lanes, patch repair & filling of pits, repair of footpaths, maintenance of streets, construction& repairing of parks, repair & maintenance and constructing drains.

Street Lights

NNF supervises various street light constructions and the related repairing within its command area. NNF installs new light spots in various areas of the city and makes arrangement for new street lights at various places. NNF is installing the electricity poles and stretching wires to increase the coverage of areas under street lights. NNF is responsible for installing and repairing traffic signals across the city. It is a key responsibility of NNF to do lighting arrangement at different public places and public festivals.

Public Health Department (PHD)

Public Health Division of the NNF is responsible for providing clean and healthy environment to its citizen by maintaining proper health and sanitation facilities within its area. Various key responsibilities of PHD of NNF are as follows.

- Cleaning of public toilets and urinals.
- Measures to control spreading of contagious/infectious diseases.
- Issuing license under Food Adulteration Impediment Act.
- To remove the heaps of garbage.

- To remove the debris.
- Sprinkling of water at public places and during festivals.
- Supply of clean drinking water in parks and water supply for individual and commercial purpose; and
- Repair and maintenance of drains.

Advertisement Department

The advertisement department helps the NNF to increase their revenue through advertisement on various places across the city.

Sanitation and cleaners

Sanitation is an important aspect of any city/town for maintenance of proper public health in the city. NNF is responsible for maintaining proper cleaning and sanitation within its area. NNF is also responsible for regular collection and dumping of all kind of solid waste that is generated within its area. For this purpose, NNF is involved in sweeping streets, in collecting solid waste from households and collection points and in transporting all these waste collected to the dumping yard. NNF is responsible for maintenance of clean and sanitized environment to all citizens of its area to ensure prevention of diseases and epidemics.

Solid Waste Management

Solid Waste Management (SWM) is an important aspect in maintaining proper cleanliness and health environment in an area. NNF is carrying out effective SWM system in their municipal area that would ensure prevention of diseases and control of pollution in that particular area. SWM mainly involves collecting, treating, and disposing of solid waste material that is discarded.

Trade License

It is must for all entrepreneurs under the purview of operating Rickshaw, Trolley, four wheelers, inflammable fuel, Loudspeaker etc. to procure the trade license. Apart from the above, as per the UP state government order 2003, about 18 new areas like Marriage Hall, Coaching Centre, Courier Services, Cable TV Operator, Travel agencies, Beauty parlour, Transport agency, Tiles seller, Wholesaler of Tea, Seller of clothes & readymade hosiery items, seller of jewellery, caterers, tent house, TV & electronic goods, offset printing press, oil mill, flour mill must have license to run the business.

Government Schemes

NNF is likely to obtain grants from the Government of India under the AMRUT and Swachh Bharat Abhiyaan. Brief details of this mission are enumerated below:

A. Amrut Mission

The main aim of the AMRUT Mission is to provide basic amenities like water supply, sewerage, urban transport, etc. to households and build amenities in cities that can enhance the quality of life for all, especially poor and disadvantaged people as national priority. The core elements of the AMRUT mission lies in providing the basic amenities to the citizens which includes proper supply of water, sewerage facility, septage, storm water drainage, urban transport, enhancing amenity value of cities by creating and upgrading green spaces, parks and recreation centres, especially for children, power to everyone, health facilities to citizen and education to all.

B. Swachh Bharat Abhiyan

As the population in India is increasing rapidly with each passing year, basic sanitation and sewage facilities seem insufficient to support this huge population. Apparently, weak sanitation and untreated sewage are believed to have caused various health problems as well as water pollution.

Tax Department

Tax Division of NNF mainly carries out registration, levy and other tax related activities within its area. Main responsibilities of Tax Division are:

- Tax imposition/ collection of taxes
- Tax recovery on Rickshaws, Tanga etc.
- Collection from Parking
- Transfer of property
- To remove the encroachments

Tax& fee collection

NNF has been collecting the various taxes from the citizens. The tax rate has remained same for the last three years. Tax rates from various sources are mentioned below.

Sr. No.	Particulars	Tax Rate (%)
1	House Tax	15
2	Water Tax	10
3	Jal Mulya	Rs.50 and Rs.200*

4	Property Tax	2
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*Jal Mulya charges are varying for residential and commercial purposes. Residential user has to pay Rs.50 per month and Commercial user has to pay Rs.200 per month.

Sources and allocation of Government Grant

NNF has undertaken various operations in the last few years. NNF has received funds from Government of India (GOI) and UP state government in the form of grant. The collection of funds is depicted in the table for the last three years.

(Rs in crore)			
Year	2013-14	2014-15	2015-16
GOI	11.04	16.29	39.63
UP State Government	74.00	76.57	83.29
Total	85.04	92.86	122.92

The government grant received in the last three years from State Government and Central Government have been spent on overheads.

6. Financial Analysis

The Audit Report for FY16 submitted by A. Singhal & Associates contains the following observations.

- Non-maintenance of accounts for land activities
- Non-adjustment of other liabilities
- Non-maintenance of accounts for public lighting services
- Non-conducting of physical verification of fixed assets
- Balances of some funds and grants should be kept in separate bank accounts.

Revenue and Expenses

(Rs in crore)			
For the year ended/ As on March 31,	2014	2015	2016
	Aud	Aud	Aud
Tax Revenue	2.70	3.32	4.68
Property tax	1.71	2.31	2.68
Other Municipal Taxes	0.99	1.01	2.01
Non-tax Revenues	89.04	97.45	129.92
License Fee	0.00	0.10	0.02
Water Supply & Sewerage	0.00	0.00	0.00
Government Grant	85.04	92.86	122.92
Other Receipts	3.99	4.49	6.97
Total Revenue (A)	91.74	100.77	134.60
Expenditure			

Administration Expenses	46.49	50.68	51.63
Depreciation	2.50	2.33	2.15
Operation and maintenance expenses	39.06	43.85	79.11
Other expenses	0.85	1.66	2.09
Total Expenditure (B)	88.90	98.53	134.98
Surplus/(Deficit) (A-B)	2.83	2.23	-0.39

Balance Sheet

For the year ended/ As on March 31,	2014	2015	2016
Fixed Assets			
Fixed Assets (gross)	154.66	156.25	190.46
Less: Provision for Depreciation	16.21	18.54	20.70
Fixed Assets (net)	138.45	137.71	169.76
Projects under Construction	0.00	0.00	0.00
Investments (unquoted)	0.00	0.00	0.00
Current Assets	20.24	22.37	73.82
Inventories	0.58	1.21	1.00
Receivables	6.18	5.74	6.01
Cash & Bank Balances (including fixed deposits)	13.48	15.42	66.81
Loans & Advances	0.00	0.00	0.00
Total Assets	158.69	160.09	243.59
Networth	120.91	122.22	170.59
Capital Fund/Municipal general fund (gross)	114.35	118.18	151.99
Less: Value of Roads and Foothpaths	0.00	0.00	0.00
Capital Fund (net)	114.35	118.18	151.99
Revenue Fund/Reserves	0.00	0.00	0.00
CUDP-III Project	0.00	0.00	0.00
Earmarked Funds	6.56	4.04	18.60
Payable out of Government Grant	2.57	2.65	37.78
Loans	0.00	0.00	0.00
Current Liabilities & Provisions	35.21	35.21	35.21
For Expenses	0.00	0.00	0.00
Other Liabilities	35.21	35.21	35.21
Miscellaneous Deposits	0.00	0.00	0.00
Accumulated liabilities related to earlier year not extinguished	0.00	0.00	0.00
Total Liabilities	158.69	160.09	243.59

Ratio Analysis

Ratios	FY2014	FY2015	FY2016
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Receipts / Expenditure	103.2%	102.3%	99.7%
Surplus (Deficit) / Receipts	3.1%	2.2%	-0.3%
Debt / Receipts	0.0%	0.0%	0.0%
Govt. Grants / Receipts	92.7%	92.2%	91.3%
OTR / Receipts	2.9%	3.3%	3.5%

OTR- Own Tax Revenue

- The non-tax revenue is the major source of revenue for NNF contributing more than 90% of share of total revenue across all the years, mainly comprises Government Grants. The non-tax revenue increased by 9.5% and 33.3% in FY2015 and FY2016 respectively, mainly due to increase in government grant to meet the incremental operational and maintenance expenses arising out of higher outgo towards repairs & maintenance of office buildings. The government grant is a major support to NNF in executing many activities. In spite of significant government support, the ULB posted narrow deficit in FY16. The break-up of Other Receipts are furnished below as in the last three years upto FY16 is furnished below.

(Rs in crore)

Particulars	2014	2015	2016
Rental Income	0.21	0.21	0.21
Fees and user charges	2.21	2.19	3.72
Interest income	0.03	0.11	0.21
Other income	1.54	1.98	2.83
Total	3.99	4.49	6.97

- NNF reported Revenue surplus in FY14 & FY15 even after considering the government grants. Own Tax Revenue to Receipts was low at 3.5% in FY16.
- Government grants contribute a significant portion (over 90%) of total revenue receipts of NNF. NNF requires more investment in developmental activities (further urbanization and improving & widening basic facilities) to increase the revenue base by way of higher user charges. Infomeric believe that NNF needs to explore avenues to enhance its tax revenue.
- The imposition of GST is not expected to impact the revenue front of ULBs. On the expenditure front, there may be some impact; however that impact has not been worked out by the ULB.
- Current liabilities of Rs.35.21 crores are in the nature of sundry creditors.
- There has been a significant increase in operations and maintenance expenses during FY16 mainly arising out of the maintenance towards roads and buildings.

7. UP State Financial Snapshot

(Rs. Crores)

Uttar Pradesh	FY13	FY14	FY15	FY16
Net State Domestic Product (Current Prices)	690774.6	760541.6	861054.1	N.A.
Gross fiscal deficit	19240.0	23680.0	28380.0	31560.0
Revenue surplus	5180	10070	32410	34120
Gross fiscal deficit/NSDP	2.79	3.11	3.30	N.A.
Revenue surplus/NSDP	0.75	1.32	3.76	N.A.

Combined State Governments (excluding Union Territories)	FY13	FY14	FY15	FY16
Revenue Surplus (Deficit)/NSDP	0.20	-0.09	-0.15	0.40
Fiscal Deficit/NSDP	1.96	2.20	2.93	2.46

Source: RBI

- The key financial indicators of Uttar Pradesh are comparable to the indicators of combined Indian state governments.

8. Budget Estimate Analysis - FY2017

NNF has submitted the Budget Estimate (BE) figures pertaining to revenue & expenses for FY17 which are mostly way above the FY16 actual figures. The related parameters for FY17 Budget Estimates and corresponding figures of FY16 (Actual) are furnished below:

(Rs in crs)

Items	FY2016	FY2017 (Budget Estimates)
Total Revenue Receipts	134.6	225.79
Revenue Expenditure	134.98	184.73
Revenue Surplus/(Deficit)	-0.38	41.06
Capital receipts	-	298.81
Capital Expenditure	-	336.86
Capital Surplus (Deficit)	-	-38.05
Total Surplus (Deficit)	-0.38	3.01

9. KEY RATING FACTORS

Strengths

- Characterised by zero debt
- Adequate liquidity levels
- Enabling legislative framework

Weaknesses

- Moderate economic base
- High dependence on government grants
- Inadequate development activities
- Moderate & erratic revenue surplus
- Greater density of wards leading to higher overhead costs

Rating Sensitivities

- Increasing level of urbanization.
- Enhancing & widening of civic services to expand revenue base.
- Reducing dependence on government grants.
- Delay in receipts/non-receipts of government grants.

Sr. No	Parameter	Sub-Parameter	Sub Scores (0-10)	Mother Score	Comments
1	Management & Administration			4.50	Average management and administration structure
		Political Structure	5.00		
		Organisation Structure	4.00		
2	Operations			2.11	Weak operational level; lack of adequate capex
		Water Supply	3.00		
		Drainage & Sewerage	4.00		
		Street Lighting	4.00		
		Health & Sanitation	4.00		
		Community Centres	0.00		
		Swachh Bharat Abhiyaan	4.00		
		Fire & Emergency Services	0.00		
		Rehabilitation	0.00		
		Education	0.00		
3	Financials			2.21	Weak Financials
		Level of Deficits	2.00		
		Deficit / NSDP	0.00		
		Receipts / Expenditure	3.00		
		Deficit / Receipts	3.00		
		Liquidity Comfort	4.00		
		Government Grants / Receipts	3.00		
		Own Tax Revenue / Receipts	0.50		
4	Debt Management			7.00	Current zero debt position
		Debt	7.00		
		Debt / Receipts	7.00		
		Interest Payment / Revenue Receipts	7.00		
5	State Finances			5.00	Average state finances
		Gross fiscal deficit / NSDP	5.00		
		Revenue Surplus / NSDP	5.00		
6	Economy & Demography			3.00	Weak economy & demography
		NSDP growth rate	0.00		
		Gender ratio	4.00		
		% of working population	3.00		
		Political & Quasi-economic stability	5.00		
7	Legal Issues			Not Available	
		Current delays / defaults in debt repayments			
		Material suits filed against the entity			
	Sum			23.83	
	Average Score			0.40	BB



Infomerics Valuation and Rating Pvt Ltd

RATIONALE

INFOMERICS assigns Issuer Rating of IVR BB (Is) with Stable Outlook to Nagar Nigam, Firozabad.

Rating & Definition

Infomerics Valuation and Rating Pvt. Ltd. has assigned an issuer rating of **IVR BB (Is) / Stable Outlook [pronounced IVR double B (IS) with Stable Outlook]** to **Nagar Nigam, Firozabad (NNF)**. Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations.

Rating Rationale

The rating takes into consideration moderate economic base, high dependence on government grants, inadequate development activities, moderate & erratic revenue surplus and greater density of wards leading to higher overhead costs. However, the rating derives comfort from zero borrowing of NNF for the last four years, adequate liquidity level and enabling legislative framework. Increasing level of urbanisation, enhancing & widening of civic services to expand revenue base, reducing dependence on government grants and delay in receipt of government grant are the key rating sensitivities.

Background of NNF

Firozabad, one of the cities in the state of Uttar Pradesh, is also known as City of Bangles. Firozabad is located in north central India, in Uttar Pradesh, 40 kms from Agra and around 240 kms away from Delhi. Firozabad is known for artistic glassware in different colours and shades used in chandeliers and other items. All types of glass items, including jars, candle stands, glasses, flower vases, electric wares (such as decorative lights, bulbs) are manufactured in Firozabad. Firozabad with the changing time has entered into new era of Glass Manufacturing and it has become a major hub for manufacturing different Glass based items.

Risk Assessment

Zero borrowing level



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NNF has not taken recourse to any form of debt, majorly in view of low capex. This is a key credit positive for the entity.

Adequate liquidity levels

NNF has sizeable amount of cash balances which grew significantly to around Rs.29 crores (after adjusting for payables out of grants) as on March 31, 2016. This indicates adequate liquidity for NNF.

Enabling legislative framework

The ULB is governed by the Uttar Pradesh Municipalities Act, 1916. NNF is engaged in municipal operations such as water supply, sewerage disposal, street lighting, development of green spaces, health & sanitation and solid waste management. This Act provides powers to the NNF in levying and collection of taxes.

Moderate economic base

NNF is characterised by moderate population level and industrial base. This constraint the revenue earning capacity of the NNF. Additionally, cost recovery in water supply services is below 60%.

High dependence on government grants

Government grants form a significant portion of total revenue receipts (over 90% generally). This indicates alarming dependence on the state government for meeting revenue expenses, thereby signifying weak financial protection.

Inadequate development activities

NNF is characterised by low level of capital creation and inadequate civic services (poor efficiency in collection of sewerage and nil metering of water connections) constraining its revenue earning capacity.

Moderate & erratic revenue surplus



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Despite depending on government grants significantly, NNF posted nominal revenue surpluses in FY14 and FY15 and revenue deficit in FY16. NNF needs to expand its revenue base through asset creation and enhancing & widening civic services.

Greater density of wards leading to higher overhead costs

The number of wards as compared to population is high in NNF. This leads to higher overhead costs.

Financial Snapshot

For the year ended/ As on March 31,	2014	2015	2016
Tax Revenue	2.70	3.32	4.68
Non-tax Revenue	89.04	97.45	129.91
Total Revenues (A)	91.74	100.77	134.60
Total Expenditure (B)	88.90	98.53	134.98
Surplus/(Deficit) (A-B)	2.83	2.23	(0.39)
Tangible Networkth	120.91	122.22	170.59
Net Fixed Assets	138.45	137.71	169.76
Ratios			
Receipts / Expenditure (%)	103.2	102.3	99.7
Surplus (Deficit) / Receipts (%)	3.1	2.2	-0.3
Debt / Receipts (%)	0.0	0.0	0.0
Govt. Grants / Receipts (%)	92.7	92.2	91.3
OTR / Receipts (%)	2.9	3.3	3.5

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