



GURUVAYOOR MUNICIPALITY

Credit Rating of Urban Local Bodies in Kerala

Under

**Atal Mission for Rejuvenation and Urban
Transformation (AMRUT)**

For

**Kerala Sustainable Urban Development Project
Local Self Government (Urban Affairs) Department
Government of Kerala**

Final Report

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1. CITY PROFILE

1.1. Guruvayoor City

Guruvayoor, the pilgrimage city of Kerala is located in Thrissur district. The famous “Guruvayoor Temple”, which attracts a large number of devotees from across the state, is located in the city. According to Census 2011, the city (adjusted for the merged areas), which covers an area of 21.10 sq. km, serves a total population of around 36,470. Though the size of the resident population is relatively small, the city receives a large number (around 20 lakh annually) of pilgrims, majorly during the Sabarimala Pilgrimage. Apart from being a trading centre for the region, the city houses a large number of commercial establishments, which provides services to the large floating population.

1.2. Guruvayoor Municipality

The urban local body (ULB) in Guruvayoor was established in 1962 as a panchayat and upgraded to a municipality in 1994. It is governed as per the provisions of the Kerala Municipality Act 1994 (Act). The Guruvayoor Municipality (GVM) manages the civic services in Guruvayoor city, which is located in Thrissur district in Central Kerala. The city houses the famous “Guruvayurappan Temple” because of which it is an important pilgrimage centre of the state. A large number (around 20 lakh annually) of pilgrims visit the city, majorly during the Sabarimala Pilgrimage. According to Census 2011, the city had a total population of 36,470 and an area of 21.10 sq. km.

The municipality is the provider of the basic civic services and amenities to the inhabitants of the town. The key services extended by the municipality are construction and maintenance of roads and drains, solid waste management, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens etc.

1.3. Key Operational Indicators

Parameters	Current Status
Area under GVM (sq. km)	29.66
Population as per 2011 census	20,510
No. of Households	5,273
Property tax assessments	NA
Solid Waste Collected / Generated (%)	63%
Solid Waste Treated / Collected (%)	60%
Road length / sq. km of area	9
Surfaced Road (% of total road)	77%
Street lights /km of road	28.3
Extent of covered drainage (% of road length)	75%

Source: GVM data and ICRA research

2. RATING RATIONALE

Instrument*	Rating action
Issuer Rating	IrBB-(Stable) / Assigned

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term issuer rating of IrBB- (pronounced I R double B minus) to the Guruvayoor Municipality (GVM/municipality).¹ The outlook assigned to the long-term rating is Stable.

Rationale

The assigned rating takes into consideration the importance of the GVM as the sole agency responsible for providing civic services in Guruvayoor town and stable transfers from the State Government of Kerala (GoK). The rating is also supported by the revenue surplus position of the municipality in the recent years. The rating, however, is constrained by the limited revenue base of the GVM at present, growth of which is negligible and the GVM's moderate levels of service standards, which indicates a requirement of substantial investment by the municipality. The rating is also impacted by the risk associated with the execution of large projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), given the GVM's lack of track record in handling such projects in the past. Nevertheless, ICRA believes that the GVM will derive support from the GoK for funding the projects and for capacity-building of the municipal staff. This is likely to mitigate the risks related to execution of any large projects.

Key rating drivers and description

Credit Strengths

- Importance of the municipality to the state government
- Stable transfers from the state government
- Revenue surplus position, though nominal

Credit Weaknesses

- Weak information systems
- Moderate size and low growth
- Moderate level of service standards
- Risk related to execution of large projects

Description of key rating drivers

The GVM provides basic civic services in Guruvayoor town, which houses the famous temple "Guruvayoor Devaswom". The town receives a large number of pilgrims from across the State to offer their prayer in the temple. Though the temple premise is managed by a separate agency, the services in the town are managed by the GVM. As a sole agency responsible for providing civic services in an important pilgrimage town, GVM's role is highly important for the state government. The state government provides strong financial support to the GVM in the form of various grants, both revenue as well as capital. A majority of such grants are based on the recommendation of the State Finance Commission and therefore are rule based and stable in nature. A rule based and stable transfer of grants from the state government provides a comfort to the liquidity position of the municipality to an extent. The municipality generated a revenue surplus position in FY2016 and FY2015, though nominal in absolute terms. A surplus in revenue account provides flexibility to the Municipality in executing capital projects, which are required to improve/maintain the service standards in the town.

The information system of the municipality remains weak with instances of inconsistency in data and absence of accrual based audited accounts. Successful implementation of key reforms related to e-

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

governance in property tax and grievance redressal, and effective accrual based accounting system would be critical for the GVM. The revenue income of the municipality has remained at moderate level in the past years. Moreover, in the absence of any upwards revision in key taxes and charges, the growth in revenue income has been negligible. While the current collection efficiency of property tax remained high at around 80%, the arrear collection efficiency remained low. Considering the consistent increase in the cost of operations, growth in revenues would be critical for the GVM. A majority of the households in the town have a compost unit in their backyards, in which organic waste is treated and only inorganic/recyclable waste is collected by the municipality. Influx of a large floating population in the town exerts a high pressure on the GVM's service standards. While more than 75% of the roads are surfaced in the town, which have a moderate coverage level of street lights, coverage of drains is low at present. Overall the Municipality has moderate level of service standards in terms of most of its services, indicating a large scope for improvement. Also, maintaining the existing service standards, especially in solid waste management, would remain a challenge for the GVM going forward. The size of capital projects executed by the municipality in the past years has been small, thereby limiting its ability to execute large projects. The GVM is exposed to the risk associated with the timely execution of the proposed projects, which are quite large in comparison to the current size of its operations.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable Criteria

Corporate Credit Rating Methodology

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

Urban Local Body Rating Methodology

<http://www.icra.in/Files/Articles/Urban%20Local%20Bodies-%20Aug%202016.pdf>

Assessing Credit Quality of State Government Finances

<http://www.icra.in/Files/Articles/Rating%20Methodology%20Aug%202015.pdf>

About the entity

The urban local body (ULB) in Guruvayoor was established in 1962 as a panchayat and upgraded to a municipality in 1994. It is governed as per the provisions of the Kerala Municipality Act 1994 (Act). The Guruvayoor Municipality (GVM) manages the civic services in Guruvayoor city, which is located in Thrissur district in Central Kerala. The city houses the famous "Guruvayurappan Temple" because of which it is an important pilgrimage centre of the state. A large number (around 20 lakh annually) of pilgrims visit the city, majorly during the Sabarimala Pilgrimage. According to Census 2011, the city had a total population of 36,470 and an area of 21.10 sq. km.

The municipality is the provider of the basic civic services and amenities to the inhabitants of the town. The key services extended by the municipality are construction and maintenance of roads and drains, solid waste management, street lights and amenities such as shopping stalls, community hall, playgrounds, parks/gardens etc.

In FY2016, as per the receipt and payment statement, the GVM generated a revenue surplus of Rs. 1.37 crore² on a total revenue income of Rs. 10.44 crore as compared to a revenue surplus of Rs. 0.96 crore on a total revenue income of Rs. 14.83 crore in FY2015.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

Table:

S.	Instrument	Current Rating	Chronology of Rating
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² 100 lakh = 1 crore = 10 million

No.					History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018 April 2017	FY2017	FY2016	FY2015
1	Issuer Rating	Long Term	NA	IrBB-(Stable)	--	--	--

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1**Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Issuer rating on long-term scale	-	-	-	NA	IrBB-(Stable)

3. LEGAL AND INSTITUTIONAL FRAMEWORK

The functioning of the GVM is governed as per the Kerala Municipality Act 1994 (Act), which is administered by the Local Self Government (Urban Affairs) Department of the Government of Kerala. The GVM, with a total area of around 21.10 sq. km., is divided into 43 wards.

3.1. Organisation Structure

The municipality consists of two wings i.e., the deliberative wing and the executive wing. An elected council, consisting of a chairperson, deputy chairperson and 43 elected representatives (Including chairperson and deputy chairperson), governs the GVM. The last election for the council was held in November 2015, tenure of which will end in November 2020. The chairperson of the council is the executive head of the GVM, who is supported by the secretary. The secretary, appointed by the state government and based on the decisions of the council is responsible for the overall operations of the GVM. The head of various departments support the Secretary in managing the functions of the GVM.

3.2. Authorities and Delegation of Financial Powers

As per the Act, the municipality has the following authorities:

- a) The council – consists of elected councillors from each ward.
- b) The chairperson - elected by the ward councillors
- c) The deputy chairperson – elected by the ward councillors
- d) The standing committees – for finance, development, health & education, welfare, and works
- e) The steering committee – consists of a chairperson, deputy chairperson and chairpersons of all the standing committees; co-ordinates and monitors the functioning of the standing committees
- f) The ward committees – set of persons elected/nominated for a particular ward
- g) The secretary – appointed by the state government, in consultation with the respective municipality; serves as an executive officer of the municipality

The financial powers of these authorities are reviewed and defined by the act as below.

Authority	Sanctioning Power
Council	Above Rs. 50,000
Standing committees	Up to Rs.50,000
Secretary	Nil

Source: GVM and ICRA research

3.3. Functions of the ULB

As per the Act, the services provided by the municipality are classified under two categories, obligatory and general. The primary objective of a municipality is to provide the obligatory services. The list of obligatory services includes key services such as, planning, building regulation, solid waste management, development and maintenance of roads, drains, parks and water bodies, street lighting, etc.

The list of general services includes, collection and updating of essential statistics, organising awareness campaigns, providing relief during a disaster, etc.

3.4. Revenue Raising Powers of the ULB

The Act allows a municipality to levy property tax, profession tax, tax on animals and vessels, show tax, tax on advertisements, and tax on timber brought into the municipal area. Additionally, a municipality gets a share in the stamp duty collected by the state government for the transactions of immovable properties with the jurisdiction of the city.

3.5. Borrowing Powers of the ULB

As per the Act, a municipality can borrow through bonds or any other instrument by securitising all or any of the revenues. The amount raised through fresh debt can be utilised for the following purpose:

- capital projects
- slum clearance and construction of tenements
- pay off any debt due to the state government
- repay a loan raised by the municipality
- town improvement schemes
- public utility schemes maintained or proposed to be maintained by the municipality

However, a municipality cannot raise any fresh debt subject to a prior approval of the state government and as per the Kerala Local Authorities Loans Act, 1963.

4. SOCIO ECONOMIC PROFILE

4.1. Demographic Profile

According to Census 2011, the GVM, which covers an area of 12.41 sq. km., serves a total population of 20,510. During 2009, two census towns (CTs) adjacent to Guruvayoor city were merged with it. Consequently, the total population of the city and area increased to 36,470 and 21.10 sq. km. respectively.

Historical Population Growth Trend in GVM area				
Census Year	Population	Area	Decadal Growth Rate	Population Density
2001	21187	12.41		1707
2011	36470	21.10	72.13%	1728

Source: Census data and ICRA research

There are 6 slum pockets within the jurisdiction of the municipality, with a population of 934 and 176 households.

As per Census 2011, the sex ratio of the city is 1,157 (females per 1,000 males), which is better than Kerala's sex ratio of 1,084 as well as the national average of 943. The GVM's literacy rate is 86.6%, which is lower as compared to 93.9% of the state.

4.2. Economic Profile

Apart from being a centre for trading of agricultural commodities, the city houses a large number of services related commercial establishments such as hotels and restaurants. Such establishments are largely used by the pilgrims visiting the famous "Guruvayoor Temple". However, since the duration of stay by the pilgrims is not long, the base of economic activities in the city is small.

5. DELIVERY OF CIVIC SERVICES

The core municipal services provided by the GVM are as follows:

- Collection and disposal of solid waste
- Construction and maintenance of roads and road side drains
- Street lighting and its maintenance
- Regulating building construction
- Various registrations such as birth, death, Marriage etc

The following major civic services are provided directly by various departments of the state government:

- Water Supply & Sewerage (Kerala Water Authority, KWA)
- Public transport (Kerala State Road Transport Corporation)

At present, the city has a water supply system, which is managed by the KWA. However, the city lacks a sewerage system and the same is likely to be proposed under the AMRUT.

5.1. Solid Waste Management

The municipality is responsible for the collection, transportation, and disposal of municipal solid waste (MSW) generated in the city. The MSW generated in the GVM's area is around 12 metric ton (MT) per day. The GVM collects 7.5 MT of MSW generated every day through own vehicles engaging 51 staff. The GVM treats 4.5 MT of waste per day at its landfill site.

SWM Existing	Unit	Existing
Daily Generation	Ton per day (TPD)	12
Daily Collection	TPD	7.5
Collection points	No's	35
Household segregation	Y/N	Yes
Vehicle capacity	Cubic metres	12
Land fill site	Hectare	1.0
Waste treatment	TPD	4.5
Total staff in SWM	No's	250

Source: GVM documents and ICRA research

5.2. Roads and drains

Total road length in Guruvayoor city is 196 km of which over 77% is surfaced (cement concrete, metal or tar) and the rest is gravel and kaccha road. The GVM has a relatively better road density of 9 km per sq. km.

However, the GVM lacks an adequate drainage network as reflected by drain coverage of only 29% of the total road network. The storm water drainage (SWD) cover is even less at 12% of the total road length.

5.3. Street Lighting

The municipality area is lit with 5,561 street lights. The street lights are installed and maintained by the GVM. However, the GVM has entered into a contract with Energy Efficiency Services Limited (EESL) for conversion of street lights from tube lights/mercury vapour lamps to energy efficient lamps. At 28 streetlights per km, the GVM's street light coverage is relatively better as compared to the desired norm of 30.

Overall the municipality has moderate level of service standards in terms of waste collection, surfaced

road network and street light coverage. A large scope for improvement remains in the coverage of drains. Also, considering the influx of a large number of pilgrims in the city, maintaining the existing service standards and improving them further will remain a challenge for the municipality going forward.

6. ANALYSIS OF FINANCES

For analysing the finances of the municipality, ICRA has re-classified the accounts of the GVM into revenue and capital accounts.

	FY2013	FY2014	FY2015	FY2016
Opening Balance	7.9	10.2	13.8	18.0
Revenue Income	11.0	11.14	14.83	10.44
Revenue Expenditure	6.8	11.73	13.87	9.07
Revenue Balance	4.2	(0.58)	0.96	1.37
Capital Income	9.8	29.98	18.73	11.88
Capital Expenditure	11.8	25.79	15.48	15.79
Capital Balance	(1.9)	4.19	3.25	(3.91)
Overall Balance	2.3	3.61	4.21	(2.54)
Closing Balance	10.2	13.8	18.0	15.5

Source GVM documents and ICRA research; Amounts in Rs. crore

The municipality generated surpluses during FY2015 and FY2016 on account of a consistent high growth in its non-tax revenues. However, prior to FY2015, the municipality had shown a deficit, though nominal, on account of a significant increase in establishment expenditure.

6.1. Revenue Income

Revenue Income	FY2013	FY2014	FY2015	FY2016
Tax Revenue	3.6	3.9	4.6	5.0
<i>Growth %</i>	16%	7%	17%	9%
<i>% Share</i>	33%	35%	31%	48%
Non-Tax Revenue	2.7	3.0	3.5	2.7
<i>Growth %</i>	-14%	9%	17%	-24%
<i>% Share</i>	25%	27%	23%	25%
Assigned revenues	0.0	0.1	0.0	0.0
<i>Growth %</i>	-75%	489%	-98%	-15%
<i>% Share</i>	0%	1%	0%	0%
Grants, Contributions and Subsidies	4.4	4.1	5.8	2.4
<i>Growth %</i>	8%	-9%	44%	-60%
<i>% Share</i>	41%	36%	39%	23%
Other income	0.2	0.1	0.9	0.4
<i>Growth %</i>	-86%	-9%	537%	-52%
<i>% Share</i>	1%	1%	6%	4%
Total	11.0	11.1	14.8	10.4
<i>Growth %</i>	-6%	2%	33%	-30%
<i>% Share</i>	100%	100%	100%	100%

Source: GVM and ICRA research; Amounts in Rs. crore

The tax income of the municipality predominantly consists of property tax, profession tax and entertainment tax. Property tax demand is raised for all the residential and commercial properties in the town and the rate is based on property's plinth area. Profession tax is calculated based on the annual income of professionals and employees working within the GVM's jurisdiction. Professional tax is collected directly from those engaged in various professions and trades, while the employers collect and deposit the profession tax for their employees. The GVM's tax revenues have steadily increased since FY2013 due to steady increase in profession tax and regular increase in property tax collections. The GVM's revenue from entertainment tax has also remained steady and has increased over the years. However, overall the tax base has remained small in absolute value.

Non-tax revenues of the GVM includes rent from town hall, stadium and other civic amenities and license fees received from trade, permit fee received for building and layout publication, parking fees, and certificate fees received for registration of birth, marriages and death. The GVM's non-tax revenues have remained stagnant during the recent years.

The GVM does not have any major assigned revenues from the state government. The GVM's revenue grant largely consists of municipal general grant based on the recommendations of the State Finance Commission (SFC), which are transferred by the state government in 10 instalments. Part of the municipal general grant is earmarked for payment of salary to engineering cadre officials, who are on deputation from the state government's Local Self Government Department. Other income largely consists of income from investments and interests on bank deposits and bank accounts.

6.1.1. Tax Revenues

Property Tax

No separate revenue is generated by the GVM out of provision of street light facilities and SWM and other services and these are part of the property tax levied on residential and commercial properties within the municipal limits. Apart from being a centre for trading of agricultural commodities, the city houses a large number of services related commercial establishments such as hotels and restaurants. Such establishments are largely used by the pilgrims visiting the famous "Guruvayoor Temple". However, since the duration of stay by the pilgrims is not long, the base of economic activities in the city is small. Consequently, the property tax base of the city is small.

The council of the municipality determines the property tax to be levied on all buildings and lands within the municipal area by a resolution. The Property tax consists of general purpose tax and a service tax component. The service tax component comprises of water and drainage tax, lighting tax, and sanitary tax.

Property tax is levied as a percentage of annual value of buildings or lands. The minimum and maximum aggregate percentage of property tax for municipalities is fixed as per the Act. The minimum and maximum percentage for municipalities is 9% and 25%. The annual value of buildings and the land adjacent to it are assessed based on importance of area where the building is situated, type of the building construction, method of use, plinth area, reasonable annual maintenance cost, and age of building. In case the property is given on rent then an additional 25% will be added to the property tax.

Property tax is assessed every half year and is payable within 30 days of the commencement of each half year. As per the Act property tax should be revised once in every four years. However, the property tax rates have not been revised in the last 20 years. Property tax collection efficiency has remained above 80% for current demand. However, on account of a low collection efficiency of arrear, the overall collection efficiency has remained low during the past years.

6.1.2. Non-Tax Revenues

The GVM's non-tax revenue largely includes rent from municipal properties, trade licenses, building permit fees and fees from issuance of certificates for birth, death and marriage.

Non-tax revenues	FY2012	FY2013	FY2014	FY2015	FY2016
Rent from municipal properties	0.79	1.21	1.63	1.41	1.41
<i>Growth</i>		53%	34%	-14%	0%
<i>% Share</i>	25%	45%	55%	40%	53%
Fees and user charges	2.32	1.45	1.25	1.96	1.17
<i>Growth</i>		-37%	-14%	57%	-40%
<i>% Share</i>	73%	53%	42%	56%	44%

Sale and hire charges	0.05	0.05	0.09	0.11	0.08
<i>Growth</i>		-5%	82%	17%	-27%
<i>% Share</i>	2%	2%	3%	3%	3%
Non-tax revenues	3.16	2.72	2.97	3.48	2.66
<i>Growth</i>		-14%	9%	17%	-24%

Source: GVM and ICRA research; Amounts in Rs. crore

Rental income and trade licence charges: GVM collects a monthly rent for the shopping complexes, market areas and from the properties it owns. GVM owns shopping complexes and has shops; this provides steady revenue for the corporation. The Municipality also earns from the trade licence fee collected from the commercial establishments.

Building permission, development charges and certificate charges: The other major revenue for the municipality is building permit fees.

Building permit applications	FY2012	FY2013	FY2014	FY2015	FY2016
Application received	987	1077	1065	970	866
Application processed	865	1020	1001	871	756
Total amount received (Rs. Crore)	0.93	0.82	0.18	0.60	0.18

Source: GVM and ICRA research; Amounts in Rs. crore

6.1.3. Revenue Grant, Contribution and Subsidies

The GoK supports the GVM through general purpose grant. The municipality's revenue grant largely consists of municipal general grant based on the recommendations of the State Finance Commission (SFC), which are transferred by the state government in 10 instalments. The GVM also gets maintenance funds for road and non-road assets, which are also as per SFC recommendations and are transferred four times in a year. The municipality also receives grants under the decentralized programme where the grants are towards specific schemes such as social welfare, pension for agriculture workers, unemployment allowance, widow pension, old age pension and pension for physically handicapped. Apart from the above grants, the municipality does not have any major regular revenue transfer from the state government.

6.2. Revenue Expenditure

Revenue Expenditure	FY2013	FY2014	FY2015	FY2016
Establishment Expenditure	3.0	3.6	3.2	4.3
<i>Growth %</i>	-1%	20%	-10%	34%
<i>% Share</i>	44%	30%	23%	48%
O & M Expenditure	0.8	1.1	1.0	0.8
<i>Growth %</i>	-60%	26%	-6%	-20%
<i>% Share</i>	12%	9%	7%	9%
Administrative Expenditure	0.3	0.3	0.2	0.6
<i>Growth %</i>	NA	5%	-40%	223%
<i>% Share</i>	4%	3%	1%	7%
Interest /Debt servicing	0.0	0.0	0.0	0.0
<i>Growth %</i>	-34%	894%	-33%	-58%
<i>% Share</i>	0%	0%	0%	0%
Grants/contributions to allied institutions	-	0.0	-	-
<i>Growth %</i>	-100%	NA	-100%	NA
<i>% Share</i>	0%	0%	0%	0%

Revenue Expenditure	FY2013	FY2014	FY2015	FY2016
Total	6.8	11.7	13.9	9.1
Growth %	-56%	73%	18%	-35%
% Share	100%	100%	100%	100%
% of RR	27%	32%	22%	41%

Source: GVM and ICRA research; Amounts in Rs. crore

Revenue expenditure of the GVM largely includes establishment expenditure.

6.2.1. Establishment Expenditure

Establishment expenditure consists of salary to municipal staff and related benefits. The municipality employs around 122 staff and around 50 contract workers. The temporary workers are largely employed in the SWM. Apart from its own staff, the GVM also has staff deputed from the state government for its engineering division, whose salary is paid by the GoK (Given as a part of the general purpose grant). Periodic wage / salary revisions for the municipal staff have led to increase in establishment expenses for the municipality. Apart from the salary expenses, the municipality also pays the pension for the retired municipal staff. Going forward, the establishment expenses are expected to further increase owing to the implementation of pay commission, which is likely to increase the salary and pension outgo and result in significant arrear payment.

6.2.2. Operations & Maintenance (O & M) expenditure

The operational & maintenance (O&M) expenditure for the GVM has been lower compared to urban local bodies in other states, largely due to limited services provided by the municipality, as the state government agencies maintain major public services like water supply. The O&M expenditure of the municipality largely consists of repair and maintenance of roads, electricity charges for streetlights, fuel costs for vehicles, and repairs and maintenance of municipal properties.

6.2.3. Administrative Expenditure and other expenses

Administrative expenses comprise of office expenses, audit fees and other expenses towards professional services. It typically accounted for around 5% of the total revenue expenditure of the GVM in the last four years.

Expenditure	FY2013	FY2014	FY2015	FY2016
Programme expenses	2.22	6.90	8.37	7.90
Decentralised plan programme- Service Sector	2.90	2.21	1.84	0.97
Decentralised plan programme- Infrastructure Sector	0.88	1.54	2.68	1.99
Decentralised plan programme-Projects not included in sectors	0.30	0.58	0.68	1.00
Total	6.29	11.24	13.56	11.87

Source: GVM and ICRA research; Amounts in Rs. crore

6.3. Trends in Overall Revenue Balance and Primary Balance

Particulars	FY2013	FY2014	FY2015	FY2016
Revenue Income	11.0	11.1	14.8	10.4
Less: Revenue Expenditure	6.8	11.7	13.9	9.1
Revenue surplus / (deficit)	4.2	(0.6)	1.0	1.4
Add: Interest	0.0	0.0	0.0	0.0
Primary Balance	4.2	(0.6)	1.0	1.4

Source: GVM and ICRA research; Amounts in Rs. crore

The municipality generated surpluses during FY2015 and FY2016 on account of a consistent high growth in its non-tax revenues. However, prior to FY2015, the municipality had shown a deficit, though nominal, on account of a significant increase in establishment expenditure.

6.4. Capital Income

Capital Income	FY2013	FY2014	FY2015	FY2016
Grants/Contributions for capital works	8.28	24.86	16.42	10.36
Loans/Borrowings (excl. principal repayments)	0.00	0.00	0.00	0.00
Deposit works (grants received)	0.00	0.00	0.00	0.00
Others	1.57	5.12	2.31	1.52
Total	9.85	29.98	18.73	11.88

Source: GVM and ICRA research; Amounts in Rs. crore

The municipality's capital receipts largely includes grant from the GoK and the Government of India (GoI) towards specific works under various schemes and decentralized programme funds towards creation of capital assets. The other capital receipts are largely general provident fund (GPF) and welfare fund contributions deducted from the employees and recovery of loans and other advances.

6.5. Capital Expenditure

Capital Expenditure	FY2013	FY2014	FY2015	FY2016
Capital Works / Deposit works	0.57	12.10	5.56	2.90
Others	11.18	13.68	9.92	12.89
Principal repayment	0.00	0.00	0.00	0.00
Total	11.75	25.79	15.48	15.79

Source: GVM and ICRA research; Amounts in Rs. crore

The GVM's capital expenditure includes capital works under various schemes of the GoK and the GoI. The major portion of asset creation is towards the procurement of vehicles and machinery for solid waste management and towards construction of roads.

6.6. Capital Surplus / Deficit

The GVM's overall balance has varied widely with changes in receipt and expenditure for the decentralized programmes.

6.7. Closing Cash and Bank Balance

As on March 31, 2016, the GVM had a closing balance of Rs. 15.45 crore. The closing balance is spread across multiple accounts including earmarked accounts and reserve funds for salary and other statutory liabilities. However, the GVM's own fund is around Rs. 3.0 crore.

6.8. Debt Servicing Track Record

As on March 31, 2016, the municipality has no outstanding loans and at present it has no plans to avail any fresh loans in the next two years.

7. PROJECTS

The GVM is currently not executing any major project. However, the municipality has proposed for the some projects under AMRUT, which are at various stages of conceptualisation. The initial priority under AMRUT will be towards water supply and the same is likely to be undertaken and completed by the Kerala Water Authority. However, the municipality does not have any major plan to fund or execute any major project at present, expect for project related to development of parks/gardens.

8. KEY REFORMS

As per the discussion held with GVM and State Mission Management Unit (SMMU), AMRUT officials, the ULBs are implementing various reforms. The status of key reforms has been shown in the following table:

SN	Deliverables	Exact work done/initiative taken	Status as on December 31, 2016
REFORM IMPLEMENTATION			
1.	Creation of ULB Website	Operational	Completed
2.	Publication of e-newsletter	Under consideration	Pending
3.	Support Digital India	Under consideration	Pending
4.	Publication of annual financial statement on website	Under consideration	Pending
5.	Action plan to increase green cover by 15%	Under consideration	Pending
6.	Develop at least one Children Park every year	Under consideration	Pending
7.	Periodic revision of building bye-laws	Under consideration	Pending
8.	Single window clearance for building permissions	Under consideration	Pending
9.	At least 90% coverage of Municipal tax & Fees	Under consideration	Pending
10.	At least 90% collection of Municipal tax & Fees	Under consideration	Pending
11.	Post DCB of tax details on website	Under consideration	Pending
12.	Publish action plan to reduce NRW to 20%	Not Applicable (NA)	NA
13.	Separate accounts for user charges	Not Applicable (NA)	NA
14.	At least 90% Billing – Levy of User charges	Not Applicable (NA)	NA
15.	At Least 90% collection -- Levy of User charges	Not Applicable (NA)	NA
16.	Conduct energy & water audits	Not Applicable (NA)	NA
17.	Steps taken to make STPs/WTPs energy efficient	Not Applicable (NA)	NA
18.	Use of Energy Efficient Street Lights	Conversion to LED lights to be taken up by Kerala State Electricity Board Limited (KSEB)	On going

9. PROJECTED FINANCIALS

9.1. Key Assumptions

		FY2017	FY2018	FY2019
Growth Rates				
Property Tax		3%	3%	3%
Profession Tax		3%	3%	3%
Entertainment Tax		3%	3%	3%
Fee and Charges		5%	5%	5%
Grant from the GoK		5%	5%	5%
Establishment		8%	8%	8%
O&M		8%	8%	8%
Capital Grants		12.00	15.00	15.00
Projects		5.00	5.00	5.00

Source: GVM documents and ICRA research

9.2. Key Results

	FY2016	FY2017	FY2018	FY2019
Opening Balance	17.99	15.45	16.01	16.22
Revenue Receipts	10.44	10.85	11.29	11.74
Revenue Expenditure	9.07	9.80	10.58	11.42
Revenue Balance	1.37	1.06	0.71	0.31
Capital Receipts	11.88	13.50	13.50	13.50
Capital Expenditure	15.79	14.00	14.00	13.00
Capital Balance	(3.91)	(0.50)	(0.50)	0.50
Overall Balance	(2.54)	0.56	0.21	0.81
Closing Balance	15.45	16.01	16.22	17.03

Source: GVM documents and ICRA research

ANNEXURE

ANNEXURE 1: Past Financials

S. No.	Particulars	FY2013	FY2014	FY2015	FY2016
		Actual	Actual	Actual	Actual
O	Opening Balance*	7.88	10.17	13.78	17.99
A	Revenue Income				
A-1	Tax Revenue	3.61	3.88	4.56	4.98
A-2	Non-Tax Revenue	2.72	2.97	3.48	2.66
A-3	Assigned Revenue and Compensations	0.01	0.08	0.00	0.00
A-4	Grants, Contributions and Subsidies	4.45	4.06	5.85	2.35
A-5	Other Income	0.16	0.15	0.94	0.45
TA	Total	10.96	11.14	14.83	10.44
B	Revenue Expenditure				
B-1	Establishment Expenditure	2.97	3.56	3.22	4.31
B-2	Administrative expenditure	0.32	0.19	0.62	0.52
B-3	O & M Expenditure	0.84	1.06	1.00	0.80
B-4	Interest and Finance charges	0.00	0.01	0.00	0.00
B-5	Grants/contributions to allied institutions	0.00	0.00	0.00	0.00
B-6	Other Expenses	2.63	6.91	9.03	3.44
TB	Total	6.76	11.73	13.87	9.07
X	Revenue Surplus/(Deficit) (A-B)	4.20	(0.58)	0.96	1.37
C	Capital Income and Borrowings				
C-1	Grants/Contributions for capital works	8.28	24.86	16.42	10.36
C-2	Loans/Borrowings	0.00	0.00	0.00	0.00
C-3	Deposit works (grants received)	0.00	0.00	0.00	0.00
C-4	Others	1.57	5.12	2.31	1.52
TC	Total	9.85	29.98	18.73	11.88
D	Capital Expenditure				
D-1	Capital Works	0.13	11.61	5.31	2.14
D-2	Deposit works (expenditure incurred)	0.44	0.49	0.25	0.76
D-3	Transfer to Reserves	0.00	0.01	0.00	0.00
D-4	Investments (excluding sale)	0.00	0.00	0.00	0.00
D-5	Stores/Inventory	0.00	0.00	0.00	0.00
D-6	Others	11.18	13.68	9.92	12.89
D-7	Principal Repayment	0.00	0.00	0.00	0.00
TD	Total	11.75	25.79	15.48	15.79
Y	Capital Surplus/(Deficit) (C-D)	(1.90)	4.19	3.25	(3.91)
	Overall surplus (X+Y)	2.29	3.61	4.21	(2.54)
C	Closing Balance** (O+X+Y)	10.17	13.78	17.99	15.45

S. No.	Ratios	FY2013	FY2014	FY2015	FY2016
		Actual	Actual	Actual	Actual
	Income Ratios				
1	Tax Revenue to Total Revenue Income Ratio... (%) (A-1/TA)	33%	35%	31%	48%
2	Non Tax revenue to Total Revenue Income Ratio (%) (A-2/TA)	25%	27%	23%	25%
3	Assigned Revenues & Grants to Total Revenue Income Ratio... (%) (A-3+A-4/TA)	41%	37%	39%	23%
4	Own Income to Total Revenue Income (%) (A-1+A-2/TA)	59%	63%	61%	77%
	Expense Ratios				
5	Establishment Expenses to Total Revenue Income Ratio... (%) (B-1/TA)	27%	32%	22%	41%
6	Operations & Maintenance to Total Revenue Income Ratio... (%) (B-3/TA)	8%	9%	7%	8%
7	Establishment Expenditure to Total Revenue Expenditure Ratio (%) (B-1/TB)	44%	30%	23%	48%
8	Capital Expenditure to Total Expenditure Ratio (TD/TB+TD)	63%	69%	53%	64%
	Operating Ratio				
9	Ratio of Revenue Expenditure to Revenue Income (TB/TA)	62%	105%	94%	87%
	Debt Servicing Ratio				
10	Debt Payment to Total Revenue Income Ratio... (%) (B-4/TA)	0%	0%	0%	0%
	Capital Utilisation Ratio				
11	Ratio of Capital Expenditure to Capital Income (TD/TC)	119%	86%	83%	133%
	Dependency Ratio				
12	Total grant income (both capital and revenue grants) to total income ((A-4+C-1)/(TA+TC))	61%	70%	66%	57%
	Net Income Profitability Ratios				
13	Cash Surplus / Deficit to Total Income Ratio... (%) ((X+Y)/(TA+TC))	11%	9%	13%	-11%
	Other Ratios				
14	Property Tax - Current Collection Efficiency	NA	NA	NA	NA
15	Property Tax - Overall Collection Efficiency	NA	NA	NA	NA
16	Water Charges - Current Collection Efficiency	NA	NA	NA	NA
17	Water Charges - Overall Collection Efficiency	NA	NA	NA	NA
18	Revenue Income / Total Income	52.66%	27.09%	44.18%	46.76%
19	Own Income / Total Income	31.22%	17.02%	26.76%	36.21%
20	Interest / Revenue Income	0.01%	0.05%	0.02%	0.01%
21	Fixed Charge = (Establishment + Admin + Int.) / Revenue Income	30.05%	33.72%	25.91%	46.29%
22	O&M Exp / Revenue Exp.	12.39%	9.01%	7.20%	8.80%
23	(Establishment + Admin Exp.) / Revenue Income	30.04%	33.67%	25.88%	46.28%
24	(Establishment + Admin Exp.) / Revenue Exp.	48.69%	31.99%	27.68%	53.25%
25	Revenue Balance / Revenue Income	38.30%	-5.23%	6.49%	13.10%
26	Primary Balance / Revenue Income	38.30%	-5.18%	6.52%	13.11%
27	Revenue Balance / Overall Balance	183.04%	-16.15%	22.86%	-53.84%
28	(Revenue Balance + Int.) / (Int. + Debt Repayment)	7,556.87	(104.55)	262.97	891.62
29	(Own Revenue Balance + Int.) / (Int. + Debt Repayment)	7,556.87	(104.55)	262.97	891.62
30	Debt / Revenue Income				

ANNEXURE 2: ICRA Projections

S. No.	Particulars	FY2016	FY2017	FY2018	FY2019
		<i>Actual</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
O	Opening Balance*	17.99	15.45	16.01	16.22
A	Revenue Income				
A-1	Tax Revenue	4.98	5.13	5.28	5.44
A-2	Non-Tax Revenue	2.66	2.79	2.93	3.08
A-3	Assigned Revenue and Compensations	0.00	0.00	0.00	0.00
A-4	Grants, Contributions and Subsidies	2.35	2.47	2.60	2.72
A-5	Other Income	0.45	0.46	0.48	0.50
TA	Total	10.44	10.85	11.29	11.74
B	Revenue Expenditure				
B-1	Establishment Expenditure	4.31	4.66	5.03	5.43
B-2	Administrative expenditure	0.52	0.56	0.61	0.65
B-3	O & M Expenditure	0.80	0.86	0.93	1.01
B-4	Interest and Finance charges	0.00	0.00	0.00	0.00
B-5	Grants/contributions to allied institutions	0.00	0.00	0.00	0.00
B-6	Other Expenses	3.44	3.72	4.01	4.33
TB	Total	9.07	9.80	10.58	11.42
X	Revenue Surplus/(Deficit) (A-B)	1.37	1.06	0.71	0.31
C	Capital Income and Borrowings				
C-1	Grants/Contributions for capital works	10.36	12.00	12.00	12.00
C-2	Loans/Borrowings	0.00	0.00	0.00	0.00
C-3	Deposit works (grants received)	0.00	0.00	0.00	0.00
C-4	Others	1.52	1.50	1.50	1.50
TC	Total	11.88	13.50	13.50	13.50
D	Capital Expenditure				
D-1	Capital Works	2.14	5.00	5.00	5.00
D-2	Deposit works (expenditure incurred)	0.76	0.00	0.00	0.00
D-3	Transfer to Reserves	0.00	0.00	0.00	0.00
D-4	Investments (excluding sale)	0.00	0.00	0.00	0.00
D-5	Stores/Inventory	0.00	0.00	0.00	0.00
D-6	Others	12.89	9.00	9.00	8.00
D-7	Principal Repayment	0.00	0.00	0.00	0.00
TD	Total	15.79	14.00	14.00	13.00
Y	Capital Surplus/(Deficit) (C-D)	(3.91)	(0.50)	(0.50)	0.50
	Overall surplus (X+Y)	(2.54)	0.56	0.21	0.81
C	Closing Balance** (O+X+Y)	15.45	16.01	16.22	17.03

S. No.	Ratios	FY2016	FY2017	FY2018	FY2019
		Actual	Projected	Projected	Projected
	Income Ratios				
1	Tax Revenue to Total Revenue Income Ratio... (%) (A-1/TA)	48%	47%	47%	46%
2	Non Tax revenue to Total Revenue Income Ratio (%) (A-2/TA)	25%	26%	26%	26%
3	Assigned Revenues & Grants to Total Revenue Income Ratio... (%) (A-3+A-4/TA)	23%	23%	23%	23%
4	Own Income to Total Revenue Income (%) (A-1+A-2/TA)	77%	77%	77%	77%
	Expense Ratios				
5	Establishment Expenses to Total Revenue Income Ratio... (%) (B-1/TA)	41%	43%	45%	46%
6	Operations & Maintenance to Total Revenue Income Ratio... (%) (B-3/TA)	8%	8%	8%	9%
7	Establishment Expenditure to Total Revenue Expenditure Ratio (%) (B-1/TB)	48%	48%	48%	48%
8	Capital Expenditure to Total Expenditure Ratio (TD/TB+TD)	64%	59%	57%	53%
	Operating Ratio				
9	Ratio of Revenue Expenditure to Revenue Income (TB/TA)	87%	90%	94%	97%
	Debt Servicing Ratio				
10	Debt Payment to Total Revenue Income Ratio... (%) (B-4/TA)	0%	0%		
	Capital Utilisation Ratio				
11	Ratio of Capital Expenditure to Capital Income (TD/TC)	133%	104%	104%	96%
	Dependency Ratio				
12	Total grant income (both capital and revenue grants) to total income ((A-4+C-1)/(TA+TC))	57%	59%	59%	58%
	Net Income Profitability Ratios				
13	Cash Surplus / Deficit to Total Income Ratio... (%) ((X+Y)/(TA+TC))	-11%	2%	1%	3%
	Other Ratios				
14	Property Tax - Current Collection Efficiency	NA	NA	NA	NA
15	Property Tax - Overall Collection Efficiency	NA	NA	NA	NA
16	Water Charges - Current Collection Efficiency	NA	NA	NA	NA
17	Water Charges - Overall Collection Efficiency	NA	NA	NA	NA
18	Revenue Income / Total Income	46.76%	44.57%	45.53%	46.51%
19	Own Income / Total Income	36.21%	34.41%	35.06%	35.71%
20	Interest / Revenue Income	0.01%	0.01%	0.00%	0.00%
21	Fixed Charge = (Establishment + Admin + Int.) / Revenue Income	46.29%	48.08%	49.92%	51.84%
22	O&M Exp / Revenue Exp.	8.80%	8.80%	8.80%	8.80%
23	(Establishment + Admin Exp.) / Revenue Income	46.28%	48.07%	49.92%	51.84%
24	(Establishment + Admin Exp.) / Revenue Exp.	53.25%	53.25%	53.26%	53.26%
25	Revenue Balance / Revenue Income	13.10%	9.74%	6.27%	2.66%
26	Primary Balance / Revenue Income	13.11%	9.75%	6.27%	2.66%
27	Revenue Balance / Overall Balance	-53.84%	189.73%	341.33%	38.45%
28	(Revenue Balance + Int.) / (Int. + Debt Repayment)	891.62	669.63		
29	(Own Revenue Balance + Int.) / (Int. + Debt Repayment)	891.62	669.63		
30	Debt / Revenue Income				

ANNEXURE 3: Government of Kerala Finance

Kerala accounts for only 1% of India's land area, while housing 3% of its population. The state's performance on various socio-economic indicators, such as Human Development Index (0.84), literacy rate (93.9%), IMR (12 per 1,000 live births) and poverty rate (11.3%), remains superior compared to the national average (0.55, 74.0% and 39 per 1,000 live births, 29.5% respectively). Moreover, the urbanisation rate in the state (47.7%) is significantly higher than the national average (31.2%). In addition, Kerala's per capita income at Rs. 1,55,516 (base year FY2012; current prices; Central Statistics Office or CSO) compared favourably with the national average (Rs. 94,178) in FY2016.

The Government of Kerala's (GoKe) fiscal profile is characterised by an above-average own tax effort, despite which its fiscal performance remains unfavourable on account of high committed expenditure, low capital spending, sustained revenue deficits and relatively high leverage levels.

The GoKe's revenue receipts as a proportion of GSDP have been largely steady in the recent years, while remaining lower-than-average despite a favourable own tax effort during FY2013 to FY2015. During the same period, while the GoKe's sales tax collections, accounting for ~77% of the state own tax revenues (SOTR), were at an above-average 5.4% of the GSDP, its excise duty collections at 0.4% of GSDP were lower-than-average. In addition, with large-scale mining activity limited to a few minerals, the GoKe's SONTR relative during FY2013 to FY2015 remained modest at 0.5% of GSDP. Moreover, central transfers to the state were at a below-average 2.6% of GSDP during FY2013 to FY2015.

With a high proportion of committed items in revenue spending and low capital expenditure, the structure of the GoKe's expenditure remains relatively unfavourable. The GoKe's committed spending as a proportion of revenue expenditure stood at a high 69.3% in FY2012, post the implementation of the Ninth Pay Revision Commission's (NPRC) recommendations, subsequently reversing to 63.5% in FY2015, while remaining unfavourable. In addition, according to the GoKe's "White Paper on State Finances", the arrears relating to the Tenth Pay Commission's recommendations will be disbursed in four instalments in FY2018 and FY2019, which could weigh on the state finances in these years. Moreover, interest payments appropriated 18.3% of the GoKe's revenue receipts in FY2015, were higher than the target of 15% of revenue receipts set by the Thirteenth Finance Commission (ThFC).

The GoKe continued to record revenue deficits, which widened from 2.3% of GSDP in FY2013 to 2.6% of GSDP in FY2015 and exceeded the caps set by the ThFC for those years. Moreover, despite the lower-than-average capital spending of 1.1% of GSDP during FY2011 to FY2015, the GoKe's fiscal deficit breached the ThFC-set targets for its award period (FY2011 to FY2015), except in FY2011. Moreover, reflecting the deterioration in the GoKe's fiscal balance, its leverage levels (debt and guarantees) had worsened to 4.2 times of the SOTR in FY2015 from 3.7 times of the SOTR in FY2013.

Benefitting from the Fourteenth Finance Commission (FFC) recommended revenue deficit grant of Rs. 4,640 crore, the GoKe's revenue deficit was estimated to decline, albeit by a more modest Rs. 2,981 crore to Rs. 10,815 crore in FY2016 RE from Rs. 13,796 crore in FY2015. With the enhanced fiscal space, capital outlay was estimated to rise substantially by 46% to Rs. 6,206 crore in FY2016 RE from Rs. 4,255 crore in FY2015. Despite this, the GoKe's fiscal deficit moderated to an estimated Rs. 17,715 crore in FY2016 RE from Rs. 18,642 crore in FY2015. The fiscal deficit in FY2016 RE was estimated at 3.02% of GSDP in the GoKe's MTFP, broadly in line with the target of 3.0% of GSDP set by the FFC. Partly on account of the decline in the revenue deficit grant (to Rs. 3,350 crore in FY2017 BE from Rs. 4,640 crore in FY2016 RE) and enhanced social spending, the GoKe's revenue deficit was forecast to widen to Rs. 13,067 crore in FY2017 BE from Rs. 10,815 crore in FY2016 RE. The GoKe in its budget for FY2017 had introduced an anti-recession package of Rs. 12,000 crore for capital outlay for projects like roads, bridges, building etc. to be expended over the years. Accordingly, capital outlay was expected to increase substantially to Rs. 9,573 crore in

FY2017 BE from Rs. 6,206 crore in FY2016 RE. With the widening of the revenue deficit and the increase in the capital outlay, the GoKe's fiscal deficit was forecast to deteriorate to Rs. 23,140 crore in FY2017 BE from Rs. 17,715 crore in FY2016 RE. The fiscal deficit was estimated at 3.51% of GSDP in the GoKe's MTFP, exceeding the cap of 3.0% of GSDP set by the FFC.

Going forward, the impact of various factors, including the impact of goods and services tax (GST) on the GoKe's revenues and the disbursement of arrears relating to the state's tenth pay commission would be crucial for the overall fiscal health of the state.

ANNEXURE 4: List of Officials met

Name	Designation
Municipality	
Mr. Raghuvaman	Secretary
Mr. Viswanathan	Accountant
Mr. Chandran	Revenue Officer
Mr. C. Muraleedharan	Head – Public Works / Engineering
Mr. K. S. Lakshmanan	Health Supervisor
Mr. Eapen George	Expert, AMRUT City Mission Management Unit
SMMU - Kerala	
Mr. P. S. Mohammed Sagir	Mission Director
Ms. Nisha Habu/ Mr. Sijo V S	Municipal Finance Expert

ANNEXURE 5: Acceptance received from Guruvayoor Municipality



സെക്രട്ടറി
ഗുരുവായൂർ നഗരസഭ

പി.ബി. നമ്പർ : 1
പിൻ : 680 101
ഫോൺ നമ്പർ : 2556375
E-mail : guruvayursecretary@gmail.com

No: E1- 18378/15

22/09/2017

To,
Nishant Lakkar
ICRA Limited
Corporate Ratings

Sir,
Sub: Acceptance of rating-reg

This is to inform you that the long term issuer credit rating for Guruvayur Municipality which is IRBB- (Pronounced I R double B minus) is do here by accepted.

Yours faithfully


Secretary

Guruvayur Municipality



ICRA Limited

CORPORATE OFFICE

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