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ACRA affirms **BBB(RU)** to **Bratsk**, changes outlook to **Stable**

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The credit rating of Bratsk (hereinafter, Bratsk, or the City) is due to the stable indicators of the City's economy and debt load restrictions regulated by the budget loan restructuring program for loans issued to the City by the Irkutsk Region. The credit rating is supported by a steady flow of tax revenues from the industrial sector of the City (whose growth potential, however, is limited) and a debt repayment schedule that does not involve a one-time refinancing by more than a third of its volume. The rating is hampered by the low level of capital expenses that the City finances with its own funds. The change in outlook is due to the stabilization of the operating balance at a level limited by the low flexibility of the budget expenses.

Bratsk is located in the Irkutsk Region (Siberian Federal District) and has a population of 231,000. The City features large industrial facilities: the Bratsk Branch of Ilim Group (pulp and containerboard mill), the Bratsk Aluminum Smelter (PJSC RUSAL Bratsk), the Bratsk Ferroalloy Plant (Mechel PAO), and the Bratsk Hydroelectric Power Station (PAO Irkutskenergo).

Key rating assessment factors

Structural changes in the budget and limited opportunities to manage budget expenses. The structure of the City's budget expenses depends on the volume of transfers. The volume of subsidies has decreased since 2018, which has led to a significant reduction in capital expenses. In the past, capital expenses were financed by transfers and were not used as reserves to reduce expenses. Therefore, the increase in the share of mandatory expenses against the background of structural changes in budget revenues does not mean a decrease in the flexibility of expenses. Because of the decrease in subsidies, the share of tax and non-tax revenues (TNTR) has increased. At the end of 2018, the share of TNTR (excluding subventions) is 80%, while the share of capital expenses is 4%. The budget configuration in 2019 will not change significantly compared to 2018. Restrictions on the growth of the debt load may lead to a decrease in the share of mandatory expenses and an increase in the operating balance in 2019 as well as in the forecast period (2020-2021).

Significant but manageable debt load. The City's debt structure changes depending on the need to finance expenses: up to half of the debt can be made up of bank loans with a maturity of 1-3 years, while the rest can be budget loans, some of which having a repayment schedule distributed over 7 years. As of April 1, 2019, most refinancing will come in 2020 (40% of the current debt). The ratio of the City's operating balance after interest payments to overall debt to be repaid in 2019 is 1.2. At the end of 2019, the City's debt could exceed its operating balance by 2.5x. The budget loan restructuring program requires the City to reduce its debt load and limits the rate at which the City can take out bank loans. This, as well as the need to reduce debt, could lead to a decrease in the relative debt load in the future. An additional factor affecting the debt load is the City's obligations under lease agreements, the volume of which is about 40% of the projected operating balance for the end of 2019. However, leasing is the target form of borrowing, which partially eliminates this factor.

Sufficient liquidity and control over cash expenses. Short-term bank loans and funding from the Federal Treasury Department serve as available resources to cover cash gaps during the year.

Key assumptions

- Stable financial position of the City's major enterprises;
- High employment rate in the City;
- Adhering to the budget loan restructuring program.

Potential outlook or rating change factors

The Stable outlook assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Steady growth in TNTR with simultaneous growth in the operating balance;
- Decrease in mandatory expenses not connected with the increase in target transfers on capital expenses;
- Increase in liquidity.

A negative rating action may be prompted by:

- Decrease in budget expenses via capital expenses;
- Significant decrease in operating balance;
- Significant increase in debt service expenses in terms of operating balance.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

The credit rating of Bratsk was first published by ACRA on November 21, 2017. The credit rating and its outlook are expected to be revised within 182 days following the publication date of this press release in accordance with the Calendar of planned sovereign credit rating revisions and publications.

The credit rating was assigned based on the data provided by Bratsk, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit rating is solicited, and the Bratsk Administration participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by Bratsk in its financial report have been discovered.

ACRA provided no additional services to the Bratsk Administration. No conflicts of interest were discovered in the course of credit rating assignment.

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