

November 21, 2017

ACRA assigns BBB(RU) to Bratsk, outlook Stable

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Key rating assessment factors

The credit rating assigned to [Bratsk](#) (hereinafter, Bratsk, or the City) is based on strong industrial sector ensuring sustainable tax revenues of the budget as well as high share of fiscal loans in the debt portfolio, which allowed for a substantial reduction debt servicing costs. At the same time, moderate self-sufficiency of the budget, low flexibility in managing budget spending and low capital expenditures financed by the city budget have a negative effect on the rating.

Bratsk is located in the Irkutsk Region (Siberian Federal District); the City's population is 231,000 people. Large industrial facilities are situated in the City: Bratsk Branch of Ilim Group (pulp and containerboard mill), Bratsk Aluminium Smelter (PJSC RUSAL Bratsk), Bratsk Ferroalloy Plant (Mechel PAO), and Bratsk Hydroelectric Power Station (PAO Irkutskenergo).

Strong industrial profile with limited opportunities for the local business to participate in production chains of large manufacturing enterprises. Pulp and paper production and metallurgical production as well as transportation industry dominate in the industry structure of the City's economy: they generate up to 90% of the City's gross product. Although large enterprises heavily rely on their own subsidiaries in other regions of Russia by virtue of high-tech nature of the manufacturing processes, modernization of industrial facilities has a positive effect on the city's economy in terms of construction industry orders and employment. With a relatively low recorded unemployment (65% of the national average) and per capita gross regional product (GRP) figures equaling the national average data, per capita income substantially lags behind the national average figures (76%).

Moderate self-sufficiency of the budget's revenue side with low flexibility in managing budget spending and low own capital expenditures. The City's budget has a moderate self-sufficiency: the share of tax and non-tax revenues in the budget's revenues declined in 2014-2016 from 44% to 30%, and will stand at 35% following 2017 results. Although formally the level of control over spending is high (mandatory spending totals 53%), the actual control is relatively low as a substantial part of spending is financed by funds of the federal and regional budgets. The actual operating balance was 3% in 2017, which is assessed by ACRA as a critical level where debt cuts or payment of unexpected expenses are impossible without raising external financing. The level of capital expenditures directly financed from the city budget averaged 4.3% of the total spending in 2014-2017.

Debt load growth owing to cheap financing sources, with high short-term debt. Despite growth of fiscal loans share, which helped lower debt servicing costs, debt load of Bratsk is critical owing to the low operating balance. The City requires refinancing of bank and fiscal debt on an annual basis; and its capacity to independently reduce the debt load is limited by weak generation of tax and non-tax revenues.

Sufficient liquidity and control over cash expenses. The budget's liquidity is driven by the available balance on the single account as well as by bank and fiscal loans. During the year, cash gaps are primarily closed by bank loans. Considering available resources and strict control over cash expenses of the budget, ACRA assesses the City's liquidity as sufficient.

Key assumptions

- Stable financial position of large enterprises in Bratsk;
- High employment;
- Maintaining the current share of regional budget's financing in the city budget spend;
- Maintaining the current loan portfolio structure.

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:

- Higher revenues of the City's budget by virtue of increased share of tax and non-tax revenues;
- An increase of the operating balance above 5%;
- Restructuring of fiscal loans.

A negative rating action may be prompted by:

- A significantly lower operating balance;
- A substantially increased debt servicing costs versus the operating balance;
- A substantial drop in capital expenditures;

Issue ratings

None.

Rating history

None.

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 has been assigned to Bratsk for the first time. The credit rating and credit rating outlook are expected to be revised within 182 days following the rating action date (November 17, 2017).

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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