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Key rating assessment
factors

ACRA affirms BBB(RU) to Bratsk, changes outlook to Positive

The outlook on the credit rating of [Bratsk](#) (hereinafter, Bratsk, or the City) has been changed due to expected growth of the City's operational balance by the end of 2018, the possible continuation of this trend in the outlook period (2019-2021), as well as ACRA's outlook concerning the reduction in debt load, whose obligation is regulated by the agreement on the restructuring of budget loans issued to the City by the Irkutsk Region. The credit rating is supported by the stable tax revenue flow from the City's industrial sector to the budget (the potential growth of which, however, is limited), and the debt repayment schedule which does not involve a one-time refinancing by more than a third of its volume. The credit rating is limited by low flexibility in terms of budget expenses and the low level of capital expenses financed by the City's budget funds.

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).

Maintaining moderate indicators of budget discipline with structural budget changes. According to ACRA's assessments, the planned reduction in subsidies in 2018 will lead to an increase in the City budget's proprietary (tax and non-tax) revenues to 78%, as compared to the average value of 56% for 2015-2017. Subsidy reduction in turn leads to a decrease in capital expenses on the housing and utilities sector, which were carried out mainly through gratuitous transfers. In 2018, capital expenses are expected to be 6% of budget expenses, as compared to the average value of 36% for 2015-2017. Capital expenses carried out from 2015 to 2017 were financed by transfers, meaning they were not a reserve for expense reduction. Thus, the growth of necessary expenses against the background of structural changes in budget revenues does not mean a reduction in the flexibility of expenses. However, the expected growth of proprietary income, provided that the City retains necessary expenses at their current level, could lead to a significant increase in operational balance relative to the values for 2017.

Reduction in refinancing risk due to changes in bank debt repayment schedule, obligations to reduce debt load. The City's debt structure changed due to the taking out of new loans with a three-year term. The maximum volume of refinancing as of November 1, 2018, will come in 2020 (29% of the current debt). The restructuring of budget loans that took place in April 2018 obliges the City to reduce the debt load and take out bank loans at a rate that can be higher than the key rate of the Bank of Russia by no more than 1 percentage point. Despite the fact that the City's ability to cut the debt load is limited by low rates of proprietary revenue generation, Bratsk can cut the debt load relative to proprietary revenue by 2 percentage points over two years, as it stipulated by the restructuring agreement, if the planned level of proprietary revenue is reached.

Sufficient level of liquidity and control of cash expenses. The resources available to cover reserves over the course of the year are short-term bank loans and financing from the Federal Treasury. Taking into account the available resources, as well as taking into account the strict control of the City's cash expenses, ACRA assesses City's level of liquidity as sufficient.

Key assumptions

- Stable financial position of the City's major enterprises;
- High employment rate in the City;
- Maintaining the current debt policy.

Potential outlook or rating change factors

The Positive 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:

- Stable growth in the City budget's proprietary revenue with simultaneous increase in operational balance;
- Reduction in the budget's necessary expenses which is not connected to the growth of targeted transfers for capital expenses;
- Refinancing of bank loans, stipulating repayment extension by more than three years.

A negative rating action may be prompted by:

- Non-fulfillment or reduction in the City budget's proprietary revenue;
- Substantial decrease in operational budget;
- Substantial increase in expenses on debt servicing relative to operational balance.

Issue ratings

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 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 rating action date (November 16, 2018) in accordance with the [2018 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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