

## Press Release

### Karnataka Water and Sanitation Pooled Fund Trust

September 28, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	414.98	ACUITE AA-   CE   Stable   Reaffirmed	-
Bank Loan Ratings	662.50	ACUITE AA-   CE   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	1077.48	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE AA-(CE)**' (read as **ACUITE double A minus (Credit Enhancement)**) on the Rs. 662.50 Cr bank facilities of Karnataka Water and Sanitation Pooled Fund Trust (KWSPF).

Acuite has reaffirmed its long term rating of '**ACUITE AA-(CE)**' (read as **ACUITE double A minus (Credit Enhancement)**) on the existing Rs.414.98 Cr bank facilities of Karnataka Water and Sanitation Pooled Fund Trust (KWSPF). The outlook is '**Stable**'.

The rating continues to take into account the strategic role of KWSPF's in implementing urban water supply and sanitation projects in Karnataka and the shortfall undertaking from the Government of Karnataka (GoK) adequately backed by budgetary support and a structured payment mechanism. The rating also factors in the strong fiscal profile of GoK relative to most states in India and the continuing focus on capital expenditure despite the economic disruption brought in by the Covid pandemic in FY21 and FY22.

### About the Company

Karnataka Water & Sanitation Pooled Fund Trust (KWSPF) was constituted by the GoK (Government of Karnataka) as a fully-owned trust under the Indian Trusts Act, 1882, duly constituted by the Deed of Trust established on 12th Sept. 2003 and is managed by the Karnataka Urban Infrastructure Development & Finance Corporation (KUIDFC). KWSPF aims to mobilize financial resources for urban infrastructure development in Karnataka. KWSPF raised through the tax-free municipal bonds and bank loans under the Chief Minister's Small and Medium Towns Development Programme (CMSMTDP) and Nagarothana Programme for lending to urban local bodies (ULBs) through the Directorate of Municipal Administration (DMA) for implementation of urban infrastructure projects. Trust was formed for the purpose of financing infrastructure projects on loan basis in Karnataka. KWSPF lends to projects undertaken by ULBs, statutory bodies and public sector undertakings. It raises resources on a pooled basis and provides new credit enhancement to avail debt at a low cost.

### About KUIDFC

Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) was incorporated as a public limited company under the Companies Act, 1956 on 02.11.1993 with the objective to prepare, formulate and implement projects, schemes and programmes relating to infrastructure development in the urban areas of the state and to provide technical, financial, consultancy and other assistance to urban bodies for development, schemes, including implementation of master plans. Considering its expertise in project formulation, appraisal, management and implementation KUIDFC has been appointed as the Nodal Agency of the State for implementation of various urban infrastructure development projects in the state. KUIDFC has secured the status of State Level Financial Institution (SLFI) from the Government of India.

## **Standalone (Unsupported) Rating**

ACUITE A

## **Analytical Approach**

Acuité has considered the standalone business and financial risk profiles of KWSPF and has factored in support extended by GoK (through an unconditional and irrevocable shortfall undertaking) as well as the presence of the Structured Payment Mechanism (T Minus structure; T-5 days in case of KWSPF's AMRUT and Mahatma Gandhi Nagara Vikasa Yojana Programme (MGNVYP) scheme) along with presence of escrow mechanism while arriving at the rating.

## **Key Rating Drivers**

### **Strengths**

#### **Structured payment mechanism with a shortfall undertaking by GoK**

The State Finance Commission (SFC) Grants are allocated in the Budget every financial year to each ULB. These grants get released quarterly as Tied and Untied Grants. Tied Grants are released directly by GoK for committed payments like repayment of loans, salaries, rent, utility, bills, etc. The Untied Grants are released through DMA/Deputy Commissioners of Districts for their respective planned expenses. The GoK has unconditionally and irrevocably undertaken to:

- Make a budgetary allocation on an annual basis for timely and full repayment of principal and interest with respect to the servicing of the rated loans during the entire tenure under the Global Protection component of the SFC devolutions.
- Transfer adequate funds for repayment into the escrow account of the KWSPF Trust at least five working days prior to the due date. Upon receipt of an intimation from the Lender/KWSPF, the GoK will without demur make good any shortfall in the escrow account (for repayment) at least one working day prior to the due date.
- Amount indicated by the Lender / KWSPF shall be final and binding on the GoK. The obligation of the GoK under the GO will rank pari-passu to any other commitment of the GoK, which relates to the deduction by the GoK from the SFC devolution.
- The commitment of the GoK is valid till any amount is outstanding under the term loans.
- The government order shall form part of the documentation related to the term loans.
- A tripartite agreement has also been executed between KWSPF, GoK and the lenders in line with the transaction structure; the Trust has opened an escrow account specifically to fulfil the debt obligations and any withdrawals from the account will require lenders' approvals.

The shortfall undertaking is backed by budgetary support from the GoK and a well-defined structured obligation. The adherence to the structured payment mechanism, however will be a key rating sensitivity factor.

## Strategic role of KWSPF for GoK

KWSPF lends to projects undertaken by ULBs, statutory bodies and public sector undertakings.

It raises resources on a pooled basis and provides new credit enhancement to avail debt at a low cost. It acts as a nodal agency on behalf of the central and state government. So far, KWSPF has, raised tax free bonds amounting to Rs. 100.00 Cr to provide Water Supply and Drainage to surrounding 8 ULBs around under Greater Bangalore Water and Sanitation Project (GBWASP) scheme, Bengaluru through Bangalore Water Supply and Sewerage Board. It also raised resources for Government of Karnataka to implement schemes such as: Chief Minister's Small and Medium Town Development Programme (CMSMTDP) Phase-I and Phase-II and Chief Minister's Special Grants of Rs.100 Cr each to City Corporations under Nagarothana Scheme in Phase-II and Phase-III. .

## Healthy fiscal profile of Government of Karnataka

Karnataka has one of the strongest fiscal profiles among the states of India. Karnataka is one of the leading states in social development while simultaneously maintaining a strong fiscal profile. Karnataka is projected to clock a revenue deficit of 0.78 per cent of GSDP in 2022-23 (BE). The state has demonstrated a strong ability to attract investments from foreign as well as domestic companies. In FY22, the GSDP is estimated to have grown by 9.5 percent as per revised estimates as against contraction of 0.5 percent in previous year. GoK has budgeted increased spending in FY23 for Irrigation and Flood Control (12 per cent), Education, sports (8 percent), agriculture and allied (10 percent) and social welfare (2 percent) which may lead to a higher fiscal deficit in the current year.

## Weaknesses

### Highly dependent on the support from the state government

KWSPF's rating is driven by continued support from GoK. Hence, the fiscal profile of Karnataka will be a key rating sensitivity factor. Any significant changes in the rating of GoK due to factors such as prolonged slowdown in the industrial or services sector or challenges faced by Karnataka for factors such as socio-economic changes or other such events can have an impact in its fiscal indicators. The trust is also solely dependent on the SFC devolution, which limits the resources available for its own revenue apart from nominal interest earnings on deposits; in FY21, there was a deficit in the accounts due to higher interest outgo vis-a vis lower grants received. Therefore, timely budget allocation and timely receipt of revenue and capital grants from GoK for servicing the debt obligations is a key rating sensitivity factor.

## ESG Factors Relevant for Rating

Not Applicable

## Assessment of Adequacy of Credit Enhancement

KWSPF had established track record and raises resources on a pooled basis and acts as a nodal agency on behalf of the central and state government. KWSPF has adequate liquidity marked by the comfort it derives from support from the Government of Karnataka (GoK) and grants from State Finance Commission (SFC). Acuité believes that the CE will stand adequate in all scenarios and in the event of any requirement, GoK will provide the necessary support.

## Rating Sensitivities

- Fiscal profile of Government of Karnataka (GoK)
- Adherence to the structured payment mechanism and shortfall undertaking from GoK

## Material covenants

None

## Liquidity: Adequate

KWSPF has adequate liquidity marked by the comfort it derives from the Government of

Karnataka (GoK) and grants from State Finance Commission (SFC). The SFC devolution would be deducted from source and deposited in the respective escrow accounts at least 5 days prior to the due date of payments with respect to the structured payment mechanism of the term loan. Moreover, all withdrawals from the respective escrow accounts would exclusively be limited to payment of principal and interest to the lender and for making investments. Moreover, GoK will transfer the required amount in the escrow account one day prior to the due date, in case of any shortage in the SFC devolution from the budgetary allocation for the debt servicing of the term loan.

### Outlook: Stable

Acuité believes that the outlook on KWSPF will remain 'Stable' on account of strong support from GoK driven by both strategic importance and moral obligation. The outlook may be revised to 'Positive' in case of any improvement in the fiscal profile of the state government. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the fiscal risk profile of GoK that impedes its ability of providing timely support to KWSPF for the latter's debt servicing requirements.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	146.69	153.61
PAT	Rs. Cr.	(13.74)	12.21
PAT Margin	(%)	(9.37)	7.95
Total Debt/Tangible Net Worth	Times	92.91	56.01
PBDIT/Interest	Times	0.91	1.09

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Aug 2022	Term Loan	Long Term	200.00	ACUITE AA- (CE)   Stable (Reaffirmed)
	Term Loan	Long Term	214.98	ACUITE AA- (CE)   Stable (Reaffirmed)
05 May 2021	Term Loan	Long Term	200.00	ACUITE AA- (CE)   Stable (Reaffirmed)
	Term Loan	Long Term	214.98	ACUITE AA- (CE)   Stable (Reaffirmed)
31 Jan 2020	Proposed Term Loan	Long Term	414.98	ACUITE AA- (CE)   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	662.50	ACUITE AA-   CE   Stable   Assigned
Indian Bank	Not Applicable	Term Loan	12-03-2020	8.00	12-03-2028	214.98	ACUITE AA-   CE   Stable   Reaffirmed
Union Bank of India	Not Applicable	Term Loan	17-12-2020	8.35	17-12-2028	200.00	ACUITE AA-   CE   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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