



**Press Release**  
**KARNATAKA WATER AND SANITATION POOLED FUND TRUST**  
**December 27, 2023**

**Rating Reaffirmed and Withdrawn**

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Bank Loan Ratings	662.50	Not Applicable   Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	414.98	-	-
Total Withdrawn Quantum (Rs. Cr)	662.50	-	-

**Rating Rationale**

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**'.

Further, the Proposed Long Term Bank Loan Rating of 662.50 Cr is withdrawn without assigning any Rating as the instrument was not issued and thus there are no outstanding obligation of the company against facility. The rating is being withdrawn on account of the request received from the company as per Acuite's policy on withdrawal of ratings as applicable to the respective facility.

**Rationale for the rating**

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.

**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.

## 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 in case of KWSPF's AMRUT 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 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 loan 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.
- Acuité believes that the shortfall undertaking is backed by budgetary support and a well-defined structured obligation from the GoK is present. 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 bond amounting to Rs. 100.00 crore 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. 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. Overall an amount of Rs.1,338.38 crore loans is outstanding as per the latest status report shared by the trust as on July 31, 2023.

### Healthy fiscal profile of Government of Karnataka

Karnataka has one of the strongest fiscal profiles among the states of India. Karnataka is the

state that leads in social development while simultaneously maintaining a strong fiscal profile. Karnataka is projected to revenue deficit of 0.5 per cent of GSDP in 2023-24 (BE). The state has demonstrated a strong ability to attract investments from foreign as well as domestic companies. In FY24, the GSDP is estimated to grow by 17.7 percent as per budget estimates. GoK has budgeted spending in FY24 for Irrigation and Flood Control (6.3 per cent), Education, sports (11 percent), agriculture and allied (7.3 percent), healthcare (4.9 percent) and reduced for remaining segments.

### **Tripartite Agreement**

A tripartite agreement has been executed between KWSPF, GoK and the lenders in line with the transaction structure. And the Trust has opened an escrow account specifically to fulfil the debt obligations and any withdrawals from the account will require lenders' approvals.

### **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 socioeconomic changes or other such events can have impact in its fiscal indicators. The trust is however, solely dependent on the SFC devolution, which limits the resources available for its own revenue apart from nominal interest earnings on deposits. This leads to high reliance on GoK for timely servicing of the debt obligations. Further, timely budget allocation and timely receipt of revenue and capital grants from GoK for servicing the debt obligations is another rating sensitivity factor.

#### **ESG Factors Relevant for Rating**

Not Applicable

### **Rating Sensitivities**

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

### **All Covenants**

#### **Indian Bank**

##### **Mandatory Covenants (Pre-Disbursement)**

> The borrower should maintain adequate books of accounts, as per applicable accounting practices and standards, which should correctly reflect its financial position and scale of operations and should not radically change its accounting system without notice to the bank.

>The bank will have the right to share credit information as deemed appropriate with credit information companies (CICs) or any other institution as approved by the RBI from time to time.

>The bank will have the right to examine at all times the borrower's books of accounts and to have the borrower's factories inspected, from time to time, by officer(s) of the bank and or qualified auditors and or technical experts and or management's consultants of the bank's choice. Cost of such inspection shall be borne by the borrower.

##### **Mandatory Covenants (Post-disbursement)**

> The borrower(s) shall submit

- o provisional financial statements within three months from the date of balance sheet,
- o audited financial statements within six months from the date of balance sheet

> In case of default in repayment of the loan / advances or in the payments of the interests thereon or any of the agreed installments of the loan on due date(s) by the borrower, the bank and / or the RBI will have an unqualified right to disclose or publish the borrower's name

or the name of the borrower / units and its directors /partners /proprietors as defaulters /wilful defaulters in such manner and through such medium as the bank or RBI in their absolute discretion may think fit.

> The borrower should not induct into its board a person whose name appears in the wilful defaulters list of RBI / CICs. In case such a person is already on the board of the borrowing company, it would take expeditious and effective steps for the removal of that person from its board. Nominee directors are excluded for this purpose.

>After provision for tax and other statutory liabilities, unless expressly permitted otherwise, the bank will have the first right on the profits of the borrowers for the repayment of amounts due to the bank.

> The borrower shall keep the bank informed of the happening of any event which is likely to have a substantial effect on their profit or business. For instance, if the monthly production or sales are substantially less than what had been indicated, the borrower shall immediately inform the bank with explanations and the remedial steps taken and / or proposed to be taken.

> The borrower will utilise the funds for the purpose they have been lent. Any deviation will be dealt with as per RBI guidelines

### **Mandatory Negative Covenants (Pre-disbursement)**

> No commission to be paid by the borrowers to the guarantors for guaranteeing the credit facilities sanctioned by the bank to the borrowers.

### **Union Bank of India**

> KWSPFT should open an escrow account before the disbursal of the term loan. The GoK/KWSPFT shall credit adequate funds in the escrow account for servicing the installments and interest at least 5 days prior to the forthcoming due date for payment for principal and/or interest. In the event that the balance in the escrow account, after taking into account the invested funds is inadequate, our bank and KWSPFT shall send further notice to the Finance Secretary.

> An undertaking from GoK to be obtained for shortfall as under disbursement of term loan: Government of Karnataka will transfer the required amount in the escrow account one day prior to the due date, in case of shortage in the adjustment from SFC devolution from the budgetary allocation for the debt servicing of term loan.

> A tripartite agreement to be executed between KWSPF, GoK and the lender bank before disbursement of term loan.

> A drawl of the proposed term loan will be made in two or more tranches which shall be as per the actual cashflow projections.

> KWSPFT to submit utilisation certificate on annual basis.

> Security documents to be obtained from the borrower.

> Security document to be vetted before disbursement of the Term Loan.

> The trust, through its authorised signatories are to accept all the terms and conditions of the sanction i.e. unconditional acceptance.

> The trust to submit resolution of availing fresh credit facilities and execution of documents for the sanctioned credit facilities. It should be ensured that the trust is having necessary borrowing powers and do not violate any of the provisions of law conducting the Trust

> Required documents to be executed and the same to be vetted by the legal department/cell of the bank

> Disbursement is subject to receiving disbursement authority from the competent authority after compliance of terms and conditions of the sanction.

> RBI/Banks extant guidelines on lending to trusts, unsecured exposure and lending to financial intermediaries/SPV for infrastructure financing shall be complied.

> Trust to submit statement of account with all existing banks for the last 6 months and ensure satisfactory conduct of accounts.

> Trust to provide all suitable assistance as required to carry out all due diligence as per

Bank extant guidelines.

> An undertaking from authorised officer of the trust to be submitted stating that the term loan is not in lieu of or to substitute budgetary resources envisaged from the project and that the debt servicing is not done out of budgetary sources as per RBI Master Circular - Loans and advances - Statutory and other restrictions.

> The trust to undertake to utilise funds for the purpose for which the subject loan has been sanctioned.

> Compliance of all pre-disbursement sanction stipulations to be confirmed before disbursement.

### **Liquidity Position**

#### **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.

### **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

### **Other Factors Affecting the Rating**

None



## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	123.42	143.32
PAT	Rs. Cr.	0.12	2.23
PAT Margin	(%)	0.10	1.55
Total Debt/Tangible Net Worth	Times	59.64	72.85
PBDIT/Interest	Times	1.00	1.02

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

Not Applicable

### 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Sep 2022	Term Loan	Long Term	214.98	ACUITE AA- (CE)   Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	662.50	ACUITE AA- (CE)   Stable (Assigned)
	Term Loan	Long Term	200.00	ACUITE AA- (CE)   Stable (Reaffirmed)
02 Aug 2022	Term Loan	Long Term	214.98	ACUITE AA- (CE)   Stable (Reaffirmed)
	Term Loan	Long Term	200.00	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	662.50	Not Applicable   Withdrawn
Indian Bank	Not Applicable	Term Loan	12 Mar 2020	8.00	12 Mar 2028	Simple	214.98	ACUITE AA-   CE   Stable   Reaffirmed
Union Bank of India	Not Applicable	Term Loan	17 Dec 2020	8.35	17 Dec 2028	Simple	200.00	ACUITE AA-   CE   Stable   Reaffirmed

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### About Acuité Ratings & Research

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