

August 28, 2025

Karnataka Water and Sanitation Pooled Fund: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Term loan	362.43	241.12	[ICRA]AA- (CE) (Stable); reaffirmed
Total	362.43	241.12	
Rating Without Explicit Credit Enhancement			[ICRA]A+

**Instrument details are provided in Annexure I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AA- (CE) (Stable) rating

The rating of various term loans of the Karnataka Water and Sanitation Pooled Fund (KWSPF) derives strength from the Government Orders (GOs) issued by the Government of Karnataka (GoK), which include a shortfall undertaking by the State Government to make good any shortfall in the servicing of the term loans, if the budgetary allocation under the State Finance Commission (SFC) devolution is inadequate. The said GOs would remain effective till the ICRA-rated term loans are fully repaid. The Stable outlook on this rating reflects ICRA's outlook on the rating of the GoK, which has provided the shortfall undertaking.

Adequacy of credit enhancement

The rating of the term loans of KWSPF is based on the credit substitution approach, whereby the rating of the GoK, which has provided the shortfall undertaking, has been translated into the rating of the said instruments. The shortfall undertaking by the GoK is legally enforceable, irrevocable and unconditional, covering the entire amount and the tenure of the term loans rated by ICRA and has a well-defined invocation and payment mechanism. Given these attributes, the shortfall undertaking by the GoK is adequately strong to result in an enhancement in the rating of the said instruments to [ICRA]AA-(CE) (Stable) against the rating of [ICRA]A+ without explicit credit enhancement. In case the rating of the GoK undergoes a change in the future, the same would reflect in the rating of the aforesaid instruments of KWSPF as well.

Salient covenants related to credit enhancement, as specified in the GOs (dated November 20, 2009, December 3, 2018 and October 11, 2019)

The GoK unconditionally and irrevocably undertakes 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 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.
- Make good any shortfall in the escrow account (for repayment) at least one working day prior to the due date upon receipt of an intimation from the lender/KWSPF without demur.
- Accept that the amount indicated by the lender / KWSPF shall be final and binding on the GoK.
- Rank obligation under the GO pari-passu to any other commitment of the GoK, which relates to the deduction by the GoK from the SFC devolution.
- Accept that the commitment of the GoK is valid till any amount is outstanding under the term loans.

- Form GO a part of the documentation related to the term loans

The Stable outlook assigned to the long-term rating reflects ICRA's expectation of satisfactory adherence to the structured payment mechanism by KWSPF and ICRA's outlook on the rating of the GoK, which has provided the shortfall undertaking. ICRA expects the GoK to adhere to the fiscal deficit targets set by the Government of India (GoI), going forward.

Key rating drivers and their description

Credit strengths

Shortfall undertaking by the GoK for rated term loans – All rated term loans are backed by GOs, indicating adequate budgetary allocations under the SFC devolution for servicing of such loans raised by KWSPF. If the budgetary allocation for the debt servicing of the term loans is inadequate, the GoK will make good the shortfall by transferring the required amount in the escrow account at least one working day prior to the due date of debt servicing.

Structured payment mechanism for rated instruments – The SFC devolutions are deducted at source and deposited in the respective escrow accounts at least by T-5, where T is the due date of payment, in line with the structured payment mechanism of the rated instruments. Moreover, all withdrawals from the respective escrow accounts would exclusively be limited to (a) payment of principal and/or interest to the lender(s) and/or (b) for making investments.

Credit challenges

Limited own revenues – As KWSPF is a trust and its own revenues are modest, comprising interest on deposits. This implies almost complete reliance on the GoK for adequate and timely receipt of funds for debt servicing of the term loans rated by ICRA.

Less-than-satisfactory compliance with transaction structure in past years – There have been some instances of funding of the escrow accounts for the term loans after T-5 from FY2021 to FY2023, though there were no such instances from FY2024 onwards. Further, in case of a delay in funding escrow accounts before T-5, as per the terms of the transaction structure, the shortfall undertaking was not invoked. Nevertheless, there has been no instance of delay in servicing the lenders.

Key rating drivers and their description (of the GoK, the support provider)

Credit strengths

Relatively healthy structure of expenditure – The GoK's capital outlay and net lending has been healthy, averaging 2.6% of gross state domestic product (GSDP) during FY2020-2024.

Adherence to FC-set fiscal deficit target – The GoK consistently reported a revenue surplus during FY2005-2020 and in FY2023. The GoK's fiscal deficit as a proportion of GSDP remained below the net borrowing limits during FY2020-2024, despite healthy capital spending.

Moderately healthy performance on leverage indicators – Healthy fiscal balances and guarantees contained under 2% of GSDP, during FY2020-2024, restricted the GoK's leverage levels to around 21% of GSDP, which is moderately healthy compared to most other states.

Credit challenges

Moderation in revenue receipts relative to GSDP – The GoK's revenue receipts as a proportion of GSDP declined to 9.1% of GSDP in FY2024 from ~11% of GSDP in FY2020. This ratio is expected to remain below 10% of GSDP in FY2025 as well.

Liquidity position of the support provider (GoK): Adequate

The GoK has not availed the ways and means advances (WMA) and OD facilities from the RBI during FY2016 to FY2025 (till February 2025). Additionally, the GoK had an investment of Rs. 300 billion in auction treasury bills as of February 2025. Based on the aforementioned indicators, the liquidity position of the state government is assessed as adequate.

Liquidity position of KWSPF: Adequate

The GoK has been making budgetary allocation under the SFC devolution for servicing the rated debt of KWSPF and has been releasing the same, in a timely manner, in the recent years. Moreover, as per various GOs, if the budgetary allocation for the debt servicing of the term loans is inadequate, the GoK will make good the shortfall by transferring the required amount in the escrow account at least one working day prior to the due date of debt servicing. The budgetary allocation and the shortfall undertaking in the GOs provide adequate comfort to KWSPF's liquidity profile. If funds from the GoK are not received within the due date, KWSPF has the option to tap any surplus available with it. KWSPF maintains cash and bank balance of more than Rs. 20.0 crore, which is sufficient for debt servicing in the near term, including monthly interest amount and quarterly principal repayment amount of various term loans, which is spread over different months/ dates. Separately, Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC) maintains large balances, which would be temporarily utilised with the approval of the competent authority in case of any delay in transfer of funds from the treasury.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a sustained improvement in the quality of deficits and leverage as a proportion of the GSDP of the GoK.

Negative factors – The rating could be downgraded in case of a sustained deterioration in the GoK's revenues leading to sizeable revenue deficits, and/or a rise in leverage as a proportion of GSDP, going forward. Increase in the debt outstanding of the state power sector entities (either supported or unsupported by the GoK), leading to a significant worsening of the consolidated leverage levels of the state government and its power entities may also trigger a downward rating revision. The rating could also be downgraded if there is non-adherence to the structured payment mechanism by the GoK and KWSPF.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology State Governments
Parent/Group support	Parent: Government of Karnataka (GoK) The assigned rating factors in the credit profile of the GoK, which has extended a letter of commitment indicating adequate budgetary allocations under the SFC devolution for servicing of the rated term loans.
Consolidation/Standalone	Standalone

About the company

KWSPF was constituted by the Government of Karnataka (GoK) as a fully-owned trust under the Indian Trusts Act, 1882, in 2003 and is managed by the Karnataka Urban Infrastructure Development & Finance Corporation (KUIDFC, a GoK-owned entity). KWSPF mobilises financial resources for urban infrastructure development in Karnataka and on-lends the same to various urban local bodies (ULBs) in the state.

The trust established by the GoK is fully managed by the Karnataka Urban Infrastructure Financial Services Limited (KUIFSL). The members of KUIFSL's board of directors are senior government officials, who are appointed by the state government. Most of these officials have been appointed as the trustees of KWSPF.

Key financial indicators (audited)

KWSPF (Standalone)	FY2023	FY2024
Total income (A)	123.4	109.6
SFC devolution	122.8	108.6
Balance	0.6	1.0
Total expenses (B)	123.3	108.6
Excess of income over expenses (A-B)	0.1	1.0

Source: Company, ICRA Research; Amounts in Rs. crore

About the GoK's finances

The GoK's revenue receipt as a proportion of the GSDP declined to 9.1% in FY2024 from 9.9% in FY2023, led by the end of the GST compensation grants in June 2022. However, the state's revenue expenditure rose to 9.5% of GSDP in FY2024 from 9.3% of GSDP in FY2023, with increase in subsidy outgo of the state. In line with the above trends, the GoK displayed a modest revenue deficit of 0.4% of GSDP in FY2024 compared to a surplus of 0.6% of GSDP in FY2023. Despite the dip in the state's capital expenditure to 2.2% of GSDP from 2.6% of GSDP during the same period, it was favourable. The GoK's fiscal deficit as a proportion of GSDP widened to 2.6% in FY2024 from 2.0% in FY2023. However, it was well within the borrowing limit set by the GoI. The GoK's leverage level (excluding GST compensation back-to-back loans) increased modestly to ~21% of GSDP in FY2024 from ~20% of GSDP in FY2023.

In the revised estimates (RE) for FY2025, the GoK's revenue deficit and fiscal deficit are expected to widen to Rs. 26,127 crore and Rs. 82,940 crore, respectively, from Rs. 9,272 crore and Rs. 65,522 crore, respectively, in FY2024. The Medium-Term Fiscal Plan statement published by the GoK, along with the FY2026 Budget places the fiscal deficit at 2.90% of GSDP in FY2025 RE. This would be within the net borrowing limit recommended by the 15th FC for that fiscal.

In the budget estimates (BE) for FY2026, the GoK had forecast its revenue deficit to decline to Rs. 19,262 crore from the level projected in FY2025 RE. The capital spending and net lending in FY2026 BE is expected to increase to Rs. 71,202 crore in FY2026 BE, 25.2% higher from FY2025 RE. The GoK's fiscal deficit is budgeted to rise to Rs. 90,428 crore in FY2026 or 2.95% of GSDP (as per the Medium-Term Fiscal Plan statement).

ICRA would analyse the GoK's provisional actuals for FY2026 to assess the performance of key fiscal indicators relative to the levels indicated in FY2026 BE. The financial health of the GoK's power sector entities and their impact on the state's finances would continue to be a key monitorable.

Key financial indicators of the GoK

	FY2024	FY2025 RE	FY2026 BE
Revenue receipts*	2,33,342	2,57,801	2,92,477
Revenue expenditure ⁵	2,42,614	2,83,928	3,11,739
Revenue balance	-9,272	-26,127	-19,262
Capital outlay & net lending	56,287	56,851	71,202
Fiscal balance	-65,522	-82,940	-90,428

Adjusted for double entries of interest on loans of departmental commercial undertakings in FY2023 and FY2025BE. Source: State Budget, CAG and ICRA Research; PA (Provisional Actuals); BE (Budget Estimates); Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Aug 28, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	163.10	[ICRA]AA-(CE) (Stable)	May 23, 2024	[ICRA]AA-(CE) (Stable)	May 10, 2023	[ICRA]AA-(CE) (Stable)	-	-
Term loan	Long term	78.02	[ICRA]AA-(CE) (Stable)	May 23, 2024	[ICRA]AA-(CE) (Stable)	May 10, 2023	[ICRA]AA-(CE) (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long-term – Term loan	Mar 2019	8.75% p.a.	Mar 2027	163.10	[ICRA]AA- (CE) (Stable)
NA	Long-term – Term loan	Dec 2019	8.50% p.a.	Dec 2028	78.02	[ICRA]AA- (CE) (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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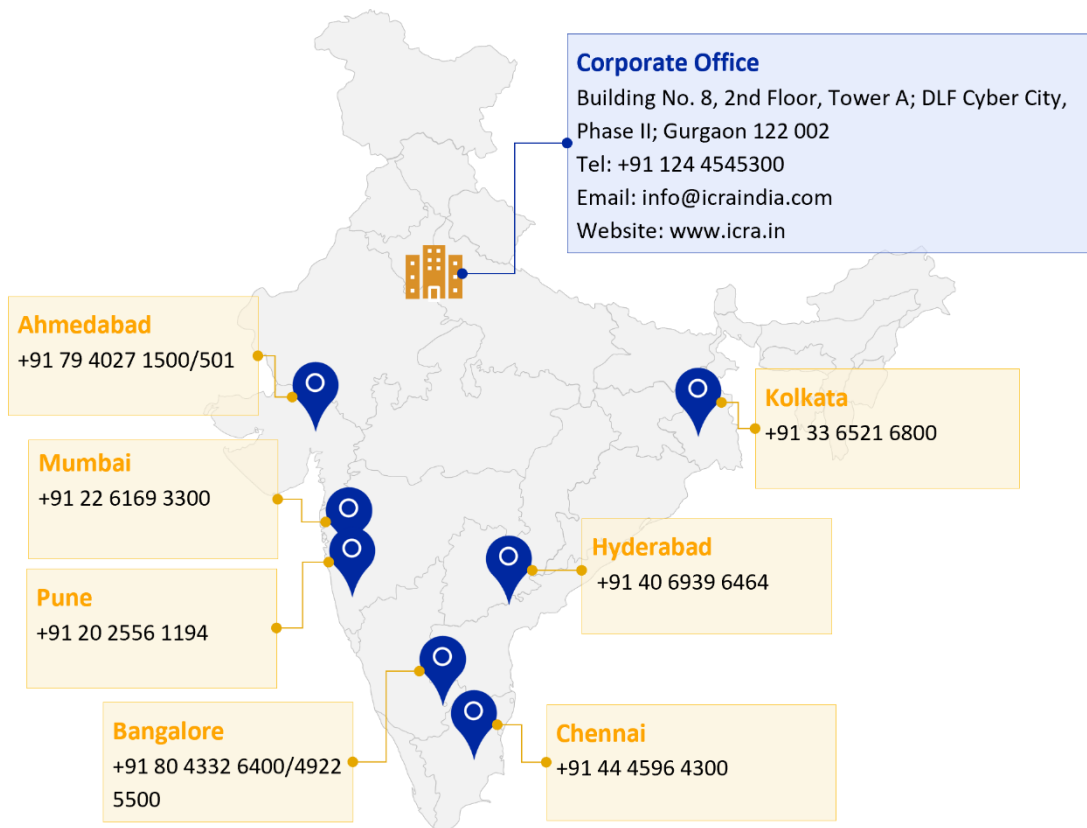
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