

## Karnataka Urban Water supply and Drainage Board

March 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	225.93 (Reduced from 540.77)	CARE AA- (CE); Negative	Reaffirmed

Details of instruments/facilities in Annexure-1.

@Credit enhancement in the form of an unconditional and irrevocable guarantee from Government of Karnataka (GoK).

<b>Unsupported rating</b>	<b>CARE BBB+ [Reaffirmed]</b>
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Note: Unsupported rating does not factor in the explicit credit enhancement.

### Rationale and key rating drivers for credit enhanced debt

The rating of the bank facilities of Karnataka Urban Water Supply and Drainage Board (KUWSDB) is based on credit enhancement in the form of an unconditional and irrevocable guarantee provided by Government of Karnataka (GoK) towards debt servicing of bank loans availed by KUWSDB.

### Rationale and key rating drivers of GoK- Guarantor

The rating derives comfort from the state recording favourable economic growth in FY24 driven by sizeable tax potential of its service-driven economy with satisfactory growth rate and its high ranking in ease of doing business. The rating takes cognisance of the state's healthy demographic profile, aided by consistently above-average per capita income and growth, high share of the urban population, relatively better social indicators and satisfactory education infrastructure. The rating also derives comfort from the availability of other infrastructure, marked by high per capita power consumption, moderate rail and road density, moderate availability of natural resources, and significantly improved irrigation potential over the years.

Despite slippage into a revenue deficit position, the state has been exhibiting reasonable fiscal strength and resilience. The state has been adhering to most of the fiscal consolidation norms prescribed by the Finance Commission in FY24 (RE) as well as FY25 (BE) in terms of controlling its fiscal deficit and the sustainability of its debt obligations. The state is self-reliant with more than 75% of its revenues comprising of own revenue sources. Karnataka has also been following prudent liquidity management practices and has also been maintaining a consolidated sinking fund (CSF) and guarantee redemption fund (GRF).

The rating strengths are tempered due to a significant increase in expenditure without commensurate revenue receipts resulting in increased borrowings. The increase in committed expenditure due to the implementation of 7<sup>th</sup> pay commission and payments under the guarantee scheme is expected to weigh down the state's finances in the coming years. The rating is also constrained due to an increase in the outstanding debt and guarantee levels and a declining trend in capital outlay.

### Key rating drivers of Karnataka Urban Water Supply and Drainage Board

The unsupported rating of KUWSDB takes into account state's ownership and financial support from GoK in the form of Government grants, long operational track record of being an implementing body for water supply and underground drainage in 274 urban local bodies within the state (excluding Bengaluru) with loans from banks/financial institutions and contribution from urban local bodies towards execution of projects. However, KUWSDB's revenues are insufficient to cover its debt repayment obligations and therefore it is dependent on GoK to meet its commitments.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Attainment of revenue surplus on a sustained basis.
- Sustained adherence to the fiscal consolidation norms prescribed by the Finance Commission.
- Significant reduction in (debt + guarantees) to gross state domestic product (GSDP) to below 18%

#### Negative factors

- Widening of revenue deficit
- Sustained non-adherence to the fiscal consolidation targets prescribed by the Finance Commission for fiscal deficit and debt parameters.
- Sustained worsening of (debt + guarantees) to GSDP
- Loan waivers / higher subsidy outlay etc. that could pressurize state finances.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### **Analytical approach:**

**Credit enhanced debt:** Based on credit enhancement (CE) in the form of an unconditional and irrevocable guarantee from Government of Karnataka towards debt servicing for loans availed by KUWSDB.

**Unsupported rating:** Standalone, while factoring linkages with Government of Karnataka

### **Outlook:** Negative

The anticipated rise in revenue deficit levels, leading to a moderation in fiscal ratios due to increased borrowings, is the reason for maintaining the negative outlook. However, if the state manages to enhance the fiscal ratios, the outlook may be revised to stable.

### **Detailed description of key rating drivers:- Guarantor**

#### **Key Strengths**

##### **Service sector-driven economy with high economic potential**

Karnataka, being one of the fastest expanding economies in India, holds significant economic potential. Despite representing approximately 5% of India's population, the state contributes to 8.7% of the national GDP. As one of the country's most developed and reform-oriented states, Karnataka's economic profile and, consequently, its finances are robust. The services sector remains a major contributor, accounting for over 66.7% of the state's Gross State Value Added (GSVA) in FY24, an increase of 1.3% from the previous year's share of 65.4%.

##### **Adherence to most fiscal consolidation norms**

In FY24 (RE), the state demonstrated prudent financial management by adhering to most of the fiscal consolidation norms set by the Finance Commission. The fiscal deficit was effectively managed, remaining well within the 3.00% of GSDP norm at 2.67% in FY24 (RE), and is projected to be 2.95% in FY25 (BE). The ratio of interest / revenue receipts stayed within the 15% limit in FY24 (RE) and is anticipated to maintain this trend in FY25 (BE). The debt to GSDP has declined to 22.64% in FY24 (RE) i.e., below the 25% norm and is expected to remain below 25% as per FY25 (BE).

##### **Self-reliance**

The state continues to exhibit considerable self-reliance, with over 75% of its revenues originating from its own sources, including tax and non-tax sources for FY24.

##### **Maintenance of contingency funds**

Since FY13, the state has maintained a Consolidated Sinking Fund (CSF) with the Reserve Bank of India (RBI) for the amortization of its debt obligations. As of May 31, 2024, the fund held a corpus of Rs.17,346 crore. Additionally, the state has maintained a Guarantee Redemption Fund (GRF) of Rs.527 crore as of May 31, 2024, which is equivalent to over 1% of its total guarantees.

### **Key weaknesses**

#### **Revenue deficit budgeted to be sizable**

The finances of the state recovered during FY23, after being adversely impacted by COVID-19, and recorded revenue surplus of Rs.13,496 crore due to receipt of sizeable GST compensation grant from central government. However, with discontinuation of the said GST grant from FY24 onwards and the anticipated increase in committed revenue expenditure due to introduction of the five populist guarantee schemes and implementation of 7<sup>th</sup> pay commission, the state is budgeted to record a revenue deficit of Rs.13,951 crore and Rs.27,354 crore in FY24 (RE) and FY25 (BE), i.e., 0.54% and 0.97% of the GSDP respectively. The expenditure under the guarantee schemes in FY24 (RE) and FY25 (BE) is estimated to be Rs.33,468 crore and Rs.52,009 crore, respectively. State's ability to improve the fiscal ratios and control the revenue deficit in light of the increasing expenditures shall be a key rating monitorable.

#### **Increase in the debt and guarantees**

The state has elevated debt levels. The state's outstanding debt as per FY24 (RE) is estimated to be at Rs.5.67 lakh crore, an increase of 12.3% over the previous year. Also, its debt to GSDP ratio stood at 22.11%, as per FY24 (RE). The debt is budgeted to increase by 15.8% to Rs.6.57 lakh crore and the debt to GSDP is budgeted to be at 23.41% as per FY25 (BE). Increase in indebtedness of the state is mainly to fund the capital outlay and increasing revenue deficit. However, the state is seen to be taking measures to increase both tax and non-tax revenues to improve its fiscal ratios.

There has also been an increase in the guarantees extended by the state government to state entities. Outstanding guarantees of the state rose to Rs.38,356 crore as at end of March 2023, 16% more than the previous year. The guarantees were mainly

extended to irrigation (38%), power (47%), housing and urban development (5%). The off-budget borrowings in FY25 are budgeted to be Rs.7,507 crore, 44% lower than the outstanding off-budget borrowings in FY24.

### Declining focus on asset creation

The state government has been historically incurring sizable expenditures towards asset creation. However, capital outlay which accounted for nearly 75% of the total capital expenditure of the state in FY23 is estimated to decline to 66% and 65% in FY24 (RE) and FY25 (BE), respectively. Capital outlay of the state is mainly concentrated towards irrigation and flood control, transport, agriculture and related works and urban development.

### Liquidity: Adequate

The state has not availed of ways and means advances (WMA) facility from the RBI during FY24, reflective of its prudent liquidity management practices.

**Assumptions/Covenants:** Please refer to Annexure-3

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

[Factoring Linkages Government Support](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Rating Watch](#)

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**Adequacy of credit enhancement structure:** The guarantee provided by the GoK is unconditional, irrevocable, and covers the entire rated amount.

### About the Credit Enhancement Provider

GoK's economy is primarily driven by tertiary sector contribution (66% FY24). The GSDP witnessing a modest 6.6% growth in FY24. The state has budgeted revenue deficit at 1% and fiscal deficit at 3% of GSDP in FY25 (BE) as against 0.5% and 2.7%, respectively, in FY24 (RE). The state has also budgeted an increase in Debt/GSDP to 23.4% in FY25 (BE) as against 22.1% in FY24 (RE).

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Utilities	Other Utilities	Water Supply & Management

KUWSDB (ISO 9001-2008 certified institution) (constituted by an Act of Legislature in 1974) is an implementing body for water Supply and underground drainage in 274 urban local bodies within the state (excluding Bruhat Bengaluru Mahanagara Palike). KUWSDB is the nodal agency of the State Government of implementation of water supply and drainage projects in urban area of Karnataka (excluding Bangalore city). The projects are undertaken on behalf of urban local bodies (ULBs) with funding assistance from Centre, Government of Karnataka, and contribution from ULBs. Thereafter, the projects are handed over to ULBs for day-to-day operations and maintenance. In addition to execution of state-planned schemes on behalf of ULBs, KUWSDB also executes state/centrally sponsored schemes like JnNURM (Jawaharlal Nehru National Urban Renewal Mission), Urban Infrastructure and Development scheme for small and Medium Towns (UIDSSMT), Atal Mission rejuvenation and Urban Transformation (AMRUT), Urban Infrastructure development in satellite towns (UIDST) scheme, etc. KUWDSB charges commission from ULBs on the projects being implemented which it utilises to meet its operational expenses. With revenues of KUWSDB being insufficient, it is dependent on funding support from GoK for debt servicing.

Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	241.14	186.69
PBILDT	77.84	18.65
PAT	130.15	60.09
Overall gearing (times)	0.10	0.09
Interest coverage (times)	1,044.43	102.87

UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	04-12-2030	225.93	CARE AA- (CE); Negative
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB+

#### Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	225.93	CARE AA- (CE); Negative	-	1)CARE AA- (CE); Negative (03-Jan-24)	1)CARE AA- (CE); Negative (02-Jan-23)	1)CARE AA- (CE); Negative (30-Nov-21)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB+	-	1)CARE BBB+ (03-Jan-24)	1)CARE BBB+ (02-Jan-23)	1)CARE BBB+ (30-Nov-21)

LT: Long term

#### Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Name of the Instrument- Term Loans	Detailed Explanation
<b>A. Financial covenants</b>	NA
<b>B. Non-financial covenants</b>	<p>The debt servicing is facilitated by the following conditions detailed below:</p> <ul style="list-style-type: none"> <li>KUWSDB, Lender and GoK enter into tripartite agreement (guarantee deed) delineating the transaction structure. The Deputy Secretary to the Government, Urban Development Department is authorized to execute the guarantee deed on behalf of GoK.</li> </ul>

Name of the Instrument- Term Loans	Detailed Explanation
	<ul style="list-style-type: none"> <li>The State Government fully, unconditionally and irrevocably guarantees the due repayment of principal and interest on the said loan/s granted by the bank to KUWSDB within 30 days of receipt of written demand by KUWSDB.</li> <li>Any neglect of forbearance of the bank and KUWSDB in enforcing the repayment of loan shall not release the Guarantor of his liability under the Guarantee.</li> <li>It is not obligatory for the bank to take any proceedings against KUWSDB for recovery before calling upon the guarantor to pay any dues covered under the Guarantee and the Guarantor shall be liable in all respects as Principal debtor. However, in the event of breach by KUWSDB, the Bank has the right to recall the entire loan or any portion thereof and the guarantor shall pay forthwith the amount so demanded by the Bank.</li> </ul>

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Complex
2	Un Supported Rating-Un Supported Rating (Long Term)	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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