

## Karnataka Urban Water Supply and Drainage Board

December 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	192.06 (Reduced from 225.93)	CARE A+ (CE); Stable	Downgraded from CARE AA- (CE); Negative

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 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

Revision in the rating of GoK reflects the persistence of revenue deficit due to elevated welfare scheme expenditure, resulting in higher borrowings and increase in committed expenditure towards interest and social welfare. Additionally, increasing debt and guarantee levels — with debt-to-gross state domestic product (GSDP) at 23.9% in FY25 (RE) and projected at 24.9% in FY26 (BE) — remain an important fiscal consideration

The rating continues to derive strengths from Karnataka's strong economic fundamentals, driven by its large and diversified service-oriented economy, prudent fiscal management, and high degree of revenue self-reliance. The state remains one of India's fastest-growing economies, contributing 8.7% to the national gross domestic product (GDP) despite accounting for only ~5% of the country's population. The services sector continues to dominate, contributing over two-thirds of the state's gross state value added (GSVA) in FY25 (FY refers to April 01 to March 31), followed by manufacturing and agriculture. Karnataka's favourable demographic profile — marked by high urbanisation levels, above-average per capita income, and robust social and educational indicators — further supports its strong growth outlook and revenue potential.

The rating also factors in the state's adherence to most fiscal consolidation norms prescribed by the Finance Commission. The fiscal deficit was contained at 2.9% of GSDP in FY25 (revised estimate [RE]), within the 3% limit, and is projected to remain at the same level in FY26 (budget estimate [BE]). Despite slipping into a revenue deficit position after the pandemic, the state continues to demonstrate reasonable fiscal strength, aided by proactive expenditure management and sustained revenue growth. Karnataka's self-reliance remains a key strength, with over 75% of its total revenues originating from own sources. Liquidity is also supported by prudent practices — the state maintains a consolidated sinking fund (CSF) of ₹21,109 crore and a guarantee redemption fund (GRF) of ₹780 crore as on August 31, 2025. The state has not availed ways and means advances (WMA) from the Reserve Bank of India (RBI) in the past 12 months, reflecting its adequate liquidity position.

The rating strengths are partly offset by rising committed and welfare-related expenditure, which has moderated fiscal flexibility and limited capital spending vis a vis fiscal deficit.

### Key rating drivers of KUWSDB (Unsupported rating)

The unsupported rating of KUWSDB considers the state's ownership and financial support from GoK in the form of government grants, its long-standing role as 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 it depend on GoK to meet its commitments. The rating also considers the delays in completion of the Comptroller and Auditor General of India (CAG) audit of the company's accounts since FY21.

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

**Rating sensitivities: Factors likely to lead to rating actions****Positive factors**

- Attainment of revenue surplus on a sustained basis.
- Significant reduction in (debt + guarantees) to GSDP.

**Negative factors**

- 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 beyond 30%.

**Analytical approach:**

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

**Unsupported rating:** Standalone, while factoring linkage with GoK.

**Outlook:** Stable

The Stable outlook reflects CareEdge Ratings' expectation that the fiscal and economic profile of GoK will remain comfortable, supported by a strong services sector-led economy, strong demographic profile, and the state's demonstrated fiscal discipline.

**Detailed description of key rating drivers:****Key strengths****Service sector-driven economy with high economic potential**

Karnataka, one of the India's fastest expanding economies, holds significant economic potential. Despite representing ~5% of India's population, the state contributes ~8.7% of the national GDP. As one of the country's most developed and reform-oriented states, Karnataka's economic profile and therefore its finances are robust. The services sector remains a major contributor, accounting for over 66.6% of the state's GSVA in FY25 (FY refers to April 01 to March 31), followed by 23.61% by secondary and 9.76% by primary sector.

**Adherence to most fiscal consolidation norms**

In FY25 (RE), the state exhibited prudent financial management, adhering to most fiscal consolidation norms prescribed by the Finance Commission. The fiscal deficit was contained at 2.9% of GSDP, within the 3.0% limit, and is projected to remain at the same level in FY26 (BE). Following the pandemic, the state slipped into a revenue deficit. With the anticipated rise in committed revenue expenditure driven by the rollout of five populist guarantee schemes, the state is estimated to record a revenue deficit of ₹26,127 crore (0.9% of GSDP) in FY25 (RE). However, it is budgeted to narrow to 0.6% in FY26 (BE), supported by higher revenue receipts and tighter expenditure control.

The interest payments-to-revenue receipts ratio remained within the 15% threshold in FY25 (RE), but is expected to slightly exceed the limit, reaching 15.6% in FY26 (BE). Meanwhile, the debt-to-GSDP ratio increased to 23.9% in FY25 (RE) but continues to stay below the 25% norm.

**Self-reliance**

The state continues to exhibit considerable self-reliance, with 75.6% of its revenues originating from its own sources, including tax and non-tax sources for FY25.

**Maintenance of contingency funds**

Since FY13, the state has maintained a CSF with the RBI for the amortisation of its debt obligations. As on August 31, 2025, the fund held a corpus of ₹21,109 crore. Additionally, the state has maintained a GRF of ₹780 crore as on August 31, 2025, which is equivalent to over 1% of its total guarantees.

**Key weaknesses****Rising committed expenditure and welfare spending**

The state's committed expenditure has risen significantly in the last few years, primarily due to increasing interest payments driven by higher debt levels. As a result, the ratio of committed expenditure to revenue receipts (RR) has climbed from 50.2% in FY24 to 53.7% in FY25 (RE), and is projected to reach 57.8% in FY26 (BE).

The committed expenditure including welfare scheme outlay is expected to surge from 65% of RR in FY24 to 74% in FY25 (RE) and 75% in FY26 (BE). This growing share of committed expenses and welfare spending is placing considerable pressure on the state's fiscal space, thus constraining its ability to allocate resources toward developmental and capital expenditure.

### Declining capital outlay vis a vis fiscal deficit

The state government has historically incurred sizable expenditures toward asset creation. However, capital outlay, which accounted for ~123% of the total capital expenditure of the state in FY23, has declined to 80% in FY24 and is estimated to decline to 66% and 75% in FY25 (RE) and FY26 (BE), respectively. Capital outlay of the state is mainly channelled toward transport, irrigation, energy and related works, and urban development.

### Increase in the debt

The state has elevated debt levels. The outstanding debt per FY25 (RE) is estimated at ₹6.85 lakh crore, an increase of 13.6% over the previous year. The debt-to-GSDP ratio stood at 23.9% in FY25 (RE), up from 23.5% in FY24. Debt is budgeted to increase by 11.6% to ₹7.65 lakh crore and the debt-to-GSDP ratio is budgeted at 24.9% in FY26 (BE). The increase in indebtedness is mainly to fund capital outlay and the rising revenue deficit. However, the state is taking measures to increase both tax and non-tax revenues to improve its fiscal ratios.

In addition, outstanding guarantees of the state rose to ₹44,247 crore as on March 31, 2024, 15.4% higher than the previous year. The guarantees were mainly extended to irrigation, power, housing, and urban development.

### Liquidity: Adequate

The state has not availed WMA facility from the RBI in FY25, reflecting its prudent liquidity management practices.

### 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](#)  
[Financial Ratios – Non financial Sector](#)  
[Service Sector Companies](#)  
[State Governments](#)

**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 services sector contribution (66.6% in FY25). GSDP witnessed an 11% growth in FY25. The state has budgeted revenue deficit at 0.6% and fiscal deficit at 2.9% of GSDP in FY26 (BE) compared to 0.9% and 2.9%, respectively, in FY25 (RE). The state has also budgeted an increase in debt-to-GSDP ratio to 24.9% in FY26 (BE) compared to 23.9% in FY25 (RE).

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Utilities	Other utilities	Water supply and management

KUWSDB is an ISO 9001-2008 certified institution constituted under an Act of Legislature in 1974 and is an implementing body for water supply and underground drainage in 274 urban local bodies (ULBs) within the state, excluding Bruhat Bengaluru Mahanagara Palike. KUWSDB is the nodal agency of the State Government for implementing water supply and drainage projects in urban areas of Karnataka excluding Bengaluru city. The projects are undertaken on behalf of ULBs with funding assistance

from the Central Government, GoK, and contribution from ULBs. Thereafter, the projects are handed over to ULBs for day-to-day operations and maintenance.

Apart from executing state-planned schemes on behalf of ULBs, KUWSDB also executes state and centrally sponsored schemes such as Jawaharlal Nehru National Urban Renewal Mission (JnNURM), Urban Infrastructure and Development Scheme for Small and Medium Towns (UIDSSMT), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), and Urban Infrastructure Development in Satellite Towns (UIDST) scheme. KUWSDB charges commission from ULBs on the projects being implemented, which it utilises to meet its operational expenses.

With KUWSDB's revenues being insufficient, it depends 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
PBILD	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	192.06	CARE A+ (CE); Stable
Unsupported Rating-Unsupported 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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	192.06	CARE A+ (CE); Stable	-	1)CARE AA- (CE); Negative (07-Mar-25)	1)CARE AA- (CE); Negative (03-Jan-24)	1)CARE AA- (CE); Negative (02-Jan-23)
2	Unsupported Rating-Unsupported Rating (Long Term)	LT	0.00	CARE BBB+	-	1)CARE BBB+ (07-Mar-25)	1)CARE BBB+ (03-Jan-24)	1)CARE BBB+ (02-Jan-23)

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 tripartite agreement (guarantee deed) delineating the transaction structure. The Deputy Secretary to the Government, Urban Development Department is authorised to execute the guarantee deed on behalf of GoK.</li> <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 proceedings against KUWSDB for recovery before calling upon the guarantor to pay 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 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	Unsupported Rating-Unsupported Rating (Long Term)	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CareEdge 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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