

March 29, 2025

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 bond	80.00	75.00	[ICRA]AA(Stable); reaffirmed
Total	80.00	75.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation for the Rs. 75.0-crore (reduced from Rs. 80 crore) bond programme of Water and Sanitation Pooled Fund (WSPF) reflects the various credit enhancements, along with a well-defined trustee monitored structured payment and strong liquidity position. The rated bond programme maintains robust liquidity of Rs. 129.7 crore as of November 2024 in the form of cash collateral, DSRF and other fixed deposit reserves, which will be adequate to cover for the debt servicing due in FY2026. ICRA notes that the trust has prepaid ~Rs. 5 crore of bond value to the bondholder in January 2025.

The credit enhancements include escrowing of revenues by the underlying four urban local bodies (ULBs) namely, the Salem City Municipal Corporation, the Coimbatore City Municipal Corporation, the Avadi City Municipal Corporation and the Tiruppur City Municipal Corporation, to the extent of debt servicing to WSPF. In case of inadequate transfer of funds in a timely manner by the ULBs into the trustee-monitored escrow account of WSPF, the shortfall can be made up through access to a Government of Tamil Nadu (GoTN)-funded Project Sustainability Grant Fund (PSGF), a WSPF-funded cash collateral (CC), and a ULB-funded debt service reserve fund (DSRF), with at-source deduction from the State Finance Commission Devolution (SFCD) accruing to the underlying four ULBs for replenishing the PSGF and/or the CC. In addition, the GoTN has extended an unconditional and irrevocable guarantee for the repayment of the principal and the payment of interest over the tenure of the rated instrument.

However, the rating notes the moderate fiscal profile of the four ULBs, which are the beneficiaries of the captioned bond programme. While the debt servicing continues to be supported by multiple credit enhancement features, non-adherence to the structured payment mechanism by the ULBs would be a key credit negative and will remain a monitorable.

The Stable outlook assigned to the rating of the Rs. 75.0-crore bond programme reflects ICRA's expectation of satisfactory adherence to the structured payment mechanism by WSPF and availability of various credit enhancement features, which supports liquidity.

Key rating drivers and their description

Credit strengths

Strategic importance of WSPF – WSPF, constituted as a fully-owned trust by the GoTN in 2002, is the nodal agency for mobilising resources from the capital market on a pooled finance framework and to finance the urban infrastructure projects undertaken by the urban local bodies (ULBs) in the state.

Multiple layers of credit enhancements – WSPF can tap various credit enhancements if adequate funds are not credited by the ULBs in a timely manner in their respective escrow accounts, including the GoTN-funded PSGF, a WSPF-funded CC, a ULB-funded DSRF and FDRs made from the excess funds received from ULBs for the debt servicing obligations towards the Rs. 75-crore bondholders.

Structured payment mechanism for the rated bonds – The beneficiary ULBs are required to transfer adequate funds from their respective escrow accounts to WSPF's escrow account on a quarterly basis to facilitate debt servicing of the rated bonds. If the funds in the WSPF's escrow account are insufficient to meet the bond servicing on the due date, WSPF would tap various credit enhancements in a specified order between T-5 and T-3. If the balance in WSPF's escrow account continues to be

inadequate, the trustee would invoke the guarantee extended by the GoTN on T-3 to the extent of the shortfall, upon which, the GoTN must transfer adequate funds to WSPF’s escrow account by T-1.

Credit challenges

Moderate fiscal profile of ULBs – Based on the latest information available, the own revenues (tax and non-tax) of the four ULBs averaged at around 50% of their total revenue receipts in FY2024, indicating substantial reliance on transfers from the state government, which has an average credit profile. Overall, the credit profile of the four ULBs together is likely to remain moderate in the near term. ICRA notes that between April 2024 and October 2024, except for Tiruppur, all other ULBs released the quarterly debt service obligation overdue to WSPF, before the due date. However, in the past, there have been delays in transferring the funds. Nevertheless, WSPF has been utilising the funds from PSGF to make good the shortfall in the quarterly debt servicing pending from these ULBs. Later, PSGF has been replenished with the same amount from the SFCD grants and transfers from the ULBs. The debt servicing to the bondholders by WSPF took place in a timely manner in May 2024.

Liquidity position: Strong

The liquidity of the rated instrument is strong as it is supported by a GoTN-funded PSGF, which has a balance of Rs. 95.00 crore as on January 31, 2025, that is available for various instruments raised by WSPF. WSPF can tap PSGF to the extent of the shortfall if the amount credited by the ULBs in their escrow accounts is inadequate. Later, PSGF is replenished from the ULBs or SFCD grants. The liquidity of the instrument is also supported by WSPF-funded cash collateral (invested as a term deposit), which had a deposit balance of Rs. 22.57 crore as on November 30, 2024.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant improvement in liquidity provided by various credit enhancements towards the rated instrument, relative to the size of the remaining debt servicing. A significant improvement in the credit profile of the beneficiary ULBs could also result in a rating upgrade.

Negative factors – Pressure on the rating could arise if there is non-adherence to the structured payment mechanism by WSPF, in addition to sustained worsening in the fiscal health of the GoTN. The rating could also be downgraded if there is a significant deterioration in the credit profile of the beneficiary ULBs.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Urban Local Bodies State Governments
Parent/Group support	The assigned rating factors in the beneficiary ULB’s importance to the GoTN as a provider of urban infrastructure and basic services within the respective cities, as well as the strong operational and financial linkages with the state government. Further, the strategic importance of WSPF to the state government as a nodal agency for mobilising funds for the ULBs has also been considered.
Consolidation/Standalone	Standalone

About the company

The Government of Tamil Nadu constituted WSPF in 2002 as a fully-owned trust under the Indian Trusts Act, 1882. WSPF is managed by the Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL, a GoTN-owned entity). The trust’s prime objective is to mobilise resources under the pooled finance framework, wherein the requirements of various small/medium ULBs are pooled together and funds raised from the market are then lent to ULBs.

WSPF’s expenditure increased to Rs. 51 crore in FY2024 from around Rs. 36.6 crore in FY2023. Its expenditure mainly consists of interest on bonds issued, loans and subordinated loans. The total income of WSPF increased to Rs. 51.0 crore in FY2024

from Rs. 36.6 crore in FY2023. The major portion of the total income of WSPF comes from interest on loans given to the ULBs, while the balance income comprises project development grants and other income. As WSPF is a trust, it operates on a not-for-profit basis. The loss due to operations is adjusted against the GoTN grant account/grant fund.

Key financial indicators (audited)

WSPF	FY2023	FY2024
Total Income (A)	36.6	51.0
Interest on Loan Disbursed	35.5	49.5
Balance	1.1	1.5
Total Expenses (B)	36.6	51.0
Interest on Borrowings	35.5	49.5
Balance	1.1	1.5
Excess of Income over expenses (A-B)	0.0	0.0

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Mar 29, 2025	Date	Rating	Date	Rating	Date	Rating
Long-term bond	Long Term	75.00	[ICRA]AA (Stable)	19-MAR-2024	[ICRA]AA (Stable)	21-MAR-2023	[ICRA]AA (Stable)	08-MAR-2022	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term bond	Very 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Long-term Bond	May 2017	8.25%	May 2029	75.0	[ICRA]AA (Stable)

Source: Company *The rated bond is unlisted

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

ANALYST CONTACTS

Ashish Modani

+91 22 6169 3300

ashish.modani@icraindia.com

Suprio Banerjee

+91 22 6169 3328

supriob@icraindia.com

Manish Pathak

+91 124 4545397

manishp@icraindia.com

Maitri Vira

+91 79 6923 3012

maitri.vira@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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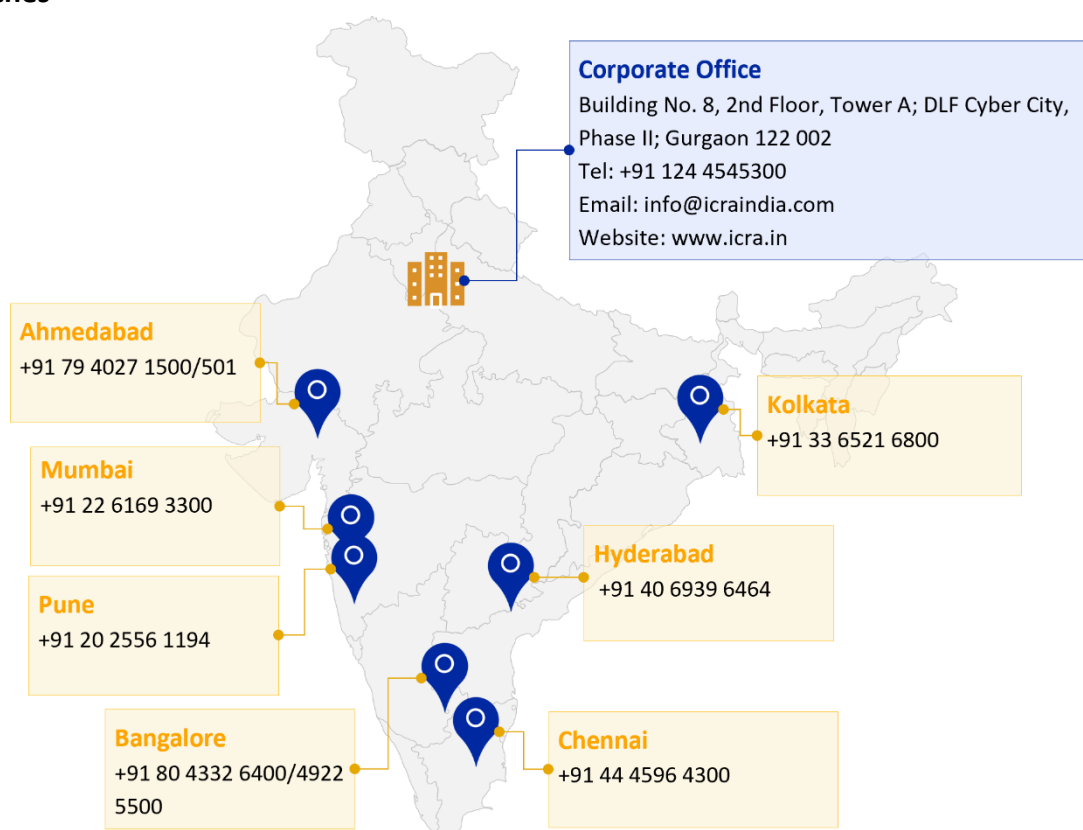
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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