



STATE GOVERNMENT FINANCES – SDL Auction Sept 15, 2020

Spurt in SDL issuance in
shorter tenors



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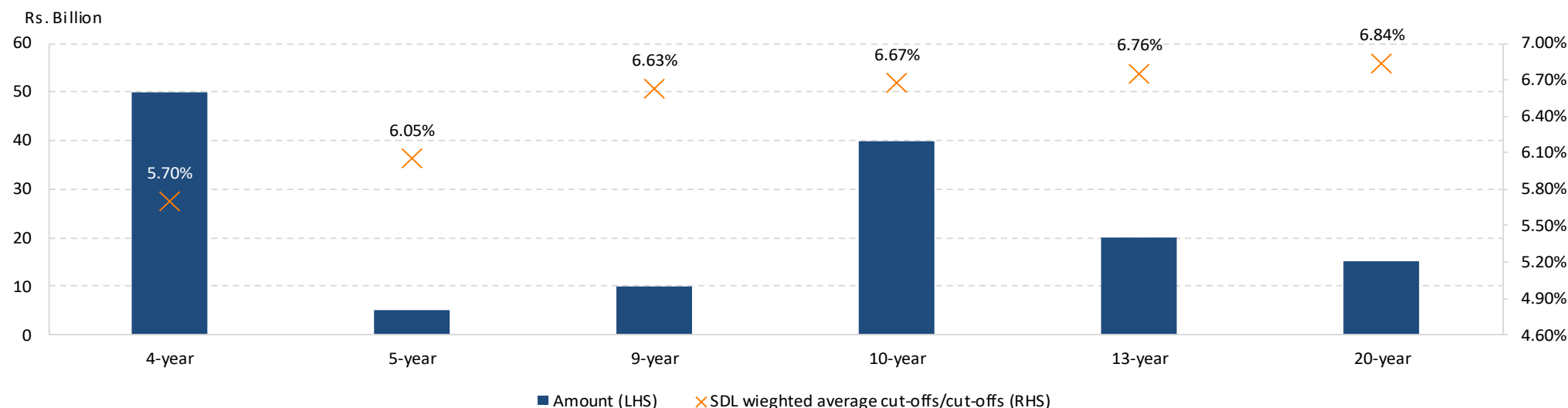
Exhibit 1: 13 state governments raised Rs. 140 billion through state development loans (SDLs) in the auction held on September 15, 2020, a substantial 55.6% higher than the amount that was initially indicated for that week, led by Maharashtra (by Rs. 30 billion) and Bihar (by Rs. 20 billion); moreover, SDL issuance was a sharp 86.7% higher than the year ago level

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of September 15, 2020	90	140	140	3,124
Week of September 17, 2019			75	2,051
Growth			86.7%	52.3%

Note: * Including green shoe

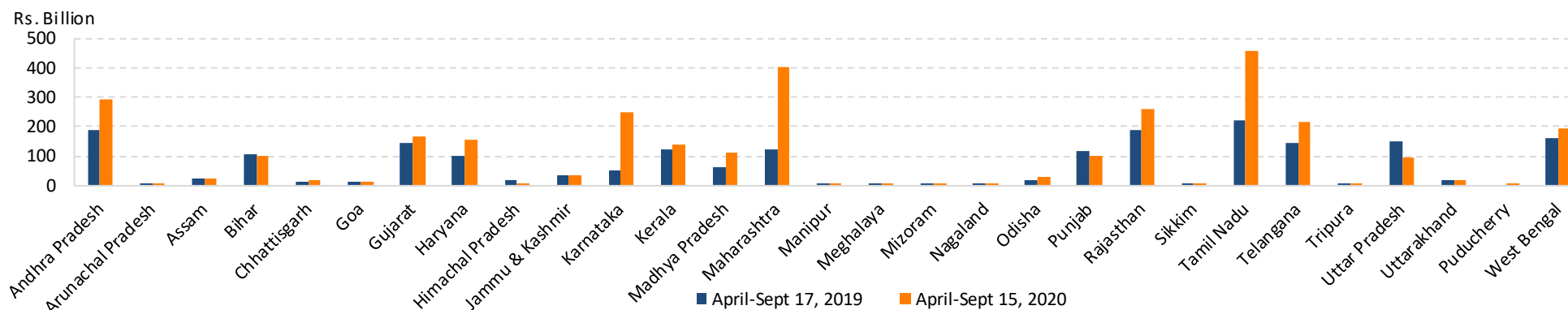
Source: Reserve Bank of India (RBI); ICRA research

Exhibit 2: Nearly half of the total SDLs (Rs. 65 billion by Maharashtra, Bihar, Gujarat and Assam; 46.4%) were issued in the shorter tenor on September 15, 2020, reversing the concentration of issuance in longer tenor SDLs in the past few weeks; a smaller Rs. 40 billion of SDLs were issued by as many as seven states in the 10-year maturity bucket (28.6% of total), suggesting continued preference for this tenor by several states; SDL cut offs for the 4-year, 10-year and 20-year buckets rose by 10 bps, 3 bps and 7 bps, respectively, on September 15, 2020 over the previous week; spread between the 10-year and 4-year SDLs narrowed to 97 bps on September 15, 2020 from 104 bps in the previous week, even as the spread between the 20-year and 10-year SDLs widened to 17 bps from 13 bps, while remaining muted



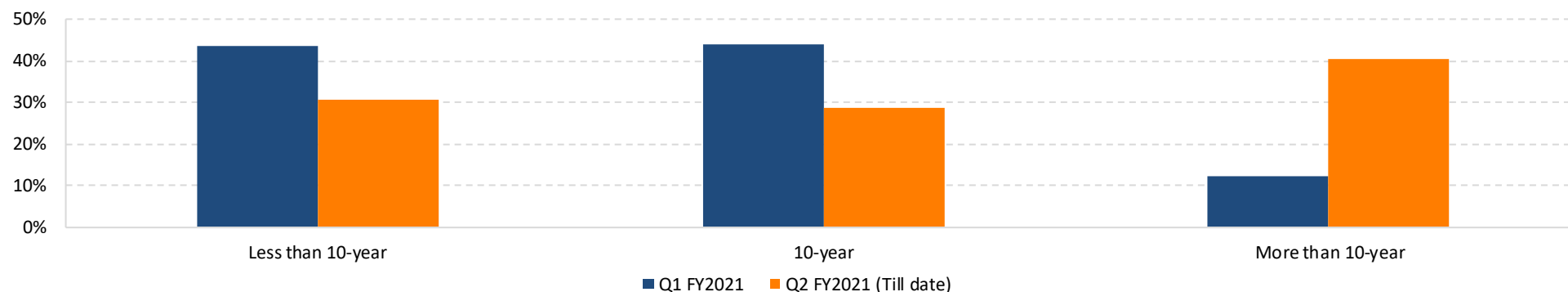
Source: RBI; ICRA research

Exhibit 3: 27¹ state governments and two Union Territories (UTs) have raised Rs. 3,124 billion during April – September 15, 2020, a YoY rise of 52.3%; nearly 67% of the increase in SDL issuance has been led by Karnataka, Maharashtra and Tamil Nadu (TN), with YoY expansions of 400.0%, 224.0% and 107.3%, respectively; these states are awaiting sizable GST compensation for April-July 2020 of Rs. 137.6 billion, Rs. 224.9 billion and Rs. 112.7 billion, respectively



Source: RBI; ICRA Research

Exhibit 4: Despite the trend in today's auction, total SDL issuance in longer tenor SDLs has risen to ~40% in Q2 FY2021 from ~12% in Q1 FY2021; issuance in less than 10-year and 10-year buckets has eased to 30.7% and 28.8%, respectively, of total SDL issuance in Q2 FY2021, from 43.7% and 44.1%, respectively, in Q1 FY2021



Source: RBI; ICRA Research

¹ Jharkhand has not yet borrowed from the market.

Exhibit 5: Inter-state spread in the 10-year cut offs narrowed to 2-5 bps on September 15, 2020 from 7-14 bps in the previous weekly auction; the weighted average cut-off for the 10-year SDLs stood at 6.67% on September 15, 2020, a modest 3 bps higher than the previous week, while the 10-year G-sec yield cooled by 3 bps in the same period; accordingly, the spread between the 10-year SDL and G-sec widened to 64 bps on September 15, 2020 from 58 bps in the previous auction

10-year SDL cut-offs	August 11, 2020	August 18, 2020	August 25, 2020	September 1, 2020	September 8, 2020	September 15, 2020
Assam				6.55%		
Goa		6.50%	6.68%		6.60%	
Gujarat			6.65%	6.45%		
Haryana					6.70%	
Jammu & Kashmir					6.70%	
Karnataka	6.48%	6.50%	6.63%	6.40%	6.56%	6.65%
Meghalaya				6.45%		6.70%
Nagaland						6.70%
Rajasthan	6.46%	6.50%	6.64%	6.46%	6.60%	6.67%
Tamil Nadu		6.50%	6.66%	6.47%		
Tripura						6.70%
Uttar Pradesh			6.67%		6.64%	6.68%
Uttarakhand				6.43%		6.67%
West Bengal			6.68%			
Weighted Average 10-year SDL cut-offs (A)	6.47%	6.50%	6.66%	6.45%	6.64%	6.67%
Minimum 10-year SDL cut-off	6.46%	6.50%	6.63%	6.40%	6.56%	6.65%
Maximum 10-year SDL cut-off	6.48%	6.50%	6.68%	6.55%	6.70%	6.70%
10-year G-sec closing yield (B)	5.86%	5.96%	6.13%	5.94%	6.06%	6.03%
Spread (A-B)	61 bps	54 bps	53 bps	51 bps	58 bps	64 bps

Source: RBI; ICRA research



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