

## STATE GOVERNMENT FINANCES- Weekly SDL

Concentration of SDL issuance in longer tenors pushes weighted average cut-off to 7.00% from 6.75%, highest so far in Q1 FY2022

JUNE 22, 2021





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*Ten state governments raised Rs. 196 billion SDLs, higher than the Rs. 115 billion indicated for this week*

*Spread between the 10-year SDLs and G-sec rose to 83 bps today from 76 bps last week*

*Weighted average cut-off of SDLs increased by 24 bps to 7.00% in today's auction, despite the weighted average tenor decreasing to 15 years*

Ten state governments raised Rs. 196 billion through state development loans (SDLs) on June 22, 2021, nearly 70% higher than the indicated level of Rs. 115 billion for this week. Moreover, today's issuance was a substantial 167% higher than the year-ago issuance of Rs. 74 billion. Regardless, cumulative SDLs issued in Q1 FY2022 (till June 22, 2021) stand at Rs. 1,240 billion, 24.6% lower than the Rs. 1,644 billion indicated for this period, and 20.2% below the Rs. 1,553 billion raised in the year-ago period.

In today's auction, Rs. 145 billion or ~74% of debt was issued in 11-35-year tenors and the balance Rs. 51 billion (~26%) in the 10-year bucket. The weighted average cut-off of the 10-year SDLs stood at 6.86% today, 5 bps higher than 6.80% last week. Notably, in the third tranche of the Government of India securities (G-sec) acquisition programme (G-SAP 1.0) held on June 17, 2021, the market participants offered for sale Rs. 123 billion SDLs to the Reserve Bank of India (RBI) against the notified amount of Rs. 100 billion. Moreover, the RBI accepted bids for only Rs. 54 billion SDLs in this auction or ~44% of the offered amount.

The yield for the 10-year benchmark G-sec (5:85 GS 2030) eased by 2 bps to 6.02% today from 6.04% last week. Accordingly, the spread between the 10-year weighted average SDL cut-off and the G-sec yield widened to 83 bps in today's auction from 76 bps last week.

Additionally, in today's auction, Rajasthan, Kerala and Andhra Pradesh raised Rs. 10 billion 15-year SDLs each at a varying cut-off of 7.04%, 7.09% and 7.13%, respectively. Interestingly, Kerala raised 17 and 20-year SDL at a lower cut-off of 7.06% relative to the 15-year SDL.

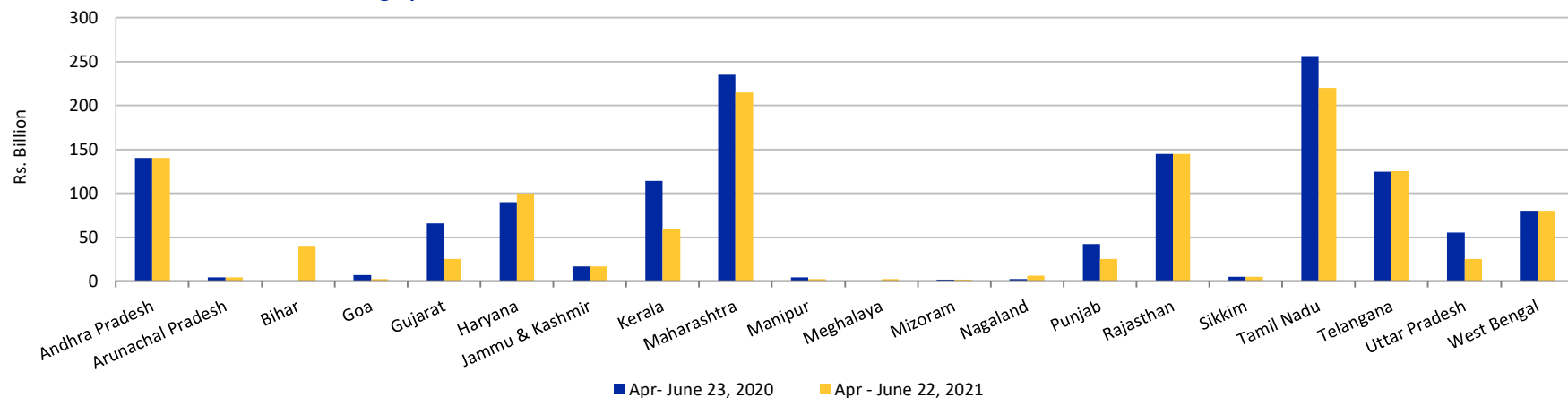
The weighted average cut-off of longer tenor SDLs rose to 7.05% today from 6.98% last week, despite a decline in the average tenor to 17 years from 25 years, respectively, indicating a rise in longer tenor yields. Moreover, ~13% of the SDL issuance last week was in shorter tenor SDLs (weighted average cut-off of 5.82%) compared to nil today. Accordingly, the weighted average cut-off of SDLs increased by 24 bps to a high 7.00% today from 6.75% last week, despite a mild decline in the weighted average tenor to 15 years from 16 years during the same period.

# SDL issuance during April 1-June 22, 2021 has eased by ~20% on a YoY basis

Exhibit: Weekly SDL issuances in Q1 FY2022 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of June 22, 2021	115	196	196	1,240
Week of June 23, 2020	63	81	74	1,553
Growth	82.5%	142.0%	166.7%	-20.2%

Exhibit: Cumulative SDL issuance during April 8-June 22, 2021

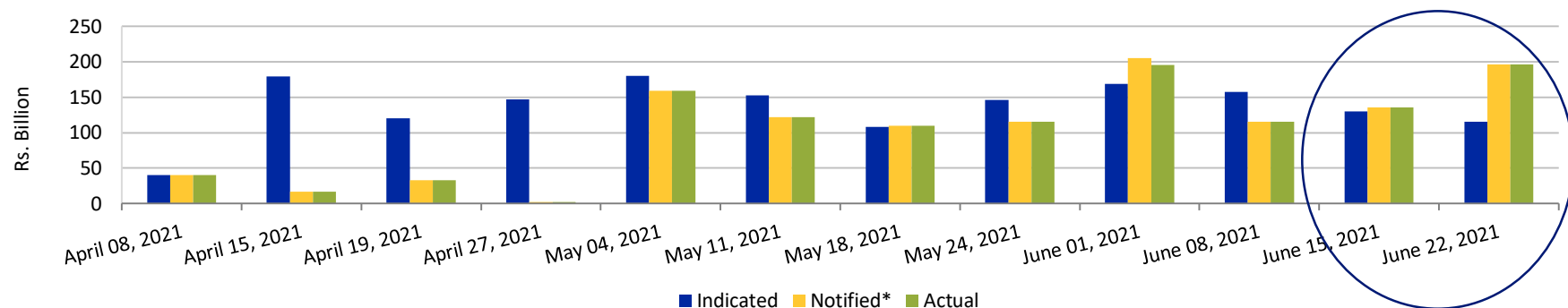


Note: \*Including green shoe

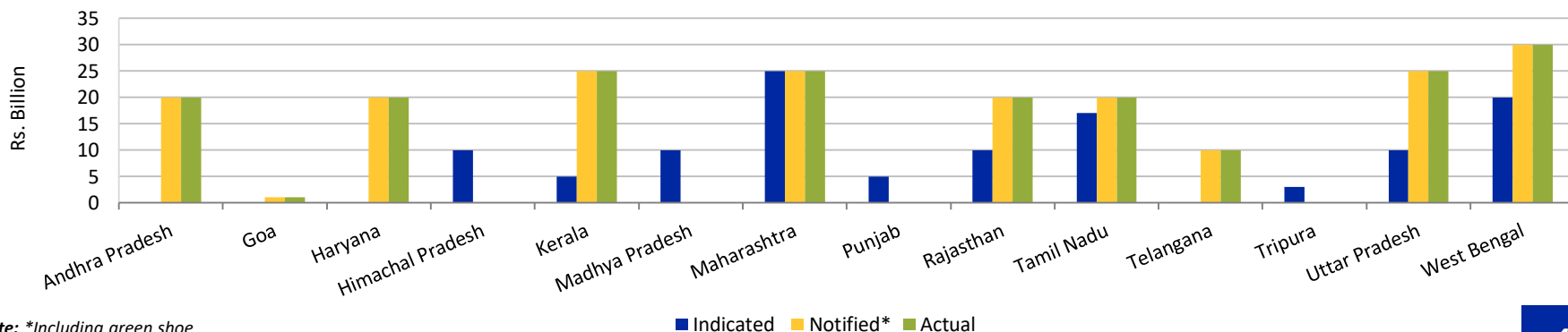
Source: Reserve Bank of India (RBI); ICRA research

# SDL issuance higher than indicative for two consecutive weeks

**Exhibit: Weekly indicated, notified and actual SDL issuances in Q1 FY2022 (so far)**



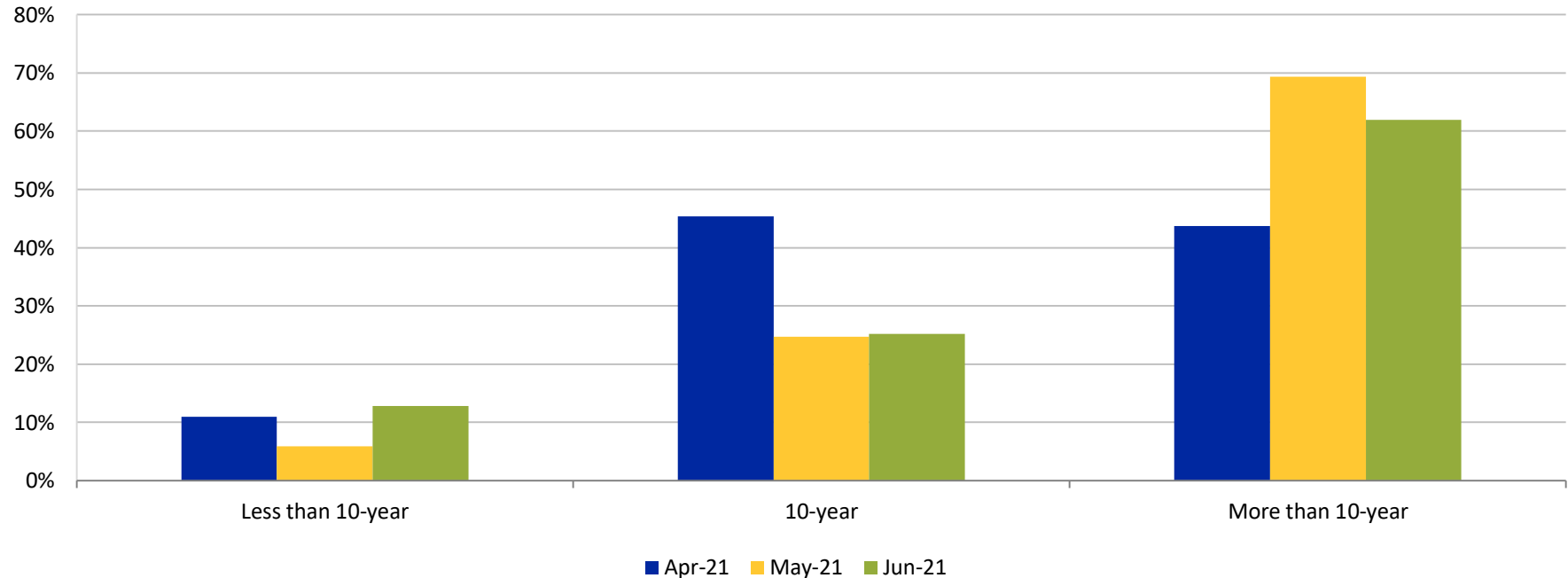
**Exhibit: State-wise indicated, notified and actual SDL issuance on June 22, 2021**



**Note:** \*Including green shoe  
**Source:** RBI; ICRA research

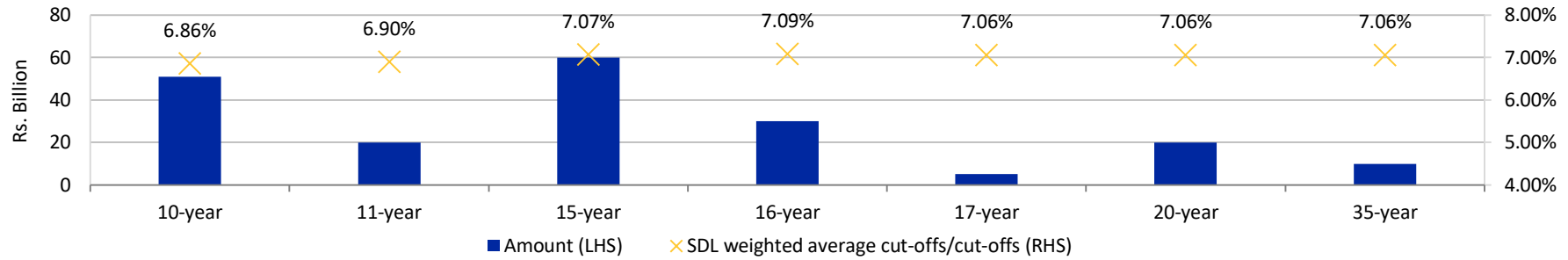
# Despite the concentration of SDL issuance in longer tenors today, the share of the same at 62% in June 2021 (so far) remains lower than 69% in May 2021

Exhibit: Classification of SDL issuance in April-June 2021 (so far)

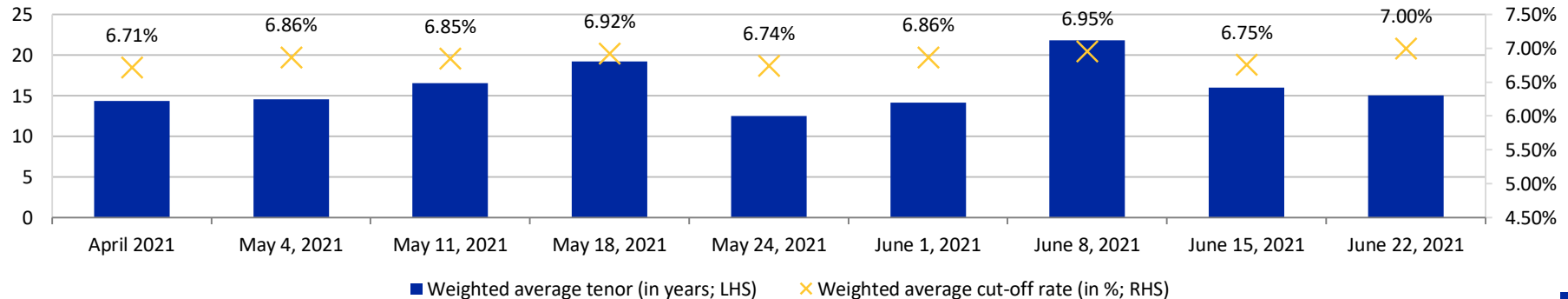


# Weighted average cut-off of SDLs rose by 24 bps to 7.00% from 6.75% last week, highest in the ongoing fiscal

**Exhibit: Tenor-wise SDL issuances and cut-offs on June 22, 2021**



**Exhibit: Weekly weighted average cut-off and tenor of SDLs during April- June 22, 2021**



# Spread between the 10-year SDLs and G-sec widened to 83 bps on June 22, 2021 from 76 bps in last week, highest in Q1 FY2022 so far

## Exhibit: 10-year SDL and G-sec cut-offs

10-year SDL cut-offs	May 24, 2021	June 1, 2021	June 8, 2021	June 15, 2021	June 22, 2021
Goa				6.78%	6.89%
Gujarat				6.75%	
Kerala	6.78%			6.81%	
Maharashtra	6.78%	6.81%		6.80%	6.83%
Nagaland		6.85%			
Punjab			6.81%	6.82%	
Rajasthan	6.76%	6.84%	6.80%	6.84%	
Sikkim	6.78%				
Tamil Nadu					6.83%
Uttar Pradesh					6.88%
<b>Weighted Average 10-year SDL cut-offs (A)</b>	<b>6.78%</b>	<b>6.82%</b>	<b>6.81%</b>	<b>6.80%</b>	<b>6.86%</b>
<b>Minimum 10-year SDL cut-off</b>	<b>6.76%</b>	<b>6.81%</b>	<b>6.80%</b>	<b>6.75%</b>	<b>6.83%</b>
<b>Maximum 10-year SDL cut-off</b>	<b>6.78%</b>	<b>6.85%</b>	<b>6.81%</b>	<b>6.84%</b>	<b>6.89%</b>
<b>10-year G-sec closing yield (B)</b>	<b>5.97%</b>	<b>6.02%</b>	<b>6.01%</b>	<b>6.04%</b>	<b>6.02%</b>
<b>Spread (A-B)</b>	<b>80 bps</b>	<b>80 bps</b>	<b>80 bps</b>	<b>76 bps</b>	<b>83 bps</b>

Source: RBI; ICRA research



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