

STATE GOVERNMENT FINANCES- Weekly SDL

SDL issuance 9% lower than indicated
following early release of GST
compensation loan by the GoI to the states

JULY 19, 2021





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Six state governments raised Rs. 87 billion SDLs, 9.4% lower than the Rs. 96 billion indicated for this week

Spread between the 10-year SDLs and new 10-year G-sec stood at 87 bps today

Weighted average cut-off of SDLs declined by 3 bps to 6.96% in today's auction, despite a mild increase in weighted average tenor to 13 years

· Six state governments raised Rs. 87 billion through state development loans (SDLs) on July 19, 2021, 9.4% lower than initially indicated for this week (Rs. 96 billion) and a YoY decline of 13.0% (Rs. 100 billion).

The Government of India (GoI) had released Rs. 750 billion of the Rs. 1.59 trillion GST back-to-back loan in a single installment to the state governments on July 15, 2021. This is expected to have eased the cash flows of the state governments. Possibly reflecting this, Assam, Gujarat, Kerala and Punjab, which had initially indicated a combined borrowing of Rs. 36 billion for today's auction, chose not to borrow this week. Additionally, Haryana, which had notified Rs. 10 billion 11-year SDL, did not accept any amount in this auction. In contrast, Maharashtra (by Rs. 5 billion), Manipur (by Rs. 2 billion), Rajasthan (by Rs. 10 billion), Tamil Nadu (by Rs. 5 billion) and Telangana (by Rs. 10 billion), borrowed more than what they had initially indicated for this week.

In today's auction, Rs. 57 billion (~66% of the issuance) was raised in the 10-year bucket, Rs. 20 billion (~23% of the issuance) was issued in the longer tenors and the balance Rs. 10 billion (~11%) was issued in 5 and 7 year SDLs. The weighted average cut-off of the 10-year SDLs increased to 7.00% on July 19, 2021 from 6.98% last week. The new 10-year GoI security (G-Sec; 6.10% GS 2031) closed at 6.13% today, ~2 bps higher than last week. Accordingly, the spread between the 10-year weighted average SDL and the new G-sec yield narrowed mildly to 87 bps today from 88 bps last week.

The cut-off of the 5-year SDL stood at 6.27% today, nearly 44 bps lower than the weighted average cut-off of 5 and 7-year SDLs raised last week (6.71%). Shorter tenor rates have eased after the GoI has released Rs. 750 billion as GST compensation loans, as the market no longer expects an imminent step-up in borrowings in the 3- and 5-year buckets for on-lending to the states.

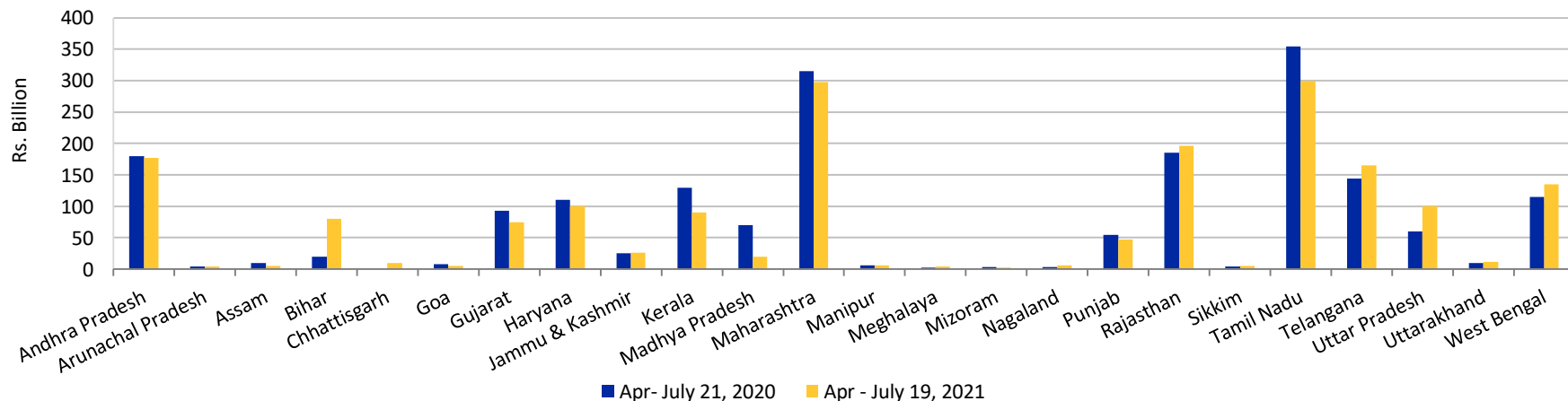
In contrast, the weighted average cut-off of longer tenor SDLs rose by 2 bps to 7.21% on July 19, 2021 from 7.19% last week. Accordingly, the weighted average cut-off SDLs dipped by 3 bps to 6.96% today from 6.99% last week, despite the weighted average tenor of SDLs increasing to 13 years from 12 years in the same period.

SDL issuance declined by 8.3% during April-July 19, 2021 on a YoY basis

Exhibit: SDL issuances during April 8-July 19, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of July 19, 2021	96	97	87	1,869
Week of July 21, 2020	91	105	100	2,038
Growth	6.0%	-7.6%	-13.0%	-8.3%

Exhibit: Cumulative SDL issuance during April 8-July 19, 2021



Note: *Including green shoe

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

SDL issuance in today's auction was 9.4% lower than indicated in the revised Q2 FY2022 market borrowing calendar

Exhibit: Weekly indicated, notified and actual SDL issuances

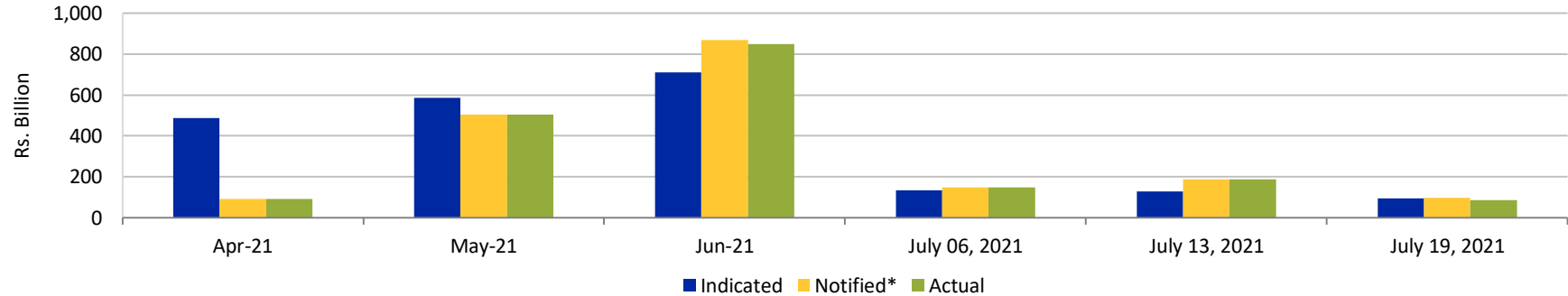
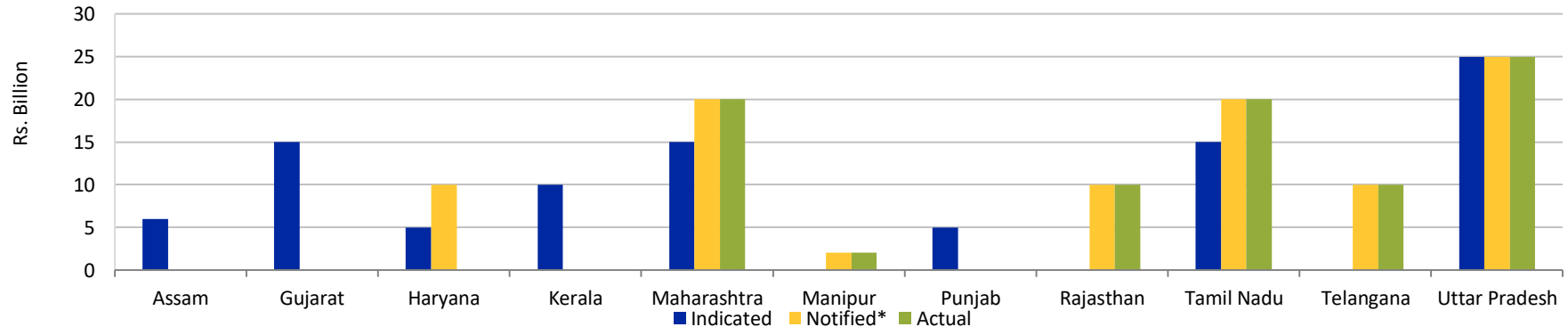


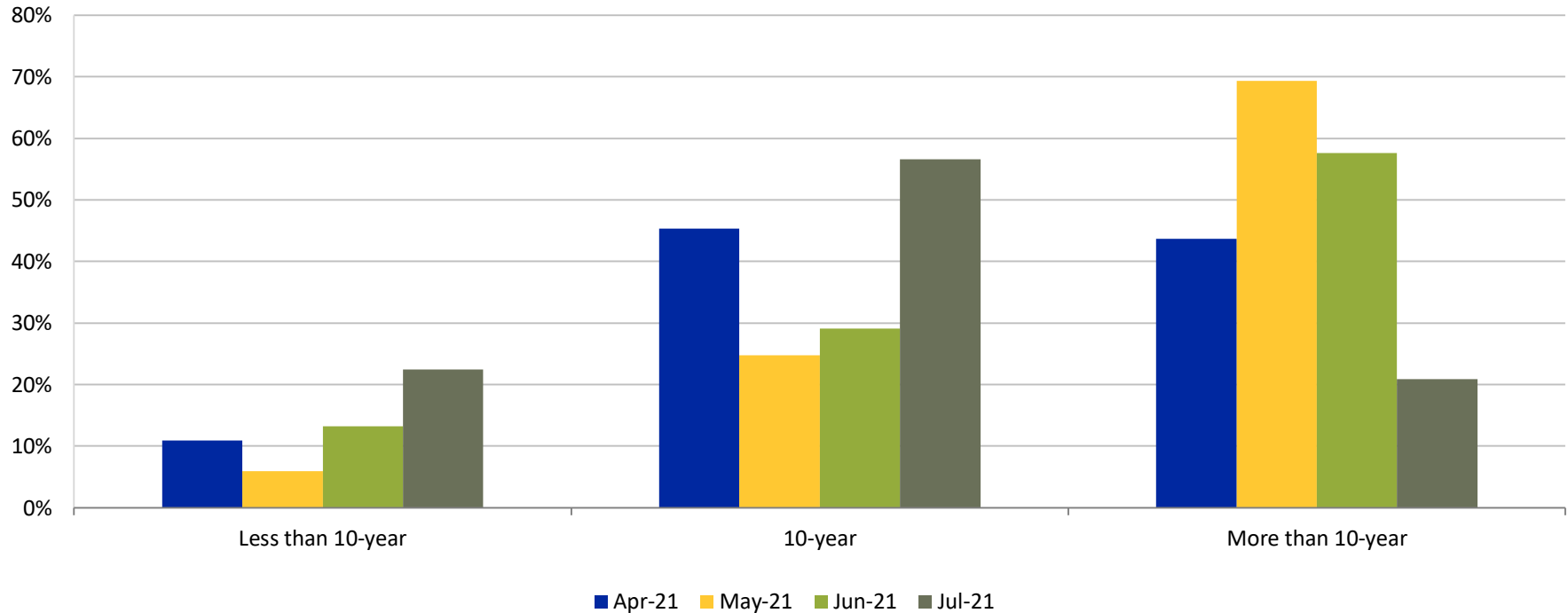
Exhibit: State-wise indicated, notified and actual SDL issuance on July 19, 2021



Note: *Including green shoe

Source: RBI; ICRA research

Share of more-than-10-year SDLs has declined to ~21% in July 2021 (so far), from 43-69% in the previous three months



Weighted average cut-off of SDLs dipped to 6.96% from 6.99% last week

Exhibit: Tenor-wise SDL issuances and cut-offs on July 19, 2021

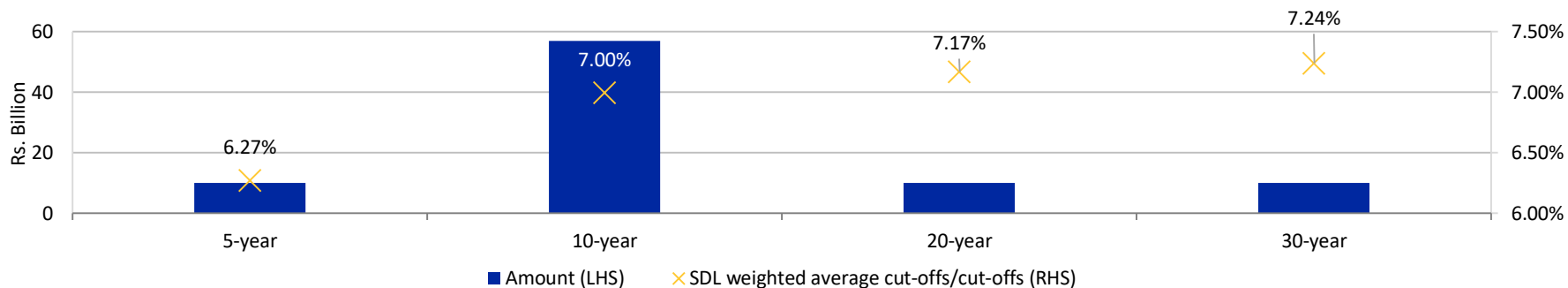
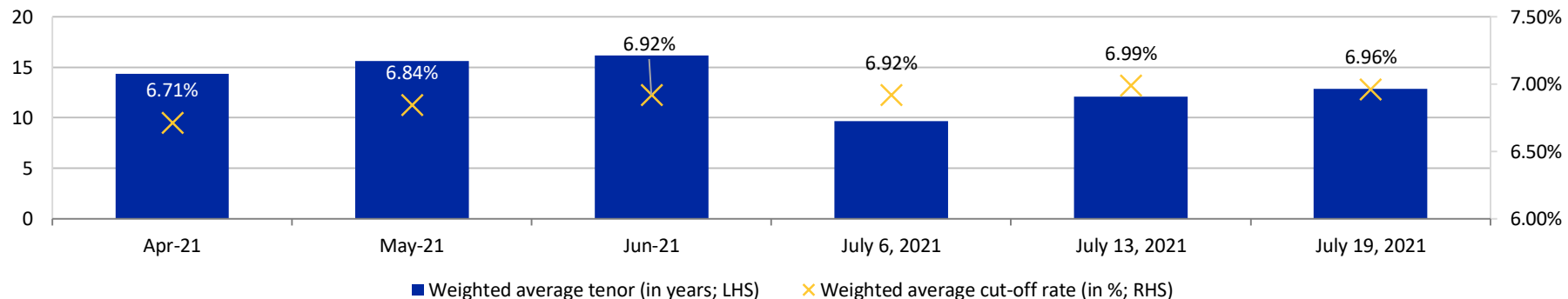


Exhibit: Weighted average cut-off and tenor of SDLs during April- July 19, 2021



Spread between the 10-year SDLs and new G-sec eased mildly to 87 bps on July 19, 2021 from 88 bps last week

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

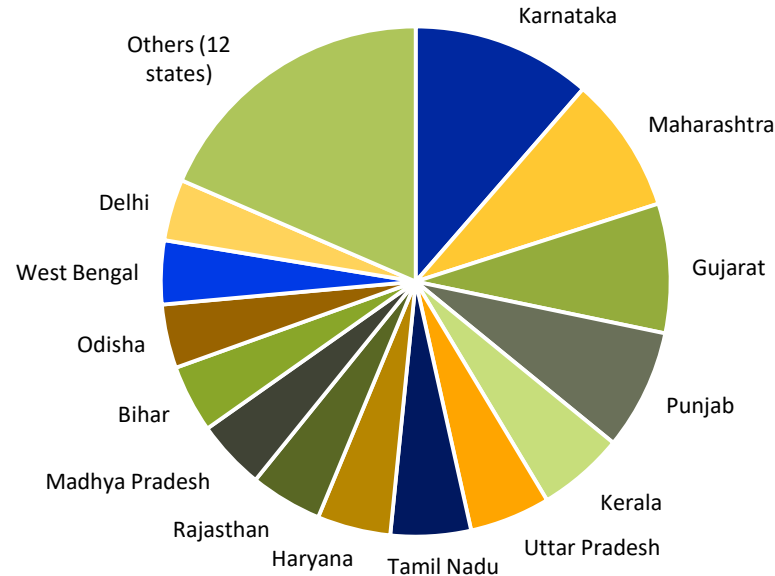
10-year SDL cut-offs	June 22, 2021	June 29, 2021	July 6, 2021	July 13, 2021	July 19, 2021
Goa	6.89%	6.96%	6.99%	6.99%	
Gujarat		6.88%		6.95%	
Madhya Pradesh				7.00%	
Maharashtra	6.83%	6.89%	6.94%	6.95%	6.99%
Manipur		7.00%			7.01%
Punjab		6.95%	6.99%		
Rajasthan		6.91%	6.97%	7.00%	
Tamil Nadu	6.83%		6.95%*	6.98%^	6.97%
Uttar Pradesh	6.88%	6.94%		6.99%	7.01%
Uttarakhand		6.94%		7.00%	
West Bengal				7.02%	
Weighted Average 10-year SDL cut-offs (A)	6.86%	6.92%	6.96%	6.98%	7.00%
Minimum 10-year SDL cut-off	6.83%	6.88%	6.94%	6.95%	6.97%
Maximum 10-year SDL cut-off	6.89%	7.00%	6.99%	7.02%	7.01%
10-year G-sec closing yield (B)[#]	6.02%	6.04%	6.18%	6.10%	6.13%
Spread (A-B)	83 bps	88 bps	79 bps	88 bps	87 bps

Note: *Tamil Nadu (TN) also reissued a 10-year security (6.83% TN SDL 2031) at 6.96% on July 6, 2021; ^TN reissued a 10-year security (6.95% TN SDL 2021) at 6.99% on July 13, 2021; # Closing yield of 10-year G-sec from July 13, 2021 onwards refers to the new 10-year G-sec 6.10% GS 2031

Source: RBI; ICRA research

Seven states comprise more than half of the Rs. 750 billion GST compensation loan released in July 2021

Exhibit: State-wise share of Rs. 750 billion back-to-back GST compensation loan



- The GoI on May 28, 2021, had decided to borrow Rs. 1.59 trillion and lend it to the state governments/UTs on a back-to-back basis as GST compensation loan (as it did in FY2021).
- On July 15, 2021, the GoI released Rs. 750 billion in a single installment to the states/UTs, with the aim of helping states for planning their expenditure priorities.
- The unexpected block release of GST compensation shortfall of Rs. 750 billion is expected to be positive for the states' cash flows; may dampen SDL issuance in next few weeks.
- State-wise trends may be guided by size of share in Rs. 750 billion, own revenue growth based on timing of unlocking.



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