

STATE GOVERNMENT FINANCES- Weekly SDL

**Spread between 10-year SDL and G-
sec yield remains around 67 bps**

SEPTEMBER 14, 2021





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11 state governments raised Rs. 138 billion SDLs today, ~7% lower than the Rs. 149 billion indicated for this week

Spread between the 10-year SDLs and G-sec remained around 67 bps

Weighted average cut-off of SDLs eased by 2 bps to 6.87%, with decline in weighted average tenor to 11 years

Eleven state governments raised Rs. 138 billion through state development loans (SDLs) on September 14, 2021, nearly 7% lower than the initially indicated Rs. 149 billion, and a mild 1.1% below the year-ago level (Rs. 140 billion).

Initially, 11 state governments had indicated that they would borrow Rs. 149 billion in today's auction, of which five (Bihar, Karnataka, Rajasthan, Tamil Nadu and Uttarakhand)) chose not to participate. Additionally, West Bengal borrowed Rs. 10 billion less in today's auction than what had been initially indicated for this week. In contrast, Maharashtra (by Rs. 15 billion), and Punjab (by Rs. 3 billion) undertook higher-than-indicated borrowings. Moreover, Andhra Pradesh, Chhattisgarh, Jharkhand, Madhya Pradesh and Manipur raised Rs. 46 billion in today's auction, even though they had originally not indicated that they would participate.

Overall, SDL issuance has trailed the indicative level in eight of the 11 weekly auctions in Q2 FY2022 (so far). Cumulatively, 26 state governments/Union Territory (except Karnataka, Odisha, Tripura and Puducherry) have borrowed Rs. 2,828 billion SDLs so far in FY2022, 9.5% lower than the year-ago (Rs. 3,124 billion) level.

In today's auction, Rs. 68 billion or ~49% of the total issuance was in the 10-year bucket, Rs. 60 billion or ~43% was in longer tenor issuances and the remaining Rs. 10 billion (~7%) was in 7-year paper.

The weighted average cut-off of 10-year SDLs remained stable at 6.87% on September 14, 2021, in line with last week. The 10-year G-sec (6.10% GS 2031) yield closed at 6.20% today, 1 bp higher than last Tuesday's closing, despite the four-month low CPI inflation print of 5.3% in August 2021. It appears that concerns over borrowing by the Government of India in H2 FY2022 on account of the GST compensation back-to-back loan to the states, pushed up the G-sec yield. Accordingly, the spread between the 10-year weighted average SDL and the G-sec yield remained stable at around 67 bps today, in line with last week.

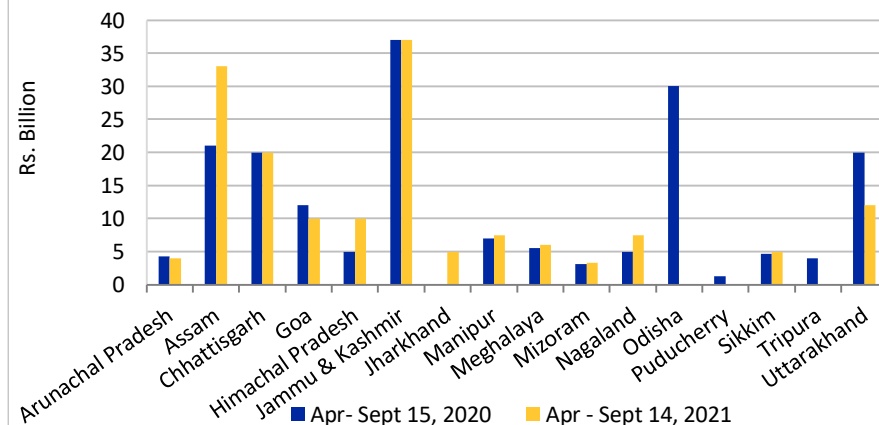
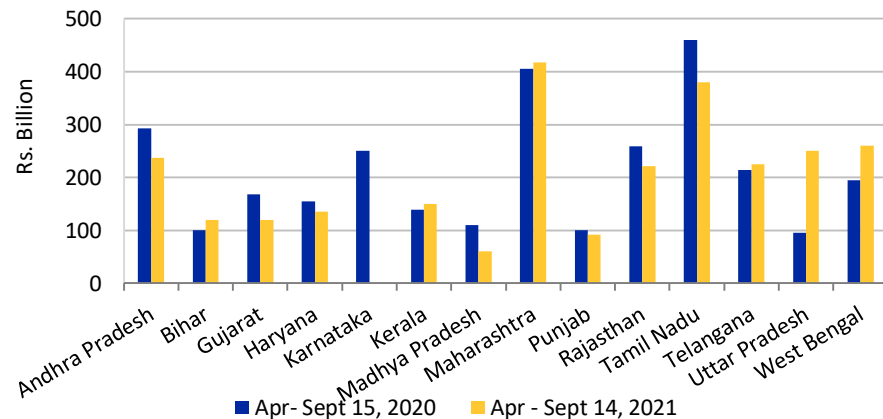
The weighted average cut-off of the aggregate SDL issuance eased by 2 bps to 6.87% today from 6.89% last week, with the weighted average tenor of SDLs declining to 11 years from 12 years.

SDL issuance declined by 9.5% during April-Sept 14, 2021 on a YoY basis, with lower issuance by 14 state governments/UT

Exhibit: SDL issuances during April 8-Sept 14, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Sept 14, 2021	149	138	138	2,828
Week of Sept 15, 2020	90	140	140	3,124
Growth	65.6%	-1.1%	-1.1%	-9.5%

Exhibit: Cumulative SDL issuance during April 8-Sept 14, 2021

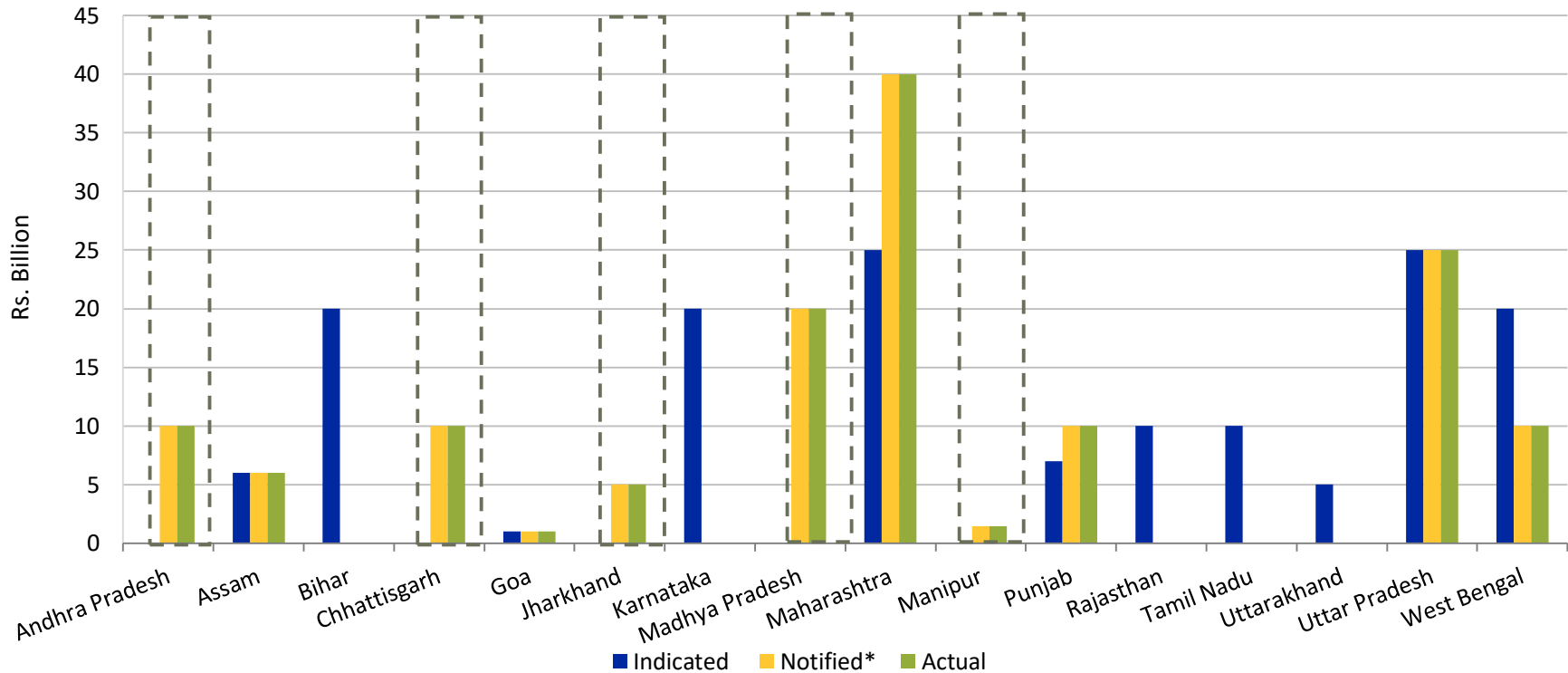


Note: *Including green shoe

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

A third of today's issuance was led by five states that had not initially indicated their participation in this auction

Exhibit: State-wise indicated, notified and actual SDL issuance on Sept 14, 2021

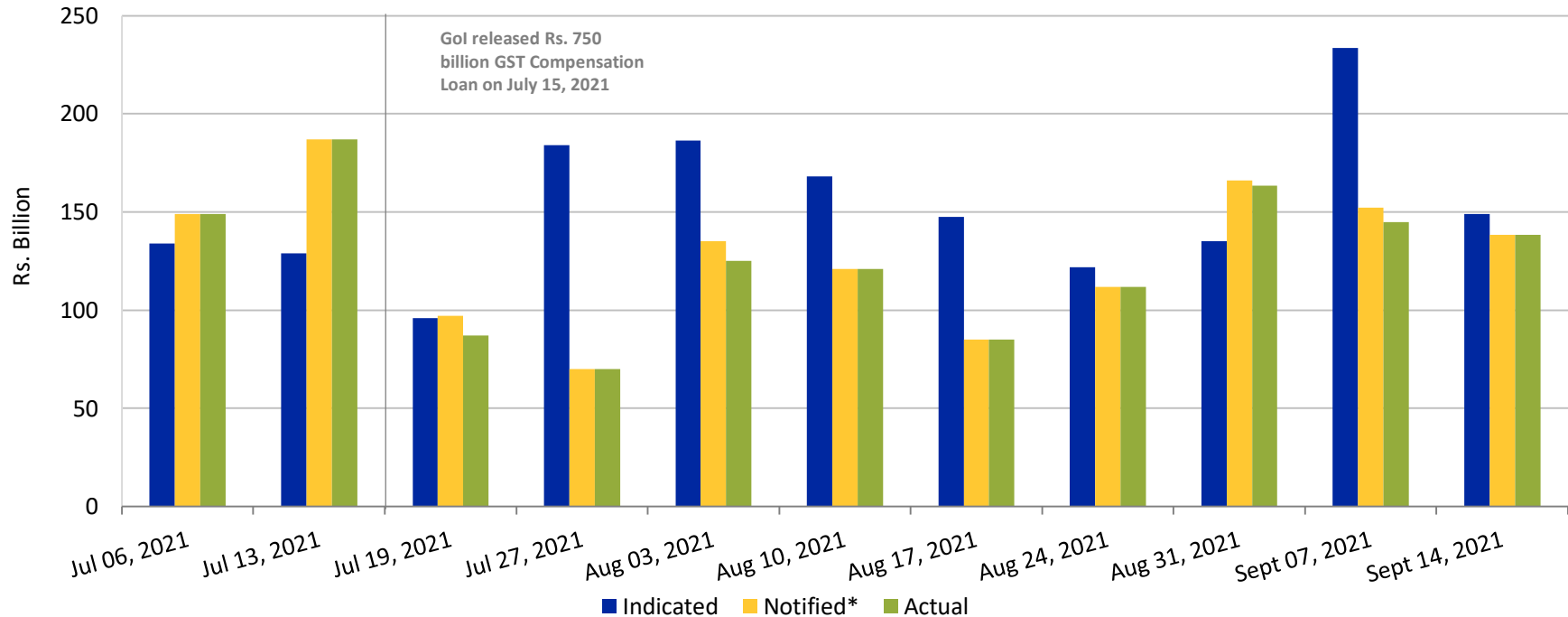


Note: *Including green shoe

Source: RBI; ICRA research

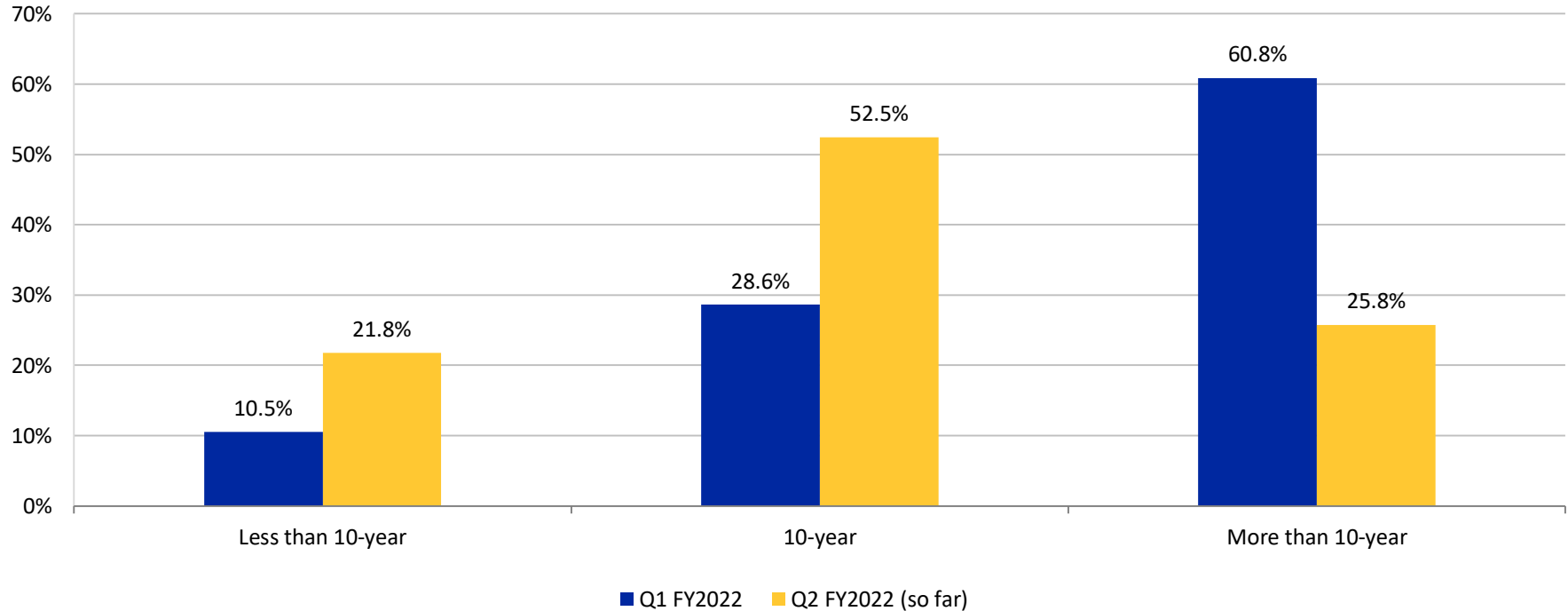
SDL issuance has been lower than indicated in eight of the 11 SDL auctions in Q2 FY2022 (so far)

Exhibit: Indicated, notified and actual SDL issuances in Q2 FY2022 (so far)



Share of shorter tenor and 10-year issuances has risen sharply in Q2 FY2022 (so far), relative to Q1 FY2022

Exhibit: Classification of SDL issuance in FY2022 (so far)



Weighted average cut-off of SDLs softened to 6.87% today from 6.89% last week

Exhibit: Tenor-wise SDL issuances* and cut-offs on Sept 14, 2021

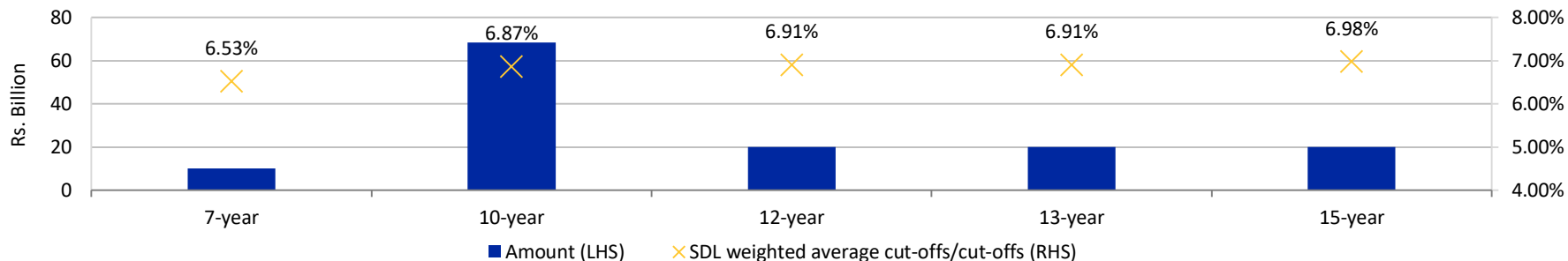
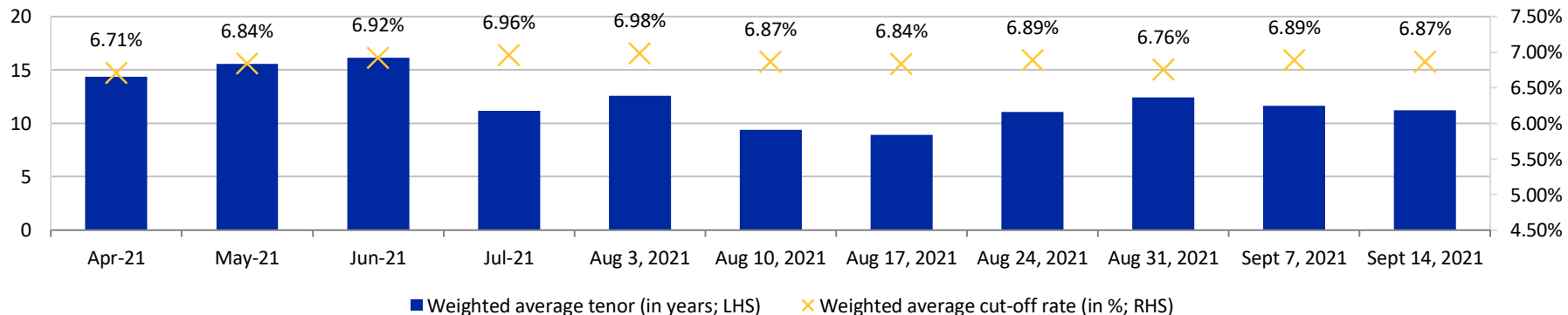


Exhibit: Weighted average cut-off and tenor of SDLs during April- Sept 14, 2021



Note: *Meghalaya raised Rs. 1 billion in a 3-year SDL and Mizoram raised Rs. 0.8 billion in a 13-year SDL in today's auction

Source: RBI; ICRA research

Spread between the 10-year SDLs and G-sec remained stable around 67 bps on September 14, 2021

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

10-year SDL cut-offs	Aug 17, 2021	Aug 24, 2021	Aug 31, 2021	Sept 7, 2021	Sept 14, 2021
Assam	6.97%	6.98%			6.87%
Goa		6.97%		6.88%	6.85%
Gujarat				6.84%	
Haryana			6.87%		
Himachal Pradesh			6.93%		
Jharkhand					6.87%
Kerala		6.97%			
Madhya Pradesh					6.85%
Manipur					6.87%
Nagaland	6.97%				
Punjab	6.97%		6.96%	6.89%	6.88%
Rajasthan			6.91%	6.87%	
Tamil Nadu	6.97%	6.95%			
Uttar Pradesh	6.97%	6.98%		6.89%	6.87%
West Bengal		6.99%		6.85%	
Weighted Average 10-year SDL cut-offs (A)	6.97%	6.98%	6.92%	6.87%	6.87%
Minimum 10-year SDL cut-off	6.97%	6.95%	6.87%	6.84%	6.85%
Maximum 10-year SDL cut-off	6.97%	6.99%	6.96%	6.89%	6.88%
10-year G-sec closing yield (B)	6.23%	6.25%	6.22%	6.19%	6.20%
Spread (A-B)	74 bps	73 bps	70 bps	67 bps	67 bps



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