

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cut-off of SDLs
declines by 7 bps to 6.80%, with easing
across tenors**

SEPTEMBER 21, 2021





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Eight state governments raised Rs. 89 billion SDLs, ~91% higher than the Rs. 47 billion indicated for this week

Spread between the 10-year SDLs and G-sec eased to 65 bps from 67 bps

Weighted average cut-off of SDLs declined by 7 bps to 6.80% led by lower cut-offs across tenors

Liquidity tightness remained limited to a few states in Apr-Jul FY2022

Eight state governments raised Rs. 89 billion through state development loans (SDLs) on September 21, 2021, a sharp ~91% higher than the initially indicated (Rs. 47 billion). However, the same was 37.7% lower than the year-ago level (Rs. 143 billion). Gujarat and Punjab, which had initially indicated that they would borrow a combined Rs. 15 billion, did not participate in today's auction. In contrast, Maharashtra borrowed Rs. 5 billion more than indicated for this week. Additionally, Andhra Pradesh, Kerala, Madhya Pradesh, Rajasthan and Sikkim raised Rs. 53 billion in today's auction, even though they had originally not indicated that they would participate in today's auction.

Overall, the SDL issuance has trailed the indicated level in eight of the 12 weekly auctions in Q2 FY2022 (so far). Cumulatively, 26 state governments/Union Territory (except Karnataka, Odisha, Tripura and Puducherry) have borrowed Rs. 2,917 billion SDLs so far in FY2022, 10.7% lower than the year-ago (Rs. 3,267 billion) level.

In today's auction, Rs. 69 billion or ~78% of the total issuance was in the 10-year bucket and the remaining Rs. 20 billion (~22%) was in longer tenors. The weighted average tenor of SDLs stood at 11 years in today's auction, unchanged from last auction.

On September 20, 2021, the Reserve Bank of India (RBI) had announced a simultaneous purchase of Rs. 150 billion longer tenor Government securities (G-secs) from the secondary market and sale of Rs. 150 billion shorter tenor G-secs on September 23, 2021. Following this, the 10-year G-sec (6.10% GS 2031) yield softened by 8 bps to 6.12% today from 6.20% last Tuesday. Moreover, the weighted average cut-off of 10-year SDLs declined by 9 bps to 6.78% from 6.87% during the same period. Accordingly, the spread between the 10-year weighted average SDL and the G-sec yield eased to 65 bps today from 67 bps last Tuesday. The weighted average cut-off of the aggregate SDL issuance declined by 7 bps to 6.80% today from 6.87% in last auction, led by softening cut-offs across tenors.

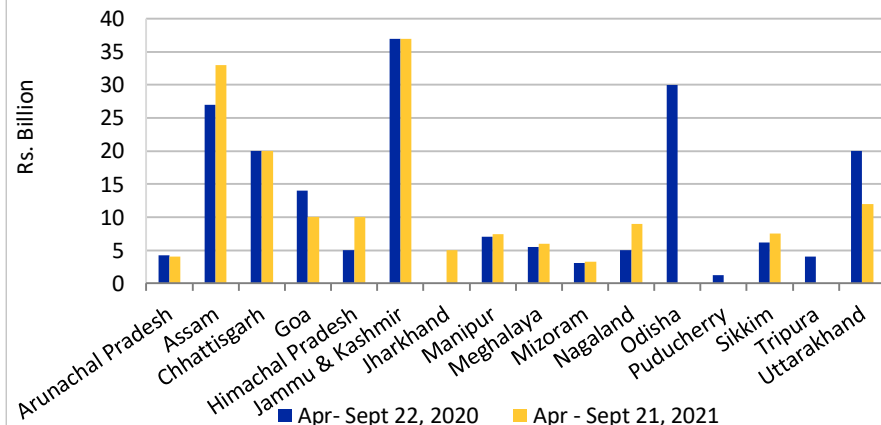
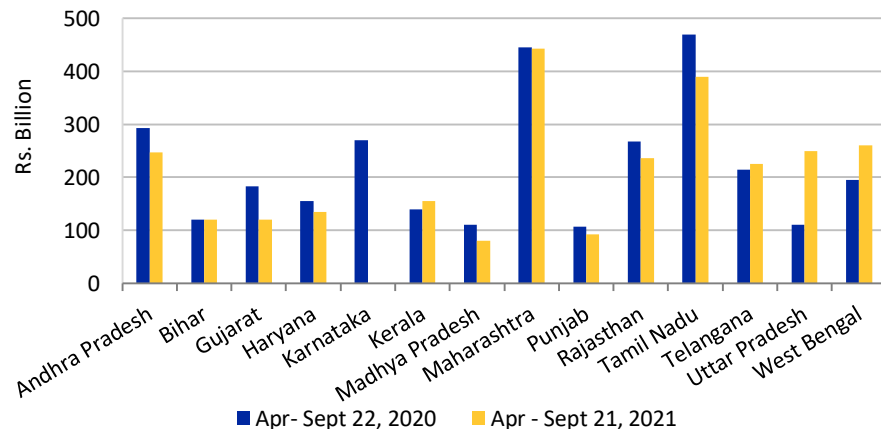
Notably, the usage of Ways and Means Advances (WMA) and Overdraft (OD) facilities by the states from the RBI increased in Apr-Jul FY2022 from the year-ago level. This was led by a few states whose SDL issuance was also higher-than-indicated in that period, indicating that liquidity tightness was limited to certain states during Apr-Jul FY2022.

SDL issuance declined by 10.7% during April-Sept 21, 2021 on a YoY basis, with lower issuance by 15 state governments/UT

Exhibit: SDL issuances during April 8-Sept 21, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Sept 21, 2021	47	89	89	2,917
Week of Sept 22, 2020	112	143	143	3,267
Growth	-58.5%	-37.7%	-37.7%	-10.7%

Exhibit: Cumulative SDL issuance during April 8-Sept 21, 2021

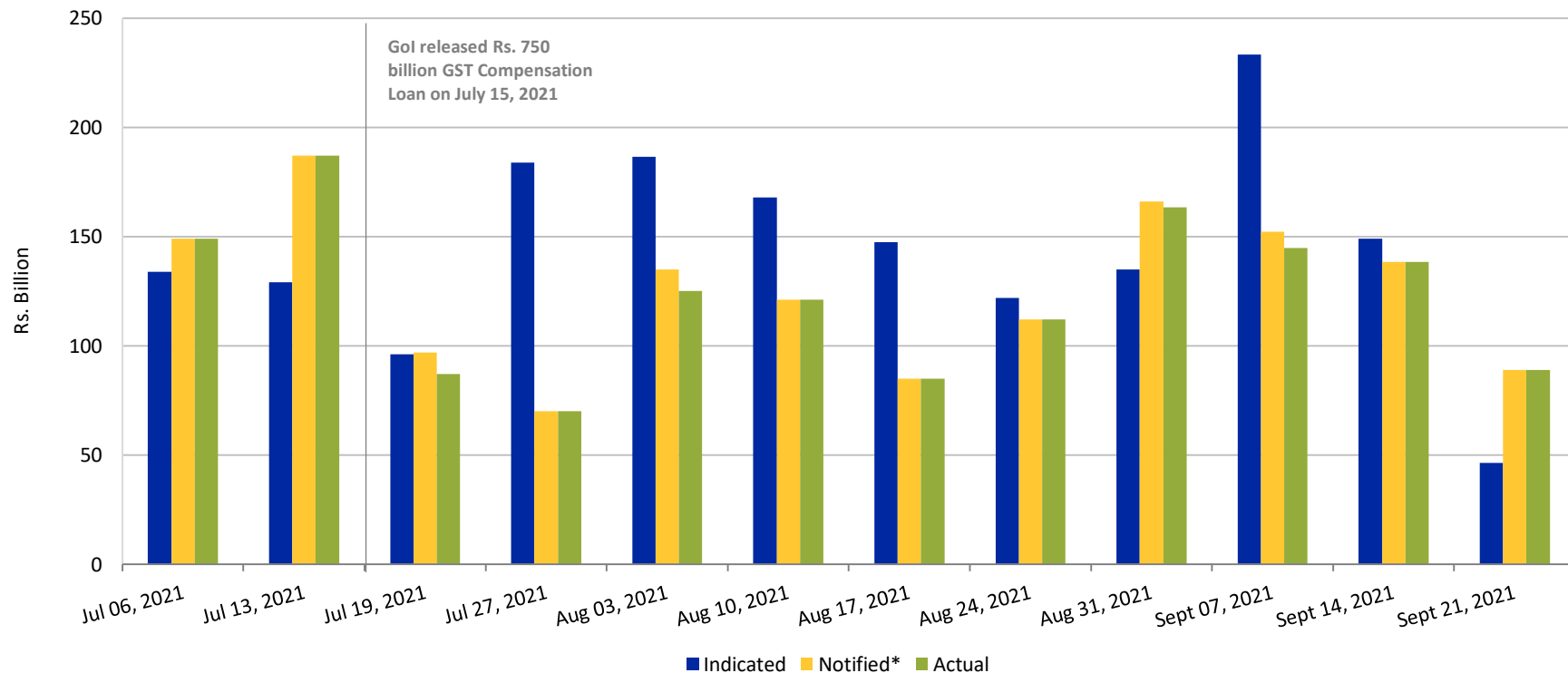


Note: *Including green shoe

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

SDL issuance in today's auction is nearly double the indicated level for this week

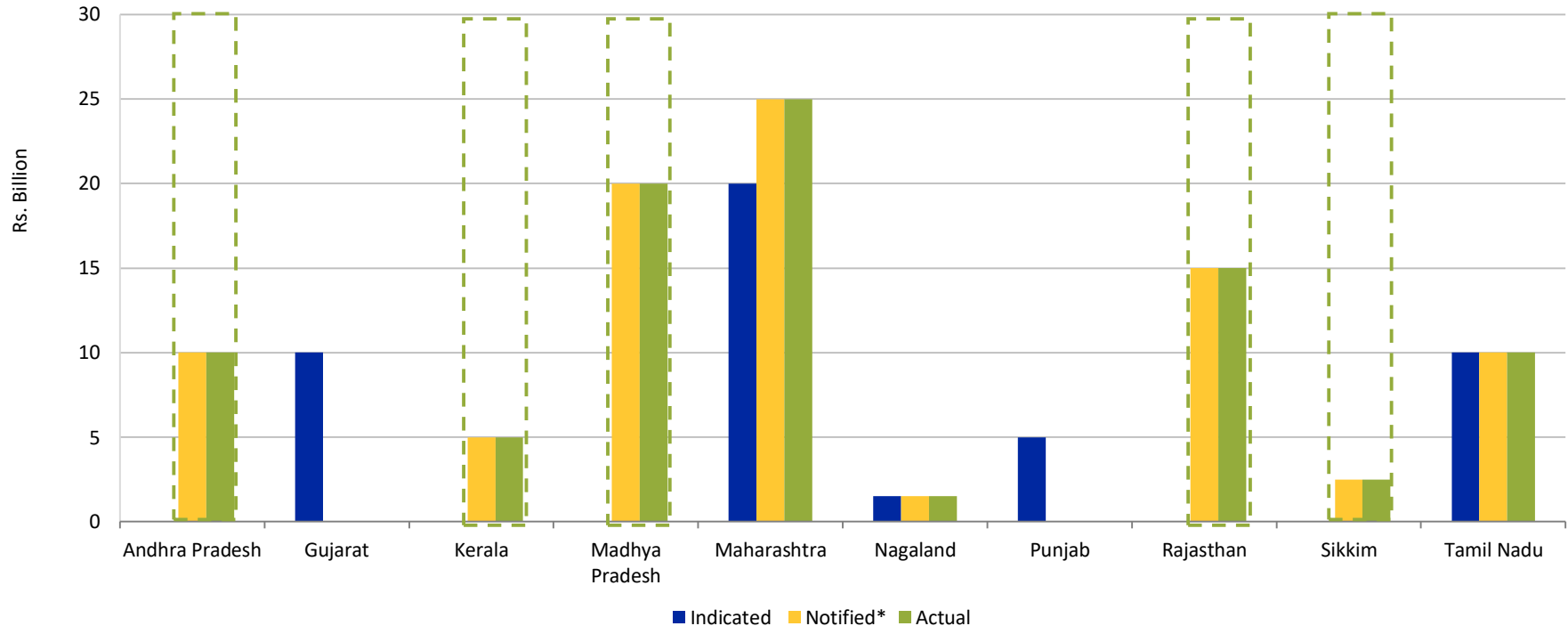
Exhibit: Indicated, notified and actual SDL issuances in Q2 FY2022 (so far)



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

Five states that had not initially indicated their participation in today's auction, issued Rs. 53 billion SDLs

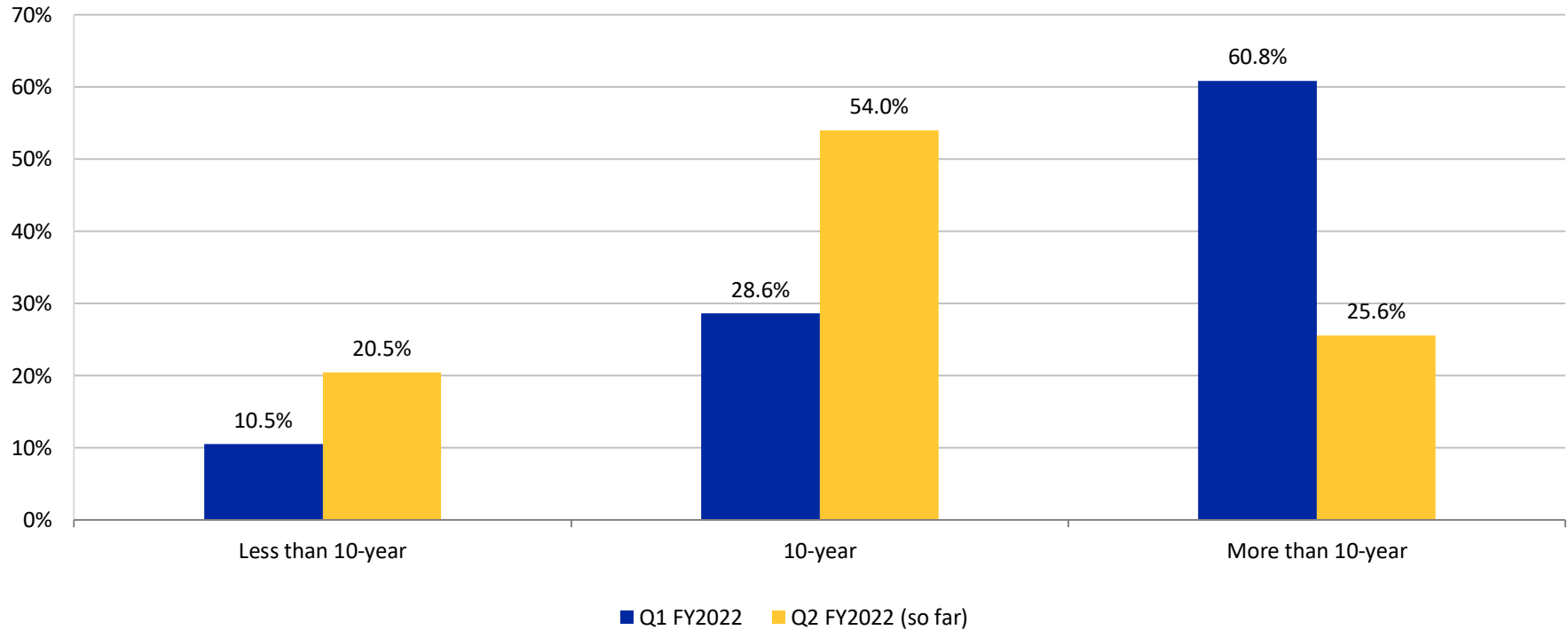
Exhibit: State-wise indicated, notified and actual SDL issuance on Sept 21, 2021



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

Sharp rise in share of 10-year issuances in Q2 FY2022 (so far), relative to Q1 FY2022

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



Cut-off of 10-year SDLs softened to 6.78% today from 6.87% last week

Exhibit: Tenor-wise SDL issuances* and cut-offs on Sept 21, 2021

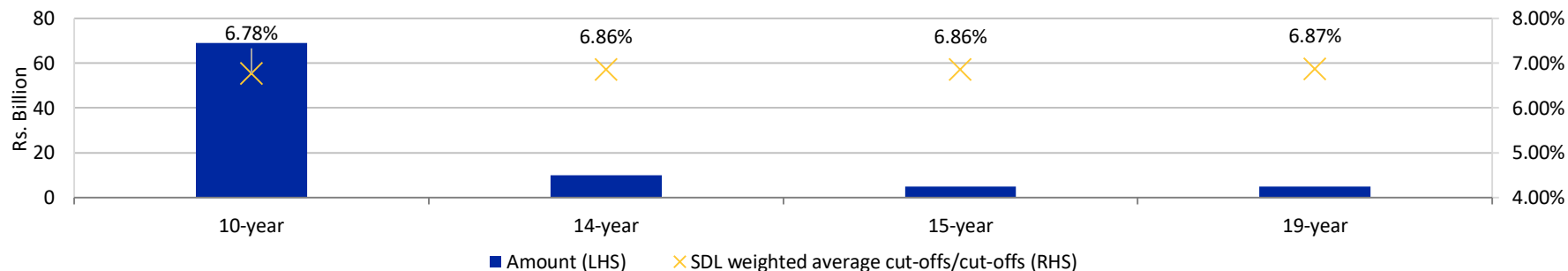
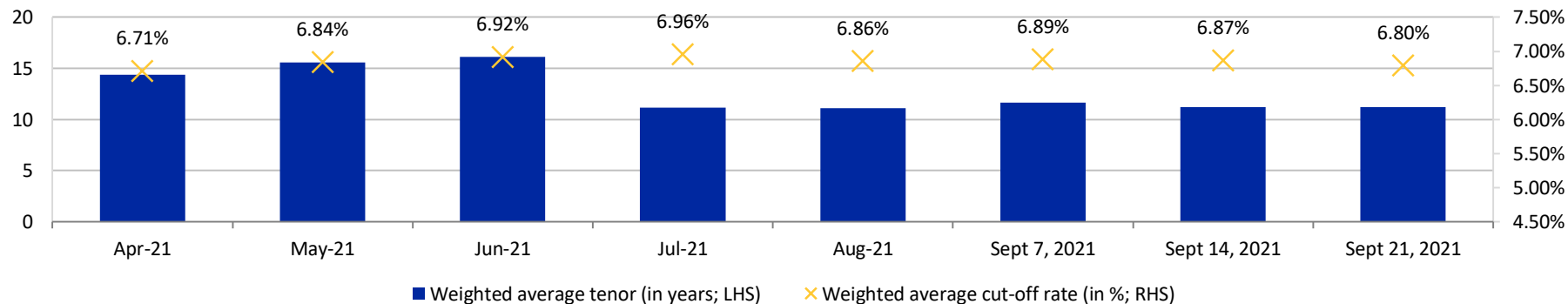


Exhibit: Weighted average cut-off and tenor of SDLs during April- Sept 21, 2021



Spread between the 10-year SDLs and G-sec eased to 65 bps on September 21, 2021 from 67 bps last week

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

10-year SDL cut-offs	Aug 24, 2021	Aug 31, 2021	Sept 7, 2021	Sept 14, 2021	Sept 21, 2021
Assam	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%	6.79%
Maharashtra					6.77%
Manipur				6.87%	
Nagaland					6.80%
Punjab		6.96%	6.89%	6.88%	
Rajasthan		6.91%	6.87%		6.77%
Sikkim					6.80%
Tamil Nadu	6.95%				6.76%
Uttar Pradesh	6.98%		6.89%	6.87%	
West Bengal	6.99%		6.85%		
Weighted Average 10-year SDL cut-offs (A)	6.98%	6.92%	6.87%	6.87%	6.78%
Minimum 10-year SDL cut-off	6.95%	6.87%	6.84%	6.85%	6.76%
Maximum 10-year SDL cut-off	6.99%	6.96%	6.89%	6.88%	6.80%
10-year G-sec closing yield (B)	6.25%	6.22%	6.19%	6.20%	6.12%
Spread (A-B)	73 bps	70 bps	67 bps	67 bps	65 bps

Liquidity tightness remained limited to a few states/UT in Apr-July FY2022

Exhibit: Number of days the facilities were availed by states/UTs during Apr-Jul FY2022

	AP	AR	CT	GA	HR	HP	JK	JH	KL	MH	MN	ML	MZ	NL	PY	PB	RJ	TS	TR	UK	WB
SDF	105		26	26	-	1			47		-	12	-	103	1	5		91		5	-
WMA	94			19	5	4	107		46		113	5	45	51		-		84		1	-
OD	63						77		14		57		4	19				56			

Incremental decline during Apr-Jul FY2022 over Apr-Jul FY2021	No change in Apr-Jul FY2022 over Apr-Jul FY2021	Incremental increase during Apr-Jul FY2022 over Apr-Jul FY2021	Did not avail during Apr-Jul FY2021 and Apr-Jul FY2022
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Note: Note: AP-Andhra Pradesh; AR-Arunachal Pradesh; CT-Chhattisgarh; GA-Goa; HR-Haryana; HP-Himachal Pradesh; JK-Jammu & Kashmir; JH-Jharkhand; KL-Kerala; MH-Maharashtra; MN-Manipur; ML-Meghalaya; MZ-Mizoram; NL-Nagaland; PY-Puducherry; PB-Punjab; RJ-Rajasthan; TS-Telangana; TR-Tripura; UK-Uttarakhand and WB-West Bengal

- The RBI provides financial accommodation to the states/UTs in the form of special drawing facility (SDF), WMA and OD for overcoming temporary mismatches in their receipts and payments.
- The number of states/UT availing SDF declined to 11 in Apr-Jul FY2022 from 12 in Apr-Jul FY2021 and the number of days for which SDF was availed also eased (to 422 from 486) during this period.
- Although the number of states/UT availing WMA in Apr-Jul FY2022 remained stable at 12 from Apr-Jul FY2021, the combined number of days for which these states availed WMA rose to 574 from 387, respectively.
- In addition, the number of states/UT availing OD rose to seven in Apr-Jul FY2022 from six in Apr-Jul FY2021 (with the addition of Mizoram), and the number of days for which these states were in OD also increased sharply to 290 from 50 during the same period.
- At the same time, the aggregate SDL issuance by the state governments during Apr-Jul FY2022 was nearly 10% lower than the year-ago level and ~17% lower than the amount that had been initially indicated for that period.
- However, during Apr-Jul FY2022, Andhra Pradesh, Jammu & Kashmir, Manipur, Nagaland and Telangana not only increased their frequency of availing WMA facilities from the RBI relative to Apr-Jul FY2021, but also borrowed more SDLs compared to what they had initially indicated for that period.



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