

## STATE GOVERNMENT FINANCES- Weekly SDL

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**Spread between 10-year SDLs and G-sec eased to 51 bps today, lowest so far in FY2022**

**November 30, 2021**





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*5 state governments raised Rs. 57 billion SDLs, a sharp ~71% lower than the indicated level for this week*

*Spread between the 10-year SDLs and G-sec eased to 51 bps today from 53 bps last week*

*Weighted average cut-off of SDLs eased by 19 bps to a low 6.43% in today's auction*

Five state governments raised a modest Rs. 57 billion through state development loans (SDLs) on November 30, 2021, a substantial ~71% lower than the Rs. 197 billion that had been estimated in the auction calendar for this quarter. Ten out of the 14 state governments that had initially indicated their participation in today's auction, did not borrow today and two states raised a lower-than-indicated amount for this week.

Overall, the SDL issuance has trailed the amount included in the auction calendar for the fifth consecutive week today. This trend reflects the easing of the cash-flow situation of the large recipient states following the up-fronting of the balance amount of the back-to-back goods and services tax (GST) compensation loan and a step-up in the monthly tax devolution amount for November 2021.

The SDL issuance in today's auction was also a sharp 68.8% lower than the year-ago borrowing (Rs. 182 billion). Cumulatively, 29 state governments/UTs (except Odisha) have borrowed Rs. 4,119 billion SDLs during Apr-Nov 2021, 16.1% lower than the same period last year (Rs. 4,910 billion).

In today's auction, Rs. 22 billion (~38% of the issuance) was raised in the 10-year bucket, Rs. 20 billion (~35%) was issued in longer tenors and the balance Rs. 15 billion (~26%) was borrowed in shorter tenor SDLs (2- and 5-years). The weighted average tenor of SDLs increased to 13 years today (in 2 to 25-year SDLs) from 10 years last week (in 2 to 20-year SDLs).

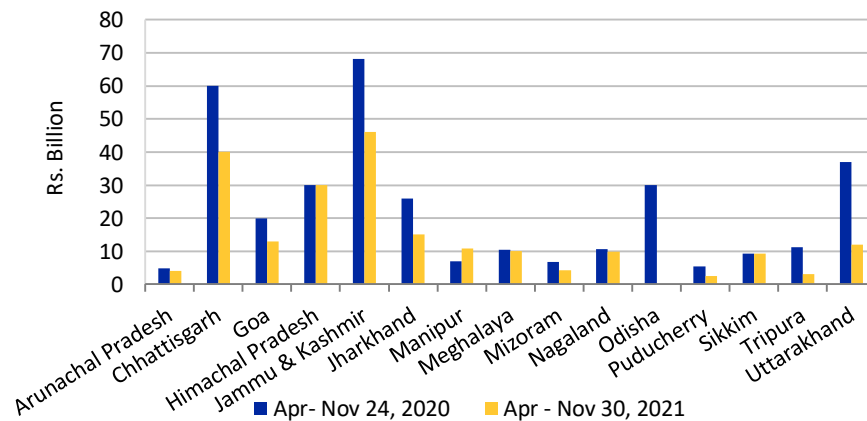
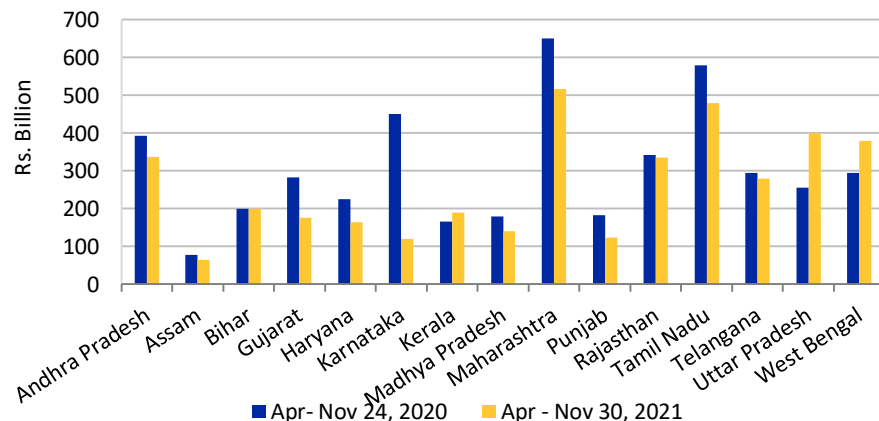
The weighted average cut-off of the 10-year SDL stood at 6.84% today, ~6 bps lower than last Tuesday. The benchmark 10-year Government of India security (G-sec; 6:10 GS 2031) yield declined by 4 bps to 6.33% today from 6.37% last Tuesday, led by fall in global crude oil prices. Accordingly, the spread between the 10-year weighted average SDL and G-sec yield eased to 51 bps from 53 bps, respectively. Overall, the weighted average cut-off of SDLs eased by 19 bps to 6.43% today (lowest so far) from 6.62% in the last auction.

# SDL issuance declined by 16.1% during April-Nov, 2021 on a YoY basis, led by 23 states/UTs

Exhibit: SDL issuances during April 8-Nov 30, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Nov 30, 2021	197	63	57	4,119
Week of Nov 24, 2020	186	187	182	4,910
Growth	6.1%	-66.4%	-68.8%	-16.1%

Exhibit: Cumulative SDL issuance during April 8-Nov 30, 2021

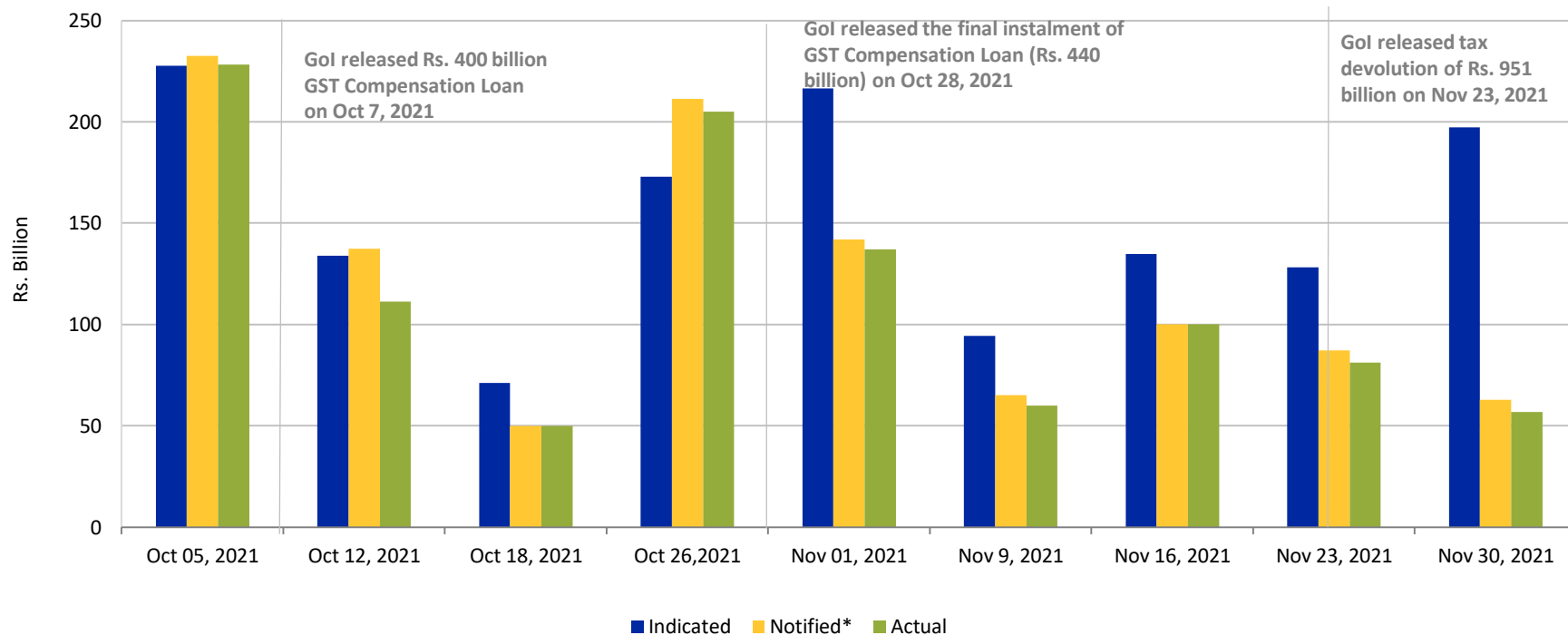


Note: \*Including green shoe

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

# SDL issuance was lower-than-indicated for the fifth consecutive week

Exhibit: Indicated, notified and actual SDL issuances in Q3 FY2022 (so far)

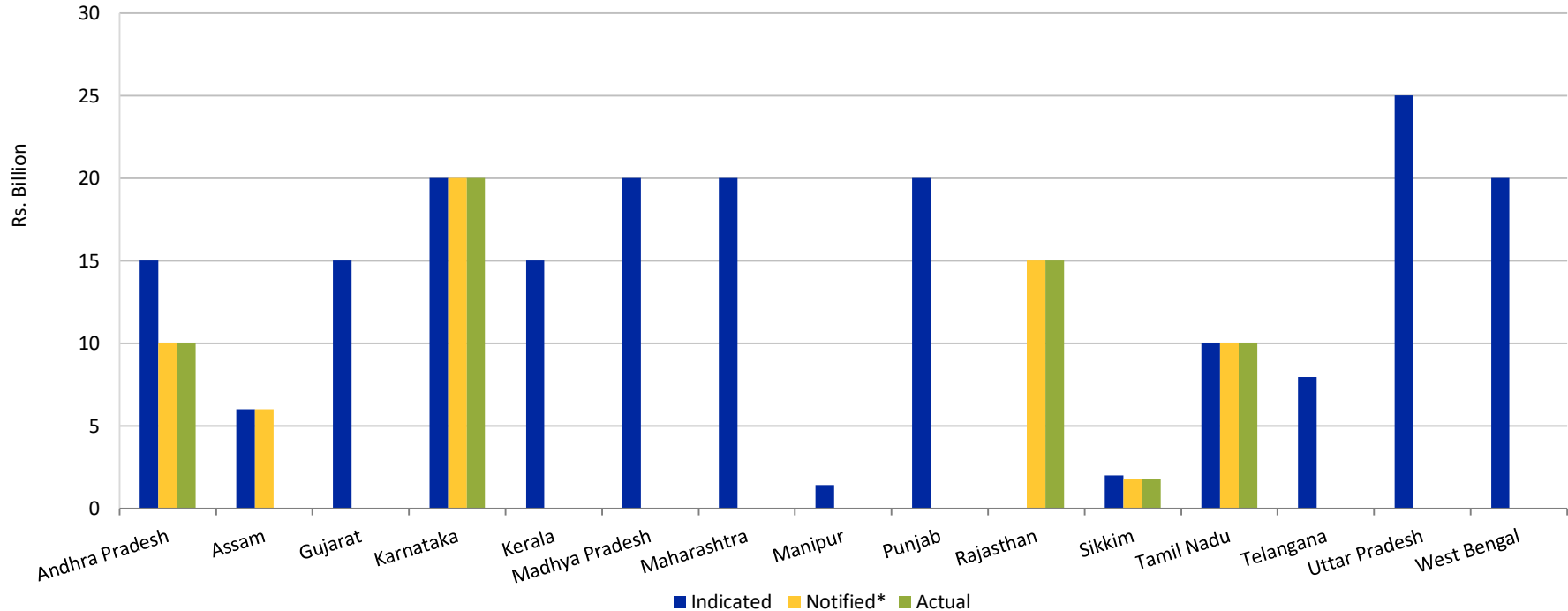


Note: \*Including green shoe

Source: RBI; ICRA Research

# 10 of the 14 states that had initially indicated that they would borrow, did not raise SDLs in today's auction

Exhibit: State-wise indicated, notified and actual SDL issuance on Nov 30, 2021

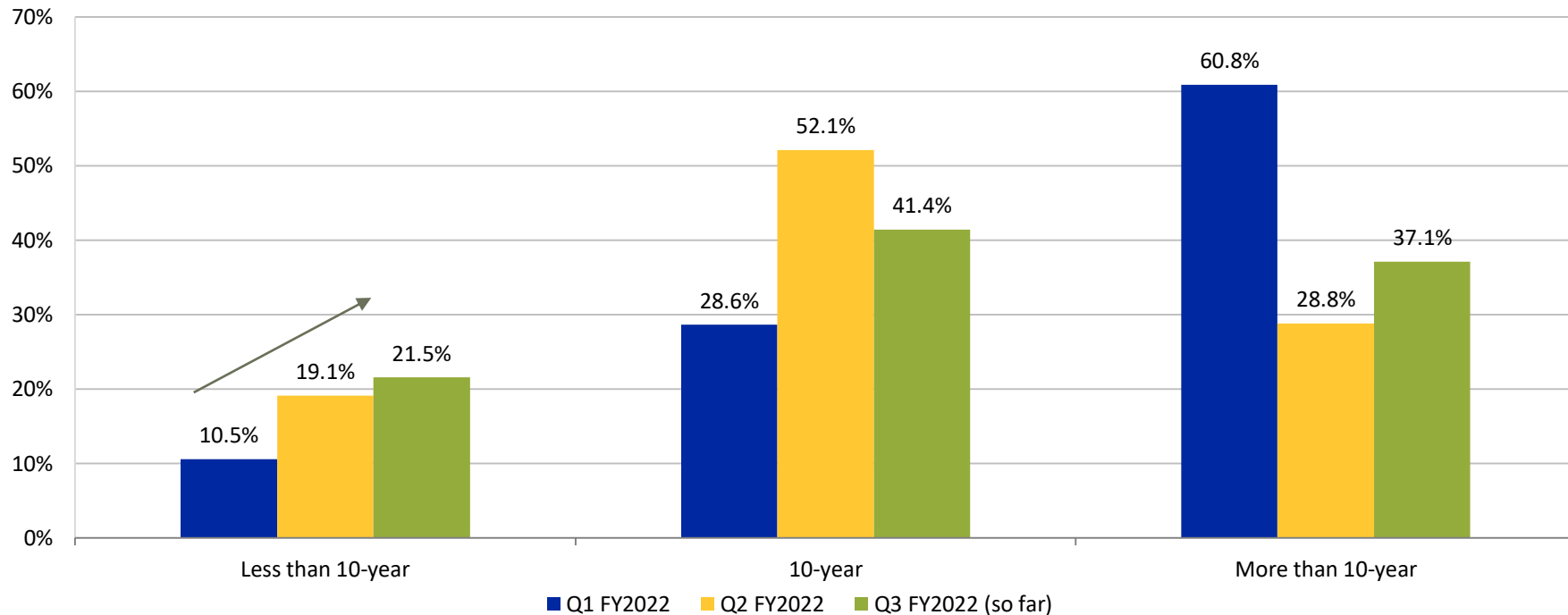


**Note:** \*Including green shoe

**Source:** RBI; ICRA Research

# Proportion of less than 10-year SDLs has risen to ~22% in Q3 FY2022 (so far) from ~11% in Q1 FY2022 and ~19% in Q2 FY2022, compressing weighted average costs

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



# Weighted average cut-off of 10-year SDLs eased by 6 bps to 6.84% today, in a small sized auction

Exhibit: Tenor-wise SDL issuances and cut-offs on Nov 30, 2021

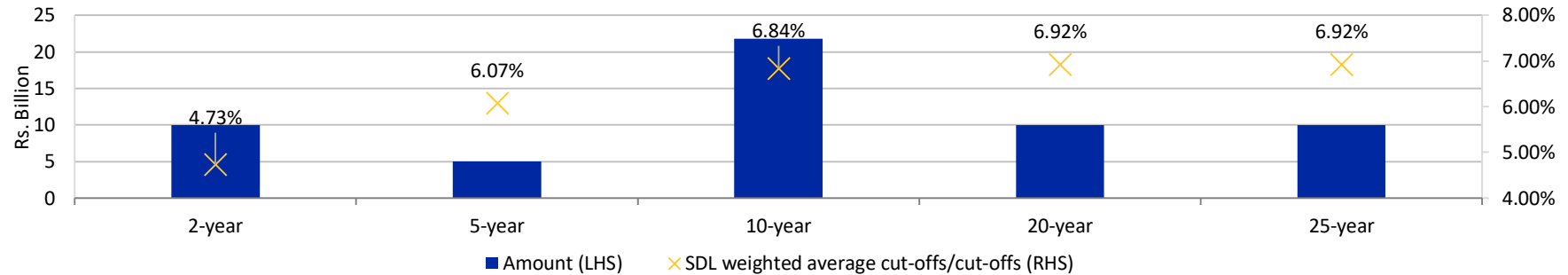
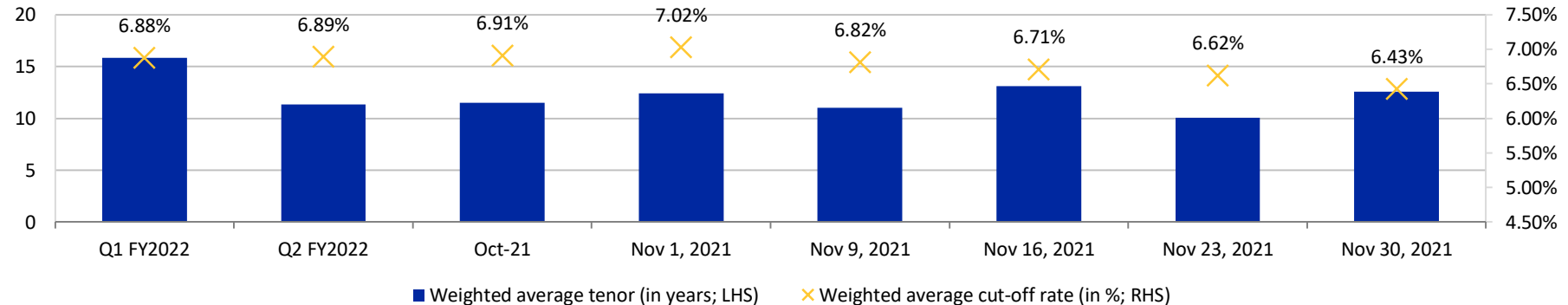


Exhibit: Weighted average cut-off and tenor of SDLs during April- Nov 30, 2021



# Spread between the 10-year SDLs and G-sec eased to 51 bps today from 53 bps in the last auction

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

10-year SDL cut-offs	Nov 1, 2021	Nov 9, 2021	Nov 16, 2021	Nov 23, 2021	Nov 30, 2021
Assam		6.94%			
Goa	7.00%				
Himachal Pradesh				6.91%	
Karnataka			6.90%	6.87%	6.83%
Madhya Pradesh	7.01%				
Manipur	7.03%				
Rajasthan	6.98%	6.92%			6.84%
Sikkim					6.87%
Tamil Nadu	6.96%				
Uttar Pradesh		6.93%	6.93%		
West Bengal	7.00%			6.91%	
<b>Weighted Average 10-year SDL cut-offs (A)</b>	<b>6.99%</b>	<b>6.93%</b>	<b>6.92%</b>	<b>6.89%</b>	<b>6.84%</b>
<b>Minimum 10-year SDL cut-off</b>	<b>6.96%</b>	<b>6.92%</b>	<b>6.90%</b>	<b>6.87%</b>	<b>6.83%</b>
<b>Maximum 10-year SDL cut-off</b>	<b>7.03%</b>	<b>6.94%</b>	<b>6.93%</b>	<b>6.91%</b>	<b>6.87%</b>
<b>10-year G-sec closing yield (B)</b>	<b>6.39%</b>	<b>6.29%</b>	<b>6.36%</b>	<b>6.37%</b>	<b>6.33%</b>
<b>Spread (A-B)</b>	<b>61 bps</b>	<b>64 bps</b>	<b>56 bps</b>	<b>53 bps</b>	<b>51 bps</b>

Source: RBI; ICRA Research





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