

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cut-off of 10-year
SDLs spikes to 7.13%, highest so far
in FY2022, reflecting large supply of
SDLs looming in Q4 FY2022**

January 4, 2022





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Nine state governments raised Rs. 189 billion SDLs, ~2% lower than the indicated level for this week

Q4 FY 2022 auction calendar revised up to a substantial Rs. 3.2 trillion, a few days after the release of the original calendar

Cut-off of 10-year SDL yield today hardened by 10 bps today reflecting large indicated supply for this quarter; spread with 10-year G-sec yield widened to 61 bps from 55 bps

Nine state governments raised Rs. 189 billion through state development loans (SDLs) on January 4, 2022, a mild 2.3% lower than the Rs. 193 billion that was initially indicated for this week in the revised auction calendar for Q4 FY2022. The lower than indicated amount follows from Punjab accepting Rs. 5 billion out of the initially indicated Rs. 10 billion through the issuance of a 15-year SDL today.

The revised auction calendar issued by the RBI on January 3, 2022 has pegged the market borrowing by 26 state governments (except Manipur and Odisha) and two Union Territories (UTs) at Rs. 3.2 trillion, up from Rs. 3.1 trillion indicated on December 31, 2021. The upward revision in the Q4 FY2022 auction calendar is on account of Madhya Pradesh, which has now indicated issuance of Rs. 115 billion SDLs in Q4 FY2022 compared to nil in the calendar issued on December 31, 2021. Additionally, Andhra Pradesh has indicated it will raise Rs. 255 billion in Q4 FY2022, Rs. 25 billion higher than the amount indicated on December 31, 2021. The divergence in the actual and indicative quarterly borrowing calendar by the state governments as well as the revision in the indicative borrowing calendar within a few days after the original announcement, points to a less-than-robust process of planning their borrowing requirements. Such changes temper the usefulness and reliability of the amount of borrowings indicated in the quarterly auction calendar by the states, even as the practice of issuing such calendars is now a considerable 27 quarters old.

In today's weekly auction, Rs. 107 billion or ~56% of the total issuance was in 10-year SDLs and the balance Rs. 82 billion or ~44% of the total issuance was in longer tenor SDLs. The weighted average tenor of SDLs remained unchanged at 12 years today in line with the last auction. The weighted average cut-off of SDLs rose sharply by 11 bps to 7.16% today from 7.05% in the last auction, reflecting the large supply of SDLs indicated in the Q4 FY2022 auction calendar.

The weighted average cut-off of the 10-year SDLs hardened by 10 bps to a FY2022-high of 7.13% today from 7.03% last Tuesday. The benchmark 10-year Government of India security (G-sec; 6:10 GS 2031) yield rose by 4 bps to 6.52% today from last Tuesday. Accordingly, the spread between the 10-year weighted average SDL and G-sec yield widened to 61 bps from 55 bps in the same period.

Gross SDL issuance pegged at Rs. 7.9 trillion in FY2022, a mild ~1% lower than FY2021

Net SDL issuances estimated at Rs. 5.8 trillion for FY2022, ~11% lower than FY2021

If the gross SDLs raised in Q4 FY2022 are in line with the Rs. 3.2 trillion included in the Q4 FY2022 auction calendar (adjusting for the actual issuance today), the total gross SDL issuance in FY2022 would contract by a mild 1.1% to Rs. 7.9 trillion from Rs. 8.0 trillion in FY2021.

Adjusting for the expected redemptions of Rs. 2.1 trillion in the current fiscal, the net SDL issuance is projected at Rs. 5.8 trillion in FY2022, a decline of 10.9% from Rs. 6.5 trillion in FY2021.

Amount in Rs. Trillion	FY2021 (A)	9M FY2022 (B)	Q4 FY2022 (Indicated; C*)	FY2022 (D=B+C)	YoY growth (D vs A)
Net Borrowing	6.5	3.4	2.4	5.8	-10.9%
Redemption	1.5	1.3	0.8	2.1	42.2%
Gross Borrowing	8.0	4.7	3.2	7.9	-1.1%

Note: *Q4 FY2022 SDL issuance adjusted for lower-than-indicated borrowing today

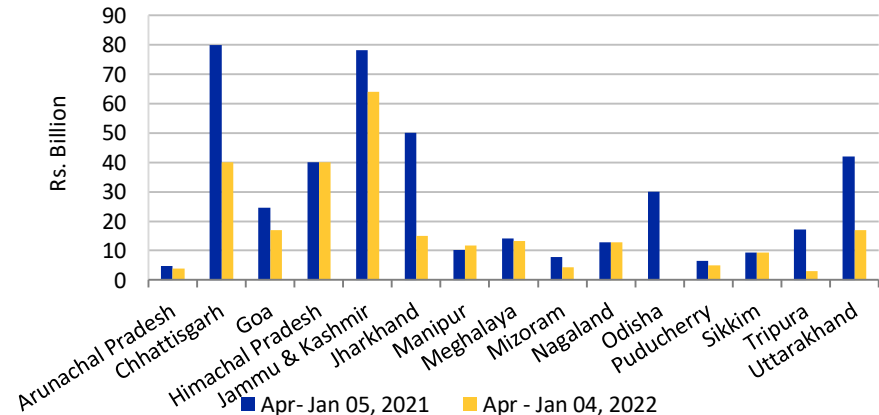
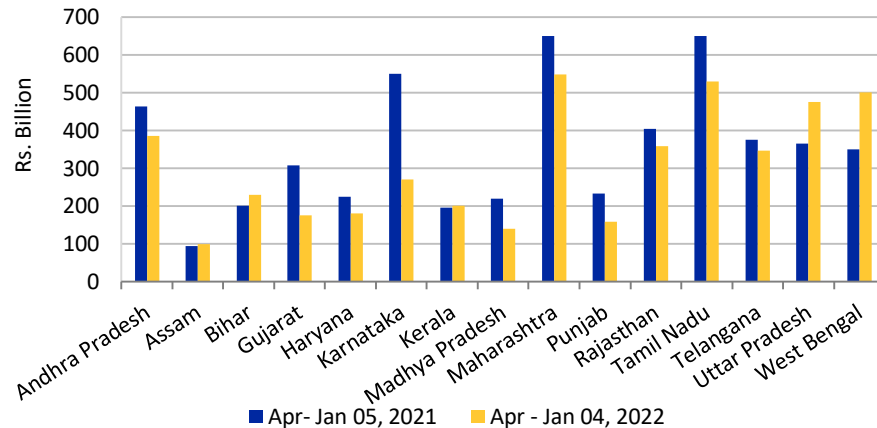
Source: RBI; ICRA Research

SDL issuance declined by 15.0% during April-Jan 4, 2022 on a YoY basis, led by 21 states/UTs

Exhibit: SDL issuances during April 8-Jan 4, 2022

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Jan 4, 2022	193	198	189	4,852
Week of Jan 5, 2021	161	161	151	5,709
Growth	20.5%	23.6%	25.5%	-15.0%

Exhibit: Cumulative SDL issuance during April 8-Jan 4, 2022

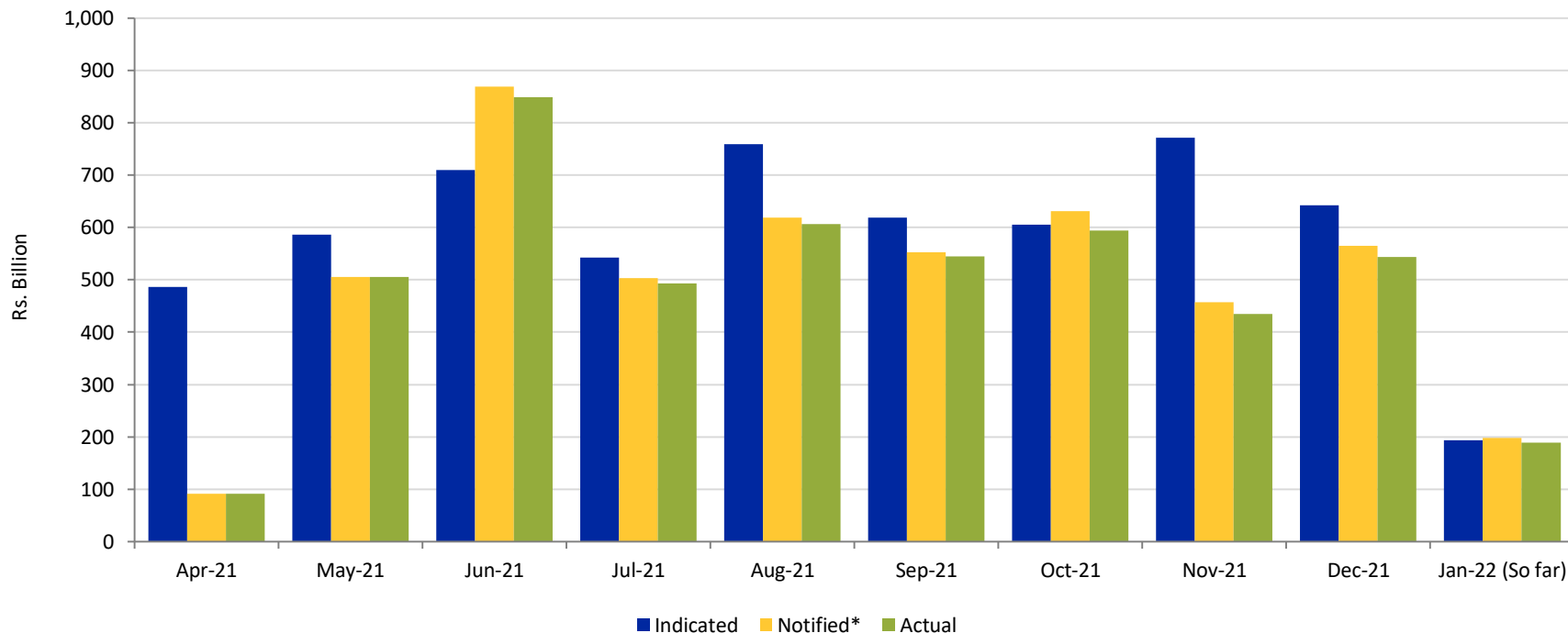


Note: *Including green shoe

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

SDL issuance today was a mild ~2% lower-than-indicated for the week in the revised auction calendar

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

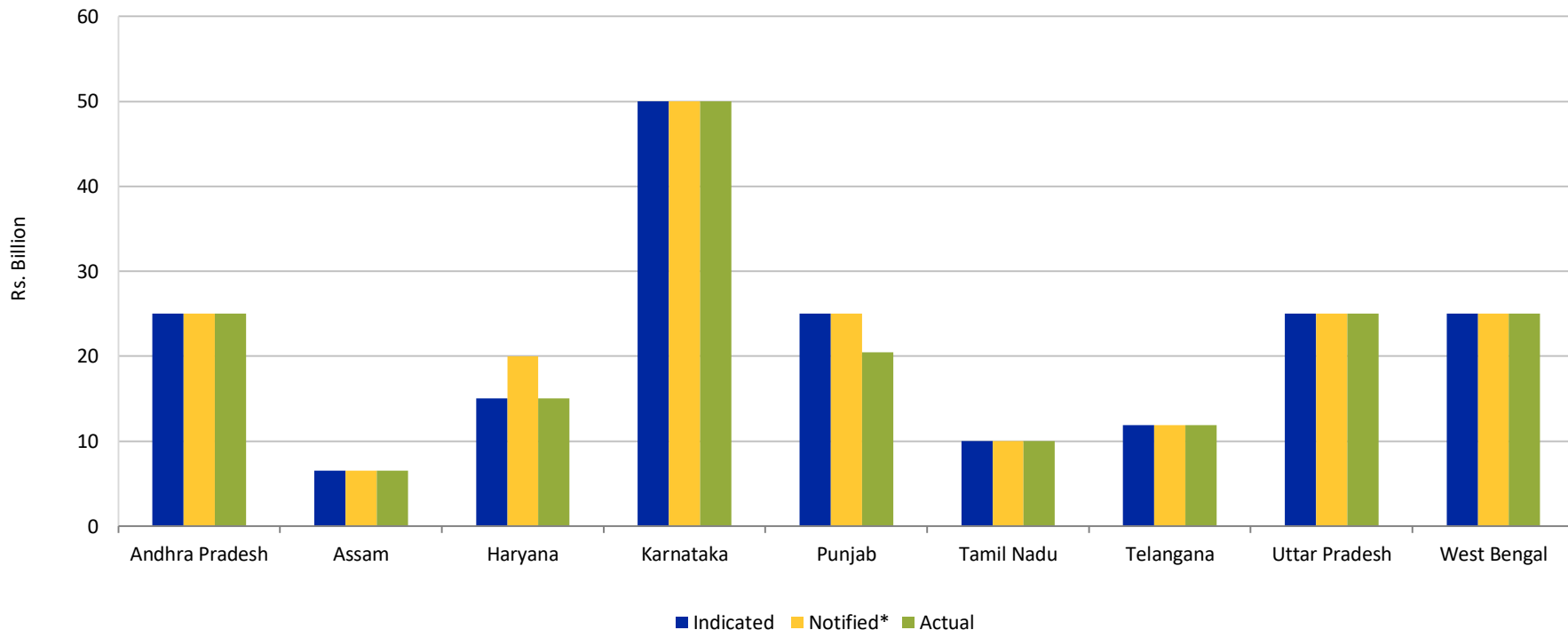


Note: *Including green shoe

Source: RBI; ICRA Research

Punjab partially accepted bids for its 15-year SDL and Haryana did not accept Rs. 5 billion green shoe today

Exhibit: State-wise indicated, notified and actual SDL issuance on Jan 4, 2022

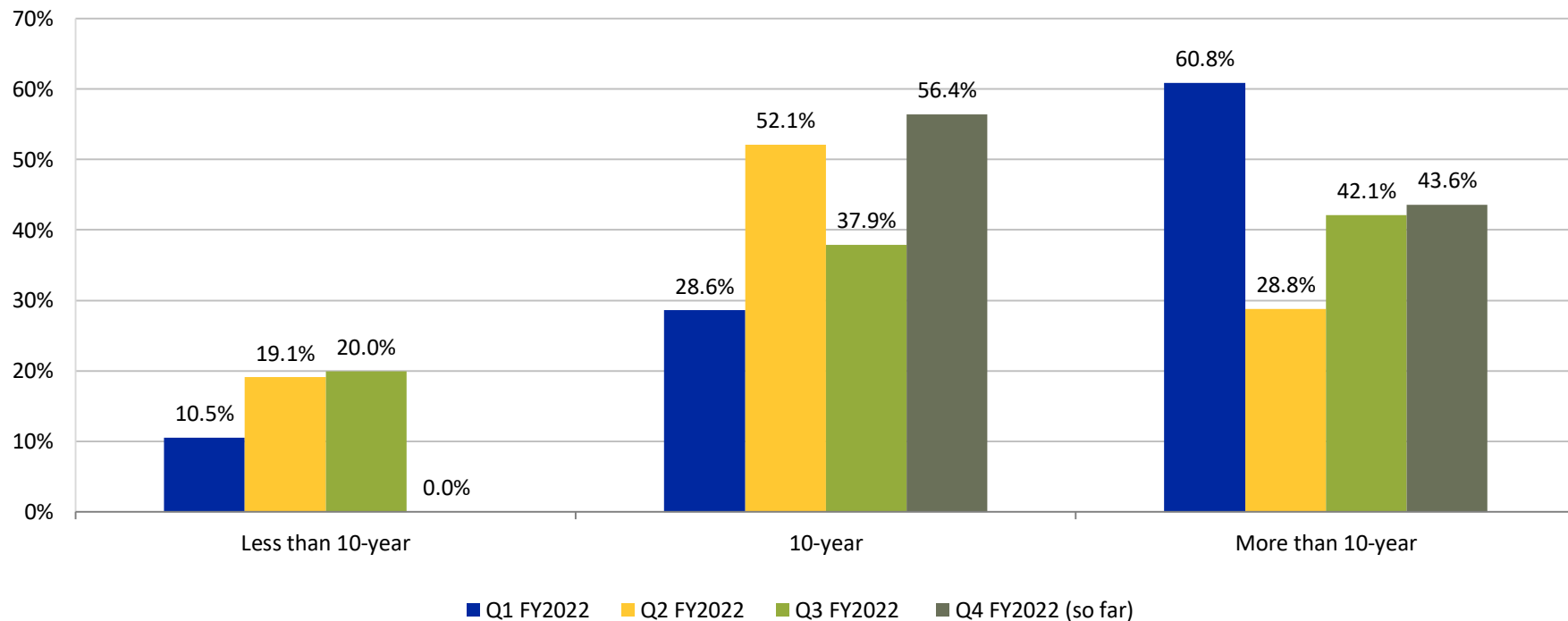


Note: *Including green shoe

Source: RBI; ICRA Research

Issuance in today's auction was concentrated in 10-year SDLs

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



Weighted average cut-off of 10-year SDLs hardened by 10 bps to a high 7.13% today, reflecting large indicated supply of SDLs in Q4 FY2022

Exhibit: Tenor-wise SDL issuance* and cut-offs on Jan 4, 2022

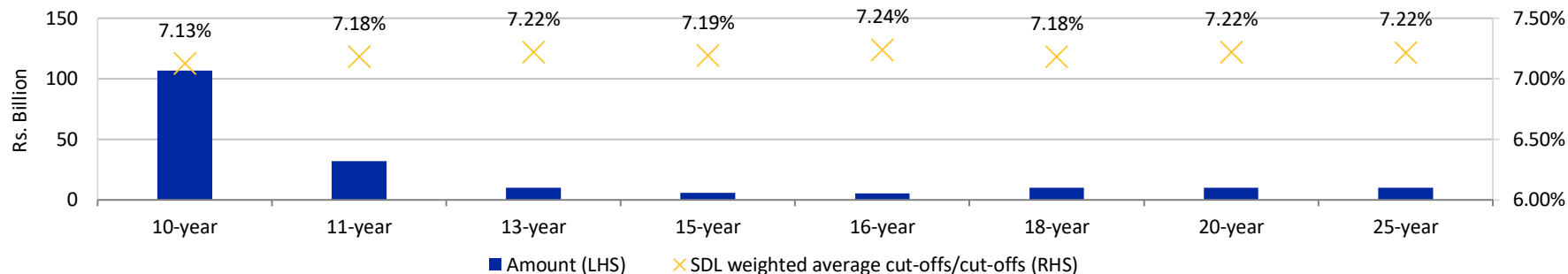
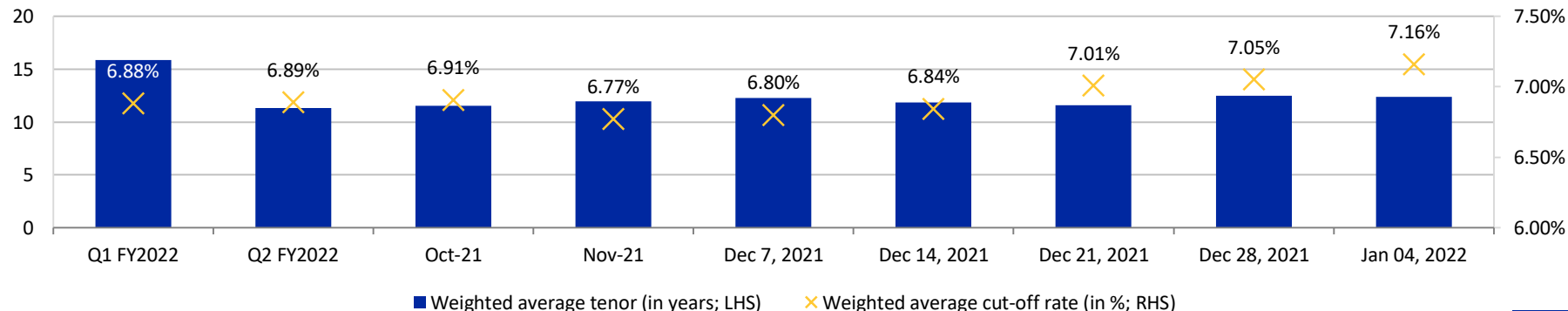


Exhibit: Weighted average cut-off and tenor of SDLs during April- Jan 4, 2022



Spread between the 10-year SDLs and G-sec rose to 61 bps today from 55 bps on last Tuesday

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

10-year SDL cut-offs	Dec 7, 2021	Dec 14, 2021	Dec 21, 2021	Dec 28, 2021	Jan 4, 2022
Assam	6.87%		6.97%	7.03%	7.12%
Goa		6.85%	6.98%	7.00%	
Haryana					7.13%
Himachal Pradesh				7.03%	
Karnataka	6.83%	6.83%	6.96%	7.02%	7.10%
Manipur				7.00%	
Nagaland			7.00%		
Punjab					7.14%
Rajasthan				7.03%	
Tamil Nadu		6.83%		7.02%	
Uttar Pradesh			6.96%	7.04%	7.12%
Uttarakhand				7.05%	
West Bengal					7.14%
Weighted Average 10-year SDL cut-offs (A)	6.84%	6.83%	6.96%	7.03%	7.13%
Minimum 10-year SDL cut-off	6.83%	6.83%	6.96%	7.00%	7.10%
Maximum 10-year SDL cut-off	6.87%	6.85%	7.00%	7.05%	7.14%
10-year G-sec closing yield (B)	6.39%	6.36%	6.47%	6.48%	6.52%
Spread (A-B)	45 bps	47 bps	50 bps	55 bps	61 bps



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