

STATE GOVERNMENT FINANCES- Weekly SDL

**SDL issuance ~33% lower-than-
indicated; spread between 10-year
weighted average SDL and G-sec
eases to 58 bps**

January 11, 2022





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8 state governments and 1 UT raised Rs. 158 billion SDLs, ~33% lower than the indicated level for this week

Nearly 32% of today's borrowing was undertaken by Karnataka (Rs. 50 billion)

Spread between the 10-year SDLs and G-sec narrowed mildly to 58 bps today from 61 bps last week

Weighted average cut-off of SDLs eased to 7.07% in today's auction from 7.16% last week

Eight state governments and one Union Territory (UT) raised Rs. 158 billion through state development loans (SDLs) on January 11, 2022, a sharp ~33% lower than the Rs. 234 billion that was initially indicated for this week in the auction calendar for Q4 FY2022.

Notably, Madhya Pradesh (MP) did not participate in today's auction even as the Q4 FY2022 auction calendar was revised on January 3, 2022 to include SDL issuance by MP in today's auction. Aside from MP, Andhra Pradesh, Assam, Goa, Jharkhand, Maharashtra and Sikkim had indicated that they would borrow today (as per the original as well as the revised auction calendar for Q4 FY2022), but ended up skipping this auction. Additionally, Uttar Pradesh (by Rs. 11 billion), Punjab (by Rs. 10 billion) and Tamil Nadu (by Rs. 2 billion) raised lower-than-indicated SDLs in today's auction.

However, the SDL issuance in today's auction was 28.4% higher than the year-ago borrowing (Rs. 123 billion). Cumulatively, 29 state governments/UTs (except Odisha) have raised Rs. 5,010 billion SDLs during Apr-Jan 11, 2022, 14.1% lower than the same period last year (Rs. 5,832 billion).

In today's auction, Rs. 69 billion or ~44% of the total issuance was in longer tenor SDLs, Rs. 65 billion or ~41% of the total issuance and the balance Rs. 24 billion or ~15% of the total issuance was in shorter tenor SDLs. The weighted average tenor of SDLs declined to 11 years today (in 3-19 year SDLs) from 12 years (in 10-25 year SDLs) in the last auction. The weighted average cut-off of SDLs eased by 8 bps to 7.07% today from 7.16% in the last auction.

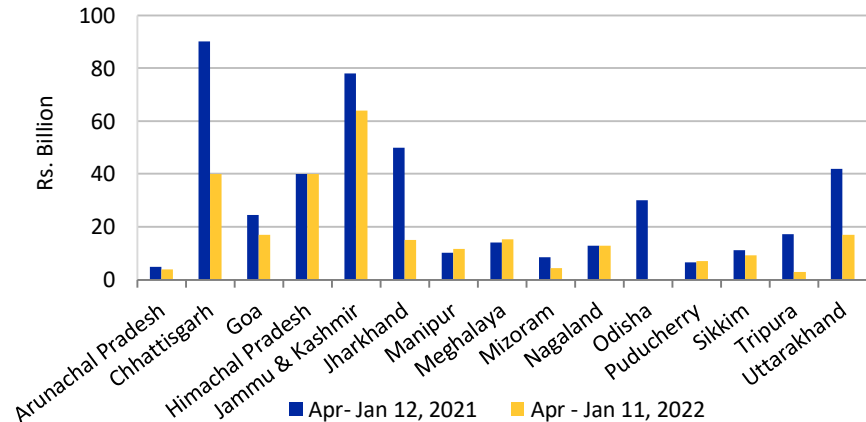
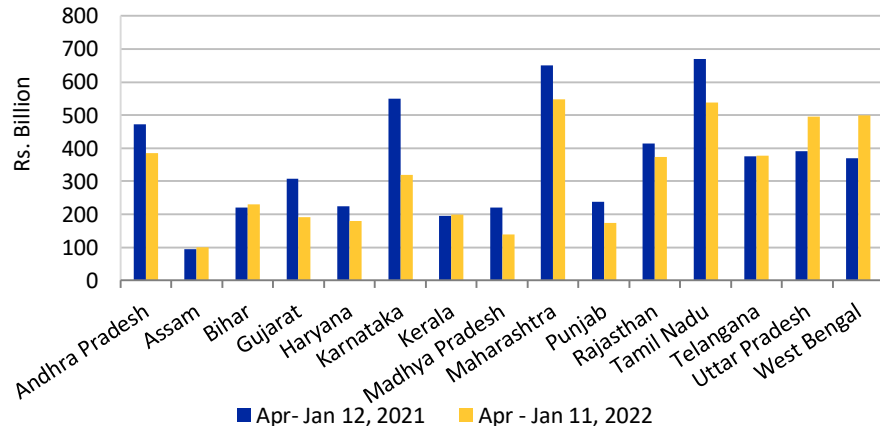
The weighted average cut-off of the 10-year SDLs increased by 2 bps to 7.15% today from 7.13% last Tuesday. The benchmark 10-year Government of India security (G-sec; 6:10 GS 2031) yield rose by 5 bps to 6.57% today from last Tuesday. Accordingly, the spread between the 10-year weighted average SDL and G-sec yield narrowed to 58 bps from 61 bps in the same period.

SDL issuance declined by 14.1% during April-Jan 11, 2022 on a YoY basis, led by 19 states/UT

Exhibit: SDL issuances during April 8-Jan 11, 2022

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Jan 11, 2022	234	168	158	5,010
Week of Jan 12, 2021	226	133	123	5,832
Growth	3.6%	26.4%	28.4%	-14.1%

Exhibit: Cumulative SDL issuance during April 8-Jan 11, 2022

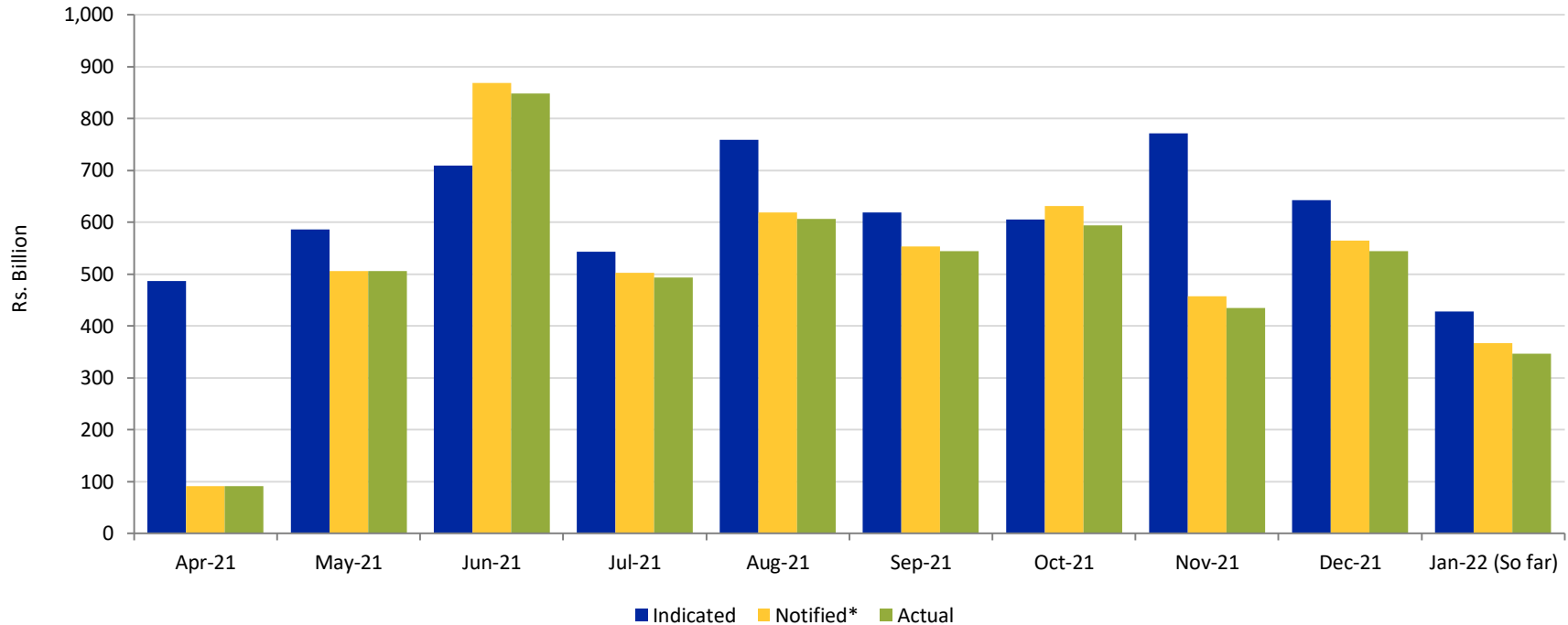


Note: *Including green shoe

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

SDL issuance today was sharp ~33% lower-than-indicated for the week in the revised auction calendar

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

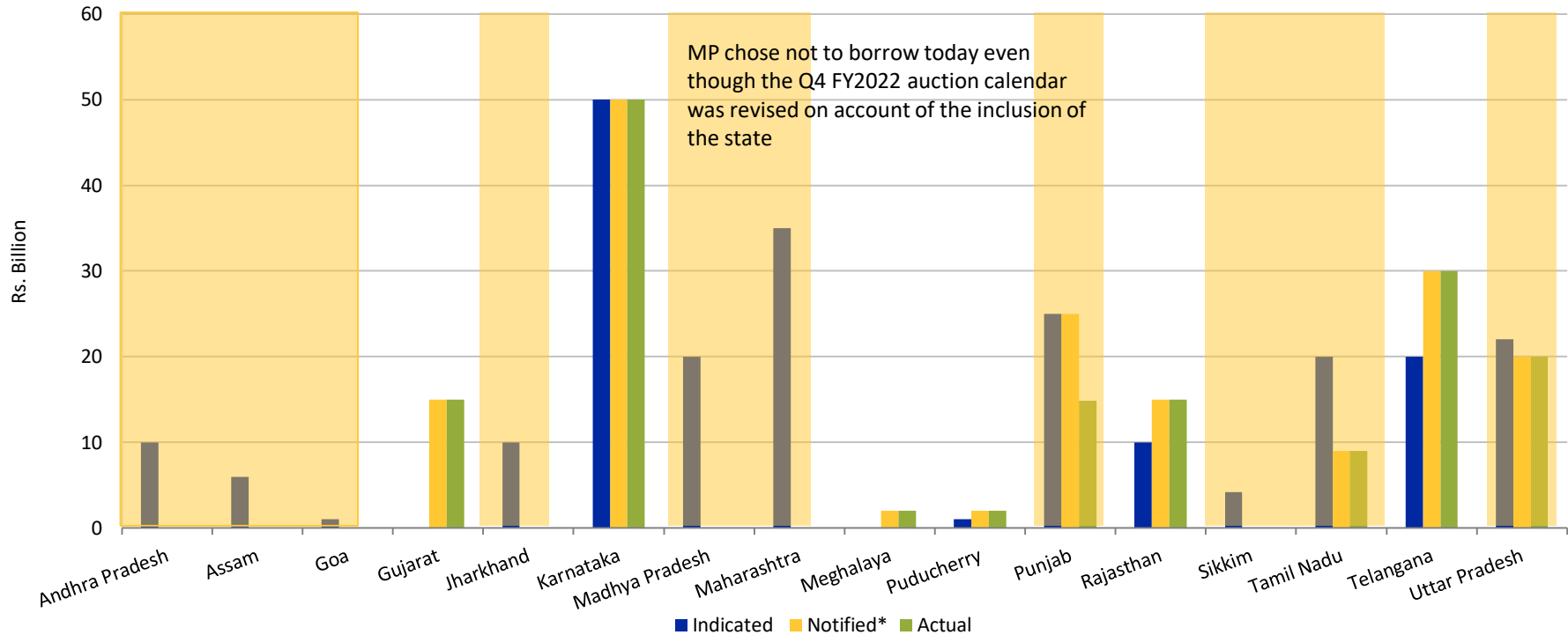


Note: *Including green shoe

Source: RBI; ICRA Research

7 states did not participate despite having indicated they would borrow Rs. 86 billion in today's auction; 3 states raised lower-than-indicated SDLs

Exhibit: State-wise indicated, notified and actual SDL issuance on Jan 11, 2022

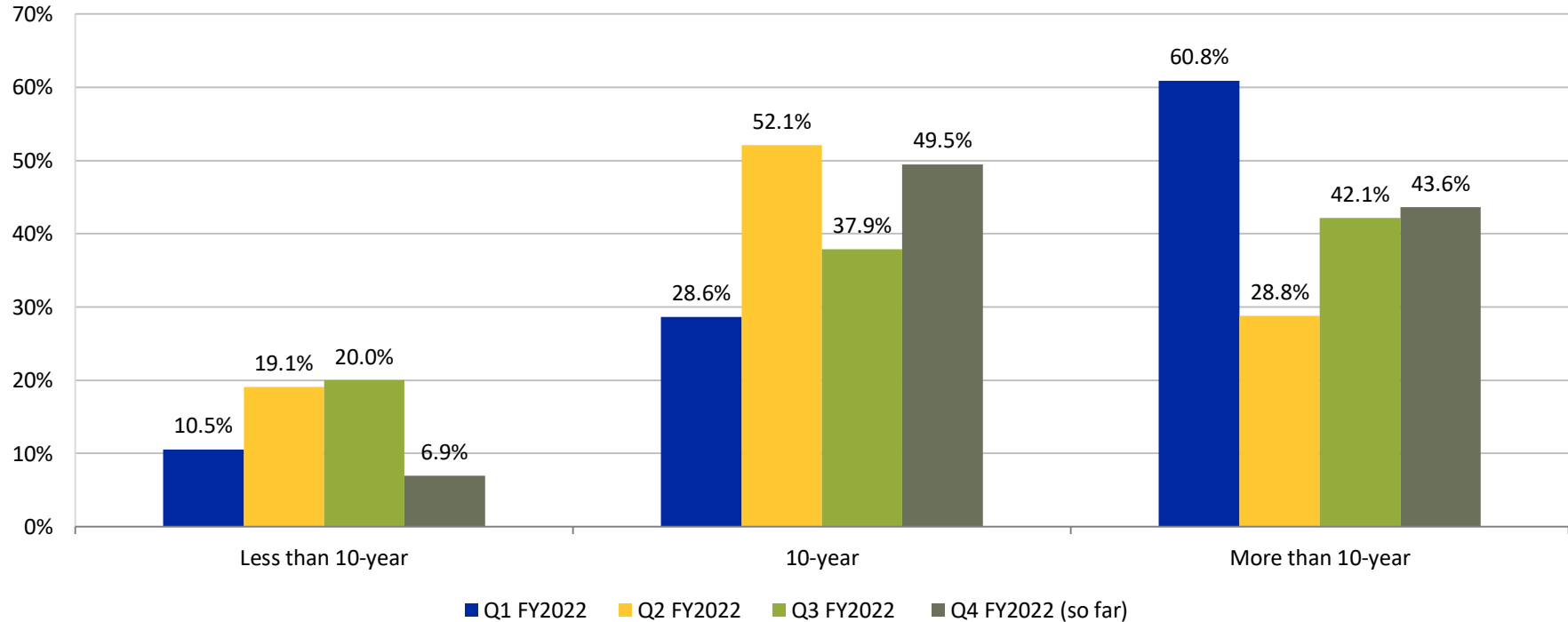


Note: *Including green shoe

Source: RBI; ICRA Research

Share of 10-year and longer tenor SDLs has risen to ~49% and ~44%, respectively, in Q4 FY2022 (so far) from ~38% and ~42%, respectively, in Q3 FY2022

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



Weighted average cut-off of SDLs eased by 8 bps to 7.07% today from 7.16% in the last auction

Exhibit: Tenor-wise SDL issuance and cut-offs on Jan 11, 2022

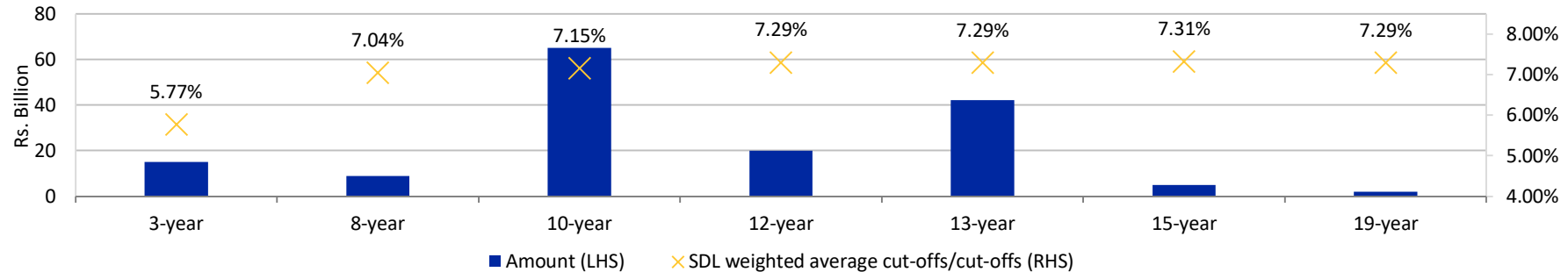
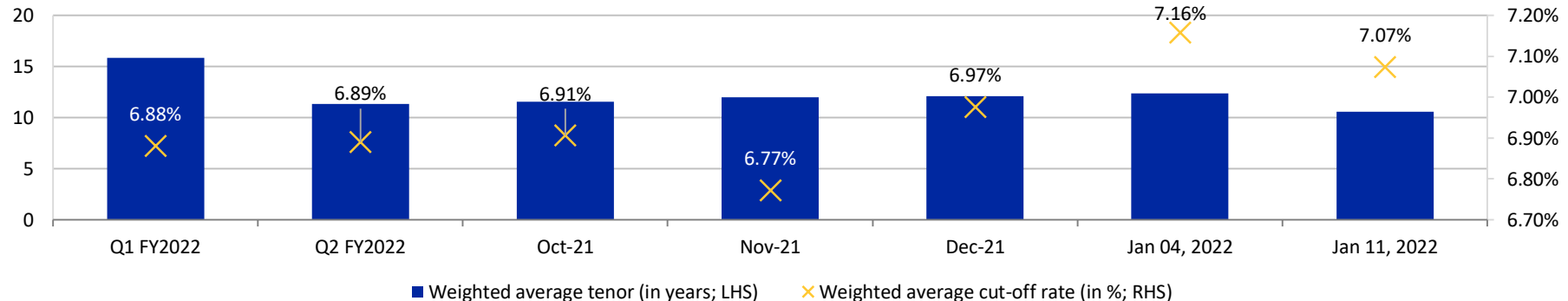


Exhibit: Weighted average cut-off and tenor of SDLs during April- Jan 11, 2022



Spread between the 10-year SDLs and G-sec narrowed mildly to 58 bps today from 61 bps on last Tuesday

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

10-year SDL cut-offs	Dec 14, 2021	Dec 21, 2021	Dec 28, 2021	Jan 4, 2022	Jan 11, 2022
Assam		6.97%	7.03%	7.12%	
Goa	6.85%	6.98%	7.00%		
Haryana				7.13%	
Himachal Pradesh			7.03%		
Karnataka	6.83%	6.96%	7.02%	7.10%	7.14%
Manipur			7.00%		
Nagaland		7.00%			
Punjab				7.14%	7.17%
Rajasthan			7.03%		
Tamil Nadu	6.83%		7.02%		
Uttar Pradesh		6.96%	7.04%	7.12%	7.15%
Uttarakhand			7.05%		
West Bengal				7.14%	
Weighted Average 10-year SDL cut-offs (A)	6.83%	6.96%	7.03%	7.13%	7.15%
Minimum 10-year SDL cut-off	6.83%	6.96%	7.00%	7.10%	7.14%
Maximum 10-year SDL cut-off	6.85%	7.00%	7.05%	7.14%	7.17%
10-year G-sec closing yield (B)	6.36%	6.47%	6.48%	6.52%	6.57%
Spread (A-B)	47 bps	50 bps	55 bps	61 bps	58 bps



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