

STATE GOVERNMENT FINANCES- Weekly SDL

Weighted average 10-year SDL cut-off spikes by 9 bps to 7.24%

January 18, 2022





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Twelve state governments raised Rs. 212 billion SDLs, ~6% higher than the indicated level for this week

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

Weighted average cut-off of SDLs increased to 7.11% in today's auction from 7.07% last week

Twelve state governments raised Rs. 212 billion through state development loans (SDLs) on January 18, 2022, ~6% higher than the Rs. 200 billion that was indicated for this week in the revised Q4 FY2022 auction calendar.

In today's auction, Rs. 115 billion or ~54% of the total issuance was in longer tenor SDLs, Rs. 72 billion or ~34% of the total issuance was in 10-year SDLs and the balance Rs. 25 billion or ~12% of the total issuance was in shorter tenor SDLs. The weighted average SDL cut-off increased by 4 bps to 7.11% today from 7.07% in the last auction, with an increase in tenor to 12 years from 11 years.

In line with global trends, domestic yields have hardened since last week, reflecting the imminent rate hikes by the US Fed, increase in global oil prices, firming of the domestic CPI inflation, as well as the magnitude of supply expected in FY2023. The old benchmark 10-year Government of India security (G-sec; 6.10 GS 2031) yield rose by 6 bps to 6.63% today from 6.57% last Tuesday. Moreover, the new 10-year paper, which was issued on last Friday at a cut-off of 6.54% (6.54 GS 2032), was partially devolved by the Reserve Bank of India (RBI) to the primary dealers, indicating weak demand for G-sec at the prevailing yields. Its yield had risen to 6.61% today. Mirroring these trends, the weighted average cut-off of 10-year SDLs increased by a sharp 9 bps to 7.24% today from 7.15% last Tuesday. Accordingly, the spread between the weighted average 10-year SDL and old 10-year G-sec yield was 61 bps today (58 bps last Tuesday) and that with the new 10-year G-sec was mildly higher at 62 bps.

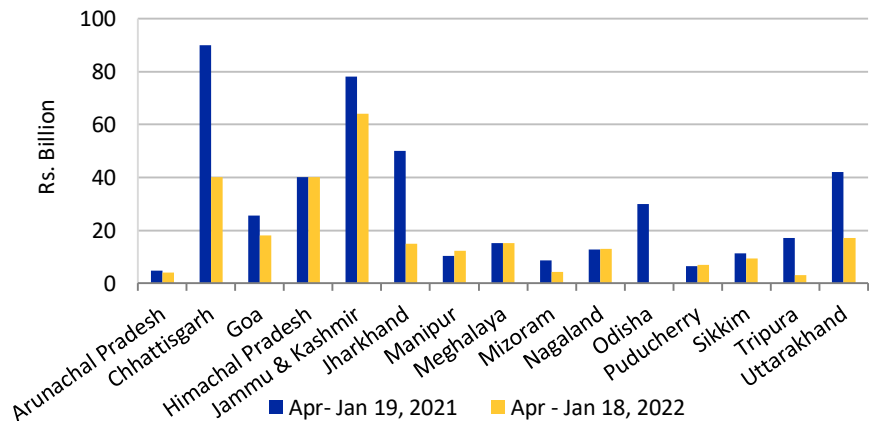
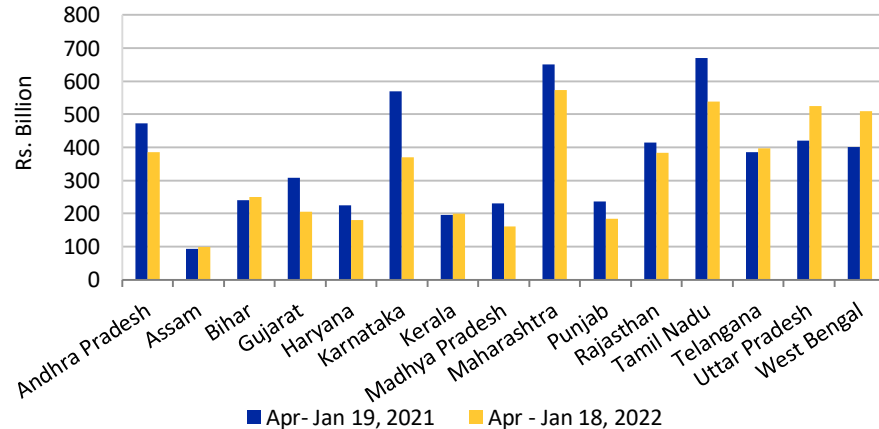
Separately, the usage of Ways and Means Advances (WMA) facilities by the state governments/UT from the RBI declined to 123 days in Nov 2021 from 179 days in Nov 2020. The state governments' cash-flow position seems to have eased in Nov 2021 following the transfer of Rs. 170 billion GST compensation grants by the GoI as well as the doubling of the tax devolution to the states in that month, relative to the average amount transferred in the previous four months. Andhra Pradesh and Telangana accessed the WMA facility for a fewer number of days in Nov 2021 compared to Nov 2020, while Manipur, Meghalaya and Mizoram used it for a higher number of days in this period. Led by these three north-eastern states, the overdraft (OD) utilisation increased to 52 days in Nov 2021 from 35 days in Nov 2020.

SDL issuance declined by 12.3% during April-Jan 18, 2022 on a YoY basis, led by 19 states/UT

Exhibit: SDL issuances during April 8-Jan 18, 2022

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Jan 18, 2022	200	212	212	5,221
Week of Jan 19, 2021	183	122	122	5,954
Growth	9.5%	73.3%	73.3%	-12.3%

Exhibit: Cumulative SDL issuance during April 8-Jan 18, 2022

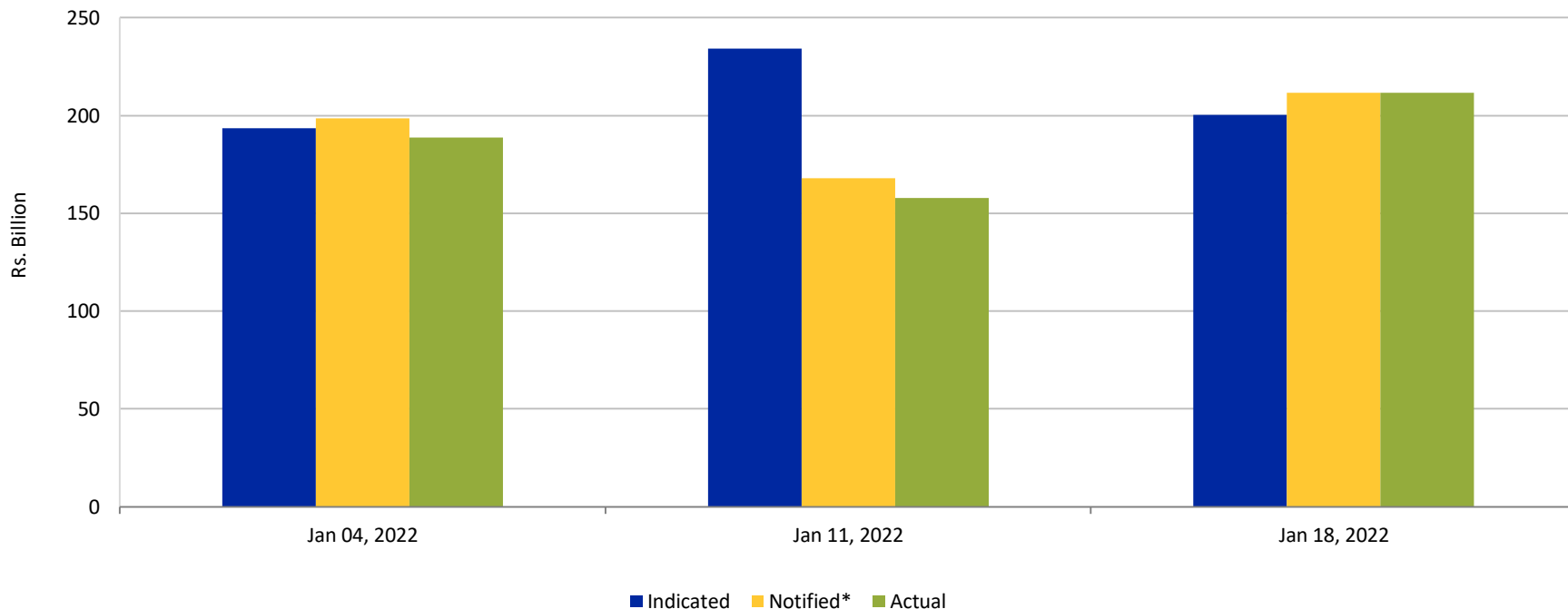


Note: *Including green shoe

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

SDL issuance today was ~6% higher than indicated, in contrast to the trend in the previous two weeks

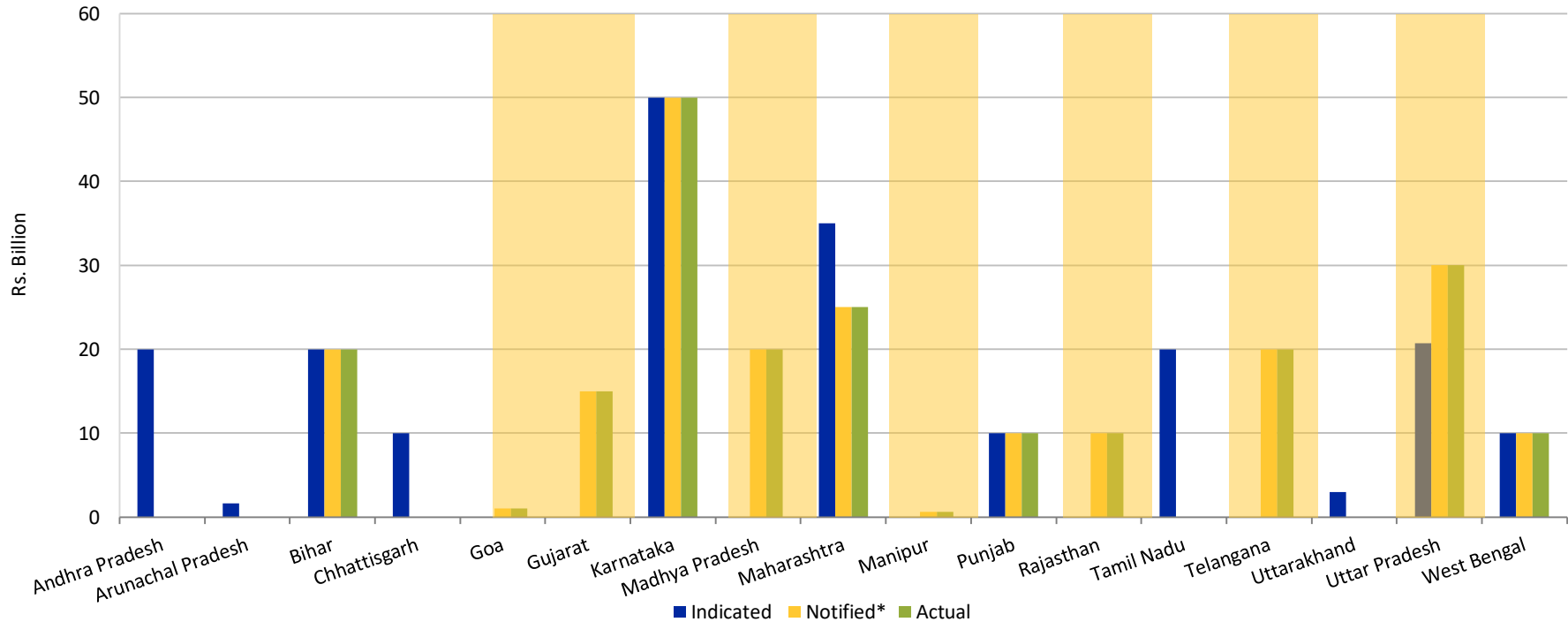
Exhibit: Indicated, notified and actual SDL issuances in Q4 FY2022 (so far)



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

Six states borrowed Rs. 67 billion today, despite not having indicated their participation in the auction calendar; UP borrowed Rs. 9 billion more than indicated

Exhibit: State-wise indicated, notified and actual SDL issuance on Jan 18, 2022

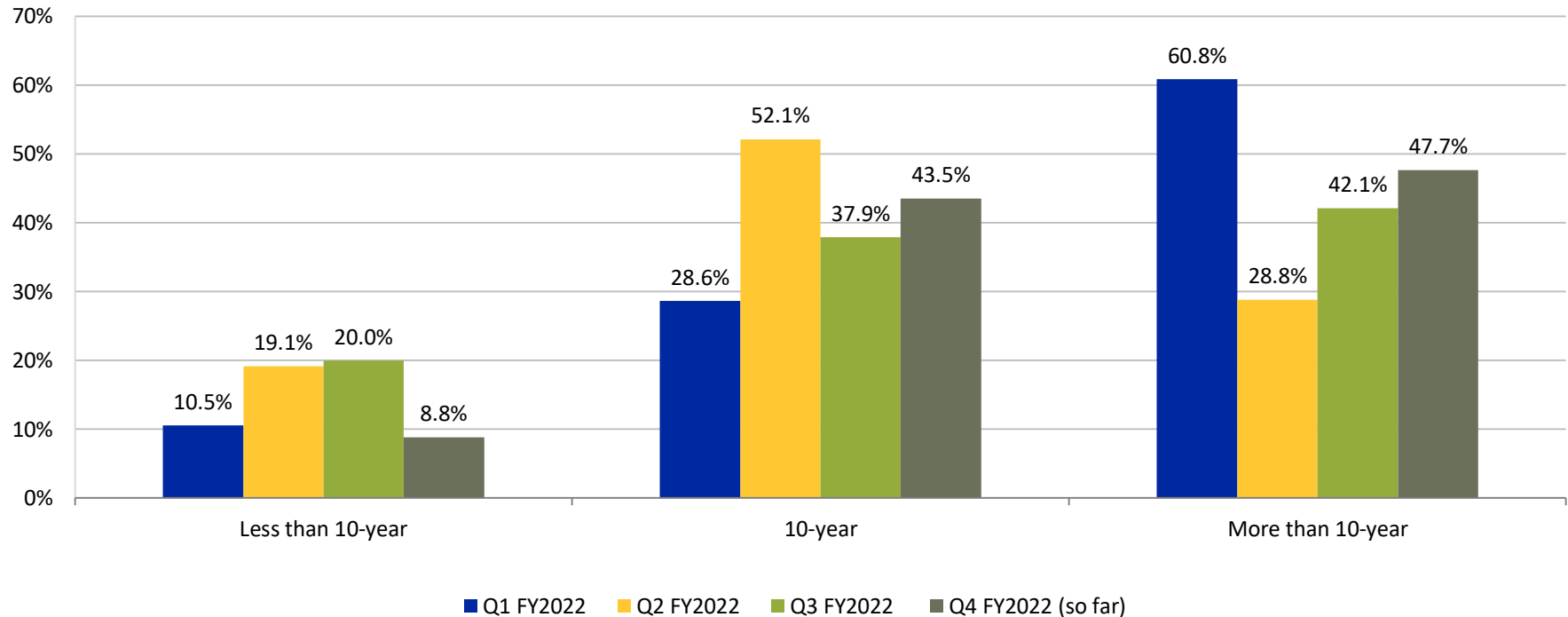


Note: *Including green shoe

Source: RBI; ICRA Research

Share of longer tenor and 10-year SDLs has risen to ~48% in Q4 FY2022 (so far) from ~42% and ~29%, respectively, in Q3 and Q2 FY2022

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



Weighted average cut-off of 10-year SDLs hardened sharply by 9 bps to 7.23% today from 7.15% in the last auction

Exhibit: Tenor-wise SDL issuance and cut-offs on Jan 18, 2022

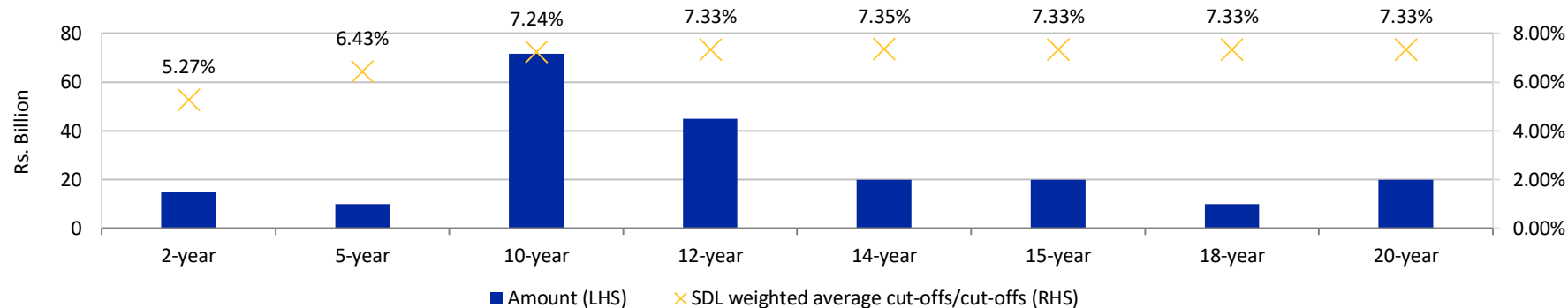
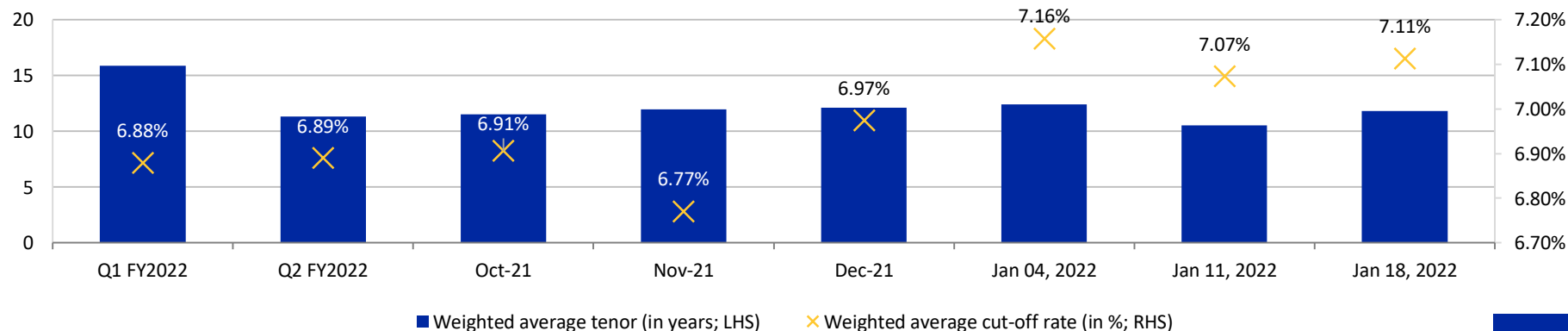


Exhibit: Weighted average cut-off and tenor of SDLs during April- Jan 18, 2022



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

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

10-year SDL cut-offs	Dec 21, 2021	Dec 28, 2021	Jan 4, 2022	Jan 11, 2022	Jan 18, 2022
Assam	6.97%	7.03%	7.12%		
Bihar					7.24%
Goa	6.98%	7.00%			7.23%
Haryana			7.13%		
Himachal Pradesh		7.03%			
Karnataka	6.96%	7.02%	7.10%	7.14%	
Manipur		7.00%			7.23%
Nagaland	7.00%				
Punjab			7.14%	7.17%	7.24%
Rajasthan		7.03%			
Tamil Nadu		7.02%			
Uttar Pradesh	6.96%	7.04%	7.12%	7.15%	7.24%
Uttarakhand		7.05%			
West Bengal			7.14%		7.23%
Weighted Average 10-year SDL cut-offs (A)	6.96%	7.03%	7.13%	7.15%	7.24%
Minimum 10-year SDL cut-off	6.96%	7.00%	7.10%	7.14%	7.23%
Maximum 10-year SDL cut-off	7.00%	7.05%	7.14%	7.17%	7.24%
10-year G-sec closing yield (B)	6.47%	6.48%	6.52%	6.57%	6.63%/6.61%*
Spread (A-B)	50 bps	55 bps	61 bps	58 bps	61/62*

Note: *New 10-year G-sec (6.54 GS 2032) yield closed at 6.61% today

Source: RBI; ICRA Research

Frequency of tapping WMA window eased in November 2021 on a YoY basis led by AP and Telangana

Exhibit: Number of days the WMA facilities were availed by states/UTs during Apr-Nov FY2021-22

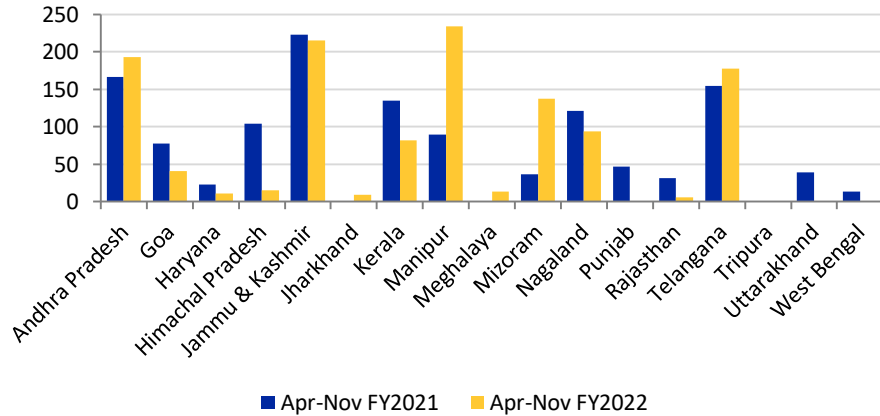
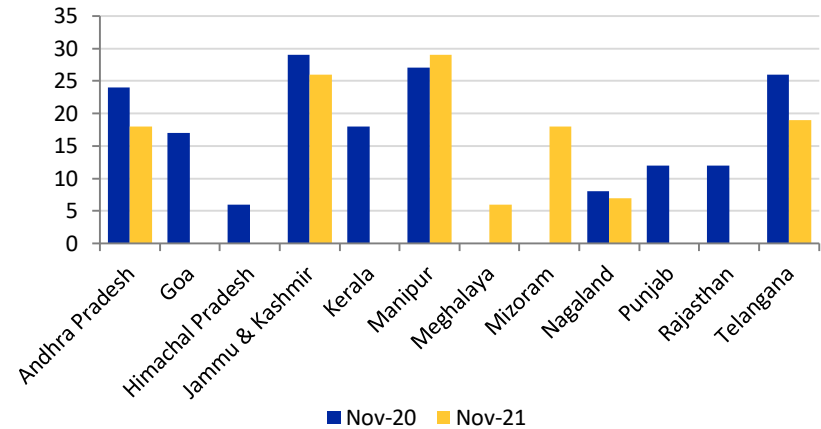


Exhibit: Number of days the WMA facilities were availed by states/UTs during Nov 2020 and Nov 2021



- The number of states/UT availing WMA declined to 14 during Apr-Nov FY2022 from 15 in Apr-Nov FY2021 (with the exclusion of Punjab, West Bengal and Tripura and inclusion of Jharkhand and Meghalaya). Additionally, the number of days for which the WMA window was tapped, decreased to 1,231 from 1,266 during the same period.
- In Nov 2021, seven states/UT availed WMA facility for 123 days, lower than the usage of WMA by 10 states for 179 days in Nov 2020, possibly reflecting the transfer of Rs. 170 billion as GST compensation grants by the GoI and doubling of the tax devolution to the states in that month relative to the average in the previous four months.
- AP and Telangana used the WMA facility for 18 and 19 days, respectively, in Nov 2021, lower than 24 and 26, respectively, in Nov 2020. However, Manipur, Meghalaya and Mizoram, accessed this facility for a higher number of days in November 2021 compared to November 2020.
- On a sequential basis, the WMA usage declined in Nov 2021 from Oct 2021 (150 days), largely led by AP, J&K and Telangana.

OD usage increased in November 2021 on a YoY basis

Exhibit: Number of days in OD during Apr-Nov FY2021-22

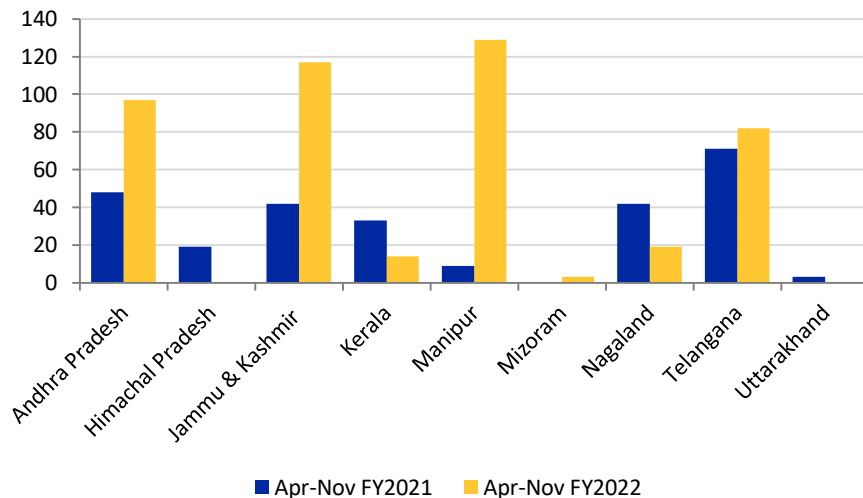
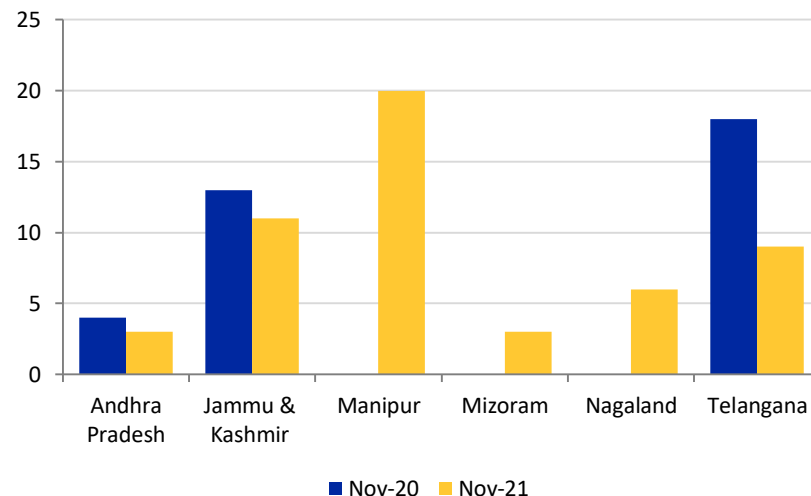


Exhibit: Number of days in OD during Nov 2020 and Nov 2021



- Although the number of states/UT availing of OD declined to seven during Apr-Nov FY2022 from eight during Apr-Oct FY2021 (with the exclusion of Himachal Pradesh and Uttarakhand and inclusion of Mizoram), the number of days for which these states availed OD doubled to 461 from 267 during the same period, led by Andhra Pradesh, Jammu and Kashmir, Manipur and Telangana.
- The numbers of states utilising OD increased to six in November 2021 from three in November 2020, led by inclusion of Manipur, Mizoram and Nagaland.
- Unlike the WMA usage, the OD utilisation increased to 52 days in November 2021 from 35 days in November 2020, given the pick-up in usage by the aforementioned north-eastern states.
- Sequentially, OD usage decreased in Nov 2021 from Oct 2021 (65 days), largely led by AP, Manipur and Telangana.



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