

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cut-off SDLs surges to
7.69%, 34 bps higher than last week**

May 10, 2022





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4 state governments raised Rs. 100 billion SDLs, around 7% higher than indicated

Weighted average cut-off SDLs hardened by a sharp 34 bps to 7.69% today, with a rise in cut-offs across tenor

Spread between 10-year SDL issued by Andhra Pradesh and G-sec yield stood at 46 bps today

Four state governments raised Rs. 100 billion through state development loans (SDLs) on May 10, 2022, ~7% higher than the Rs. 93 billion that was initially indicated for this week in the Q1 FY2023 auction calendar. Haryana (Rs. 15 billion) and Punjab (Rs. 5 billion) borrowed today even though they had not indicated their participation for this week in the quarterly auction calendar. Additionally, Maharashtra (by Rs. 30 billion) and Andhra Pradesh (by Rs. 20 billion) issued more SDLs than the amount mentioned in the auction calendar. In contrast, eight states did not participate in today's auction, even though they had initially indicated they would borrow Rs. 63 billion.

However, today's SDL issuance was 17.7% lower than the year-ago borrowing (Rs. 122 billion). Cumulatively, four state governments have raised Rs. 224 billion SDLs during Apr-May 10, 2022, nearly 40% lower than Rs. 372 billion SDLs issued by 13 states/Union Territory in the same period last year. On a YoY basis, Haryana's SDL issuance contracted by 14% to Rs. 30 billion during Q1 FY2023 (so far) from Rs. 35 billion in the same period last year. In contrast, borrowings by Andhra Pradesh and Maharashtra rose on a YoY basis by 23.2% and 12.5%, respectively, to Rs. 74 billion and Rs. 90 billion, respectively, during Apr-May 10, 2022. Additionally, Punjab raised Rs. 30 billion compared to nil issuance during the same period last year.

In today's auction, Rs. 55 billion (~55% of the issuance) was raised in the shorter tenor SDLs, Rs. 35 billion (~35%) in the longer tenor SDLs and the balance Rs. 10 billion (~10%) was borrowed by Andhra Pradesh in the 10-year bucket. This is the first instance of 10-year issuance so far in FY2023. The weighted average cut-off of SDLs rose by a sharp 34 bps to 7.69% today from 7.34% last week, reflecting hardening cut-offs across tenors, in spite of a decline in the weighted average tenor to 11 year from 13 year during the same period.

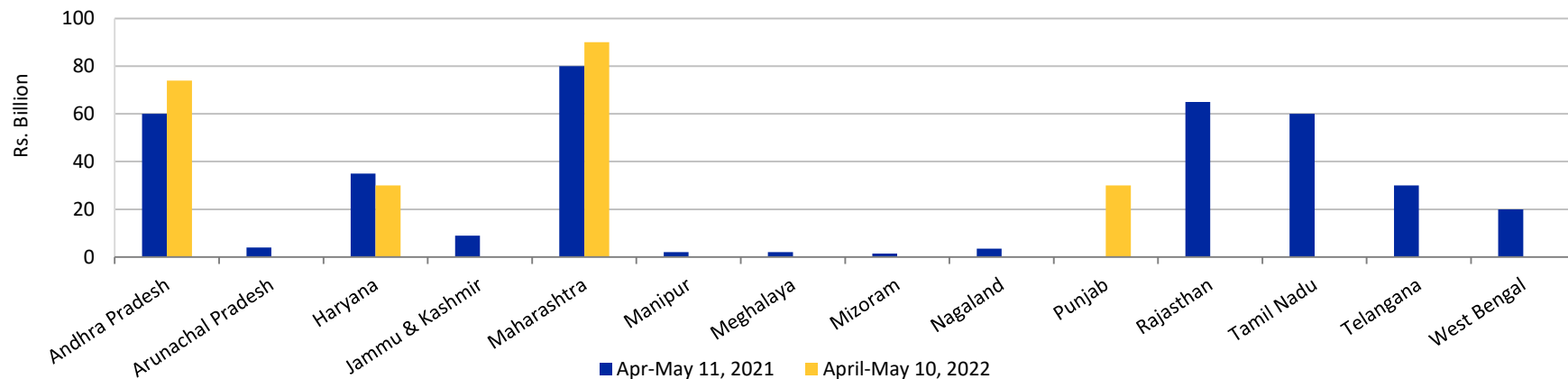
The benchmark 10-year Government of India security (G-sec; 6:54 GS 2032) yield rose by 18 basis points (bps) to 7.30% from 7.12% last Monday, following an increase in the repo rate by 40 bps to 4.40% during an off-cycle Monetary Policy meeting held on May 4, 2022, amidst elevated US-Treasury yields. With the cut-off of the 10-year AP SDL at 7.76% today, the spread between with the 10-year G-sec stood at 46 bps.

SDL issuance has declined by a sharp ~40% in FY2023 so far on a YoY basis, with 10 states/UT not participating in the auctions conducted so far

Exhibit: SDL issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of May 10, 2022	93	107	100	224
Week of May 11, 2021	153	122	122	372
Growth	-38.9%	-11.9%	-17.7%	-39.8%

Exhibit: Cumulative SDL issuance during April-May 10, 2022 and year-ago level

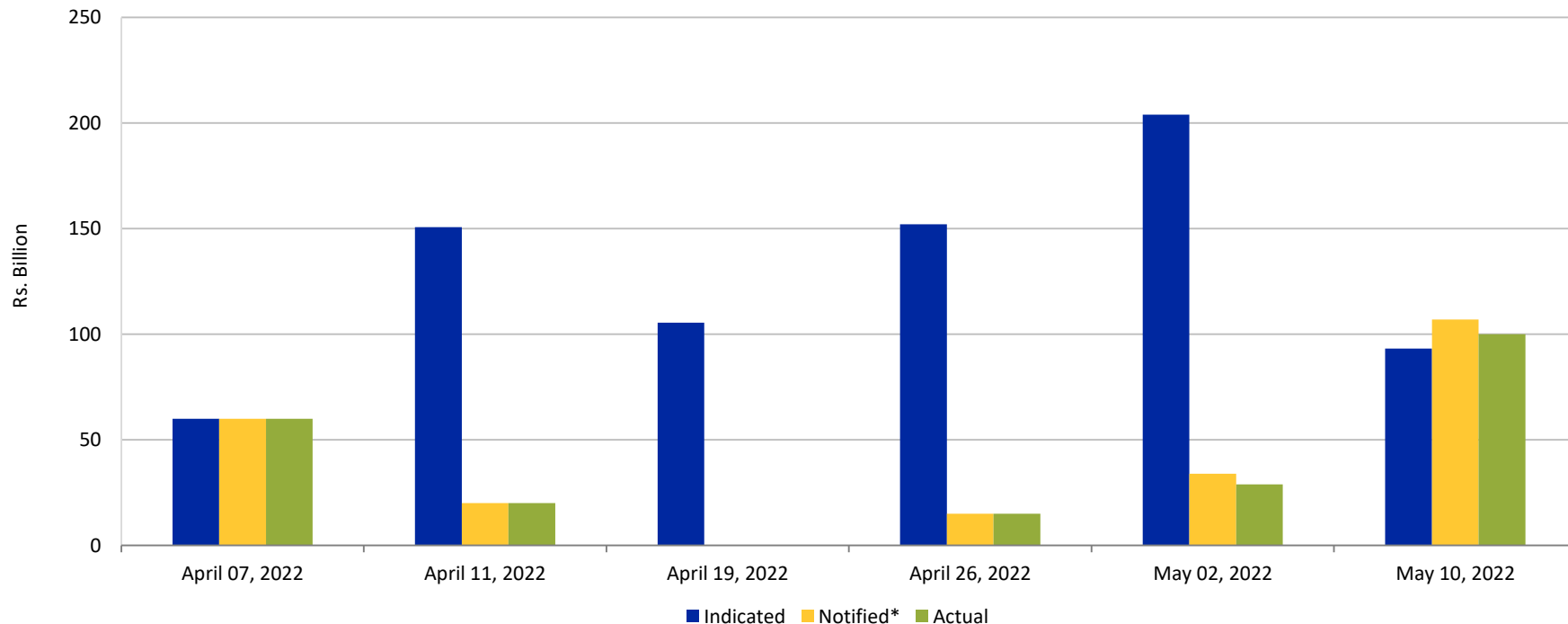


Note: *Including green shoe

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

SDL issuance today was ~7% higher-than-indicated, after four consecutive weeks of trailing the indicative level, and the largest weekly auction so far in FY2023

Exhibit: Indicated, notified and actual SDL issuances in Q1 FY2023 (so far)

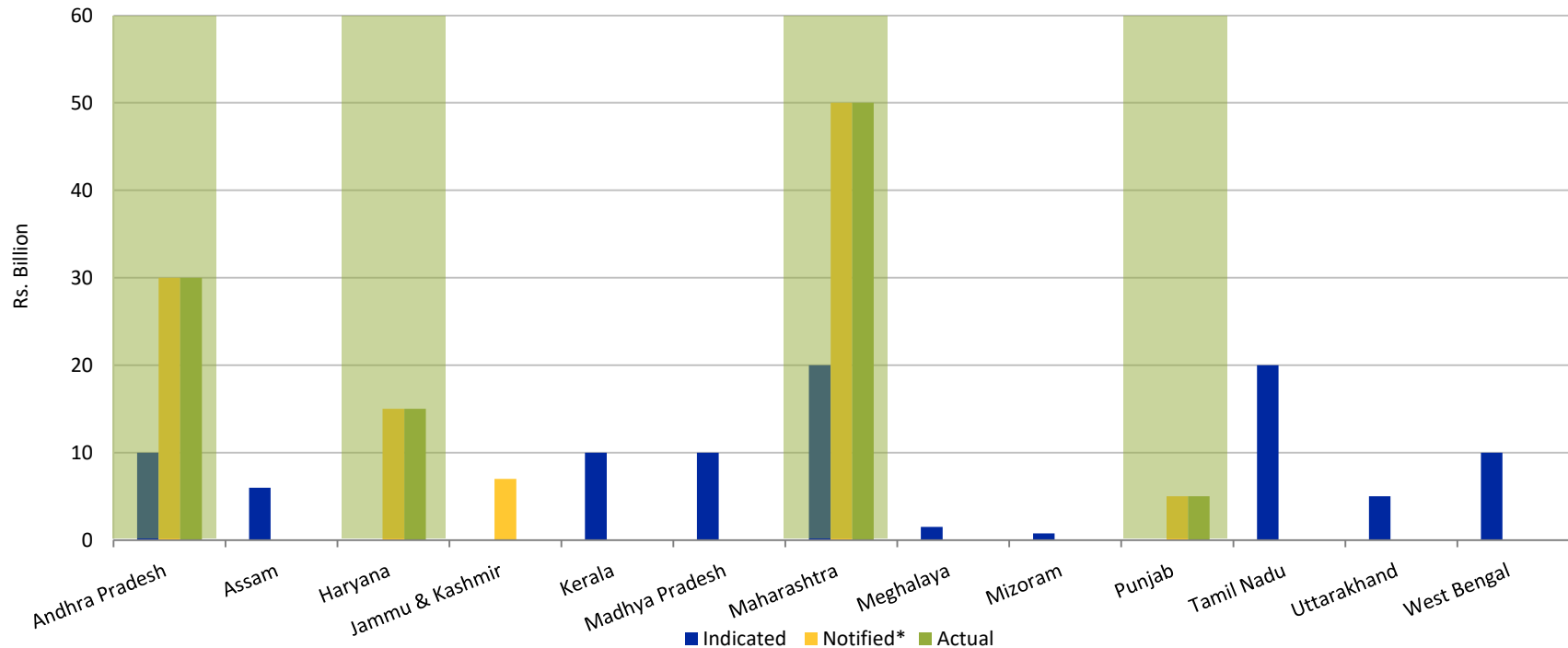


Note: *Including green shoe

Source: RBI; ICRA Research

Four states borrowed Rs. 100 billion today, Rs. 7 billion more than the total amount that had been indicated

Exhibit: State-wise indicated, notified and actual SDL issuance on May 10, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SDLs hardened by 34 bps to 7.69% today from last week, with rising cut-offs across tenors

Exhibit: Tenor-wise SDL issuance and cut-offs on May 10, 2022

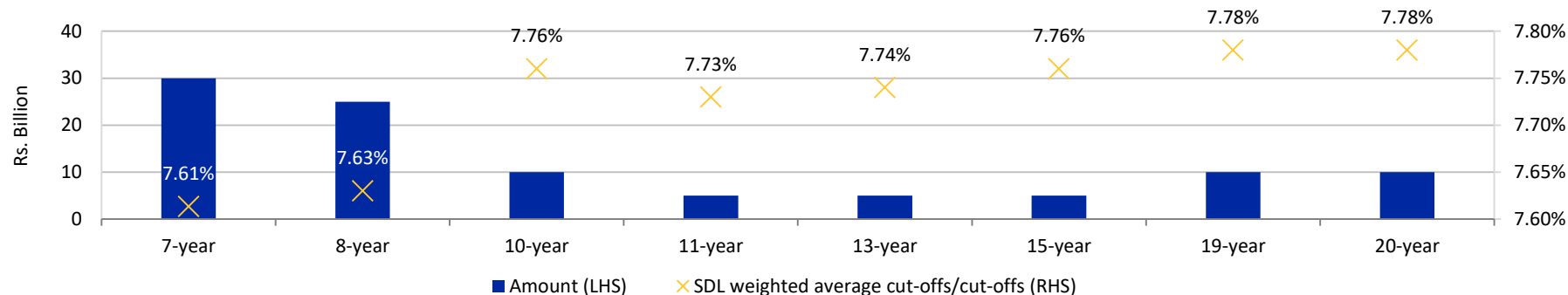
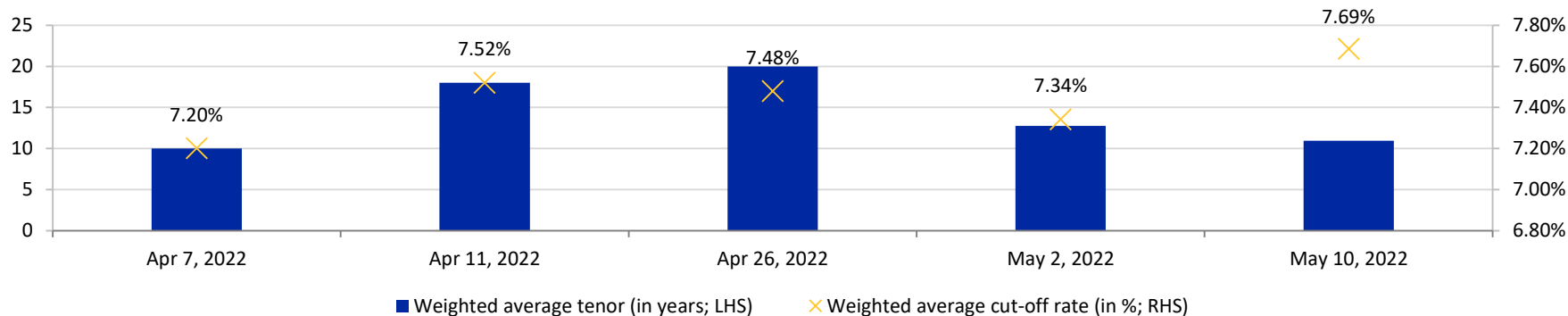


Exhibit: Weighted average cut-off and tenor of SDLs during April-May 10, 2022

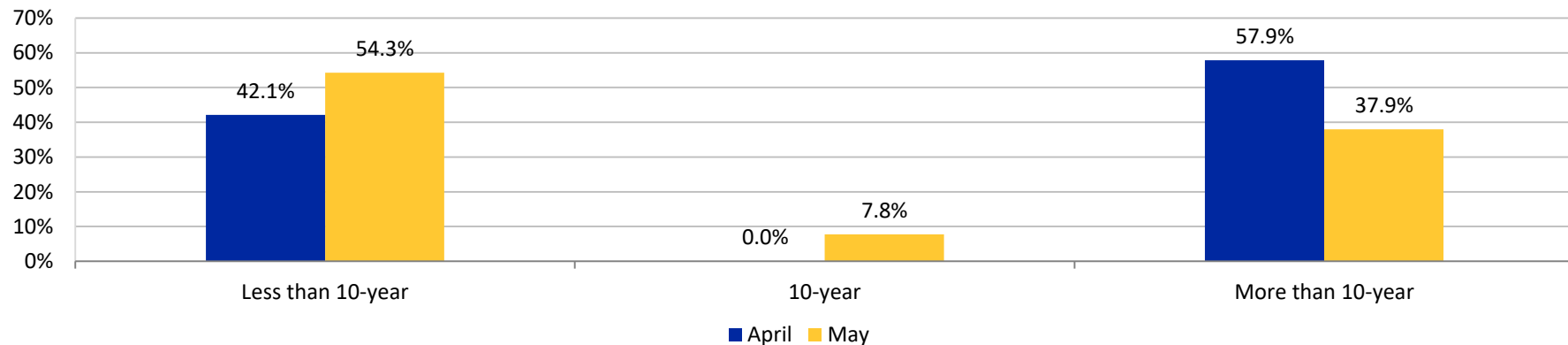


Spread between the 10-year SDL issued by Andhra Pradesh and G-sec stood at 46 bps today

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

	Apr 7, 2022	Apr 11, 2022	Apr 26, 2022	May 2, 2022	May 10, 2022
Andhra Pradesh					7.76%
Weighted Average 10-year SDL cut-offs (A)		NA			7.76%
Minimum 10-year SDL cut-off		NA			0.00%
Maximum 10-year SDL cut-off		NA			7.76%
10-year G-sec closing yield (B)	7.12%	7.15%	7.05%	7.12%	7.30%
Spread (A-B)					46 bps

Exhibit: Classification of SDL issuance in FY2023 (so far)





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