

STATE GOVERNMENT FINANCES- Weekly SDL

**Changes in borrowing permission
guidelines contributing to lower-than-
indicated SDL issuance in Q1 FY2023**

May 17, 2022





Click to Provide Feedback

Andhra Pradesh, Maharashtra and Rajasthan raised Rs. 85 billion SDLs, around 50% lower than indicated

Lower-than-indicated SDL issuance in ongoing quarter has possibly been led by change in borrowing permission guidelines by the GoI

Weighted average cut-off SDLs eased by ~9 bps to 7.59% today, with decrease in tenor

Spread between 10-year SDL and G-sec yield stood narrowed to 33 bps today from 46 bps last week

Three state governments raised Rs. 85 billion through state development loans (SDLs) on May 17, 2022, half of the Rs. 171 billion indicated for this week. In the Q1 FY2023 auction calendar, 11 states that had indicated they would borrow Rs. 141 billion in today's auction, did not end up participating. In contrast, Andhra Pradesh borrowed today even though it had not indicated it would participate this week, while Maharashtra (by Rs. 25 billion) and Rajasthan (by Rs. 10 billion) issued more SDLs than the amount mentioned in the auction calendar. In terms of tenor, Rs. 75 billion (~88% of the issuance) was raised in the shorter tenor SDLs today's auction while Rajasthan borrowed Rs. 10 billion (~12%) in the 10-year bucket.

Overall, five state governments have raised Rs. 309 billion SDLs during Apr-May 17, 2022, nearly 36% lower than Rs. 472 billion SDLs issued by 13 states/Union Territory in the same period last year. The lower-than-indicated SDL issuance (Rs. 309 billion vs. Rs. 937 billion) in the ongoing quarter seems to be partly led by the change in guidelines by the Government of India (GoI) related to the approval of the borrowing permission granted to the states at the beginning of the fiscal. It is possible that many of the states, which have not raised SDL borrowings in FY2023 till date, are either yet to submit the required information to the GoI, and/or are awaiting the sanction of the borrowing permission. The change in guidelines related to permission of market borrowing in FY2023 includes disclosure by the states of the off-budget borrowings undertaken by them in recent prior years, and over-utilization against the borrowing limit of the previous years. While each state's borrowing limit in FY2023 would be adjusted downward on account of the aforementioned items, few items would lead to an upward adjustment in such borrowings. These include carry-forward of the unutilised borrowing of previous years, pension funding related, and additional borrowing linked to the completion of power sector reforms.

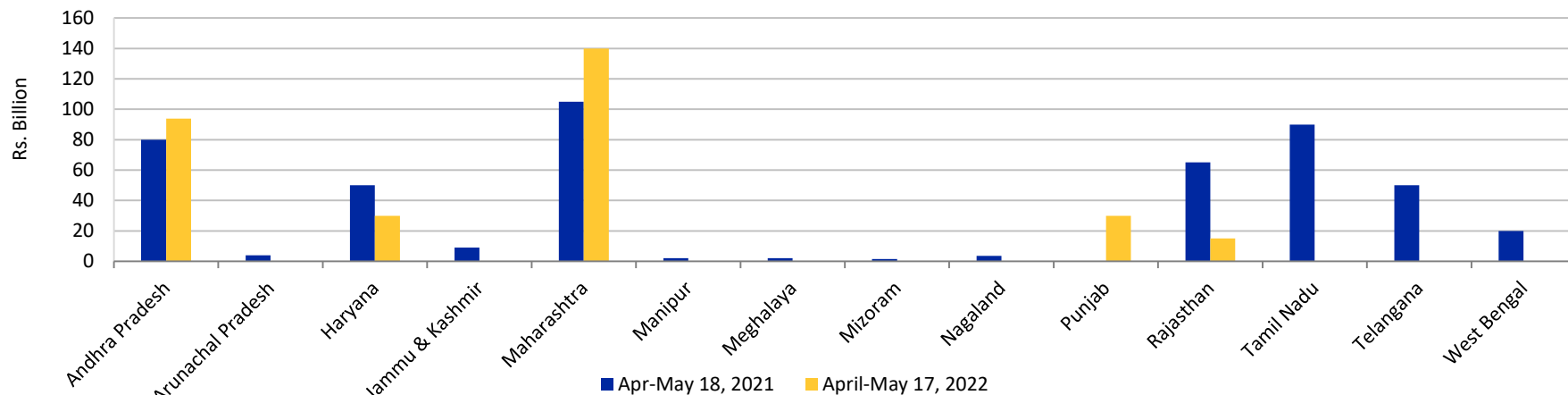
The weighted average cut-off of SDLs declined to 7.59% today from 7.69% last week, with the dip in the weighted average tenor to 7 year from 11 year during the same period. The benchmark 10-year Government of India security (G-sec; 6:54 GS 2032) yield rose by ~6 basis points (bps) to 7.37% from 7.30% last Tuesday, following the higher-than-expected CPI print for April 2022, which has increased the likelihood of rate hikes by the RBI during the ongoing fiscal. With the cut-off of the 10-year Rajasthan SDL at 7.70% today, the spread between with the 10-year G-sec declined to 33 bps today from 46 bps last Tuesday.

SDL issuance has declined by a sharp ~36% in FY2023 so far on a YoY basis, with nine 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 17, 2022	171	85	85	309
Week of May 18, 2021	108	110	110	482
Growth	58.3%	-22.7%	-22.7%	-35.9%

Exhibit: Cumulative SDL issuance during April-May 17, 2022 and year-ago level

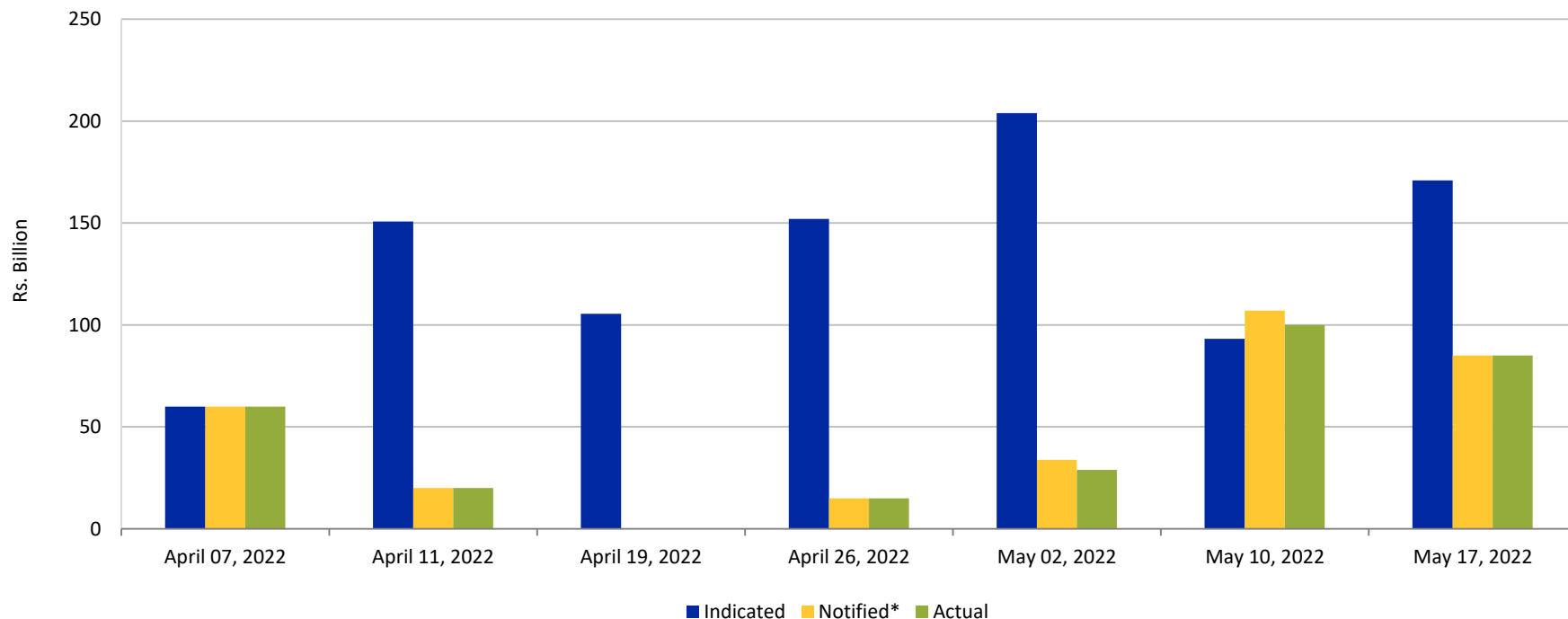


Note: *Including green shoe

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

SDL issuance today was nearly half of the indicated amount for this week

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

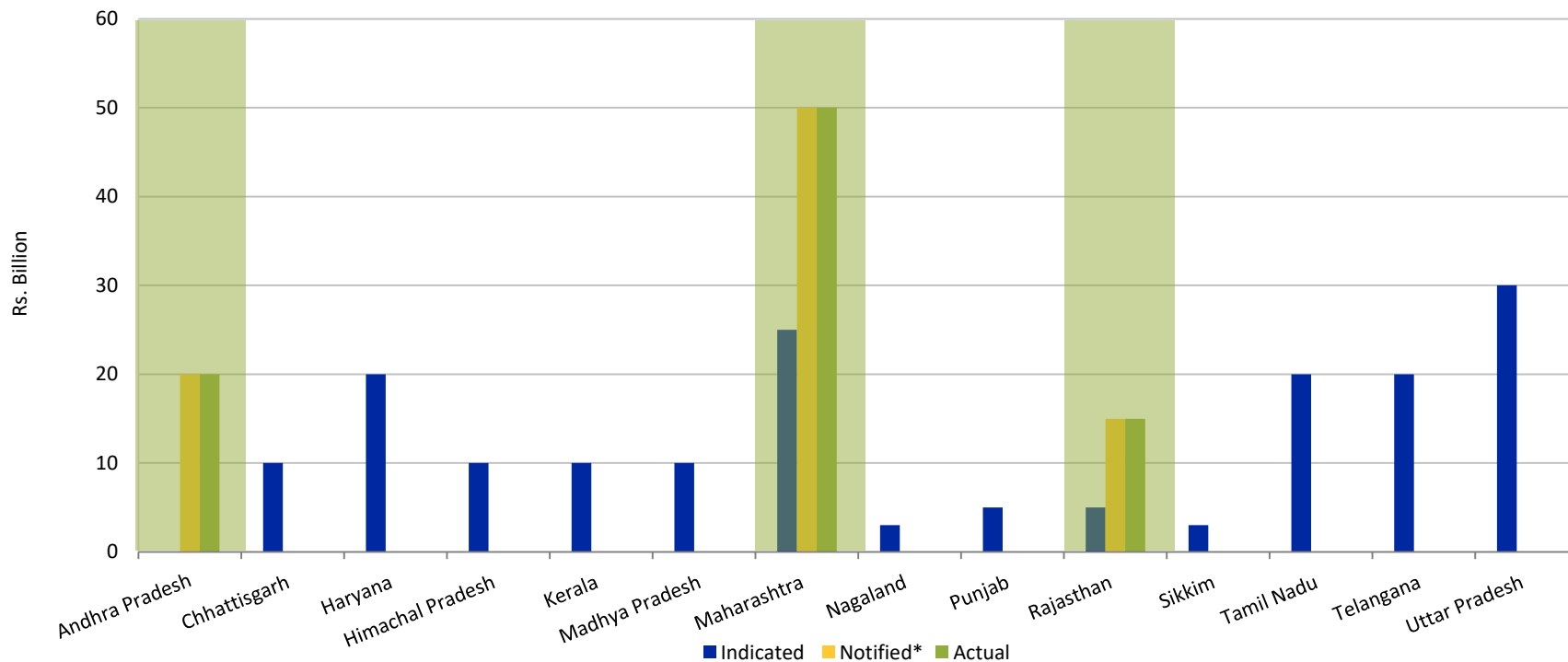


Note: *Including green shoe

Source: RBI; ICRA Research

11 states that had earlier indicated they would borrow Rs. 141 billion SDLs did not participate in today's auction

Exhibit: State-wise indicated, notified and actual SDL issuance on May 17, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SDLs eased by ~9 bps to 7.59% today from last week, with decline in tenor

Exhibit: Tenor-wise SDL issuance and cut-offs on May 17, 2022

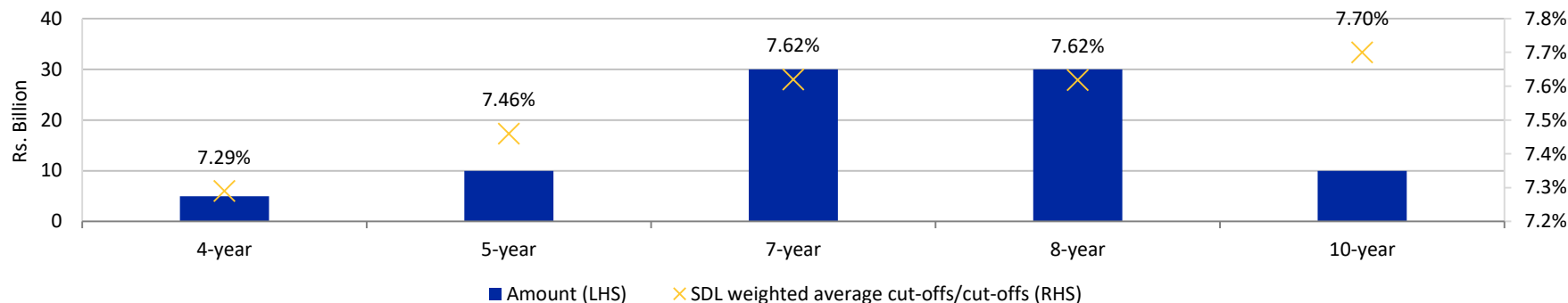
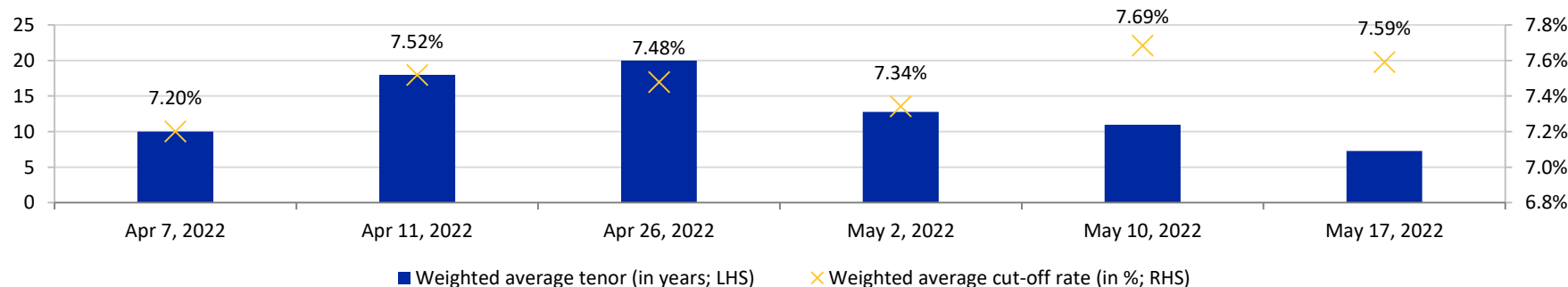


Exhibit: Weighted average cut-off and tenor of SDLs during April-May 17, 2022

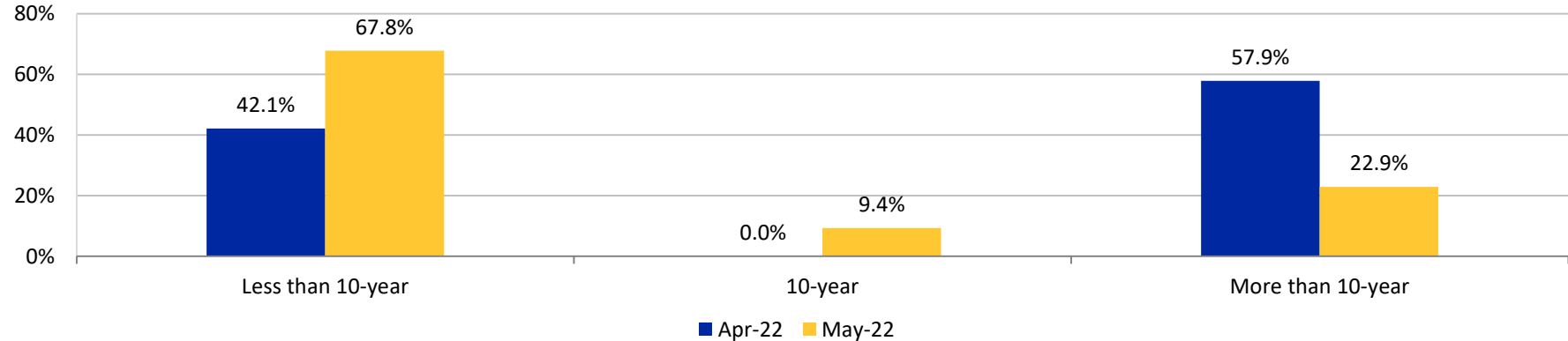


Spread between the 10-year SDL and G-sec narrowed to 33 bps today from 46 bps last week

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

	Apr 11, 2022	Apr 26, 2022	May 2, 2022	May 10, 2022	May 17, 2022
Andhra Pradesh				7.76%	
Rajasthan					7.70%
Weighted Average 10-year SDL cut-offs (A)		NA		7.76%	7.70%
Minimum 10-year SDL cut-off		NA		7.76%	7.70%
Maximum 10-year SDL cut-off		NA		7.76%	7.70%
10-year G-sec closing yield (B)	7.15%	7.05%	7.12%	7.30%	7.37%
Spread (A-B)				46 bps	33 bps

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





Click to Provide Feedback



ICRA

Analytical Contact Details



Aditi Nayar

Chief Economist

Neetika Shridhar

Assistant Vice President

Jaspreet Kaur

Analyst



aditin@icraindia.com

neetika.shridhar@icraindia.com

jaspreet.kaur@icraindia.com



0124- 4545 385

0124 – 4545 305

0124 – 4545 853





ICRA

Business Development/Media Contact Details



L. Shivakumar

Executive Vice-President

Jayanta Chatterjee

Executive Vice-President

Naznin Prodhani

Head Media & Communications



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





© Copyright, 2022 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.