

STATE GOVERNMENT FINANCES- Weekly SDL

**SDL issuance in Q1 FY2023 was 42% lower
than indicated**

June 28, 2022





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*Nine states raised Rs. 195 billion SDLs,
~4% higher than the indicated level*

*Weighted average cut-off of SDLs rose
by ~4 bps to 7.88% today*

*Spread between 10-year SDL and G-sec
yield rose mildly to 38 bps today from
37 bps last week*

In the last auction of Q1 FY2023, nine states raised Rs. 195 billion through state development loans (SDLs) on June 28, 2022, nearly 4% higher than the indicated amount for this week. Andhra Pradesh (AP) and Telangana together borrowed additional Rs. 30 billion and Assam, Haryana and Madhya Pradesh (MP) raised Rs. 70 billion SDLs even though they had not indicated to participate in today's weekly auction. In contrast, Goa, Kerala, Maharashtra, Manipur, Punjab and Uttar Pradesh did not participate today, even though they had indicated in the Q1 FY2023 auction calendar that they would borrow a substantial Rs. 83 billion in this week. Additionally, Rajasthan and West Bengal each borrowed Rs. 5 billion less SDLs today compared to the amount indicated for this week.

Overall, the SDL issuance trailed the indicated amount in eight out of the 13 weekly auctions held in Q1 FY2023. 18 state governments/Union Territory (UT) raised Rs. 1,102 billion in Q1 FY2023, nearly 42% lower than the indicated Rs. 1,902 billion. On a YoY basis, the borrowings in Q1 FY2023 were 23.7% lower than the year-ago level (Rs. 1,446 billion). This reflected a comfortable cash flow position of the state governments led by a highly back-ended release of the tax devolution to the states in FY2022 as well as the changes in the borrowing permission for FY2023 granted by the Government of India (GoI) to the state governments.

In today's auction, Rs. 130 billion (or ~67% of the total issuance) was in the longer tenors SDLs, Rs. 60 billion (~31% of the total issuance) in the 10-year bucket and the balance Rs 5 billion (~3% of the total issuance) was raised by Assam in the 5-year maturity bucket. The weighted average cut-off of SDLs rose by ~4 bps to 7.88% today from 7.85% in the last auction, amidst stable weighted average tenor at 15 years. Notably, Rajasthan and Tamil Nadu raised a 25-year and 30-year SDL, respectively, at a relatively attractive rate of 7.81% compared to 11-20-year SDLs by other states in the range 7.92-7.96%.

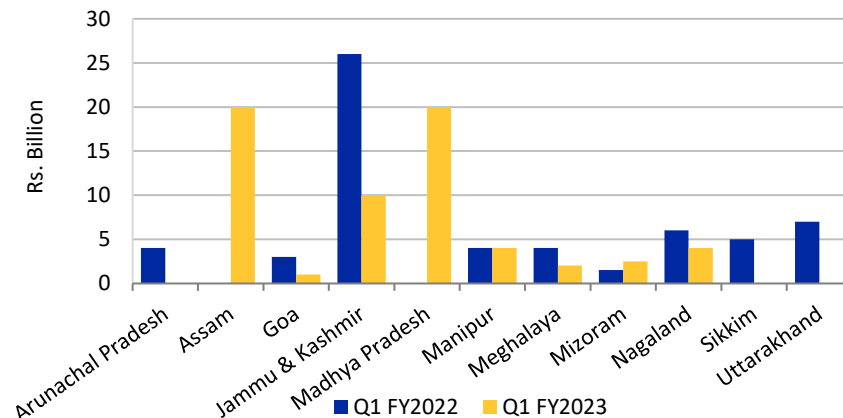
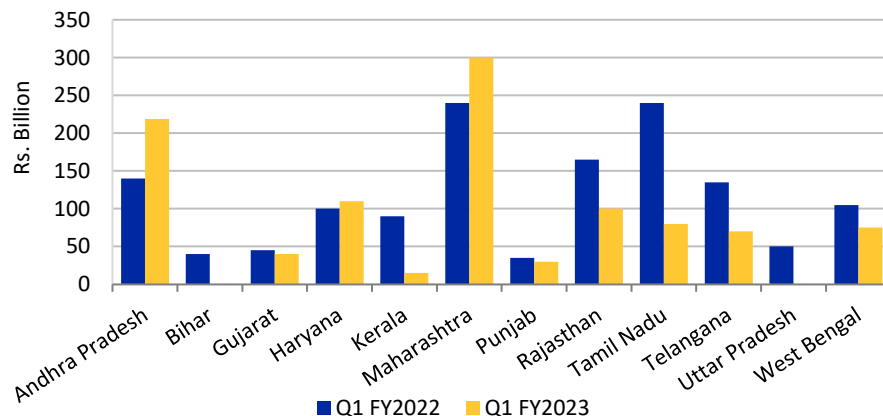
The benchmark 10-year GoI security (G-sec; 6:54 GS 2032) yield declined to 7.47% today from 7.48% last Tuesday while the weighted average cut-off of the 10-year SDL remained stable at 7.85% during this period. Accordingly, the spread between the weighted average 10-year SDL and 10-year G-sec yield increased mildly to 38 bps from 37 bps during the same period.

SDL issuance declined by 23.7% in Q1 FY2023 on a YoY basis, led by 16 states/UT

Exhibit: SDL issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of June 28, 2022	188	195	195	1,102
Week of June 29, 2021	139	216	206	1,446
Growth	35.4%	-9.7%	-5.3%	-23.7%

Exhibit: Cumulative SDL issuance during Q1 FY2022 and Q1 FY2023

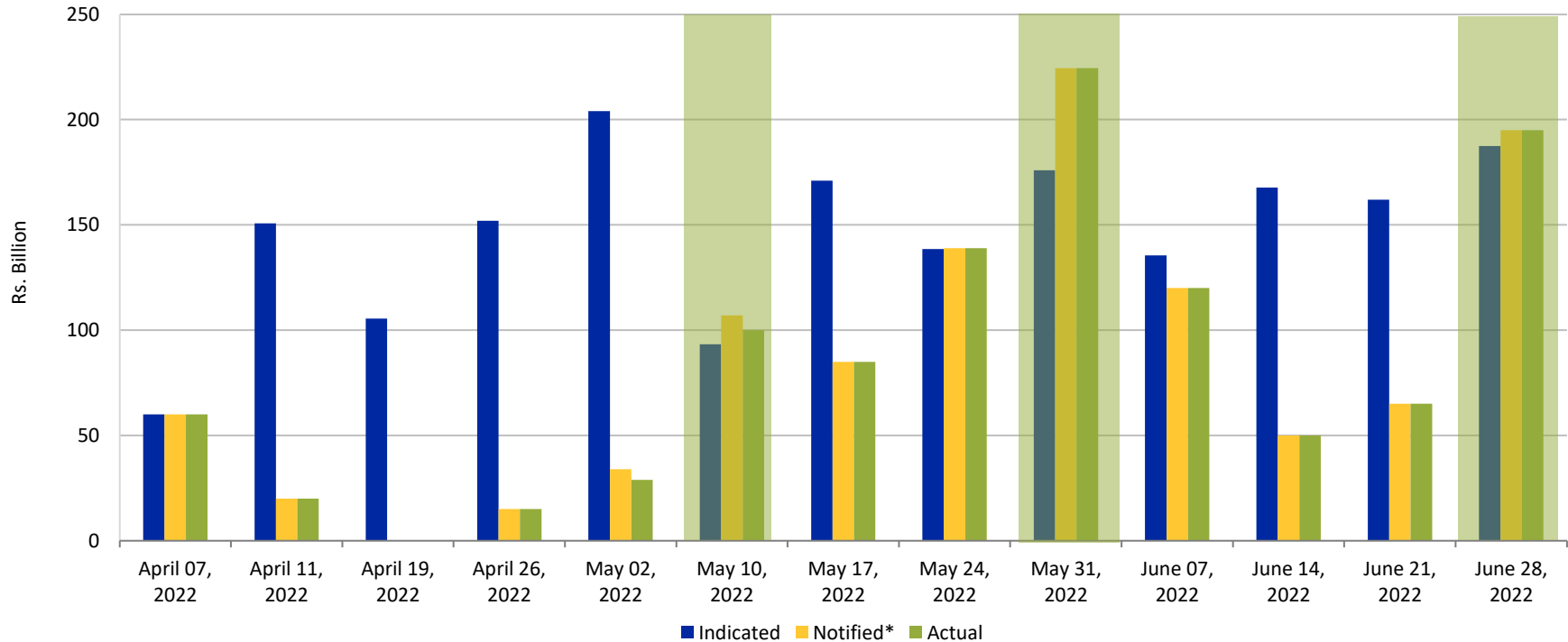


Note: *Including green shoe

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

SDL issuance today was a mild 4.0% higher than indicated for this week; third such instance in Q1 FY2023

Exhibit: Indicated, notified and actual SDL issuances in Q1 FY2023

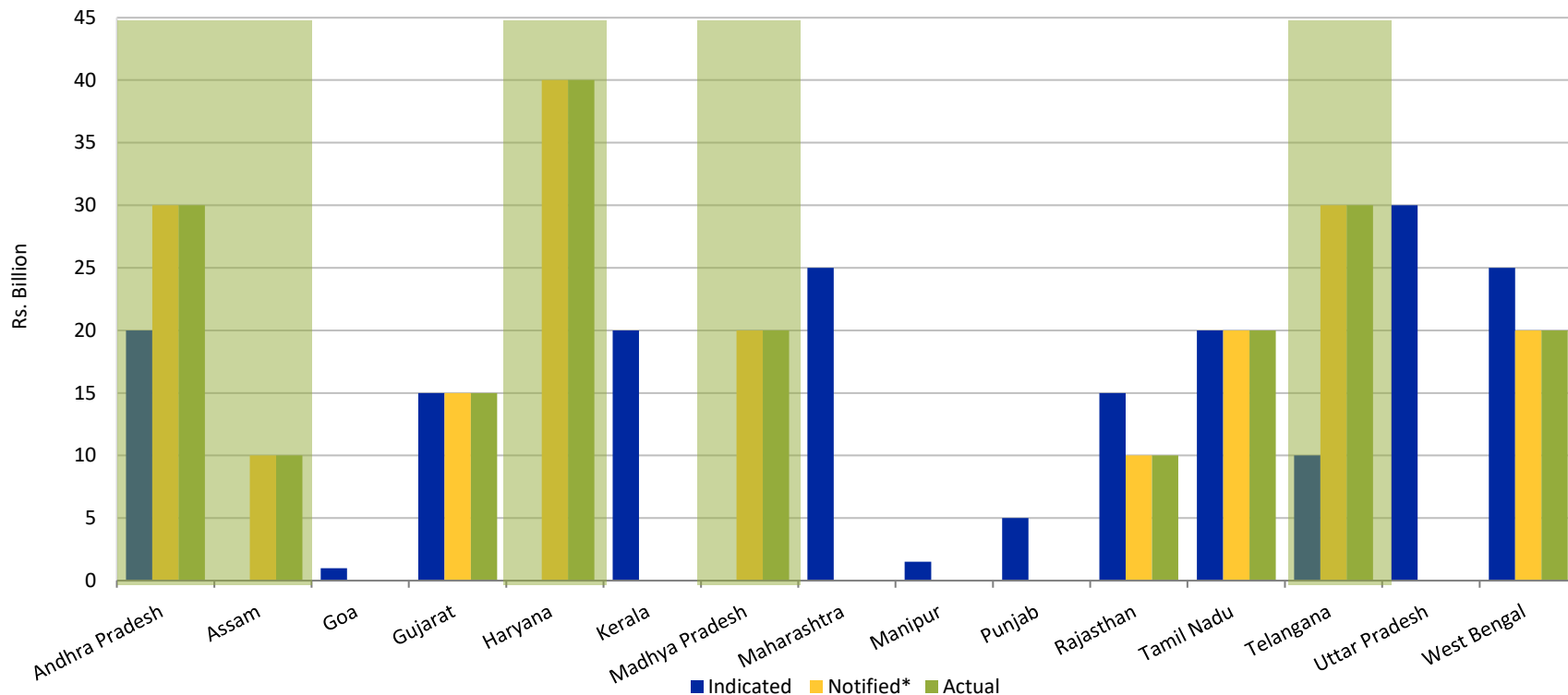


Note: *Including green shoe

Source: RBI; ICRA Research

Assam, Haryana and MP issued Rs. 70 billion SDLs even though they had not indicated to participate today; AP and Telangana borrowed additional Rs. 30 billion

Exhibit: State-wise indicated, notified and actual SDL issuance on June 28, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SDLs rose by ~4 bps to 7.88% today from last week

Exhibit: Tenor-wise SDL issuance and cut-offs on June 28, 2022

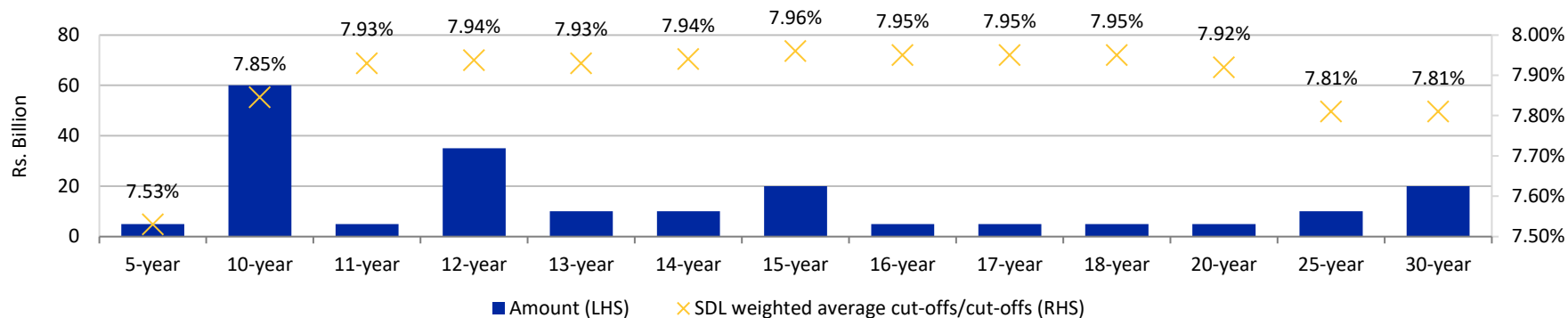
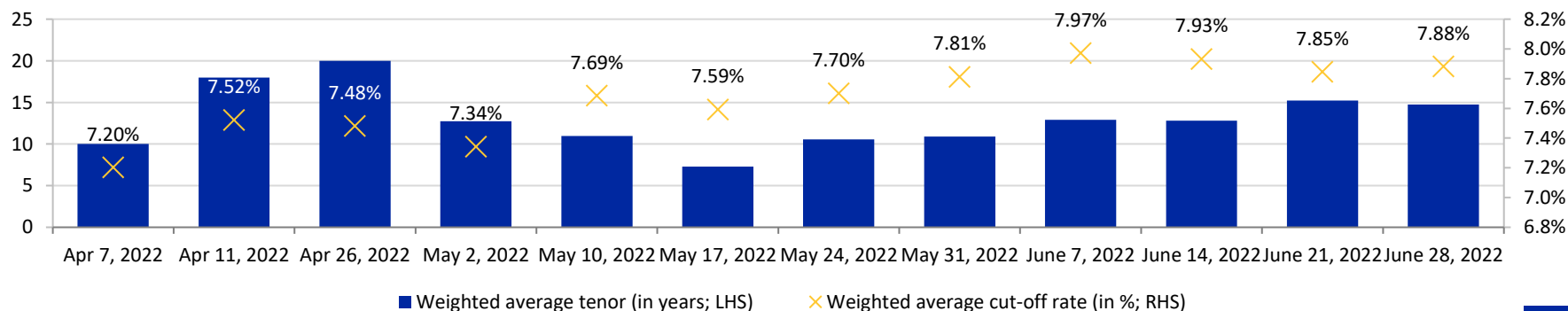
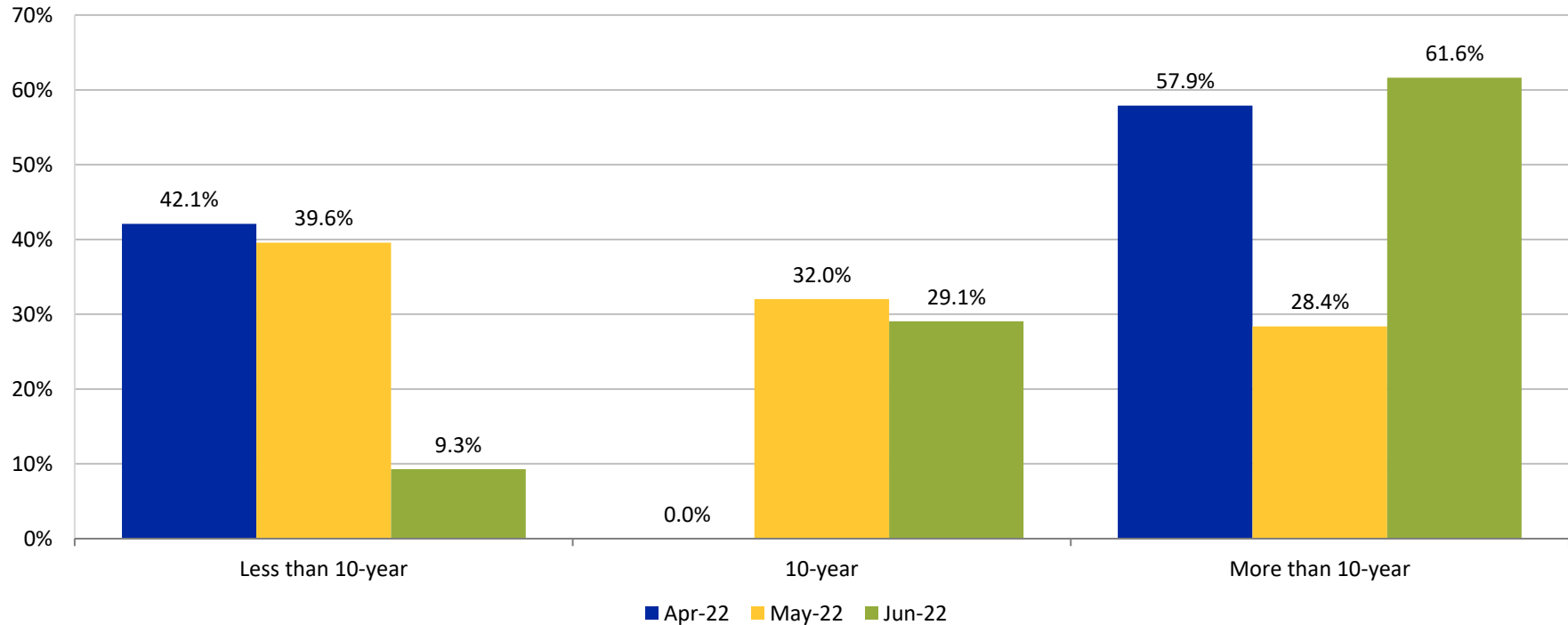


Exhibit: Weighted average cut-off and tenor of SDLs during Q1 FY2023



Share of longer tenor issuances rose to ~62% in June 2022 from ~28% in May 2022 and ~58% in April 2022; sharp drop in issuance of shorter tenors SDLs

Exhibit: Classification of SDL issuance in Q1 FY2023



Spread between the 10-year SDL and G-sec increased mildly to 38 bps today from 37 bps last week

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

	May 31, 2022	June 7, 2022	June 14, 2022	June 21, 2022	June 28, 2022
Assam				7.86%	7.85%
Goa	7.81%				
Gujarat	7.80%				7.82%
Haryana	7.81%		7.95%		7.86%
Jammu & Kashmir					
Madhya Pradesh					7.85%
Maharashtra	7.81%	7.89%			
Manipur	7.82%				
Mizoram				7.86%	
Nagaland				7.88%	
Rajasthan				7.83%	
Tamil Nadu	8%		7.94%		
West Bengal	7.83%				
Weighted Average 10-year SDL cut-offs (A)	7.81%	7.89%	7.95%	7.85%	7.85%
Minimum 10-year SDL cut-off	7.80%	7.89%	7.94%	7.83%	7.82%
Maximum 10-year SDL cut-off	7.82%	7.89%	7.95%	7.88%	7.86%
10-year G-sec closing yield (B)	7.42%	7.52%	7.58%	7.48%	7.47%
Spread (A-B)	40 bps	37 bps	36 bps	37 bps	38 bps



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