

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cost of SDLs rose by
11 bps to 7.84% today, with increase in
cut-offs across tenors**

AUGUST 8, 2022





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*8 states raised Rs. 138 billion SDLs,
~13% higher than the indicated level*

*Weighted average cut-off of SDLs rose
by 11 bps to 7.84% today*

*Spread between 10-year SDL and G-sec
yield eased to 40 bps today from 45
bps last week*

Eight state governments raised Rs. 138 billion through state development loans (SDLs) on August 8, 2022, ~13% higher than the Rs. 122 billion that was initially indicated for this week in the Q2 FY2023 auction calendar. The weighted average cut-off of SDLs increased by 11 bps to 7.84% today from 7.73% in the last auction, with an increase in weighted average tenor (to 14 years from 13 years) and rise in cut-offs across tenors. The benchmark 10-year Gol security (G-sec; 6:54 GS 2032) yield climbed to 7.35% from 7.20% last Tuesday. This followed from the Monetary Policy Committee's decision to increase the repo rate by 50 bps for the second consecutive time on August 5, 2022, as well as its focus on reining in inflationary expectations, which suggests another rate hike in the upcoming review. The weighted average cut-off of the 10-year SDLs rose to 7.75% today from 7.64% last week. Accordingly, the spread between the weighted average 10-year SDL and 10-year Gol security yield eased to 40 bps from 45 bps during the same period.

Gujarat (Rs. 20 billion) and Telangana (Rs. 10 billion) borrowed Rs. 30 billion today, despite not having indicated their participation in the auction calendar for this week, and Haryana (by Rs. 10 billion), Rajasthan (by Rs. 20 billion) and Tamil Nadu (by Rs. 10 billion) issued more SDLs than what they had indicated. In contrast, Himachal Pradesh, Kerala, Maharashtra, Meghalaya and Nagaland did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 54 billion for this week.

Today's SDL issuance was nearly 14% higher than the year-ago level (Rs. 121 billion). Despite this, the cumulative SDL issuance (Rs. 1,980 billion) of 20 state governments and two Union Territories (UTs) during April-August 8, 2022, is ~9% lower than the year ago level (Rs. 2,185 billion). Moreover, the actual issuance so far in FY2023 is ~30% below the indicated level (Rs. 2,821 billion).

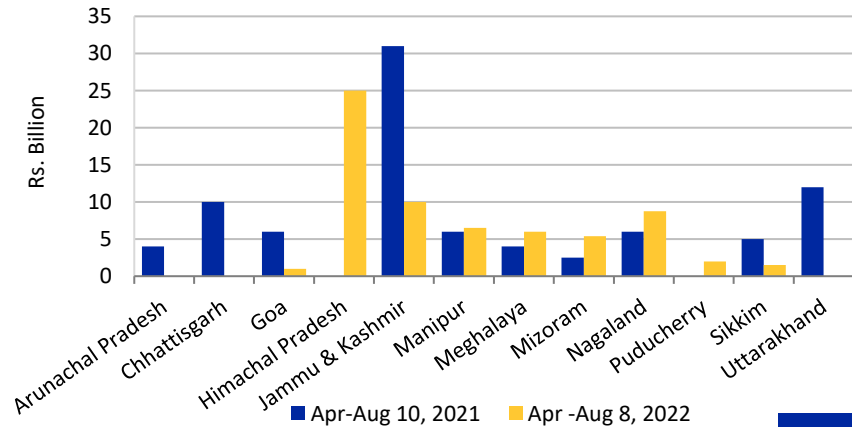
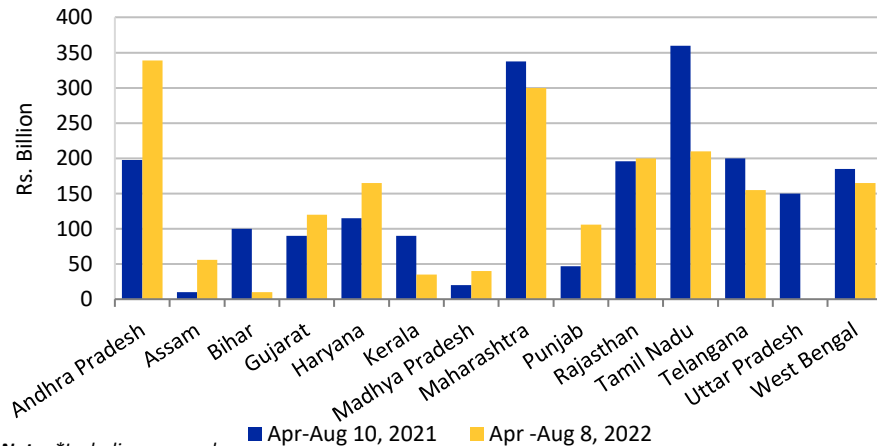
In today's auction, Rs. 70 billion (or ~51% of the total issuance) was in longer tenor SDLs, Rs. 55 billion (~40%) was in the 10-year bucket and the balance Rs. 13 billion (~9%) was in shorter tenor SDLs. The cut-offs of 14 to 23-year SDLs issued by Andhra Pradesh, Telangana, Rajasthan Punjab, Tamil Nadu and Rajasthan were narrowly clustered between 7.93-7.97%, indicating a flattish SDL curve at the long end.

SDL issuance has declined by 9.4% in FY2023 (so far) on a YoY basis, led by 13 states/UT

Exhibit: SDL issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of August 8, 2022	122	138	138	1,980
Week of August 10, 2021	168	121	121	2,185
Growth	-27.4%	14.0%	14.0%	-9.4%

Exhibit: Cumulative SDL issuance during Apr-Aug 8, 2022, and year-ago level

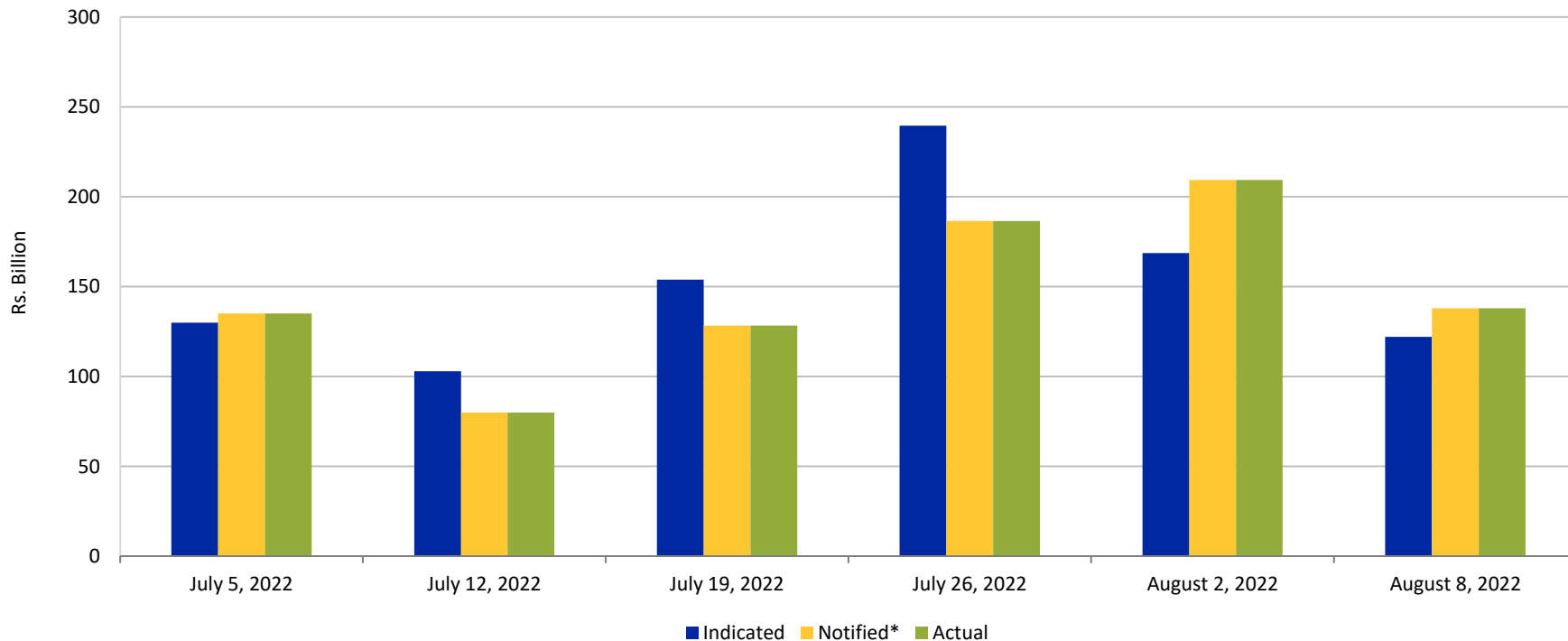


Note: *Including green shoe

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

Today's SDL issuance was 13.1% higher than the indicated level

Exhibit: Indicated, notified and actual SDL issuances in Q2 FY2023 (so far)

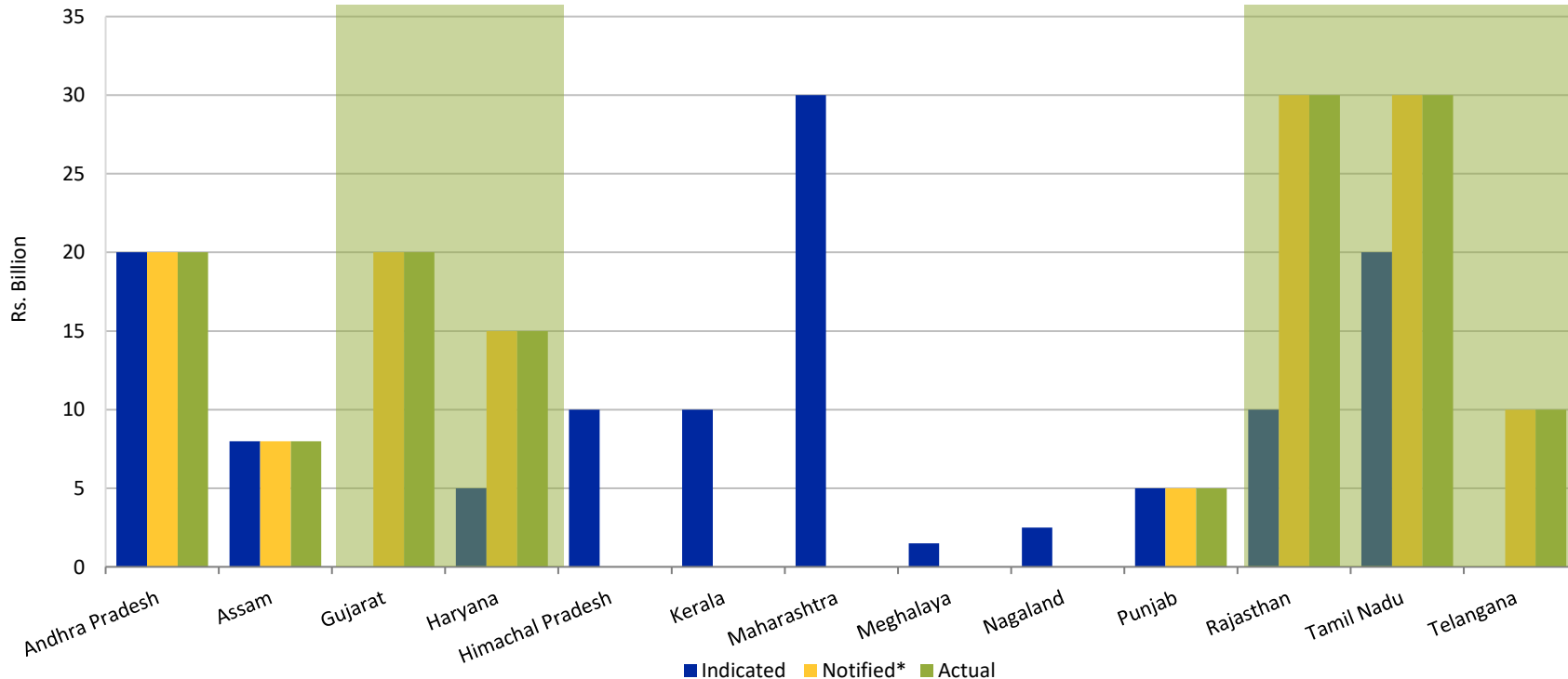


Note: *Including green shoe

Source: RBI; ICRA Research

Three states issued Rs. 40 billion more than what they had indicated today; two states that had not indicated their participation, borrowed Rs. 30 billion

Exhibit: State-wise indicated, notified and actual SDL issuance on August 8, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SDLs rose by 11 bps to 7.84% today from last week

Exhibit: Tenor-wise SDL issuance and cut-offs on August 8, 2022

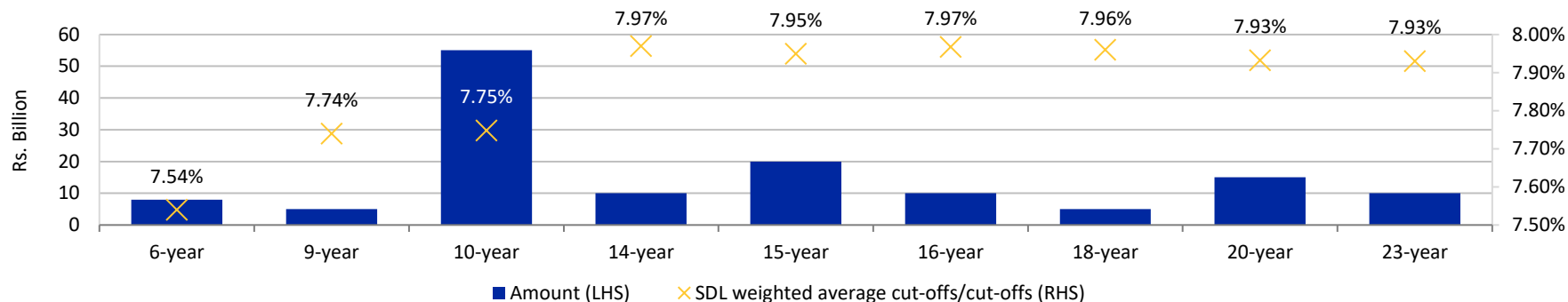
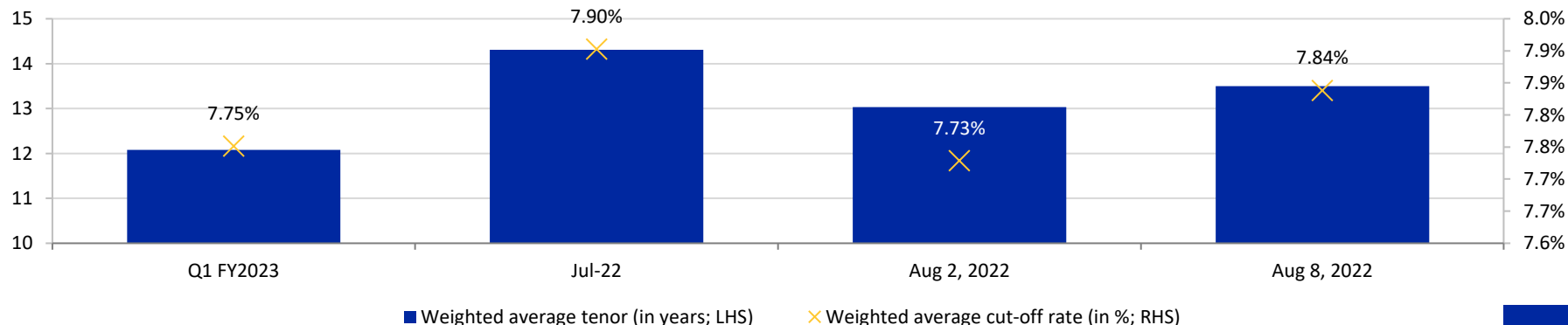
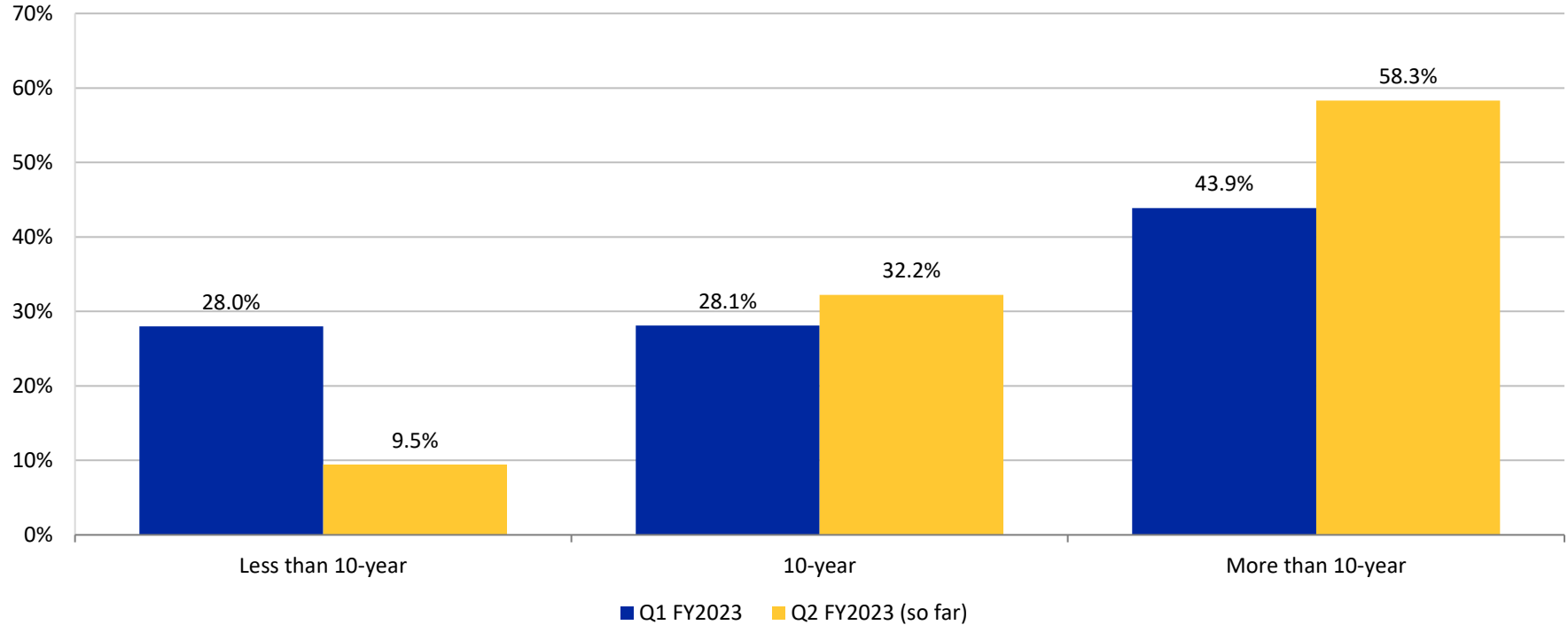


Exhibit: Weighted average cut-off and tenor of SDLs during FY2023 (so far)



Share of longer tenor issuances has risen to ~58% in Q2 FY2023 (so far) from ~44% in Q1 FY2023

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



Spread between the 10-year SDL and G-sec yield eased to 40 bps today from 45 bps last week

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

	July 12, 2022	July 19, 2022	July 26, 2022	August 2, 2022	August 8, 2022
Assam		7.83%		7.68%	
Bihar				7.65%	
Gujarat		7.80%	7.77%	7.61%	7.73%
Haryana	7.81%		7.81%		7.77%
Madhya Pradesh				7.65%	
Manipur		7.83%			
Nagaland			7.82%	7.67%	
Puducherry	7.81%				
Punjab		7.85%			
Rajasthan			7.81%	7.65%	7.77%
Sikkim			7.82%		
Tamil Nadu			7.80%	7.64%	7.75%
Weighted Average 10-year SDL cut-offs (A)	7.81%	7.82%	7.80%	7.64%	7.75%
Minimum 10-year SDL cut-off	7.81%	7.80%	7.77%	7.61%	7.73%
Maximum 10-year SDL cut-off	7.81%	7.85%	7.82%	7.68%	7.77%
10-year G-sec closing yield (B)	7.39%	7.43%	7.37%	7.20%	7.35%
Spread (A-B)	42 bps	39 bps	43 bps	45 bps	40 bps



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