

## STATE GOVERNMENT FINANCES- Weekly SDL

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**SDL issuance today was sharply lower  
than indicated following doubling of tax  
devolution in August 2022**

**AUGUST 18, 2022**





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*3 states raised Rs. 40 billion SDLs, only a third of the indicated level*

*Step-up in Central transfers may lead to lower-than-indicated issuance during Q2 FY2023*

*Weighted average cut-off of SDLs declined by 19 bps to 7.65% today*

*Spread between 10-year SDL and G-sec yield eased marginally to 37 bps today from 40 bps last week*

Andhra Pradesh, Bihar and Tamil Nadu raised Rs. 40 billion through state development loans (SDLs) on August 18, 2022, a third of the Rs. 122 billion that was initially indicated for this week in the Q2 FY2023 auction calendar. The release of the tax devolution of Rs. 1.2 trillion by the Government of India (GoI) to the state governments on August 10, 2022, was twice as large as the Rs. 583 billion released in July 2022. In our view, the release of two instalments of tax devolution in August 2022, is likely to have eased the cash-flow position of the states, leading to some of the states skipping today's auction. Additionally, in July 2022, the GoI had approved Rs. 315 billion under the special assistance for capital expenditure scheme for Bihar, Chhattisgarh, Goa, Himachal Pradesh, Karnataka, Maharashtra, Manipur, Nagaland, Sikkim and Uttar Pradesh. While we are unclear about the actual timeline of the release of this amount, the borrowing requirement of these states may turn out to be lower-than-indicated in the weeks immediately after such funds are released to them.

Chhattisgarh, Madhya Pradesh, Maharashtra, Punjab, and Sikkim did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 73 billion for this week. Additionally, Andhra Pradesh and Tamil Nadu borrowed Rs. 15 billion lower than indicated. In today's auction, Rs. 30 billion (or ~75% of the total issuance) was in the 10-year bucket and the balance Rs. 10 billion (~25%) was in longer tenor SDLs.

The cumulative SDL issuance (Rs. 2.0 trillion) by 20 state governments and two Union Territories (UTs) during April-August 18, 2022, is ~11% lower than the year ago level (Rs. 2.3 trillion). Moreover, the actual issuance so far in FY2023 is ~32% below the indicated level (Rs. 3.0 trillion).

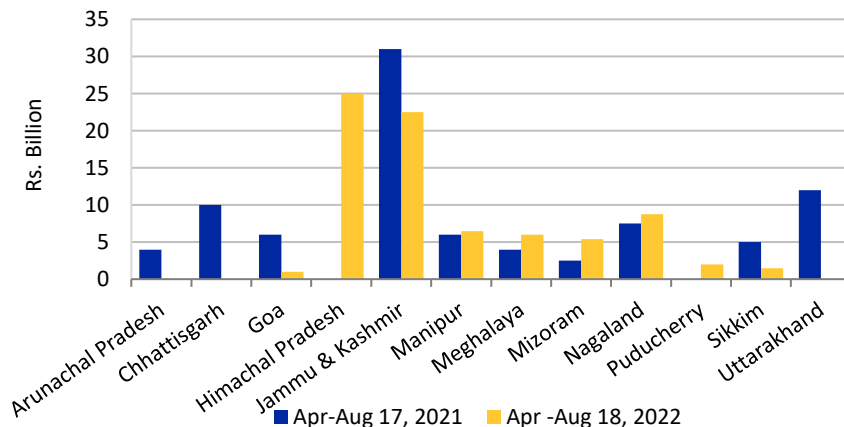
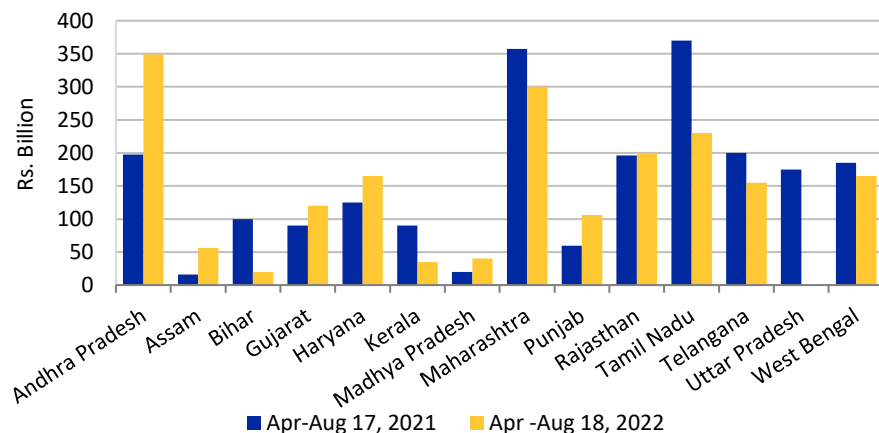
The weighted average cut-off of SDLs eased by 19 bps to 7.65% today from 7.84% in the last auction, with a decrease in weighted average tenor to 11 years from 14 years. The benchmark 10-year GoI security (G-sec; 6:54 GS 2032) yield declined to 7.24% from 7.35% last Monday. The weighted average cut-off of the 10-year SDLs dipped to 7.62% today from 7.75% last week. Accordingly, the spread between the weighted average 10-year SDL and 10-year GoI security yield eased to 37 bps from 40 bps during the same period.

# SDL issuance has declined by 11.0% 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 18, 2022	128	40	40	2,020
Week of August 17, 2021	148	85	85	2,270
Growth	-13.0%	-52.9%	-52.9%	-11.0%

Exhibit: Cumulative SDL issuance during Apr-Aug 18, 2022, and year-ago level

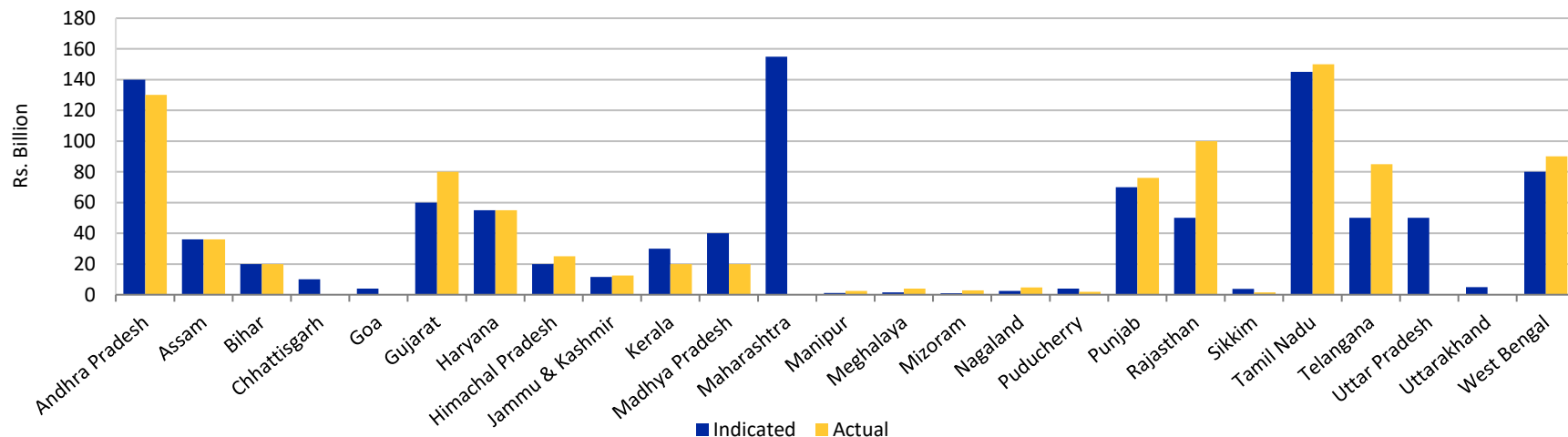


Note: \*Including green shoe

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

# Step-up in Central transfers may lead to lower-than-indicated during Q2 FY2023

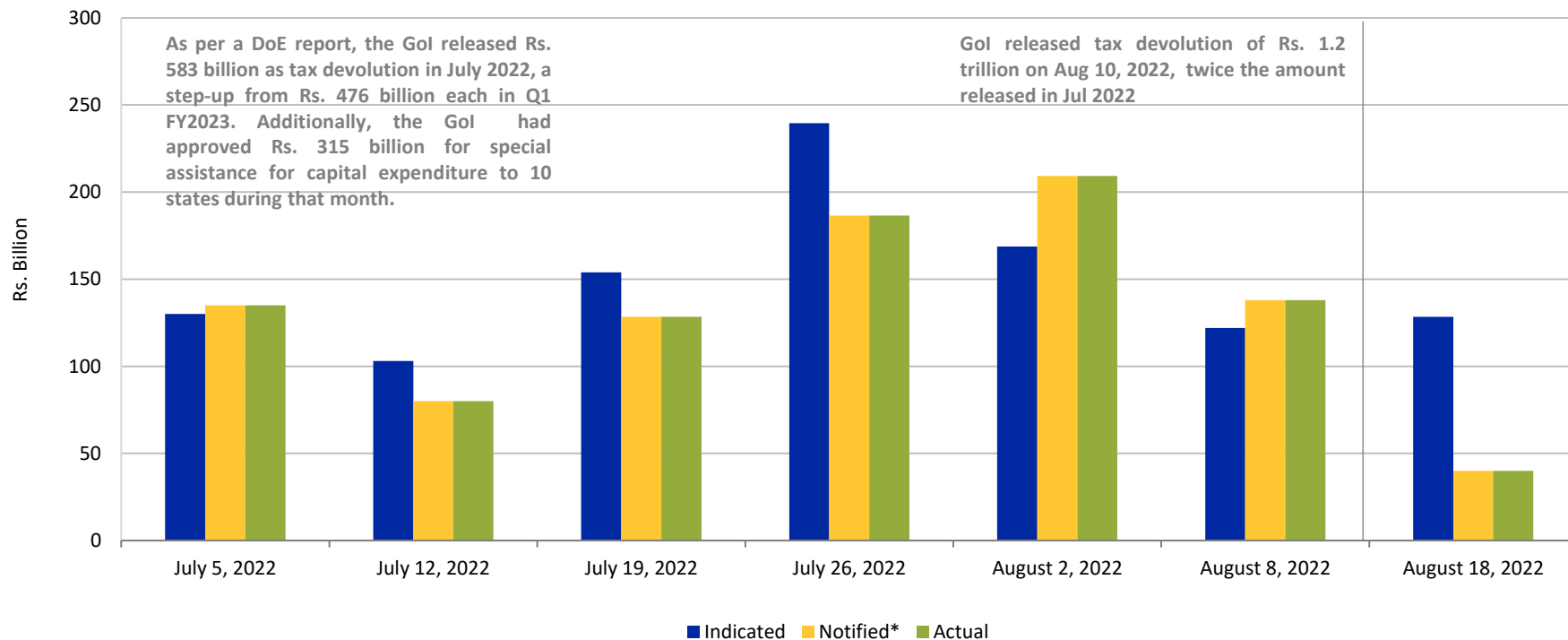
Exhibit: State-wise indicated and actual SDL issuances in Q2 FY2023 (so far)



- The Gol enhanced the tax devolution released to the states in August 2022 to Rs. 1.2 trillion from Rs. 583 billion in July 2022 (also a step-up from Rs. 476 billion in each of the three months in Q1 FY2023), which would have improved the liquidity position of the states.
- Additionally, Rs. 315 billion was approved under the special assistance for capital expenditure to Bihar, Chhattisgarh, Goa, Himachal Pradesh, Karnataka, Maharashtra, Manipur, Nagaland, Sikkim and Uttar Pradesh, in July 2022; the timeline of the release of these funds may also reduce the planned SDL issuance in the immediate term.
- **We expect the enhanced Central transfers to lead to the SDL issuance in Q2 FY2023 undershooting the indicated Rs. 2.1 trillion.**

# Today's SDL issuance was only a third of the indicated level following the release of the double tranche of tax devolution last week

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

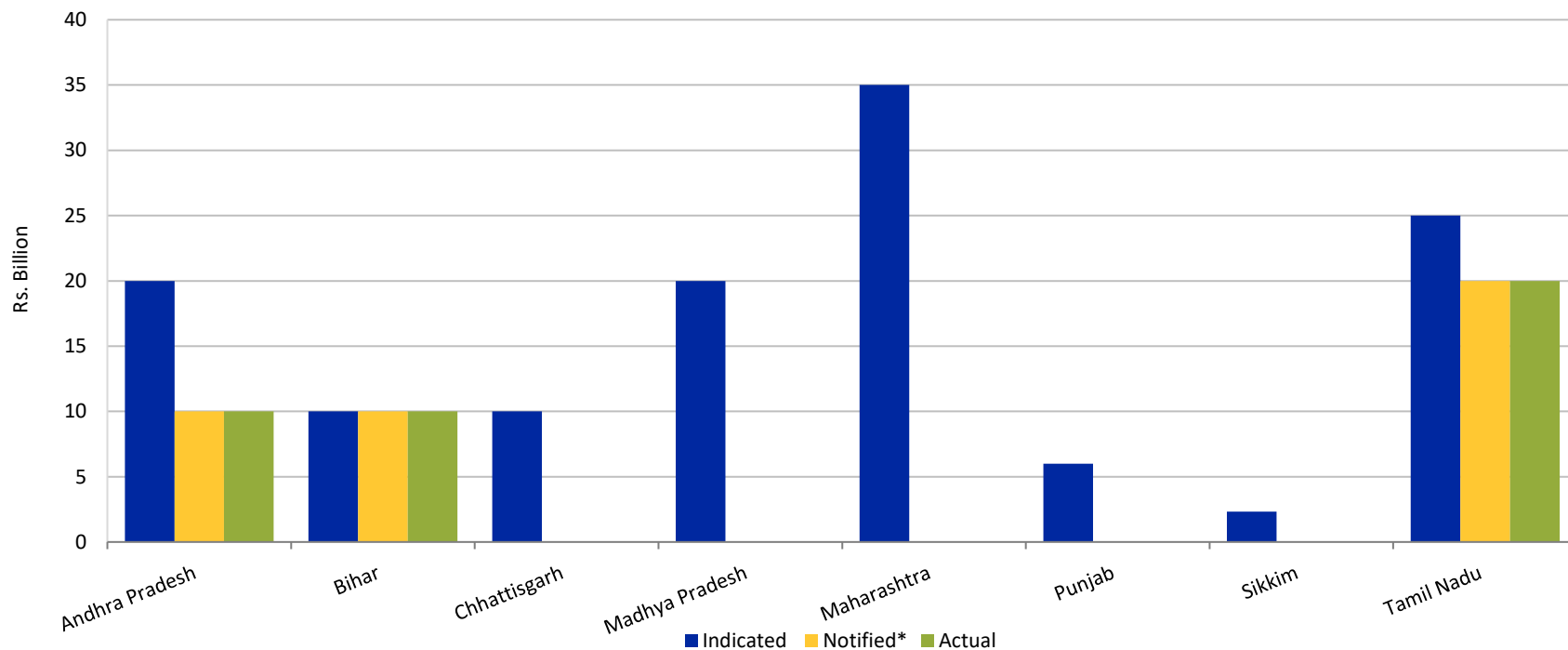


**Note:** \*Including green shoe

**Source:** RBI; ICRA Research

# Only three of the eight states that had indicated to borrow participated in this week's SDL auction; all three borrowed less than the indicated amount

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



**Note:** \*Including green shoe

**Source:** RBI; ICRA Research

# Weighted average cut-off of SDLs eased by 19 bps to 7.65% today from last week

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

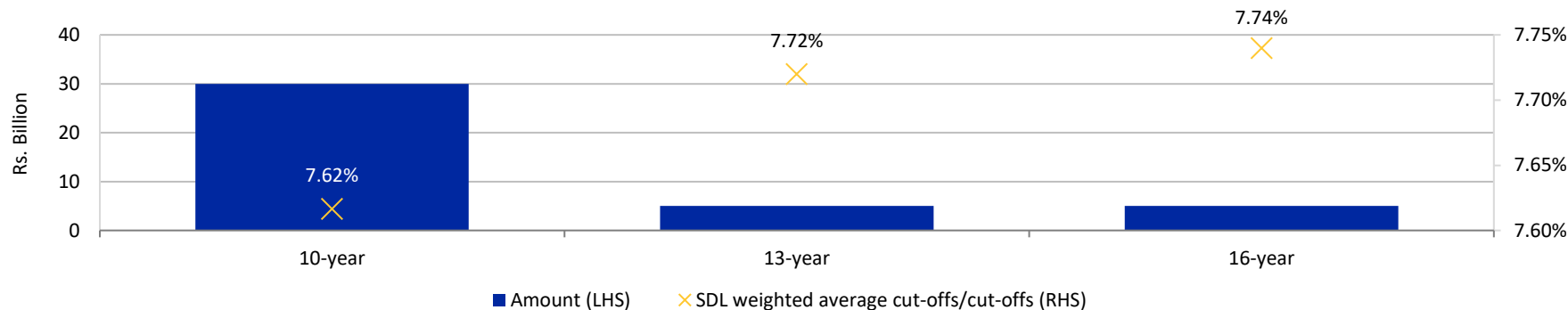
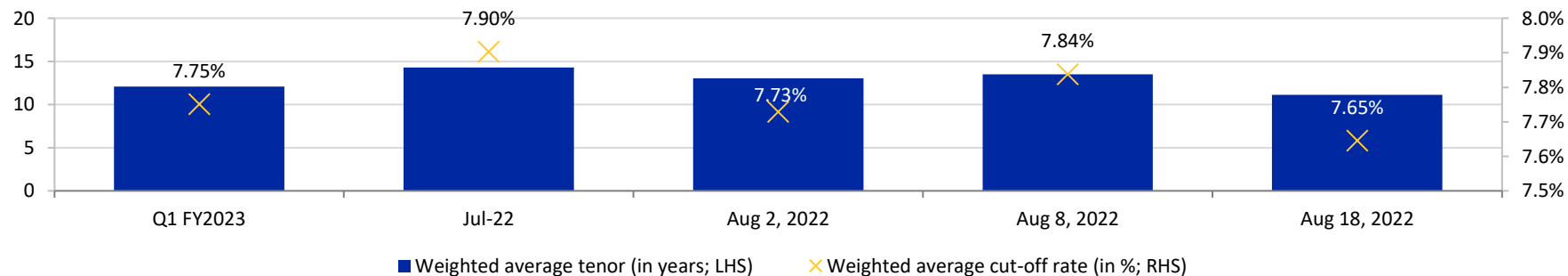
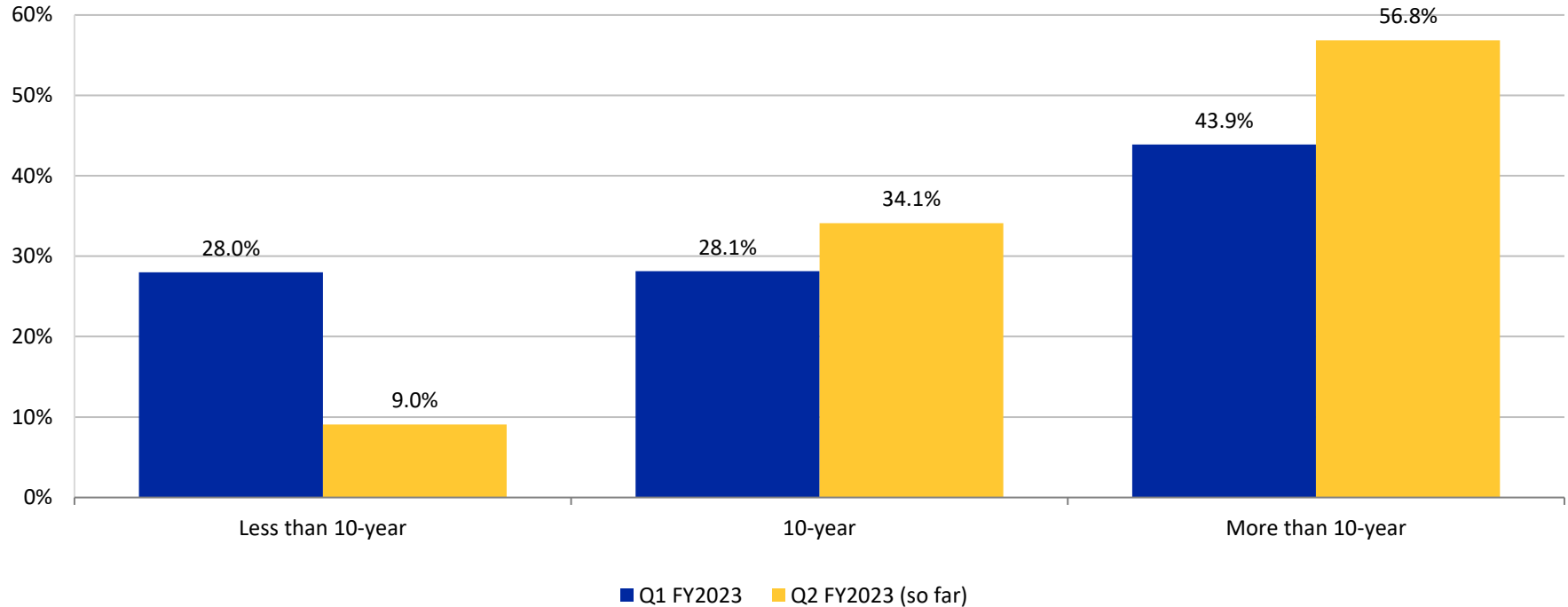


Exhibit: Weighted average cut-off and tenor of SDLs during FY2023 (so far)



# 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 37 bps today from 40 bps last week

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

	July 19, 2022	July 26, 2022	August 2, 2022	August 8, 2022	August 18, 2022
Assam	7.83%		7.68%		
Bihar			7.65%		7.65%
Gujarat	7.80%	7.77%	7.61%	7.73%	
Haryana		7.81%		7.77%	
Madhya Pradesh			7.65%		
Manipur	7.83%				
Nagaland		7.82%	7.67%		
Punjab	7.85%				
Rajasthan		7.81%	7.65%	7.77%	
Sikkim		7.82%			
Tamil Nadu		7.80%	7.64%	7.75%	7.60%
Weighted Average 10-year SDL cut-offs (A)	7.82%	7.80%	7.64%	7.75%	7.62%
Minimum 10-year SDL cut-off	7.80%	7.77%	7.61%	7.73%	7.60%
Maximum 10-year SDL cut-off	7.85%	7.82%	7.68%	7.77%	7.65%
10-year G-sec closing yield (B)	7.43%	7.37%	7.20%	7.35%	7.24%
<b>Spread (A-B)</b>	<b>39 bps</b>	<b>43 bps</b>	<b>45 bps</b>	<b>40 bps</b>	<b>37 bps</b>



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