

STATE GOVERNMENT FINANCES- Weekly State G-sec

Weighted average cut-off of State G-sec rises by 10 bps to 7.56% while spread with G-sec yield narrows to three-year low 29 bps

SEPTEMBER 20, 2022





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7 states and 1 UT raised Rs. 94 billion, a sharp ~40% lower than indicated

Weighted average cut-off State G-sec rose by 10 bps to 7.56% today

Spread between 10-year State G-sec and Gol G-sec yield eased to a three-year low 29 bps today from 37 bps last week

Seven state governments and one Union Territory (UT) raised Rs. 94 billion through state government securities (State G-sec) on September 20, 2022, a sharp ~40% lower than the Rs. 156 billion indicated for this week in the Q2 FY2023 auction calendar. The weighted average cut-off of State G-sec rose by 10 bps to 7.56% today from 7.46% in the last auction, with the weighted average tenor increasing mildly to 15 years from 14 years. The 10-year Gol security (G-sec; 7.26 GS 2032) yield jumped to 7.26% from 7.08% last Tuesday, tracking the rise in the US Treasury yields ahead of the US Federal Reserve's meeting on September 21, 2022. Moreover, the weighted average cut-off of the 10-year State G-sec increased to 7.55% today from 7.45% last week. Accordingly, the spread between the two eased to a three-year low 29 bps from 37 bps during the same period.

Separately, the data released recently on ways and means advances (WMA) and overdraft (OD) facilities for July 2022 by the Reserve Bank of India (RBI), indicated a sequential and a year-on-year (YoY) increase in their usage. The communication of the adjustment of the off-budget debt from the FY2023 borrowing limit of some of the state governments by the Gol in June 2022, may have led to increase in the usage of liquidity facilities by those states in the subsequent weeks.

Andhra Pradesh, Himachal Pradesh, Maharashtra, Mizoram, Rajasthan, and Uttar Pradesh did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 81 billion for this week. Additionally, Tamil Nadu did not accept any bids for its Rs. 20 billion 10-year State G-sec and Goa borrowed Rs. 1 billion less than initially indicated. In contrast, Madhya Pradesh, Punjab, and West Bengal issued Rs. 35 billion more State G-sec, and Jammu & Kashmir and Telangana, which had not indicated their participation, issued Rs. 10 billion State G-secs in today's auction.

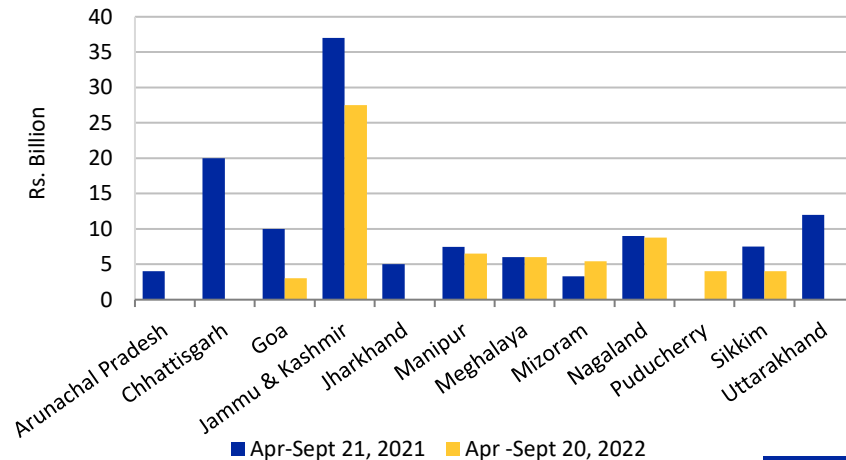
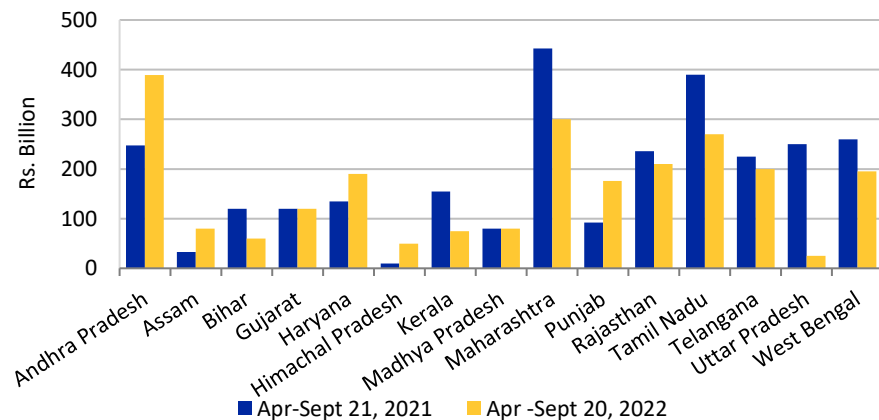
In today's auction, Rs. 56 billion (~60% of the total issuance) was in the longer tenors and the balance Rs. 38 billion (or ~40%) was raised in the 10-year bucket. The cumulative State G-sec issuance of Rs. 2.5 trillion by 21 state governments and two Union Territories (UTs) during April-September 20, 2022, is ~15% lower than the year ago level (Rs. 2.9 trillion) and ~33% below the indicated level (Rs. 3.7 trillion).

State G-sec issuance has declined by 14.8% in FY2023 (so far) on a YoY basis, led by 17 states/UT

Exhibit: State G-sec issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of September 20, 2022	156	114	94	2,485
Week of September 21, 2021	47	89	89	2,917
Growth	235.1%	28.1%	5.6%	-14.8%

Exhibit: Cumulative State G-sec issuance during Apr-Sept 20, 2022, and year-ago level

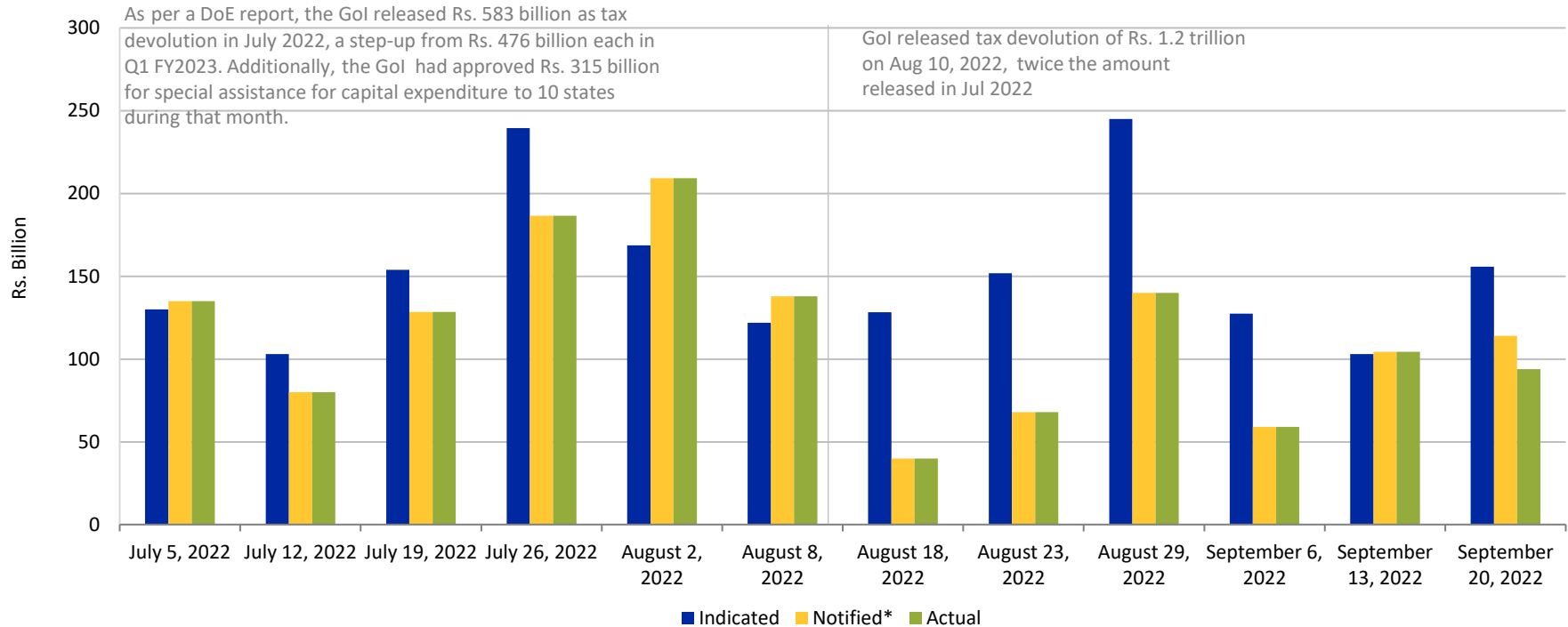


Note: *Including green shoe

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

Today's State G-sec issuance was ~40% lower than the indicated level for this week

Exhibit: Indicated, notified and actual State G-sec issuances in Q2 FY2023 (so far)

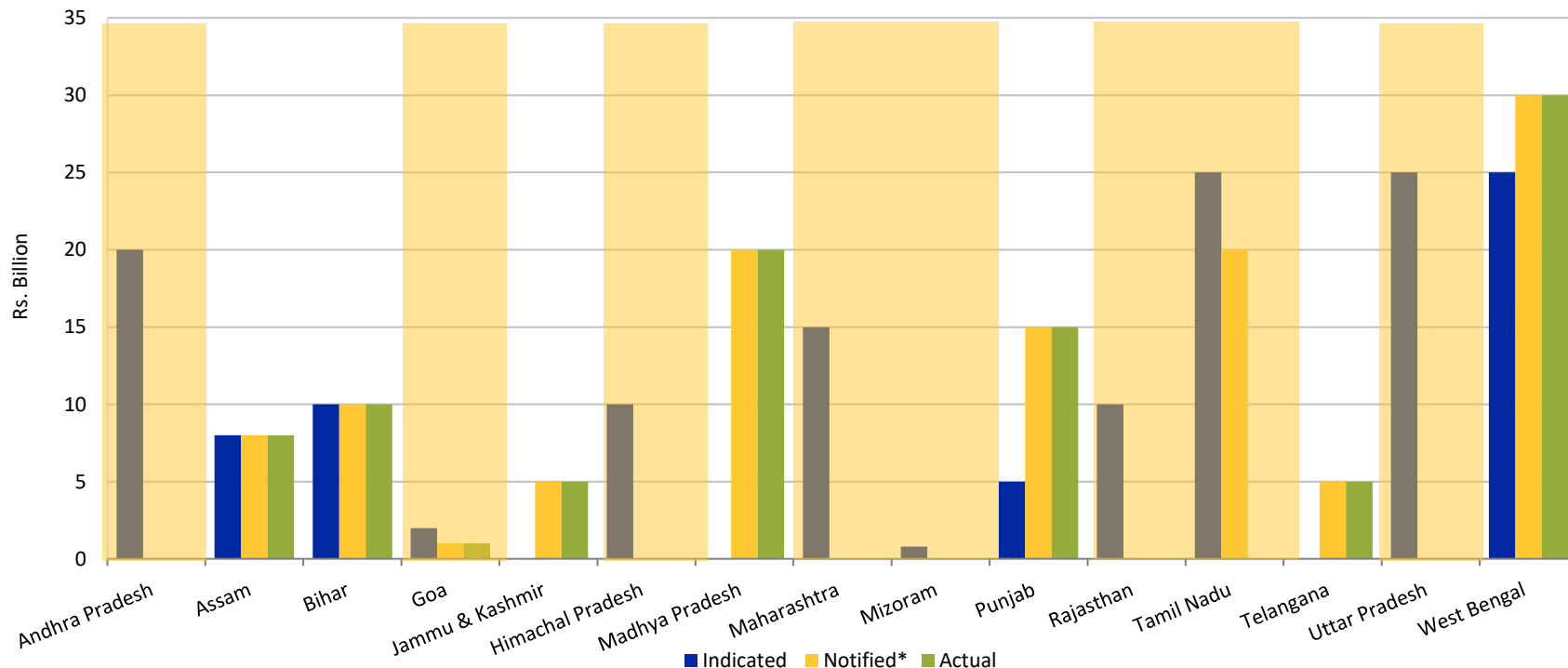


Note: *Including green shoe

Source: RBI; Department of Expenditure (DoE), Ministry of Finance, India; ICRA Research

Eight states did not participate and/or borrowed less than indicated State G-secs aggregating to Rs. 107 billion

Exhibit: State-wise indicated, notified and actual State G-sec issuance on September 20, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of State G-secs rose by 10 bps to 7.56% today from last week

Exhibit: Tenor-wise State G-sec issuance and cut-offs on September 20, 2022

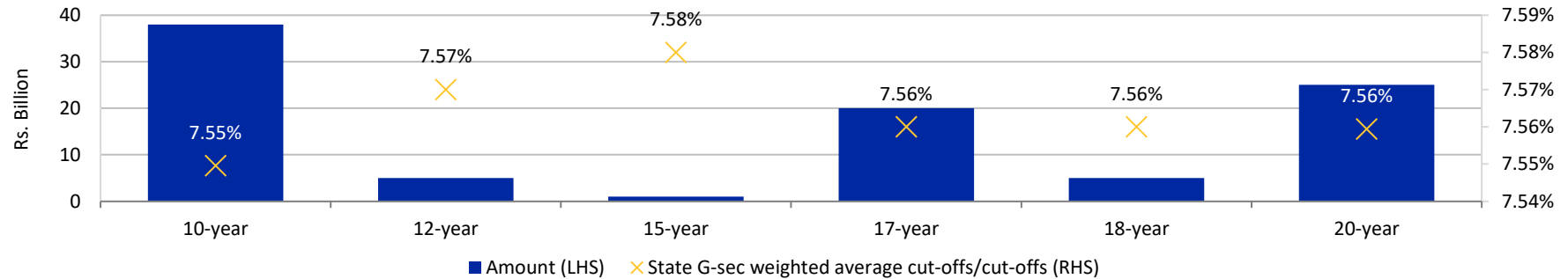
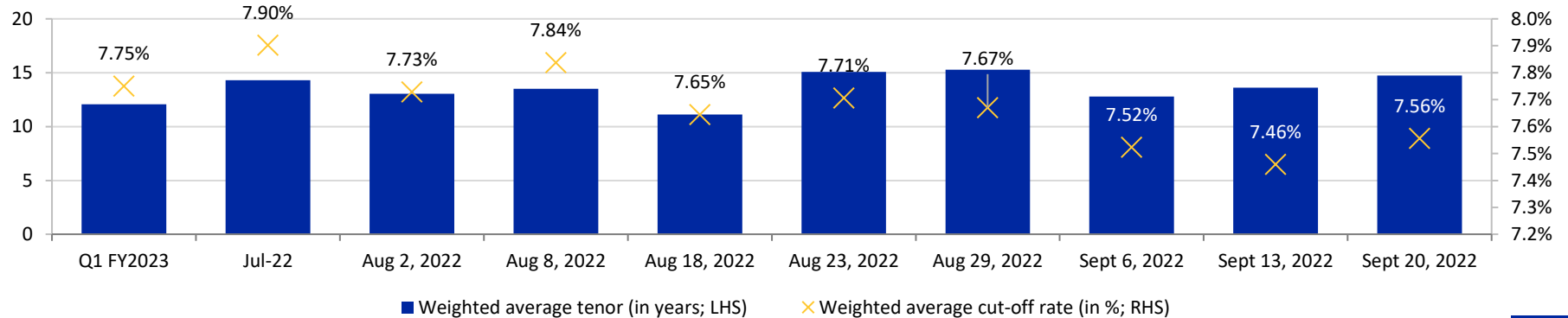
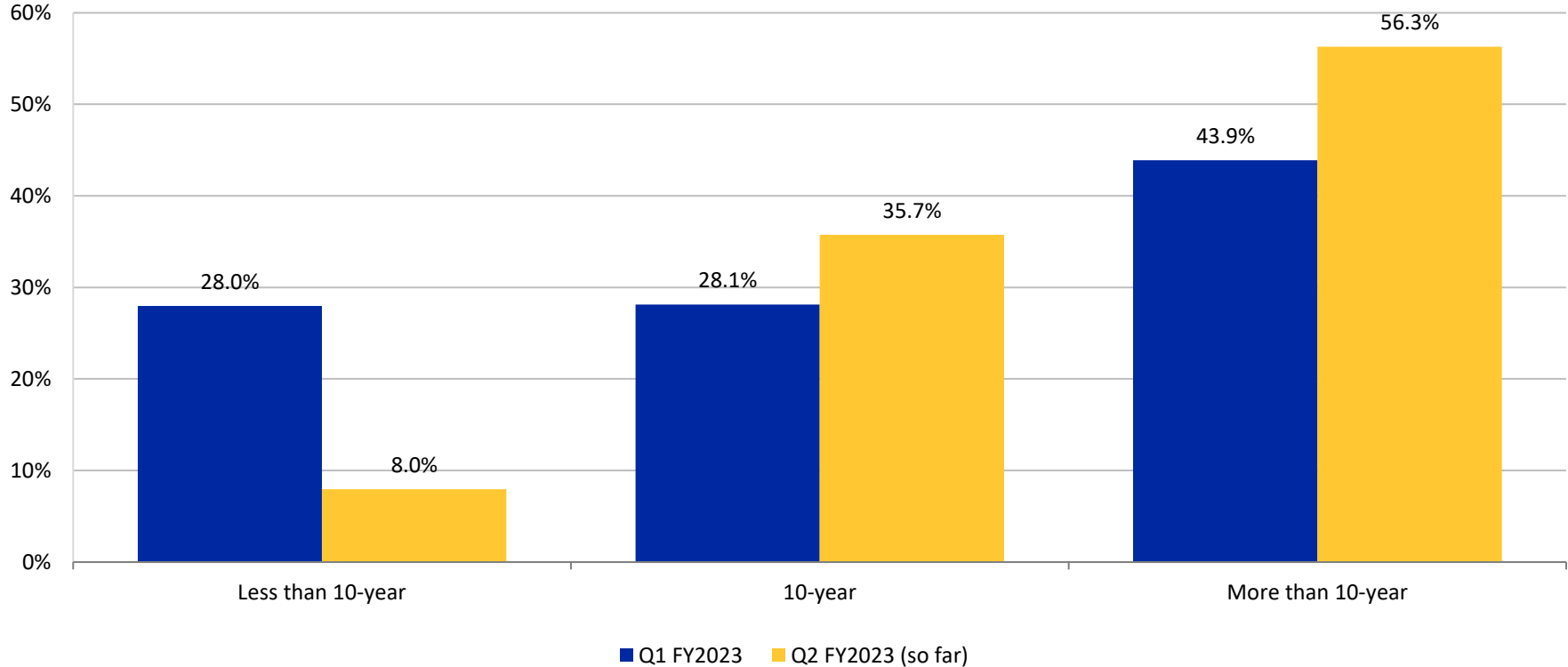


Exhibit: Weighted average cut-off and tenor of State G-sec during FY2023 (so far)



Share of longer tenor issuances has risen to ~56% in Q2 FY2023 (so far) from ~44% in Q1 FY2023

Exhibit: Classification of State G-sec issuance in FY2023 (so far)



Spread between the 10-year State G-sec and Gol G-sec declined to a three-year low 29 bps today from 37 bps last week

Exhibit: 10-year State G-sec and Gol G-sec cut-offs

	August 23, 2022	August 29, 2022 [#]	September 6, 2022	September 13, 2022	September 20, 2022
Assam	7.65%		7.53%		7.55%
Bihar		7.62%	7.53%	7.45%	7.55%
Haryana		7.61%		7.45%	
Madhya Pradesh				7.46%	7.55%
Rajasthan				7.45%	
Sikkim				7.45%	
Tamil Nadu		7.61%			
Uttar Pradesh	7.66%				
Weighted Average 10-year State G-sec cut-offs (A)	7.66%	7.61%	7.53%	7.45%	7.55%
Minimum 10-year State G-sec cut-off	7.65%	7.61%	7.53%	7.45%	7.55%
Maximum 10-year State G-sec cut-off	7.66%	7.62%	7.53%	7.46%	7.55%
10-year G-sec closing yield (B)	7.28%/7.27%*	7.23%	7.14%	7.08%	7.26%
Spread (A-B)	38 bps/39 bps	38 bps	39 bps	37 bps	29 bps

Note : : *7.28% refers to yield of old 10-year G sec 6.54 GS 2033 and 7.27% was the closing yield of new 10-year G sec i.e., 7.26 GS 2032; # From August 29, 2022, the 10-year G-sec closing yield refers to the new 10-year G-sec (7.26 2032)

Source: RBI; ICRA Research

WMA and OD usage increased on a YoY and sequential basis in July 2022

Exhibit: Number of days the WMA facilities were availed by states/UTs during July 2021, June 2022 and July 2022

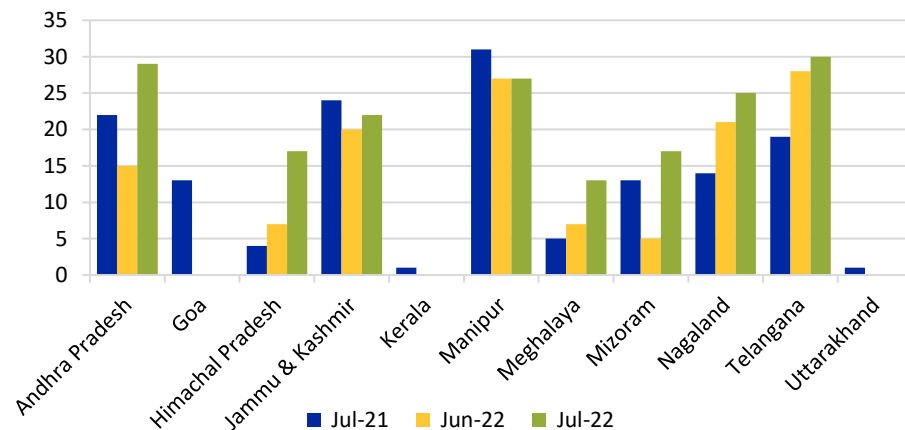
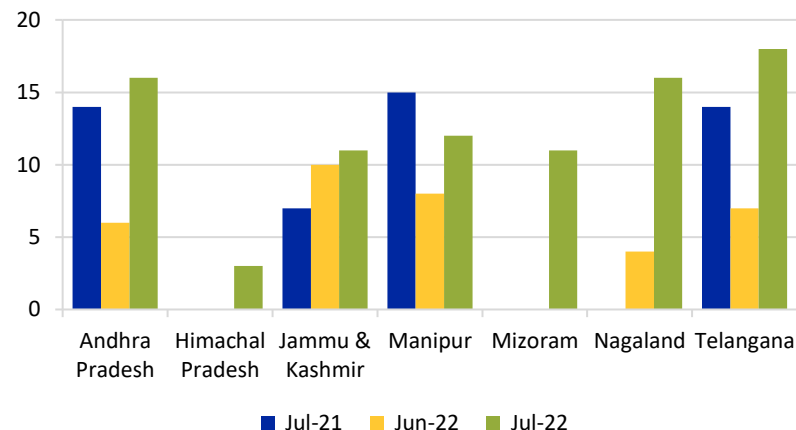


Exhibit: Number of days in OD during July 2021, June 2022 and July 2022



- WMA usage in July 2022 was higher than both the year-ago level as well as the amount in the previous month. Eight states availed WMA for 180 days in July 2022 compared to 147 days by 11 states in July 2021 and 130 days by eight states in June 2022. WMA usage of seven states (except Manipur) rose on a sequential basis in July 2022.
- Seven states availed the OD facility in July 2022, higher than four states in July 2021 and five states in June 2022. Additionally, the number of days for which these states/UT availed OD rose to 87 in July 2022 from 50 in July 2021 and 35 days in June 2022. The increase in usage of OD facility in July 2022 from June 2022 was led by all states/UT.
- The sequential increase in the usage of the WMA and OD facilities by some of the states in July 2022 could be on account of the adjustment of the off-budget debt from their FY2023 borrowing limit by the GoI in June 2022.



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