

STATE GOVERNMENT FINANCES- Weekly State G-sec

Gap between actual and indicated State G-sec issuance narrowed in Q2 FY2023 from Q1 FY2023, in line with our expectations

SEPTEMBER 27, 2022





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14 states raised Rs. 278 billion in today's auction, the highest in FY2023 so far

Weighted average cut-off State G-sec rose by 9 bps to 7.65% today

Spread between 10-year State G-sec and Gol G-sec yield widened to 38 bps today from a low 29 bps last week

Fourteen state governments raised Rs. 278 billion through state government securities (State G-sec) in the last weekly auction of Q2 FY2023, the highest in FY2023 so far. The cumulative State G-sec issuance of Rs. 2.8 trillion by 21 state governments and two Union Territories (UTs) during H1 FY2023, is ~11% lower than the year ago level (Rs. 3.1 trillion) and ~31% lower than indicated (Rs. 4.0 trillion). However, the gap between the actual and indicated issuance narrowed to Rs. 454 billion in Q2 FY2023 (issuance 22% lower than indicated) from Rs. 801 billion in Q1 FY2023 (42% lower). Nevertheless, the rise in the tax devolution by the Gol to the state governments to Rs. 1.2 trillion on August 10, 2022 from Rs. 583 billion in July 2022, led to the states' actual issuance trailing the indicated amount in the last three weeks of August 2022.

The weighted average cut-off of State G-sec rose by 9 bps to 7.65% today from 7.56% in the last auction, with the weighted average tenor remaining stable at 15 years. The 10-year Gol security (G-sec; 7.26 GS 2032) yield rose mildly to 7.29% from 7.26% on last Tuesday. Moreover, the weighted average cut-off of the 10-year State G-sec increased to 7.67% today from 7.55% last week. Accordingly, the spread between the two widened to 38 bps from 29 bps during the same period.

Today's issuance was a mild 3.0% lower than the Rs. 287 billion indicated for this week. Chhattisgarh, Madhya Pradesh, and Telangana did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 50 billion for this week. Additionally, Andhra Pradesh, Goa, Haryana, Kerala, and Rajasthan borrowed Rs. 27 billion less than initially indicated. In contrast, Maharashtra, Punjab, and Tamil Nadu borrowed an additional Rs. 66 billion, and Manipur and Mizoram, which had not indicated their participation, issued Rs. 1 billion each State G-secs in today's auction.

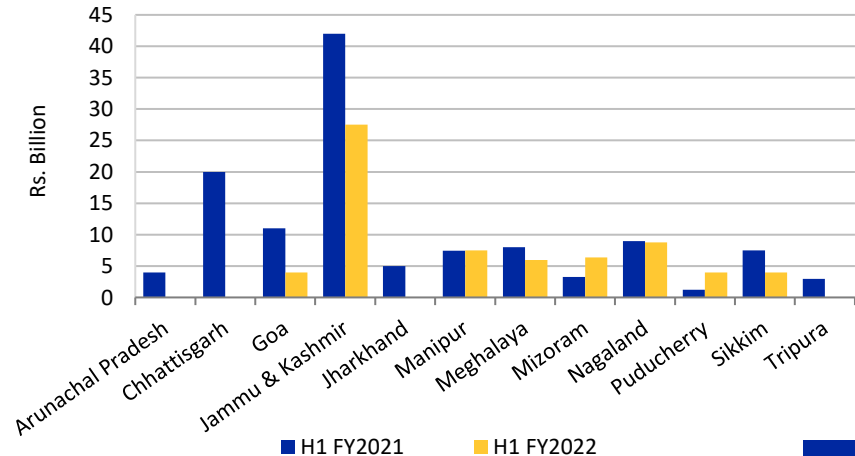
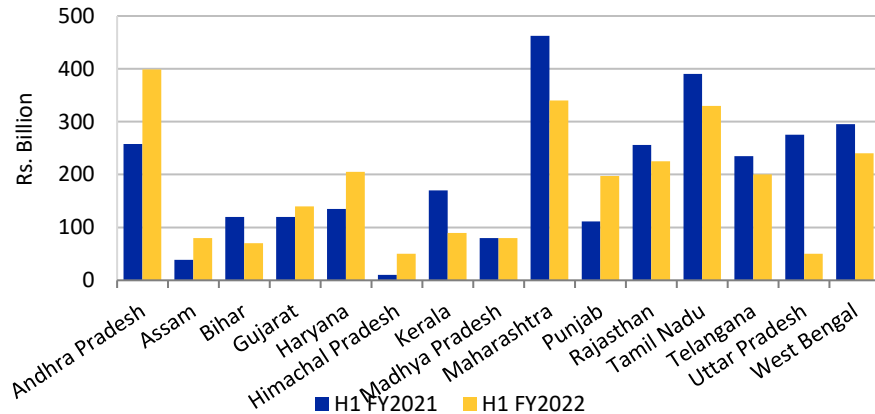
In today's auction, Rs. 131 billion (~47% of the total issuance) was in the longer tenors, Rs. 102 billion (or ~37%) was raised in the 10-year bucket and the balance Rs. 45 billion (or 16%) was in shorter tenors. Interestingly, Tamil Nadu issued Rs. 60 billion through 24 and 29-year State G-secs at a cut-off of 7.62%, lower than the weighted average cut-off of 7.67% of the 10-year State G-secs and the cut-off of 7.68-7.69% for the 18–20-year papers by various other states in today's auction.

State G-sec issuance declined by 10.6% in H1 FY2023 on a YoY basis, led by 18 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 27, 2022	287	282	278	2,763
Week of September 28, 2021	190	173	172	3,090
Growth	51.1%	63.0%	61.5%	-10.6%

Exhibit: Cumulative State G-sec issuance during H1 FY2022 and H1 FY2023

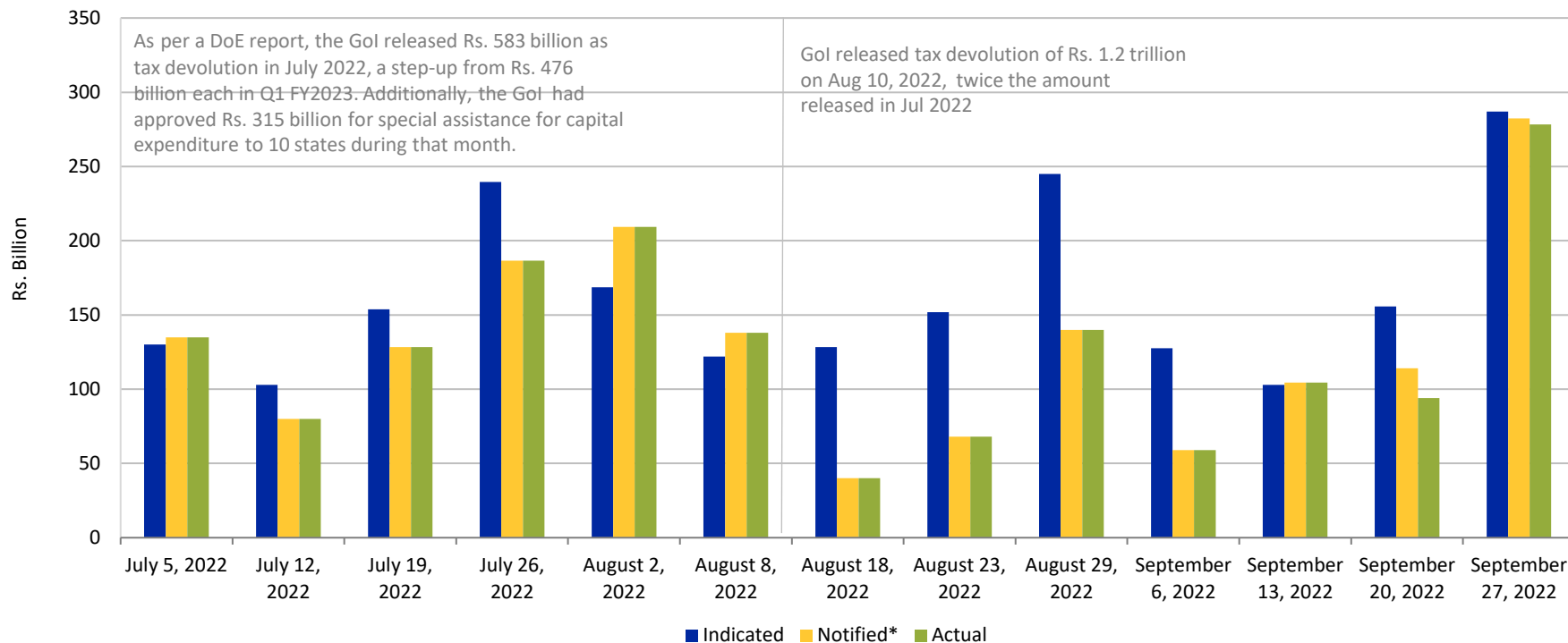


Note: *Including green shoe

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

Today's State G-sec issuance was a mild 3.0% lower than the indicated level for this week

Exhibit: Indicated, notified and actual State G-sec issuances in Q2 FY2023

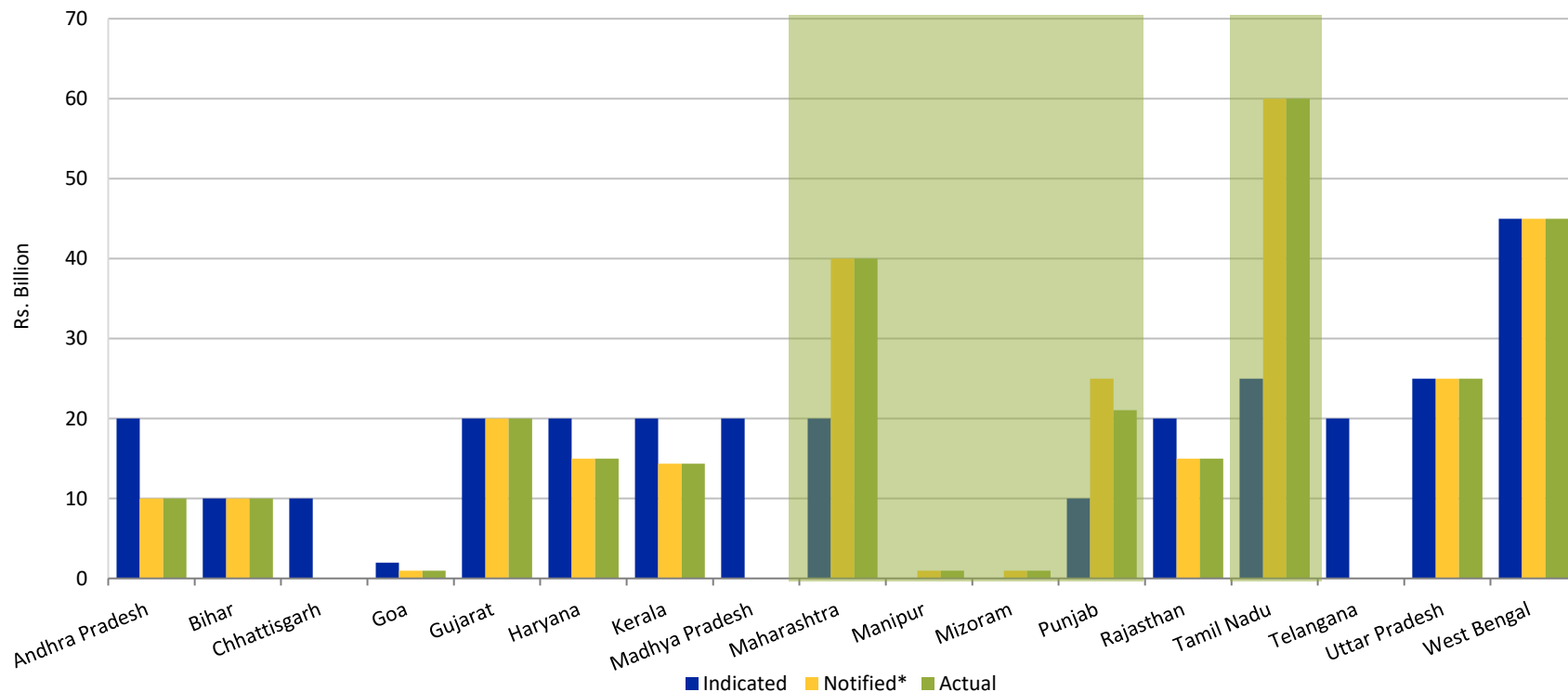


Note: *Including green shoe

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

Maharashtra, Punjab and Tamil Nadu borrowed an additional Rs. 66 billion; Manipur and Mizoram, which had not indicated their participation, raised Rs. 1 billion each

Exhibit: State-wise indicated, notified and actual State G-sec issuance on September 27, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of State G-secs rose by 9 bps to 7.65% today from last week

Exhibit: Tenor-wise State G-sec issuance and cut-offs on September 27, 2022*

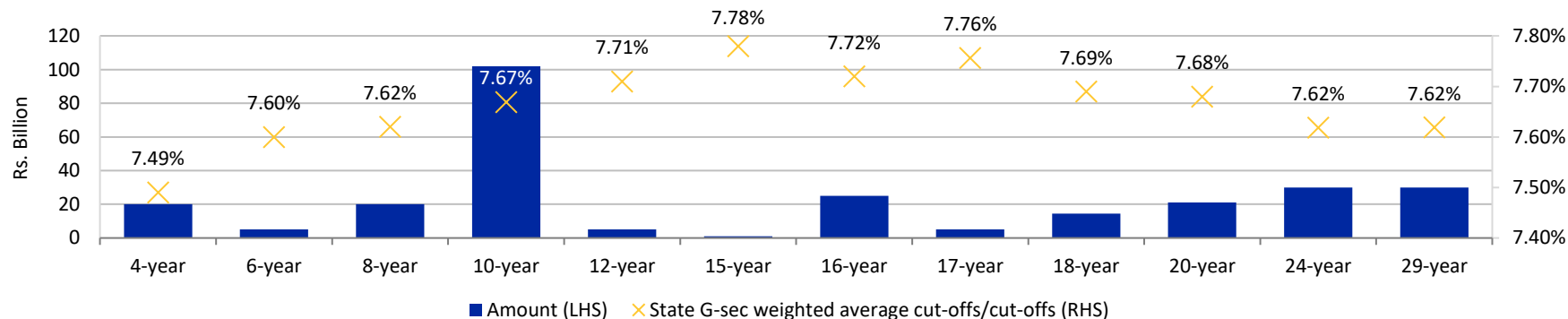
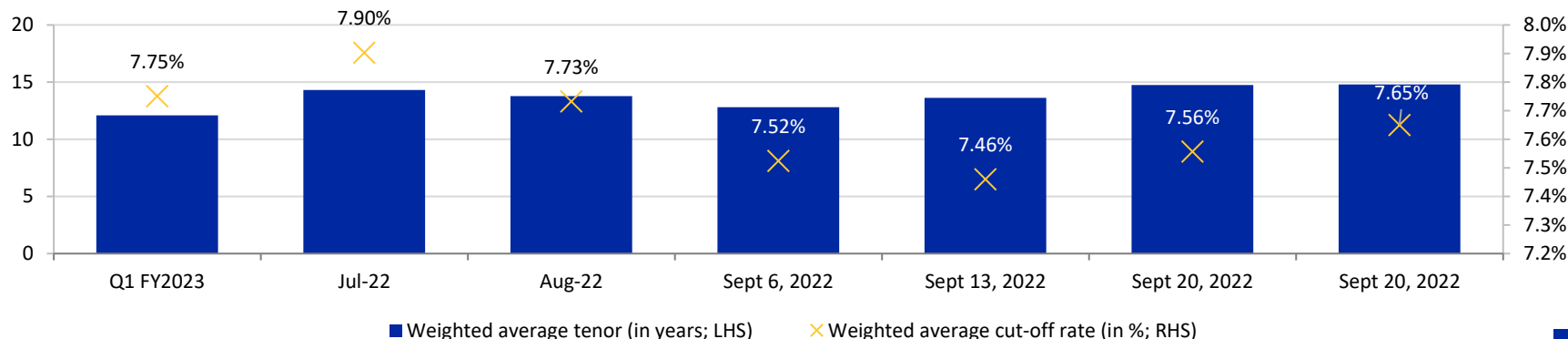


Exhibit: Weighted average cut-off and tenor of State G-sec during H1 FY2023

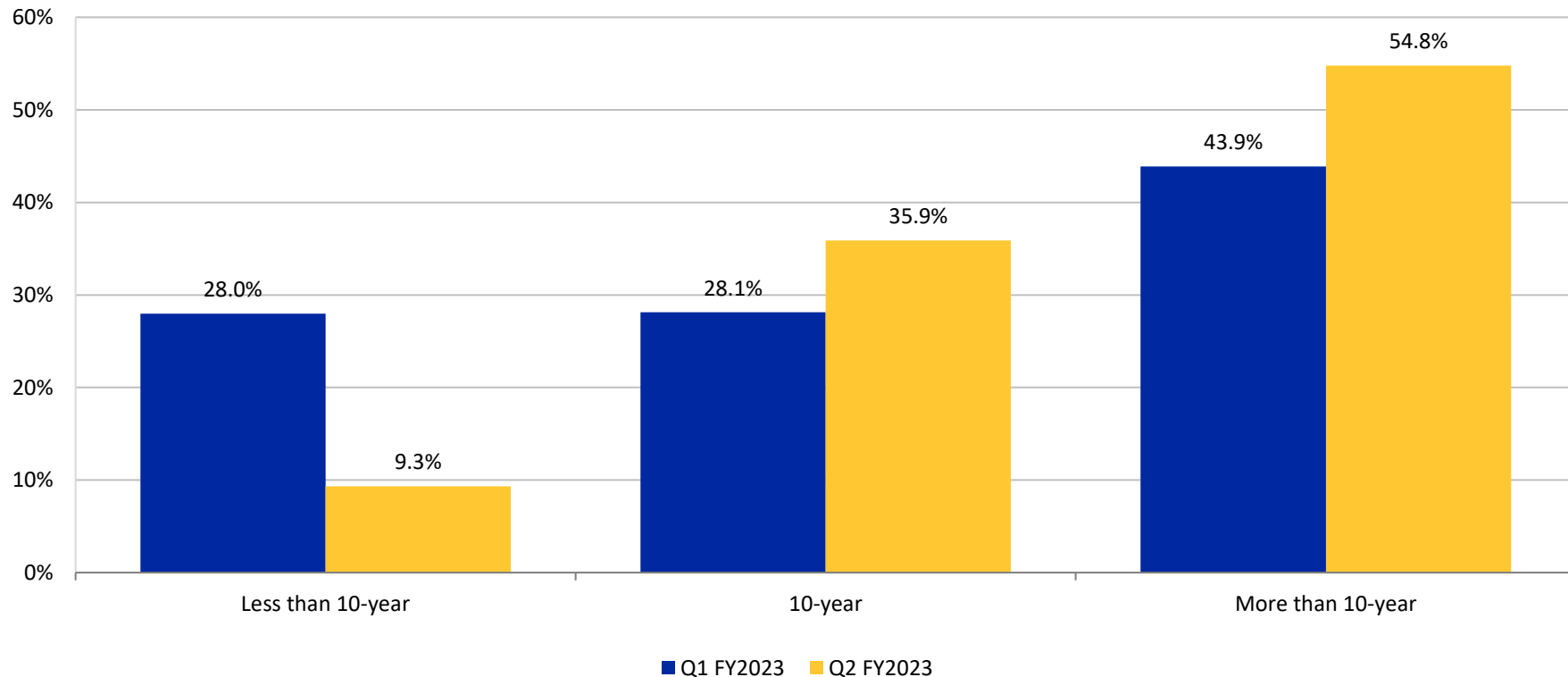


Note: *Mizoram raised Rs. 1 billion as a 15-year State G-sec

Source: RBI; ICRA Research

Share of longer tenor and 10-year issuances rose to ~55% and ~36%, respectively, in Q2 FY2023 from ~44% and ~28%, respectively, in Q1 FY2023

Exhibit: Classification of State G-sec issuance in H1 FY2023



Spread between the 10-year State G-sec and Gol G-sec widened to 38 bps today from a low 29 bps last week

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

	August 29, 2022	September 6, 2022	September 13, 2022	September 20, 2022	September 27, 2022
Assam		7.53%		7.55%	
Bihar	7.62%	7.53%	7.45%	7.55%	7.69%
Goa					7.69%
Haryana	7.61%		7.45%		7.67%
Madhya Pradesh			7.46%	7.55%	
Maharashtra					7.64%
Manipur					7.71%
Rajasthan			7.45%		7.65%
Sikkim			7.45%		
Tamil Nadu	7.61%				
Uttar Pradesh					7.68%
West Bengal					7.68%
Weighted Average 10-year State G-sec cut-offs (A)	7.61%	7.53%	7.45%	7.55%	7.67%
Minimum 10-year State G-sec cut-off	7.61%	7.53%	7.45%	7.55%	7.64%
Maximum 10-year State G-sec cut-off	7.62%	7.53%	7.46%	7.55%	7.71%
10-year G-sec closing yield (B)	7.23%	7.14%	7.08%	7.26%	7.29%
Spread (A-B)	38 bps	39 bps	37 bps	29 bps	34 bps



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