



## STATE GOVERNMENT FINANCES

Size of tax devolution, pending GST compensation and interest-free capex loan to states by the GoI to impact actual issuance of State G-secs in Q3 FY2023

**SEPTEMBER 2022**

Aditi Nayar  
+91 124 4545 385  
aditin@icraindia.com

Neetika Shridhar  
+91 124 4545 305  
neetika.shridhar@icraindia.com

Jaspreet Kaur  
+91 124 4545 853  
jaspreet.kaur@icraindia.com

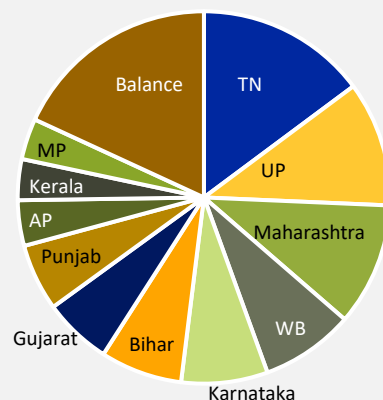


## SUMMARY



Click to Provide Feedback

Exhibit: State-wise share in Q3 FY2023 indicative State G-sec issuance



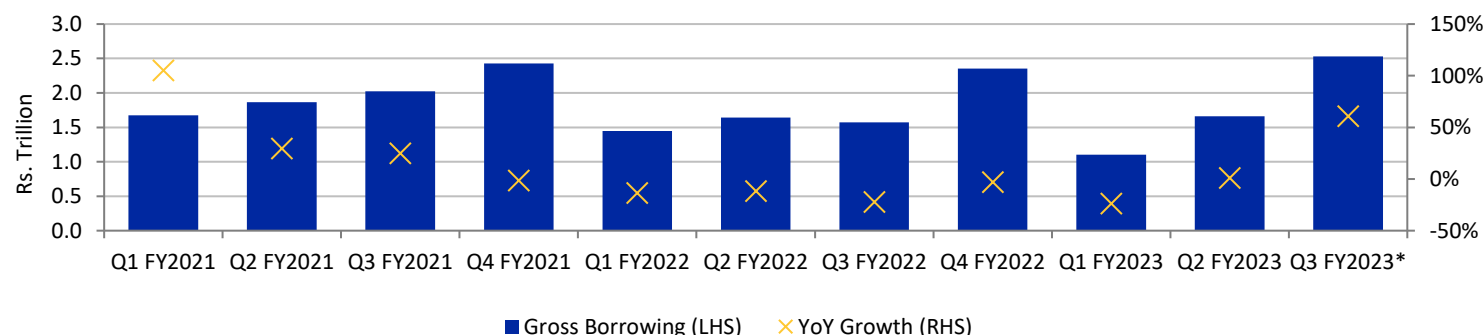
The Reserve Bank of India (RBI) has pegged the gross issuance of State Government Securities (State G-secs) at Rs. 2.5 trillion for Q3 FY2023, a massive 60.8% higher than the Rs. 1.6 trillion raised in Q3 FY2022. Even on a sequential basis, the indicated issuance in Q3 FY2023 is sharply higher than the Rs. 1.1 trillion and Rs. 1.7 trillion raised in Q1 FY2023 and Q2 FY2023, respectively. The borrowings in the latter quarters were lower than the amount indicated in their respective auction calendars, partly on account of the release of large instalments of tax devolution as well as the goods and services tax (GST) compensation in certain months, and the changes related to the finalisation of the net borrowing ceiling (NBC) for the state governments for FY2023 by the Government of India (GoI). The size of the tax devolution during Q3 FY2023, the release of pending GST compensation, the disbursement of the interest-free capex loan by the GoI to the states and the actual capex undertaken by the latter would guide their actual borrowings undertaken in Q3 FY2023, in our assessment.

- State G-sec issuance for Q3 FY2023 indicated at Rs. 2.5 trillion:** 25 states and one Union Territory (UT) have indicated borrowings of Rs. 2.5 trillion for Q3 FY2023, 60.8% higher than the amount raised in Q3 FY2022. Nearly two-thirds of the incremental gross borrowing of Rs. 957 billion in Q3 FY2023 relative to Q3 FY2022 is led by Tamil Nadu (TN; by Rs. 245 billion), Maharashtra (by Rs. 185 billion), Punjab (Rs. 120 billion) and Uttar Pradesh (UP; Rs. 100 billion). Arunachal Pradesh, Jammu and Kashmir, Odisha, and Tripura have not indicated their participation in the Q3 FY2023 auction calendar.
- Sharp increase in the indicated borrowings on a quarter-on-quarter basis:** The indicated supply of Rs. 2.5 trillion for Q3 FY2022 is more than double the Rs. 1.1 trillion raised in Q1 FY2023 and 52% higher than the Rs. 1.7 trillion issued in Q2 FY2023. However, the actual borrowings in Q1 FY2023 and Q2 FY2023 were 42.1% and 21.5% lower than the respective indicated amounts by the RBI. The comfortable cash flow position of the states in both these quarters led by lumpy releases of tax devolution and GST compensation grants in certain months, is likely to have contained their borrowing requirement below the indicated amount. Moreover, the finalisation of the NBC amidst a change in the guidelines related to off-budgeted debt also appears to have impacted the quantum of borrowing by certain states in H1 FY2023.
- Size of monthly tax devolution, release of the pending GST compensation, disbursement of interest-free capex loan to states and their actual capex to impact the size of issuance in Q3 FY2023:** We expect an upside of Rs. 1.1 trillion in the Central tax devolution in FY2023 over and above the Rs. 8.2 trillion budgeted by the GoI for FY2023. If the GoI releases additional instalments of tax devolution to the states in the coming quarter, in line with the double tranche in August 2022, some of the states may issue lower-than-indicated State G-secs in Q3 FY2023. Moreover, the actual issuance of some states could differ from the amount indicated in Q3 FY2023 auction calendar, depending on the timeline of the release of the pending GST compensation of Rs. 353 billion to the states, the actual capex undertaken, as well as the disbursement of the interest-free capex loan, the off-take of which has been modest in H1 FY2023.

## GROSS STATE G-SEC ISSUANCE IN Q3 FY2023 INDICATED AT RS. 2.5 TRILLION, ~61% HIGHER ON A YOY BASIS

The indicative calendar of market borrowings by 25 state governments and one UT for Q3 FY2023, released by the RBI on September 29, 2022, has pegged their total market borrowing at Rs. 2.5 trillion, a massive 60.8% higher than the actual borrowing of Rs. 1.6 trillion in Q3 FY2022 (refer Exhibit 1). We estimate the State G-sec redemptions to rise to Rs. 560 billion in Q3 FY2023 from Rs. 533 billion in Q3 FY2022. Accordingly, the net State G-sec issuance in Q3 FY2023 is assessed at Rs. 2.0 trillion, nearly double the net State G-sec issuance of Rs. 1.0 trillion in Q3 FY2022.

**Exhibit 1: Gross State G-sec borrowings by all state governments/UTs and their YoY growth**



26 states/UT have indicated borrowings of Rs. 2.5 trillion for Q3 FY2023, 60.8% higher than Q3 FY2022, led by TN and Maharashtra

Note: \* FY2023 based on Q3 indicative borrowing and YoY growth is over actual State G-sec issued in Q3 FY2022  
Source: RBI; ICRA Research

Nearly two-thirds of the incremental gross borrowing of Rs. 957 billion in Q3 FY2023 relative to Q3 FY2022 is led by TN (Rs. 375 billion vs Rs. 130 billion), Maharashtra (Rs. 270 billion vs Rs. 85 billion), UP (Rs. 275 billion vs Rs. 175 billion) and Punjab (Rs. 147 billion vs Rs. 27 billion). Other states which have indicated a step-up in their State G-secs include, Gujarat (by Rs. 95 billion), Bihar (by Rs. 70 billion) and Kerala (by Rs. 60 billion).

In contrast, Karnataka, which has not borrowed in H1 FY2023, has indicated an issuance of Rs. 190 billion State G-secs in Q3 FY2023, lower than Rs. 220 billion issued in Q3 FY2022. Additionally, Rajasthan (Rs. 68 billion vs. 102 billion), Telangana (Rs. 86 billion vs. Rs. 100 billion) and Andhra Pradesh (AP; Rs. 100 billion vs Rs. 103 billion) are some of the states, which have indicated a step-down in their issuances in Q3 FY2023 relative to Q3 FY2022.

## TN, UP, MAHARASHTRA, WB, KARNATAKA ACCOUNT FOR MORE THAN HALF OF BORROWING INDICATED FOR Q3 FY2023

The indicative borrowing calendar has pegged the State G-secs issuance in October 2022 at Rs. 751 billion, or nearly 30% of the total indicated amount (Rs. 2.5 trillion) for Q3 FY2023, with the size of the weekly auctions varying from Rs. 124 billion to Rs. 245 billion. Subsequently, a

*TN, UP, Maharashtra, WB and Karnataka have indicated combined borrowing of Rs. 1.3 trillion in Q3 FY2023, nearly 52% of the total indicated borrowing*

*Actual issuance of Rs. 1.1 trillion in Q1 FY2023 and Rs. 1.7 trillion in Q2 FY2023 was 42.1% and 21.5%, respectively, lower than their indicated levels*

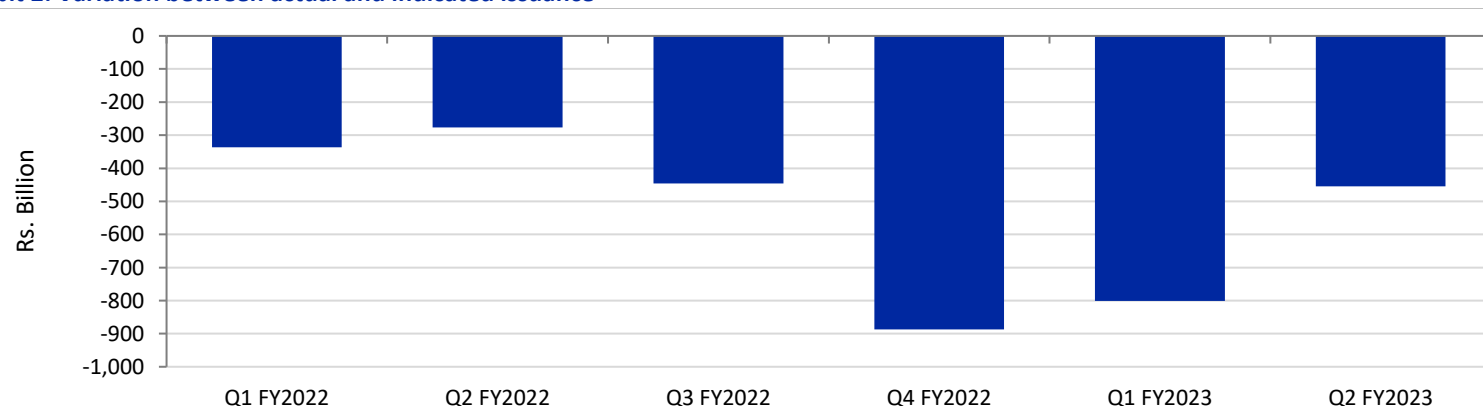
considerable Rs. 982 billion or ~39% of the total issuance in Q3 FY2023 is proposed to be issued in November 2022 in five weekly auctions, with a size ranging between Rs. 128 billion to Rs. 291 billion. One weekly auction each in October and November 2022 will be held on non-Tuesdays. The balance Rs. 798 billion or ~32% of the State G-secs indicated for Q3 FY2023 is expected to be issued in December 2022, with a weekly size ranging from Rs. 179 billion to Rs. 234 billion.

The indicated borrowings of TN (Rs. 375 billion), UP (Rs. 275 billion), Maharashtra (Rs. 270 billion), WB (Rs. 205 billion), and Karnataka (Rs. 190 billion) account for more than half of the total indicated State G-secs issuance of Rs. 2.5 trillion by 25 states/UTs for Q3 FY2023. Arunachal Pradesh, Jammu and Kashmir, Odisha and Tripura have not indicated their participation in the Q3 FY2023 auction calendar.

### INDICATED STATE G-SEC ISSUANCE FOR Q3 FY2023 SHARPLY HIGHER THAN THE ACTUAL ISSUANCES IN Q1 AND Q2 FY2023

The indicated issuance of Rs. 2.5 trillion for Q3 FY2023 is more than double the Rs. 1.1 trillion raised by 18 states/UT in Q1 FY2023 and 52% higher than the Rs. 1.7 trillion issued by 23 states/UTs in Q2 FY2023. However, the gross issuance of the State G-secs in Q1 FY2023 was 42.1% lower (or by Rs. 801 billion) than the Rs. 1.9 trillion indicated by the RBI for that quarter. The gap between actual and indicated issuance reduced to 21.5% (or Rs. 454 billion) in Q2 FY2023 from the indicated Rs. 2.1 trillion (refer Exhibit 2).

**Exhibit 2: Variation between actual and indicated issuance**



Source: RBI; ICRA Research

The particularly sharp variation in the actual issuance of State G-secs in Q1 FY2023, compared to indicated amount, was likely partly on account of the changes initiated by the GoI in determining the NBC of the state governments for FY2023. Moreover, the comfortable cash flow position of the state governments in Q1 FY2023 led by highly back-ended release of tax devolution to them in FY2022 and the release of the GST compensation grant in a single tranche in May 2022 (Rs. 869 billion), could have reduced their Q1 FY2023 borrowings below the indicated amount.

*Adjustment in the NBC for FY2023 along with comfortable cash flow position of the state governments likely to have compressed State G-sec issuance in H1 FY2023 relative to the auction calendar*

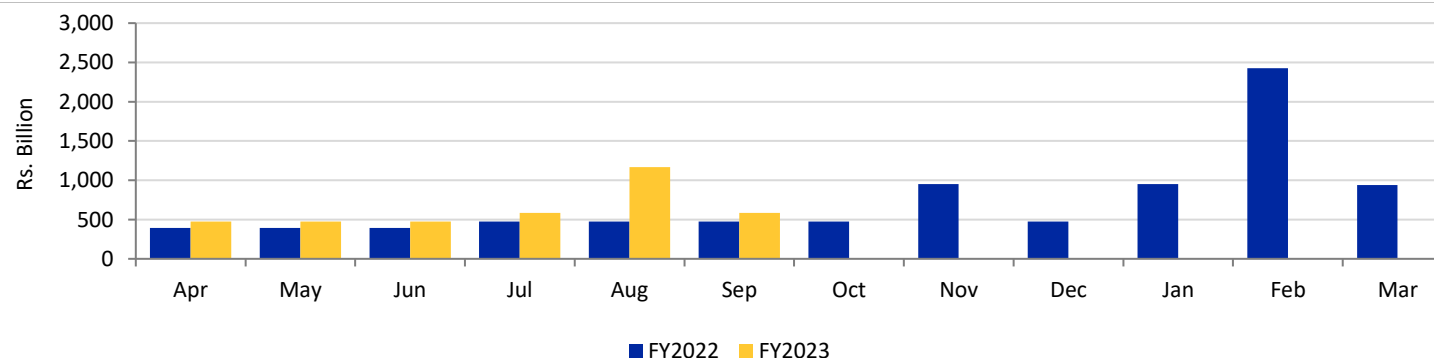
*Tax devolution of Rs. 3.8 trillion in H1 FY2023 suggests a substantial release of Rs. 5.6 trillion in H2 FY2023, based on the estimated full year devolution of Rs. 9.3 trillion in FY2023*

The gap between the actual and indicated State G-secs narrowed in Q2 FY2023 to Rs. 454 billion from Rs. 801 billion Q1 FY2023. The clarity provided by the GoI to the states on some of the key policy issues prior to the beginning of the Q2 FY2023 seems to have helped states in improving their planning for the Q2 FY2023 auction calendar. Such policy issues included the extent of adjustment of the off-budget debt from the states FY2023 NBC as well as the confirmation of the non-extension of the GST compensation period beyond the stipulated June 30, 2022. However, the increase in the tax devolution to Rs. 1.2 trillion by the GoI to the state governments on August 10, 2022, from Rs. 583 billion in July 2022 led to states actual issuances trailing the indicated amount in the subsequent four weekly auctions. **Maharashtra (by 180 billion), UP (by Rs. 100 billion) and AP (by Rs. 70 billion) accounted for more than three-fourths of the gap of Rs. 454 billion between the actual and the indicated issuances in Q2 FY2023.**

**We expect that the actual issuance in Q3 FY2023 would continue to be influenced by the size of tax devolution in that quarter. For FY2023, we estimate the gross tax revenues of the GoI excluding the excise duty collections to exceed the budgeted Rs. 27.6 trillion by a considerable Rs. 3.0- 3.5 trillion. Accordingly, we project the tax devolution to all the states for FY2023 at Rs. 9.3 trillion, ~14% higher than the Rs. 8.2 trillion budgeted by the Union Government for FY2023.**

During Apr-Aug FY2023, the GoI had devolved Rs. 3.2 trillion to the states, 49.5% higher than the Rs. 2.1 trillion during Apr-Aug FY2022. Based on the publicly available information, we understand that the GoI has released Rs. 583 billion to the states as tax devolution in Sept 2022 (refer Exhibit 3), implying total devolution of Rs. 3.8 trillion during H1 FY2023, 44.6% higher than Rs. 2.6 trillion in H1 FY2022. **Therefore, based on our assessment of Rs. 9.3 trillion tax devolution to the states in FY2023 and the release of Rs. 3.8 trillion in H1 FY2023, implies a substantial Rs. 5.6 trillion is left to be disbursed to the states in H2 FY2023. A step-up in the monthly tax devolution or the release of two instalments of tax devolution to the states by the GoI in certain months of every quarter, after it receives the advance tax inflows, would avoid highly back-ended releases of devolution in Q4 FY2023 as was the case in FY2022.**

**Exhibit 3: Monthly tax devolution to all state governments in FY2022 and FY2023**



Source: CGA; Ministry of Finance, India; ICRA Research



*Back-ended disbursement of the interest-free capex loan by the Gol to the states, actual capex incurred, and transfer of pending GST compensation grants could impact their borrowing requirement through State G-secs*

Additionally, under the Rs. 1.0 trillion earmarked by the Gol under the scheme for special assistance to the states for capital investment, a subdued Rs. 36 billion has been transferred to the states during Apr-Aug FY2023. This is less than 10% of the Rs. 315 billion that was approved by the Gol for the capital projects of ten states (Bihar, Chhattisgarh, Goa, Himachal Pradesh, Karnataka, Manipur, Nagaland, Sikkim, UP) in July 2022. **If the capex loan disbursement to the states was muted in September 2022 as well, due to the heavy monsoon rainfall in some of the states in that month, the release of the capex loan by the Gol is likely to be highly back-ended. In our view, the rising interest rate environment should incentivise the states to avail the 50-year interest-free loan offered by the Gol for incurring capital expenditure. The timing of disbursement of this loan in Q3 FY2023 (and Q4 FY2023 as well), as well as the actual capex incurred by the states, could alter their planned borrowing requirement through the State G-secs, if this was not factored in while finalising their Q3 FY2023 auction calendar.**

**Moreover, as per the data available on the Lok Sabha's website, the Gol has estimated that the GST compensation for June 2022 and previous financial years at Rs. 353 billion. This amount is yet to be transferred by the Gol to the states so far (till Sep 30, 2022). If the pending Rs. 353 billion GST compensation is released by the Gol to the states in Q3 FY2023 itself, some states may decide to not issue State G-secs and/or issue lower-than-indicated amount in the weeks following the release of such funds.**

## ICRA ESTIMATES GROSS STATE G-SEC ISSUANCE AT Rs. 7.6-7.9 TRILLION IN FY2023

**Gross borrowing expected at Rs. 5.3 trillion in 9M FY2023, 13.5% higher than year ago level:** If the gross State G-secs raised in Q3 FY2023 are in line with the indicated Rs. 2.5 trillion, the total borrowing in 9M FY2023 would expand by 13.5% to Rs. 5.3 trillion from Rs. 4.7 trillion in 9M FY2022 (refer Exhibit 4). After adjusting for the estimated redemptions of Rs. 1.5 trillion in 9M FY2023, the net State G-sec issuance is projected at Rs. 3.8 trillion in 9M FY2023, 9.2% higher than Rs. 3.4 trillion in 9M FY2022.

**Exhibit 4: Net and gross State G-sec issuance in 9M FY2023 and YoY growth**

Amount in Rs. Trillion	9M FY2022 (A)	H1 FY2023 (B)	Q3 FY2023 (Indicated; C)	9M FY2023 (D=B+C)	YoY growth (D vs A)
Net Borrowing	3.4	1.8	2.0	3.8	9.2%
Redemption	1.2	1.0	0.6	1.5	25.6%
Gross Borrowing	4.7	2.8	2.5	5.3	13.5%

Source: RBI; ICRA research

If the actual net issuance in Q4 FY2023 is similar to net issuance of Q4 FY2022 (Rs. 1.5 trillion; Scenario I), we estimate the total net State G-sec issuance at Rs. 5.2 trillion in FY2023, 6.4% higher than Rs. 4.9 trillion issued in FY2022 (refer Exhibit 5). Adjusting for the estimated State G-sec redemptions in FY2023, we peg the gross State G-sec issuance at Rs. 7.6 trillion in FY2023, 8.9% higher than the Rs. 7.0 trillion seen in FY2022.

However, if the actual net issuance in Q4 FY2023 is 15% higher than net issuance of Q4 FY2022 (Scenario II), then we estimate the total net State G-sec issuance at Rs. 5.5 trillion in FY2023, 11.0% higher than Rs. 4.9 trillion issued in FY2022. Adjusting for the estimated State G-sec redemptions in FY2023, we peg the gross State G-sec issuance at Rs. 7.9 trillion in FY2023, 12.1% higher than the Rs. 7.0 trillion seen in FY2022.

#### Exhibit 5: Net and gross State G-sec issuance estimate in FY2023

Amount in Rs. Trillion	FY2022	H1 FY2023	Q3 FY2023	Q4 FY2023		FY2023	
				Scenario I	Scenario II	Scenario I	Scenario II
Net Borrowing	4.9	1.8	2.0	1.5	1.7	5.2	5.5
Redemption	2.1	1.0	0.6	0.9	0.9	2.4	2.4
Gross Borrowing	7.0	2.8	2.5	2.3	2.6	7.6	7.9

Source: RBI; ICRA Research

*Under Scenario I, ICRA estimates gross and net State G-sec issuance at Rs. 7.6 trillion and 5.2 trillion, respectively*

*Under Scenario II, ICRA estimates gross and net State G-sec issuance at Rs. 7.9 trillion and 5.5 trillion, respectively*



[Click to Provide Feedback](#)

## ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

### **Alliance with Moody's Investors Service**

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

### **The ICRA Factor**

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.



## Business Contacts

Mr. L. Shivakumar  
E-mail: shivakumar@icraindia.com  
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee  
E-mail: Jayantac@icraindia.com  
Tel: +91 80 4332 6401/ +91 98450 22459

## Media and Public Relations

Ms. Naznin Prodhani  
E-mail: Communications@icraindia.com  
Tel: +91 124 4545 860

## Registered Office

B-710, Statesman House 148,  
Barakhamba Road  
New Delhi-110001  
Tel: +91 11 23357940-45

## Corporate Office

Building No. 8, 2nd Floor,  
Tower A, DLF Cyber City, Phase II,  
Gurgaon - 122 002  
Tel: +91-124-4545300

## Ahmedabad

1809-1811, Shapath V,  
Opp: Karnavati Club,  
S.G.Highway, Ahmedabad - 380015  
Tel: +91 79 4027 1500/501

## Bengaluru 1

'The Millenia', Tower B Unit No. 1004,  
10th Floor, 1 & 2 Murphy Road,  
Bengaluru - 560 008  
Tel: +91 80 4332 6400

## Bengaluru 2

2nd Floor, Vayudooth Chamber  
15-16, Trinity Circle, M.G. Road,  
Bengaluru - 560 001  
Tel: +91 80 4922 5500

## Chennai

5th Floor, Karumuttu Centre  
634, Anna Salai, Nandanam  
Chennai - 600 035  
Tel: +91 44 4596 4300

## Hyderabad 1

4th Floor, 'Shoban'  
6-3-927/A&B. Somajiguda  
Raj Bhavan Road,  
Hyderabad - 500 082  
Tel: +91 40 4067 6500

## Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',  
Above SBI-HPS Branch, Ameerpet,  
Hyderabad - 500 016  
Tel: +91 40 4920 0200

## Kolkata

A-10 & 11, 3rd Floor,  
FMC Fortuna 234/3A,  
A.J.C. Bose Road,  
Kolkata -700 020  
Tel: +91 33 7150 1100/01

## Mumbai

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg,  
Prabhadevi,  
Mumbai - 400 025  
Tel: +91 22 6169 3300

## Pune

5A, 5th Floor, Symphony, S. No. 210  
CTS 3202 Range Hills Road,  
Shivajinagar, Pune - 411 020  
Tel: +91 20 2556 1194

**Email:** [Info@icraindia.com](mailto:Info@icraindia.com)

**Helpdesk:** 9354738909

**Website:** [www.icra.in/](http://www.icra.in/) [www.lcraresearch.in](http://www.lcraresearch.in)