

STATE GOVERNMENT FINANCES- Weekly SGS

**Weighted average cut-off of SGS rises by
12 bps to 7.77% today**

OCTOBER 3, 2022





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10 states raised Rs. 195 billion in today's auction, in line with the indicative level

Weighted average cut-off SGS rose by 12 bps to 7.77% today

Spread between 10-year SGS and G-sec yield narrowed to 32 bps today from 38 bps last week

Ten state governments raised Rs. 195 billion through state government securities (SGS) on October 3, 2022, in line with the amount indicated for this week in the Q3 FY2023 auction calendar released on September 29, 2022. The weighted average cut-off of the SGS rose by 12 bps to 7.77% today from 7.65% in the last auction, despite the weighted average tenor declining to 13 years from 15 years. Reflecting the rise in US-Treasury yield and the hike in the repo rate by 50 bps by the Monetary Policy Committee on September 30, 2022, the 10-year G-sec (7.26 GS 2032) yield has increased to 7.47% from 7.29% last Tuesday. The weighted average cut-off of the 10-year SGS rose to 7.79% today from 7.67% last week. Accordingly, the spread between the weighted average 10-year SGS and G-sec yield eased to 32 bps from 38 bps in the same period.

In today's auction, Rs. 89 billion (or ~46% of the total issuance) was in longer tenors, Rs. 66 billion (or ~34% of the total) was in the 10-year bucket and the balance Rs. 40 billion (or ~21% of the total issuance) was raised by Maharashtra as an 8-year SGS. Punjab borrowed Rs. 4 billion 20-year SGS, relatively smaller than the size of the issuance of most of the other states in the auction, at a cut-off of 7.70%. This was attractive compared to Kerala's 25-year SGS at 7.70% and was lower than the weighted average cut-off of 7.79% of the 10-year SGS in today's auction. Additionally, the cut-off of Telangana's 12-13-year SGS' and UP's 14-year SGS was between 7.83-7.84%, higher than the cut-offs of the longer dated SGS. These trends indicate an inverted SGS curve.

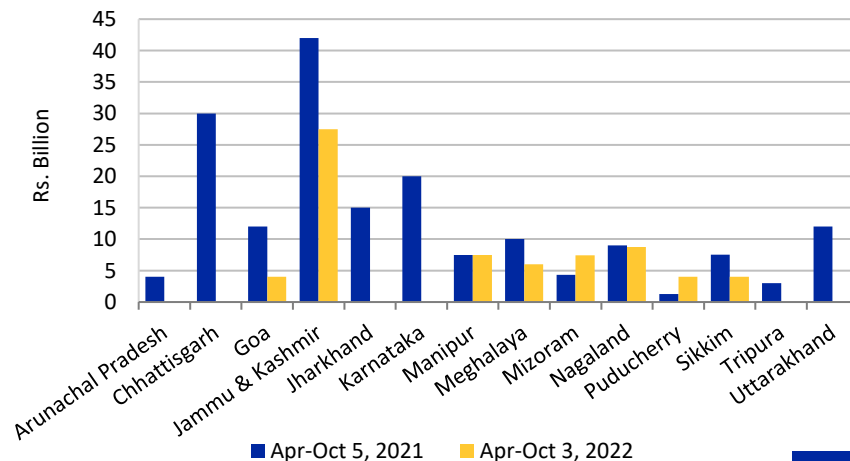
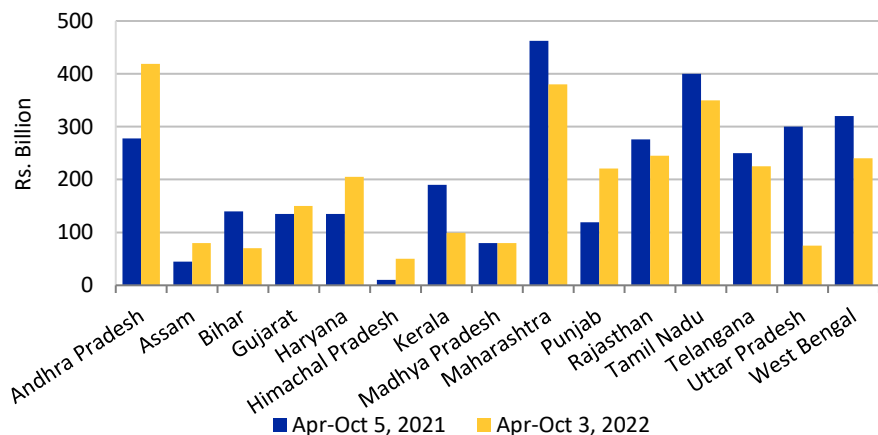
The cumulative SGS issuance of Rs. 3.0 trillion by 21 state governments and two UTs during April-October 3, 2022, is ~11% lower than the year-ago level (Rs. 3.3 trillion). Going forward, the actual issuance of SGS in Q3 FY2023 relative to the Rs. 2.5 trillion pegged by the RBI in the recently released Q3 auction calendar would be influenced by the size of the tax devolution, release of the pending GST compensation to the states, the disbursement of the interest-free capex loan by the GoI to the states and the actual capex undertaken by the states during the ongoing quarter.

SGS issuance has declined by 10.8% during Apr-Oct 3, 2022, on a YoY basis, led by 19 states/UT

Exhibit: SGS issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of October 3, 2022	195	195	195	2,958
Week of October 5, 2021	228	233	228	3,318
Growth	-14.3%	-16.1%	-14.5%	-10.8%

Exhibit: Cumulative SGS issuance during Apr-Oct 3, 2022, and year-ago level

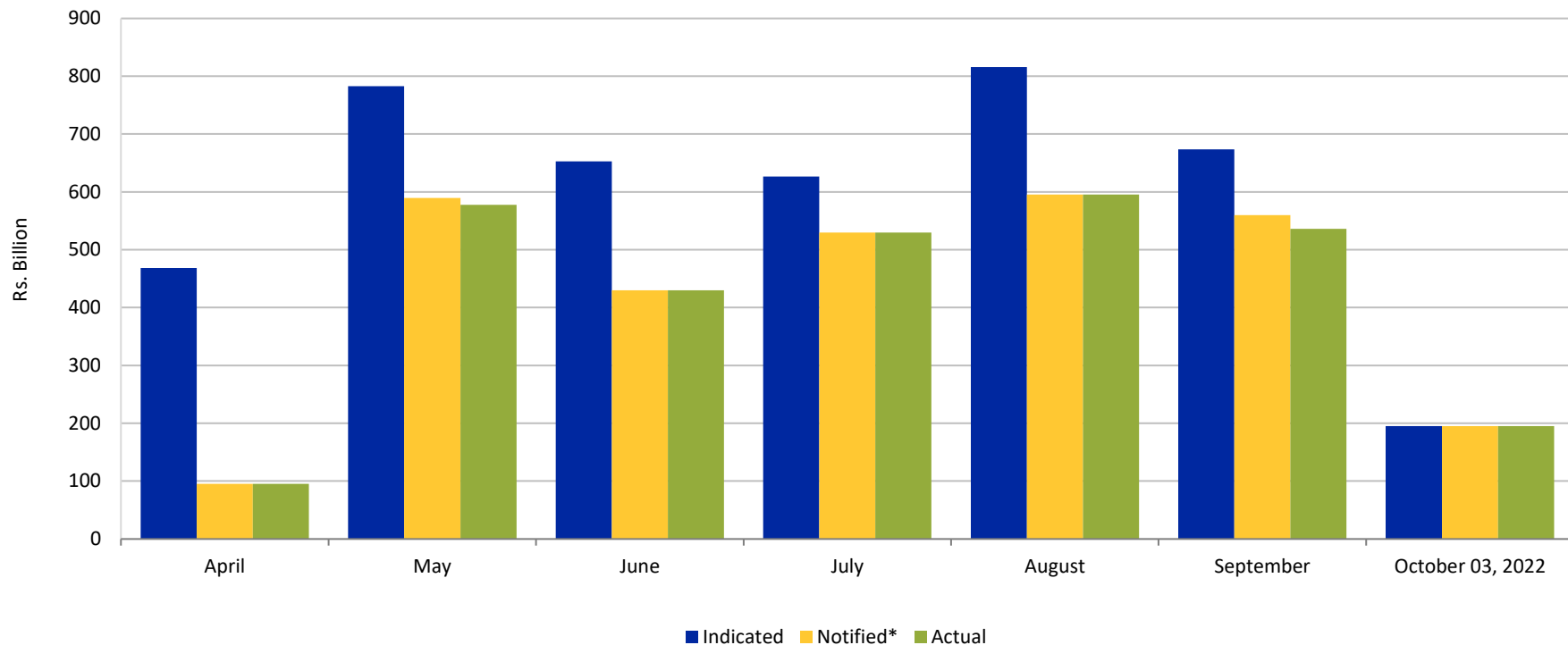


Note: *Including green shoe

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

Today's SGS issuance was in line with the indicated level for this week, and around 36% of the amount raised in September 2022

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

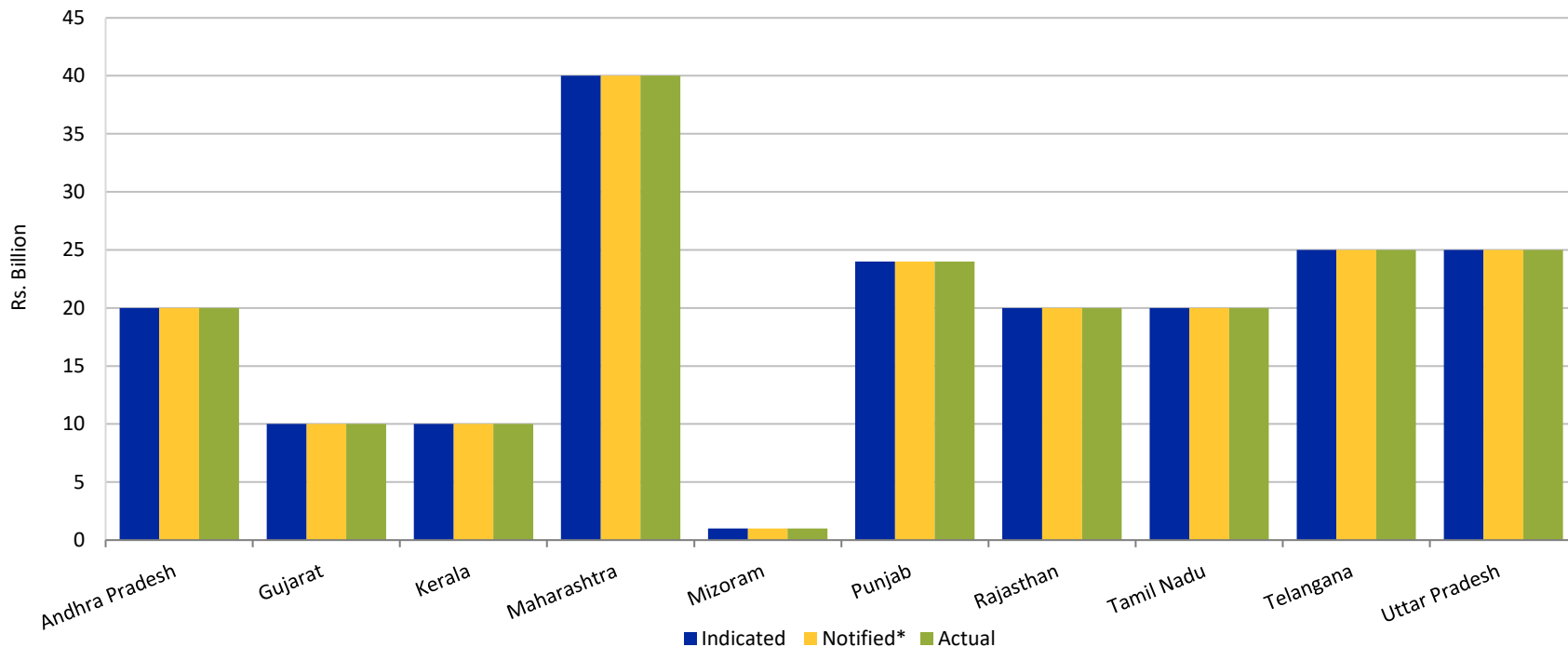


Note: *Including green shoe

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

A fifth of the total issuance today was raised by Maharashtra, whose YTD issuance continues to lag the year-ago level by 17.8%

Exhibit: State-wise indicated, notified and actual SGS issuance on October 3, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SGS rose by 12 bps to 7.77% today from last week; SGS curve was inverted, with cut-offs of 8-14-year paper exceeding those for 20-25-year

Exhibit: Tenor-wise SGS issuance and cut-offs on October 3, 2022

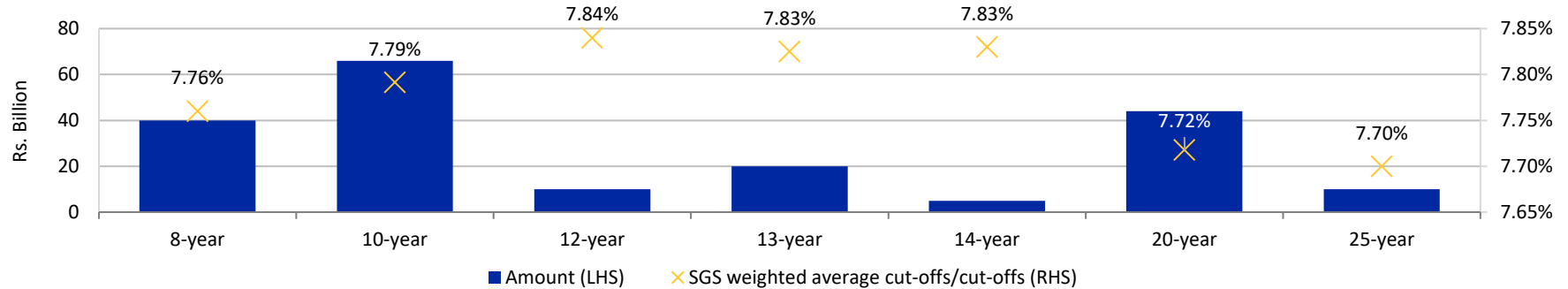
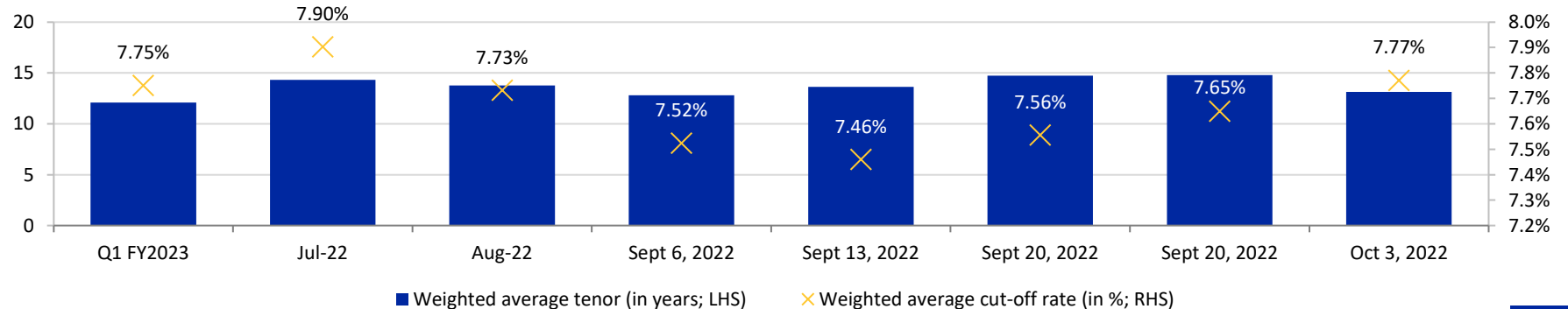
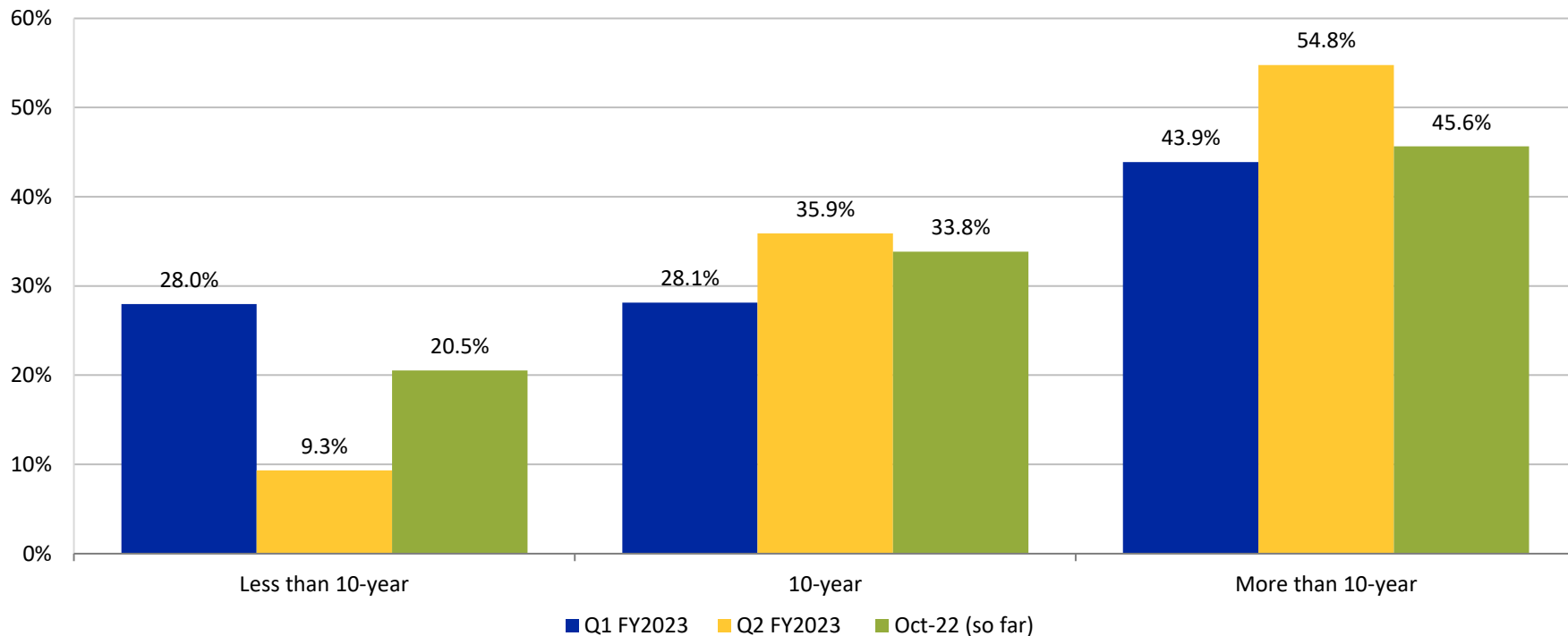


Exhibit: Weighted average cut-off and tenor of SGS during FY2023 (so far)



Nearly 46% of the total issuance was in the longer tenors today, followed by 34% and 21%, respectively , in the 10-year and 8-year buckets

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



Spread between the 10-year SGS and G-sec yields narrowed to 32 bps today from 38 bps last week

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

	September 6, 2022	September 13, 2022	September 20, 2022	September 27, 2022	October 3, 2022
Assam	7.53%		7.55%		
Bihar	7.53%	7.45%	7.55%	7.69%	
Goa				7.69%	
Gujarat					7.75%
Haryana		7.45%		7.67%	
Madhya Pradesh		7.46%	7.55%		
Maharashtra				7.64%	
Manipur				7.71%	
Mizoram					7.78%
Rajasthan		7.45%		7.65%	7.79%
Sikkim		7.45%			
Tamil Nadu					7.79%
Uttar Pradesh				7.68%	7.81%
West Bengal				7.68%	
Weighted Average 10-year SGS cut-offs (A)	7.53%	7.45%	7.55%	7.67%	7.79%
Minimum 10-year SGS cut-off	7.53%	7.45%	7.55%	7.64%	7.75%
Maximum 10-year SGS cut-off	7.53%	7.46%	7.55%	7.71%	7.81%
10-year G-sec closing yield (B)	7.14%	7.08%	7.26%	7.29%	7.47%
Spread (A-B)	39 bps	37 bps	29 bps	38 bps	32 bps



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