

STATE GOVERNMENT FINANCES- Weekly SGS

**Weighted average cut-off of SGS
declined by 7 bps to 7.61%**

NOVEMBER 29, 2022





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9 states/UT raised Rs. 127 billion in today's auction, ~56% lower than indicated, but ~124% higher than the same week last year

Weighted average cut-off of SGS declined by 7 bps to 7.61% today

Spread between 10-year SGS and G-sec yield narrowed to 33 bps today from 41 bps from last week

Eight states and one Union Territory (UT) raised Rs. 127 billion through state government securities (SGS) on November 29, 2022, 56.4% lower than the sizable Rs. 291 billion that had been indicated for this week in the Q3 FY2023 auction calendar. The Rs. 170 billion out of the Rs. 353 billion pending GST compensation released by the Government of India (GoI) to the states on November 24, 2022, for the period Apr-Jun FY2023, appears to have reduced the borrowing requirement of some of the states in this week. Overall, in November 2022, Rs. 572 billion SGS were issued, 42% lower than the Rs. 982 billion indicated for this month in the auction calendar, led by higher tax devolution and GST compensation. In absolute terms, the gap between the actual and indicated issuance of Rs. 410 billion in November 2022 is the largest monthly gap in FY2023 so far. The weighted average cut-off of the SGS declined by 7 bps to 7.61% today from 7.68% in the last auction, with the dip in the weighted average tenor to 14 years from 17 years. The 10-year G-sec (7.26 GS 2032) yield dipped to 7.28% today from 7.29% last Tuesday. The weighted average cut-off of the 10-year SGS decreased to 7.61% today from 7.70% last week. Accordingly, the spread between the 10-year SGS and G-sec yield narrowed sharply to 33 bps today relative to 41 bps last week.

Madhya Pradesh, Maharashtra, Rajasthan, Sikkim, Tamil Nadu, Telangana, Uttarakhand, Uttar Pradesh and West Bengal did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 171 billion for this week. Moreover, Andhra Pradesh, Goa and Punjab together borrowed Rs. 20 billion less than indicated. However, Karnataka and Kerala issued additional SGS of Rs. 20 billion and Rs. 5 billion, respectively, beyond what they had indicated, and Jammu and Kashmir borrowed Rs. 5 billion today even though it had not indicated its participation. In today's auction, a modest Rs. 25 billion (or ~20% of the total) was in the in the shorter tenor, Rs. 29 billion (or ~23% of the total) was in the 10-year bucket and balance Rs. 73 billion (57% of the total) was in the longer tenor.

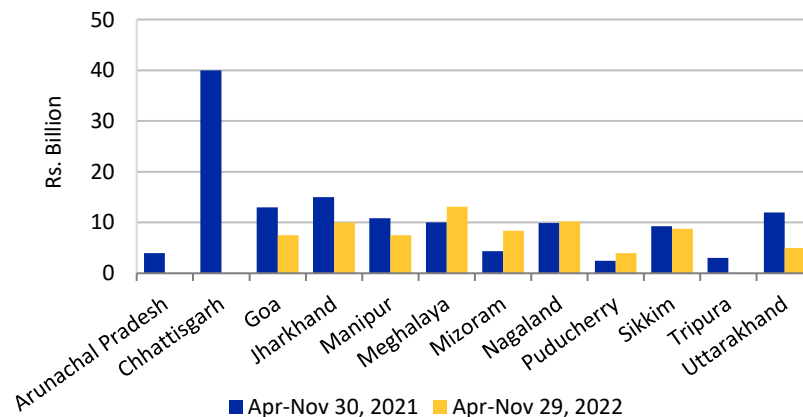
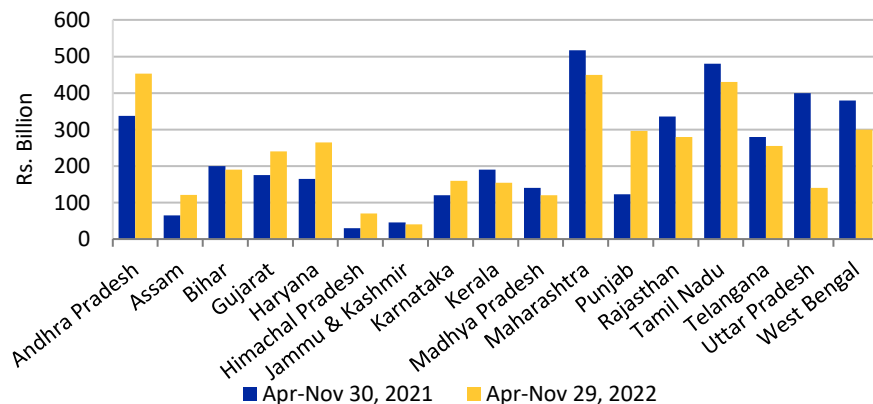
Additionally, the usage of the Reserve Bank of India's (RBI's) liquidity windows, namely, the Ways and Means Advances (WMA) and the Overdraft facility (OD) by the state governments had increased to 155 days and 57 days, respectively, in September 2022 from 127 and 28 days, respectively, in August 2022. However, the WMA and OD usage displayed an improvement on a YoY basis in September 2022.

SGS issuance declined by ~2% on YoY basis during Apr-Nov 29, 2022; Arunachal Pradesh, Chhattisgarh, Tripura and Odisha are yet to raise SGS in FY2023 so far

Exhibit: SGS issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of November 29, 2022	291	130	127	4,040
Week of November 30, 2021	197	63	57	4,119
Growth	47.6%	106.3%	123.7%	-1.9%

Exhibit: Cumulative SGS issuance during Apr-Nov 29, 2022, and year-ago level

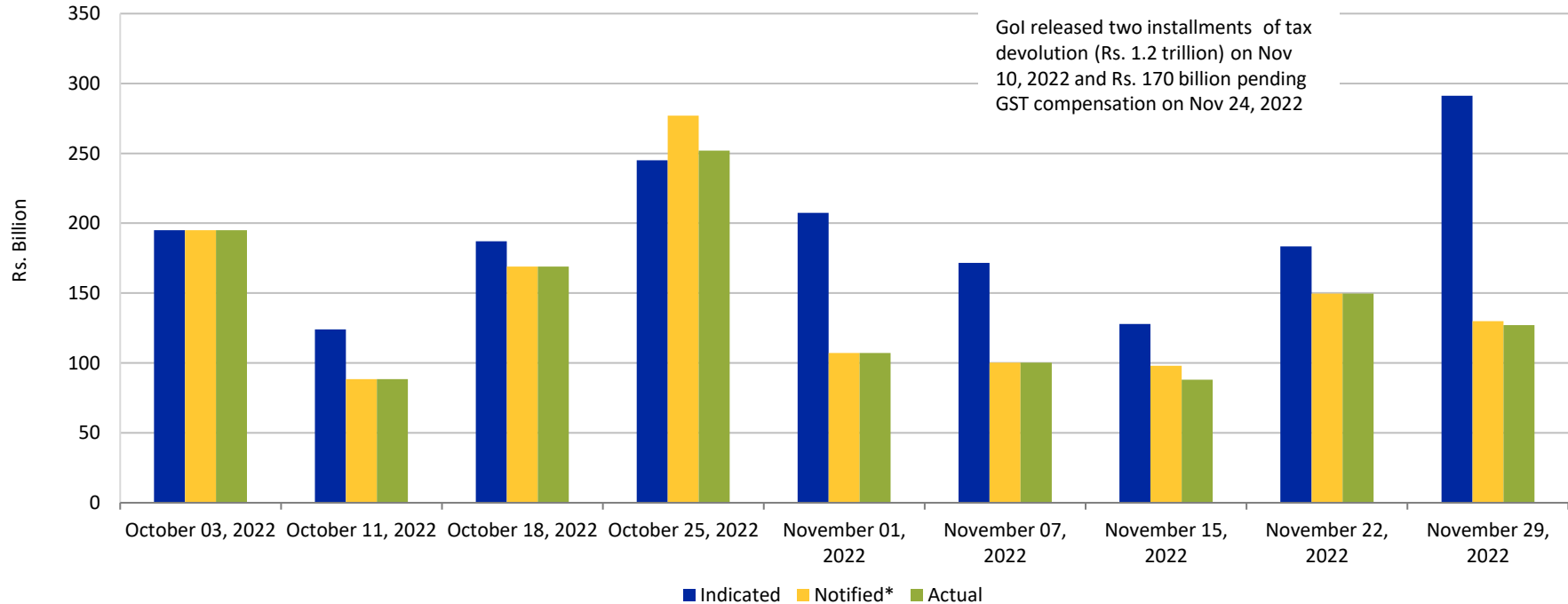


Note: *Including green shoe

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

Today's SGS issuance was ~56% below the initially indicated amount; actual issuance of Rs. 572 billion in Nov 2022 has been ~42% lower than indicated Rs. 982 billion

Exhibit: Indicated, notified and actual SGS issuances in Q3 FY2023 (so far)

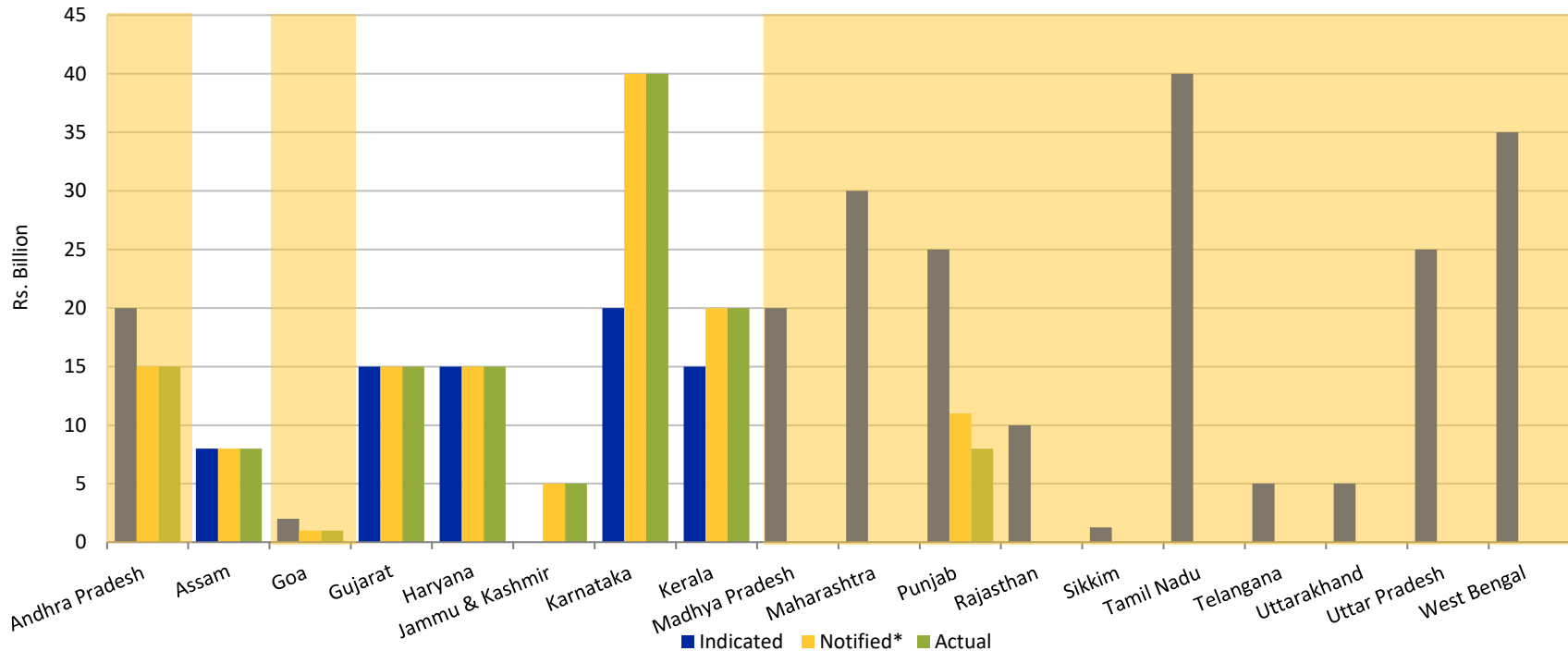


Note: *Including green shoe

Source: RBI; ICRA Research

Nine states that had indicated a combined issuance of Rs. 171 billion, did not participate; Andhra Pradesh, Goa and Punjab together raised Rs. 23 billion less SGS

Exhibit: State-wise indicated, notified and actual SGS issuance on November 29, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SGS declined by 7 bps to 7.61% today from last week

Exhibit: Tenor-wise SGS issuance and cut-offs on November 29, 2022

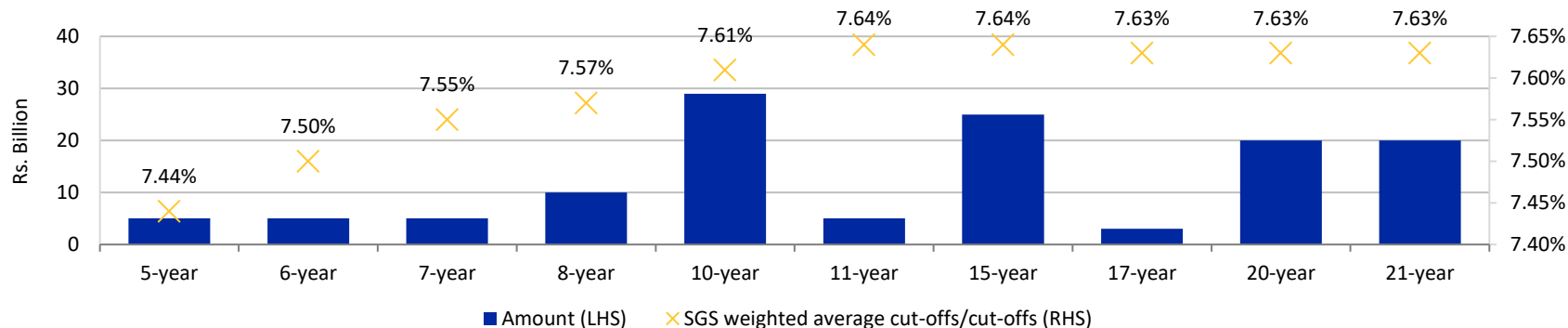
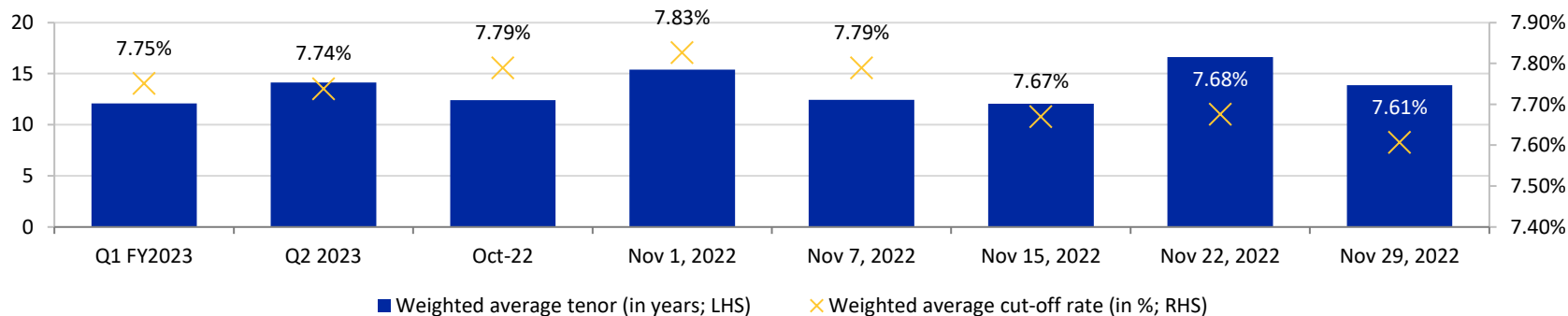
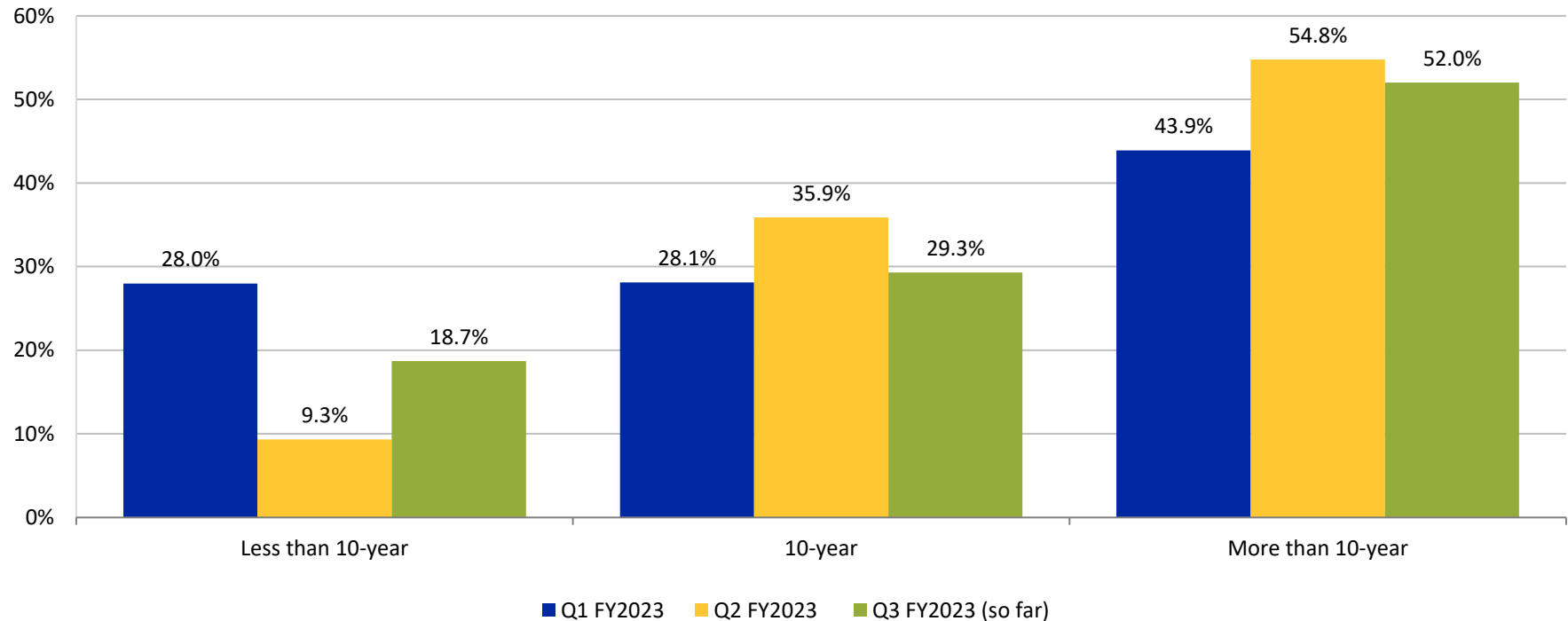


Exhibit: Weighted average cut-off and tenor of SGS during FY2023 (so far)



Issuance in the longer tenors has eased to ~52% of the total in Q3 FY2023 (so far) from ~55% in Q2 FY2023

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



Spread between the 10-year SGS and G-sec yields narrowed to 33 bps today 41 bps last week

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

	November 1, 2022	November 7, 2022	November 15, 2022	November 22, 2022	November 29, 2022
Assam	7.82%		7.67%		7.62%
Bihar		7.83%	7.68%	7.70%	
Goa				7.69%	7.62%
Gujarat					7.60%
Karnataka			7.67%		
Nagaland		7.82%			
Punjab					7.62%
Rajasthan	7.82%				
Sikkim		7.82%			
Weighted Average 10-year SGS cut-offs (A)	7.82%	7.83%	7.67%	7.70%	7.61%
Minimum 10-year SGS cut-off	7.82%	7.82%	7.67%	7.69%	7.60%
Maximum 10-year SGS cut-off	7.82%	7.83%	7.68%	7.70%	7.62%
10-year G-sec closing yield (B)	7.40%	7.43%	7.26%	7.29%	7.28%
Spread (A-B)	42 bps	39 bps	41 bps	41 bps	33 bps

WMA and OD usage reported a sequential increase in September 2022 while displaying some improvement on a YoY basis

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

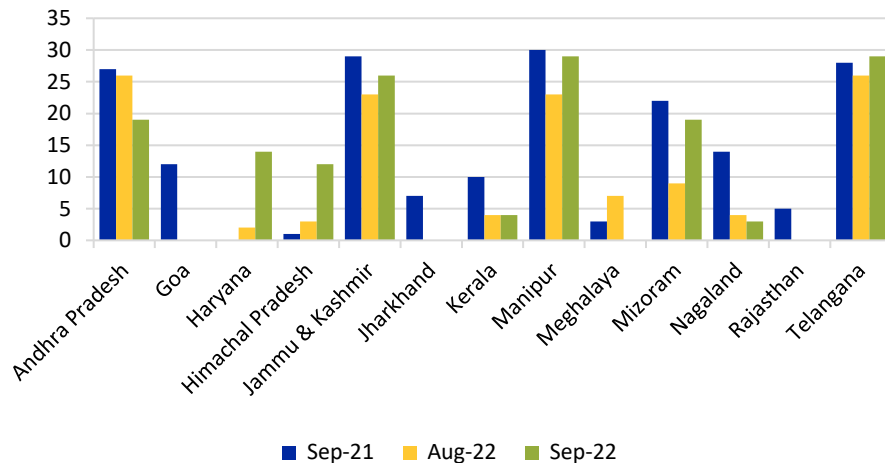
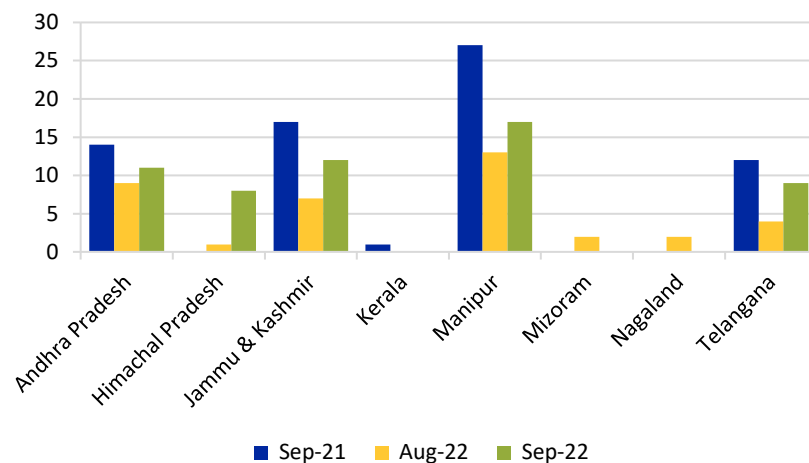


Exhibit: Number of days in OD during September 2021, August 2022 and September 2022



- Although WMA usage in September 2022 (155 days) was lower than the year-ago level (188 days), it was higher than the previous month (127 days). However, the number of states tapping the WMA window declined to nine in September 2022 from 10 in August 2022 (with the exclusion of Meghalaya) and 12 in September 2021 (with the exclusion of Goa, Jharkhand, Meghalaya and Rajasthan and inclusion of Haryana)
- Five states each availed the OD facility in September in 2021 and 2022, lower than seven states in August 2022 (exclusion of Mizoram and Nagaland). While the number of days for which these states/UT availed OD rose to 57 in September 2022 from 38 in August 2022, this was lower than 71 days in September 2021.



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