



Debt burden of State Governments remains considerable; however, a back-ended repayment pattern would support liquidity in the medium term

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The debt stock¹ of Indian States has risen sharply in recent years, following a weakening of their fiscal health since 2008-09². This note discusses the trends regarding the relative debt levels of various States in India, the altered composition of their debt stock and the repayment pattern of the latter, focusing on the State Governments of Andhra Pradesh (AP), Gujarat, Karnataka, Maharashtra, Punjab and Tamil Nadu (TN)—States in which ICRA has rated the debt instruments of a number of Government entities.³

Following the recommendations of the Twelfth Finance Commission (TwFC), the Central Government disintermediated from the borrowings of State Governments from 2005-06 onwards, resulting in a sharp decline in the inflows of loans from the Centre in the subsequent years. Loans from the National Small Savings Fund (NSSF) formed a substantial source of funding between 2003-04 and 2006-07, declining substantially thereafter. As a result, State Governments have increasingly contracted market borrowings in the form of State Development Loans (SDL) from 2007-08 onwards. Consequently, the composition of the debt stock of the States in the ICRA sample has altered considerably between 2004-05 and 2009-10, with a rise in the proportion of SDL, a marginal decline in the proportion of loans from the NSSF and a considerable decline in the share of loans from the Centre.

The long tenure of loans from the NSSF (25 years, with repayment to be made in 20 equal instalments from the sixth year onwards), results in limited redemption pressure. Although SDLs have a shorter tenure of 10 years, given that substantial funds were raised through this source from 2007-08 onwards, the redemption pressure is likely to be relatively low until 2017-18. Hence, the maturity profile is fairly back-ended across the States, which is a positive from the liquidity perspective in the medium term.

ICRA's expectations regarding the debt levels of the Indian States etc. in the near-to-medium term are as follows:

- Performance on various leverage indicators is likely to be somewhat inferior to the Budget Estimates (BE) for 2011-12 on account of a modest expansion of tax revenues, which is likely to dampen the growth of overall revenue receipts.
- Notwithstanding some improvement in certain leverage indicators, Gujarat and Punjab are likely to remain more indebted than the other States in the ICRA sample. Nevertheless, the magnitude of their

¹ Internal Debt; Loans from the Centre; Provident Fund etc.

² Please refer ICRA's publication *Fiscal Consolidation: Balancing the Revenue Account could be Challenging for Indian States in 2011-12* (December 2011) available on ICRA's website www.icra.in.

³ Refer *Annexure I*.

debt stock at an absolute level is likely to remain smaller than other States, particularly Maharashtra and AP.

- Given the modest anticipated inflow of funds under the NSSF and the likely moderation in tax revenues in the current fiscal relative to the BE for 2011-12, issuances of SDLs are likely to remain substantial in February-March 2012.
- The anticipated easing of policy rates from Q1, 2012-13 onwards would increase the attractiveness of various small savings schemes thus boosting NSSF inflows.
- However, with the planned reduction in the minimum share of States in the net small savings collections to 50% from 80% at present, the magnitude of funds to be raised by State Governments through SDL is likely to remain large in 2012-13.

Background: Weakening fiscal health since 2008-09 prompted a Sharp Rise in the Debt Stock of the States in the last three years

Following the global economic crisis that set in during 2008-09, the fiscal health of the Indian States deteriorated to an extent in the ensuing period. This was led by a number of factors, including a slowdown in the growth of tax revenues following the economic slowdown that set in during 2008-09; an increase in employee costs in a number of States (with the Sixth Central Pay Commission as well as State Pay Commissions recommending increases in pay and pension); and a rise in food and power subsidies. A widening of the financing gap⁴ of the States enlarged their borrowing requirements. Accordingly, the debt stock of the Indian States expanded considerably in recent years (refer Chart 1). The debt liabilities expanded at a faster pace in the period between 2008-11 as compared to 2005-08 for all the States in the ICRA sample (in terms of the compounded annual growth rate or CAGR).⁵

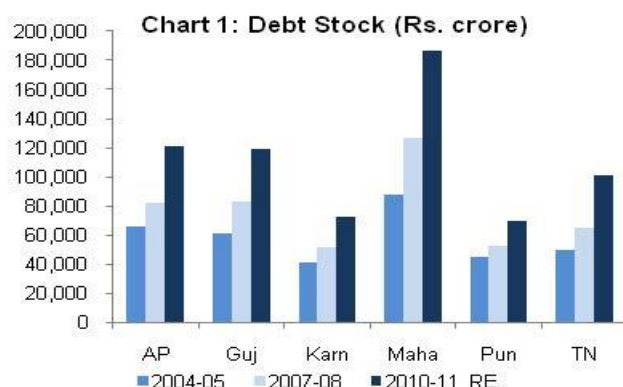


Table 1: Debt Stock- Three-year CAGR

	March 2008	March 2011*
AP	8%	14%
Gujarat	11%	13%
Karnataka	7%	12%
Maharashtra	13%	14%
Punjab	6%	10%
TN	9%	16%

Source: Budget Documents, various publications of the Reserve Bank of India (RBI), ICRA Research

* Revised Estimates (RE) for 2010-11 published by the States

The Indian States displayed a broad improvement across a variety of leverage indicators during the period between 2004-05 and 2007-08. Such indicators include debt as a proportion of revenue receipts (RR), States' own tax revenues (SOTR), gross state domestic product (GSDP) and interest payments as a proportion of RR etc. Subsequently, the performance of the States in the ICRA sample worsened with regard to certain leverage indicators between 2007-08 and 2009-10. Nevertheless, leverage levels continued to vary across the States, with Punjab and Gujarat remaining relatively indebted within the sample.

- Between 2007-08 and 2009-10, debt as a proportion of RR deteriorated for all the States in the sample whereas debt as a proportion of SOTR worsened for all the States in the sample except Punjab.
- Contrastingly, interest payments as a proportion of RR improved, albeit to a limited extent, across all the States between 2007-08 and 2009-10, led by a broad trend of declining average interest rates⁶ across the States in the sample. Nevertheless, the extent of the improvement was marginal, given the slowing revenue growth and large accretion to the debt stock. While the TwFC had recommended that interest payments of the States as a proportion of their respective RR decline to 15% by 2009-10,

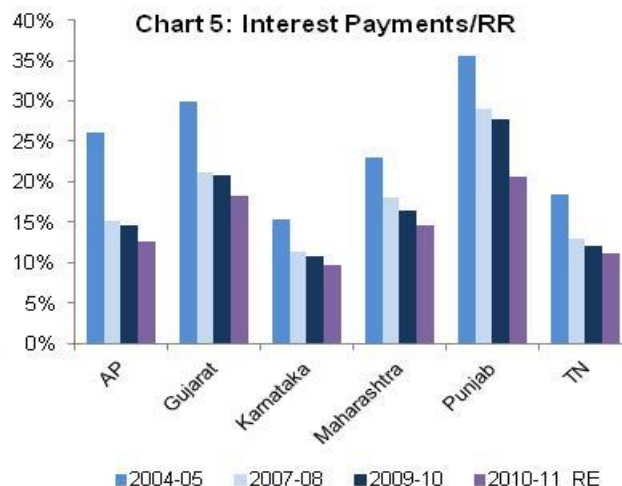
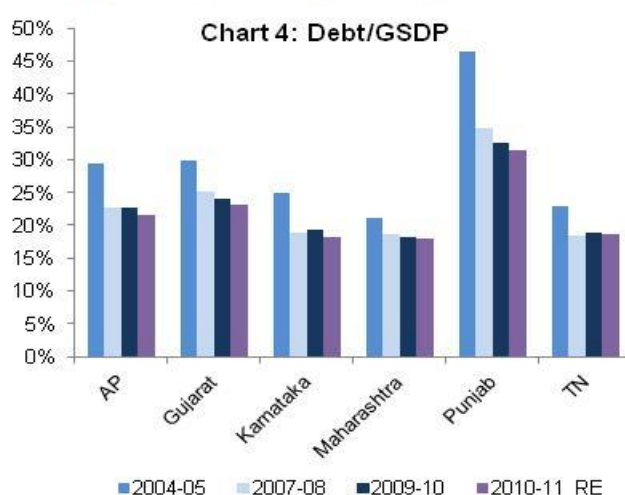
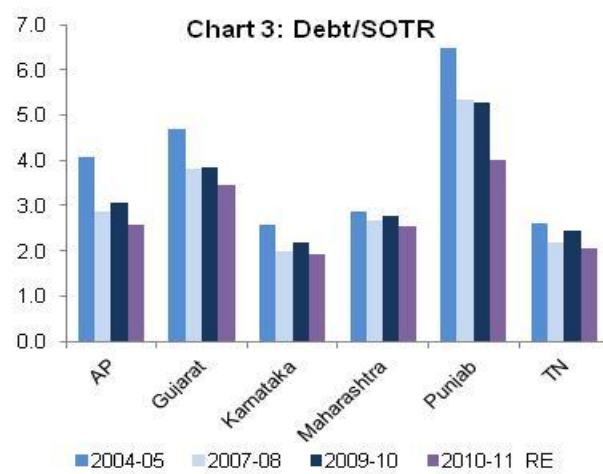
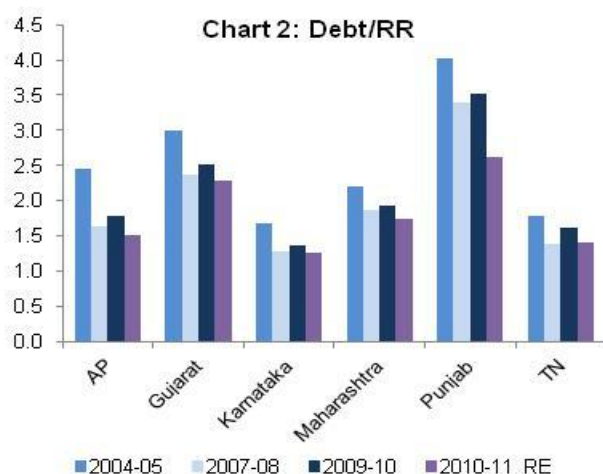
⁴ ICRA defines financing gap as the revenue balance plus capital receipts less capital outlay and net lending.

⁵ For the analysis, the final accounts of the States till 2009-10, the RE for 2010-11 and the BE for 2011-12 as published by the States concerned have been considered.

⁶ Interest payments as a proportion of the previous year's debt stock.

Punjab, Maharashtra and Gujarat did not meet this target. In 2009-10, interest payments as a proportion of the previous year's debt stock ranged from 8.1% (TN) to 9.1% (Maharashtra).

- All the State Governments have indicated a substantial improvement in their debt as a proportion of RR, debt as a proportion of SOTR and interest payments as a proportion of RR in their Revised Estimates (RE) for 2010-11, as compared to 2009-10. To a large extent, this trend reflects the robust revenue growth forecasted by some of the States for 2010-11. The RE for 2010-11 published by the States place growth of revenue receipts in that fiscal year at 18% for Karnataka; 25-34% for AP, Gujarat, Maharashtra and TN; and a sharp 47% for Punjab. ICRA expects the pace of expansion of revenue receipts may have been more modest as compared to what was forecast by the RE for 2010-11 for a number of States. Accordingly, the improvement in these three leverage indicators (debt/RR, debt/SOTR and interest payments/RR) may be smaller than what is forecast by the RE for 2010-11.
- Debt as a proportion of GSDP improved somewhat in the case of AP, Gujarat⁷, Karnataka, Maharashtra and Punjab between 2007-08 and 2010-11 (RE). However, the performance on this indicator worsened marginally in the case of TN over the same time period.
 - Data published by the Reserve Bank of India (RBI)⁸ indicates that the consolidated debt stock of the Indian States as a proportion of gross domestic product (GDP) declined from 25.2% in 2007-08 to 20.3% in the BE for 2010-11.
 - Amongst the States in the ICRA sample, AP, Gujarat and Punjab were relatively more indebted in 2010-11 (21.5%, 23.2% and 31.4%, respectively, as a proportion of GSDP according to the RE for 2010-11) as compared to the consolidated average debt/GDP ratio of the Indian States (20.3% of GDP according to the BE for 2010-11).



Source: Budget Documents, RBI, ICRA Research

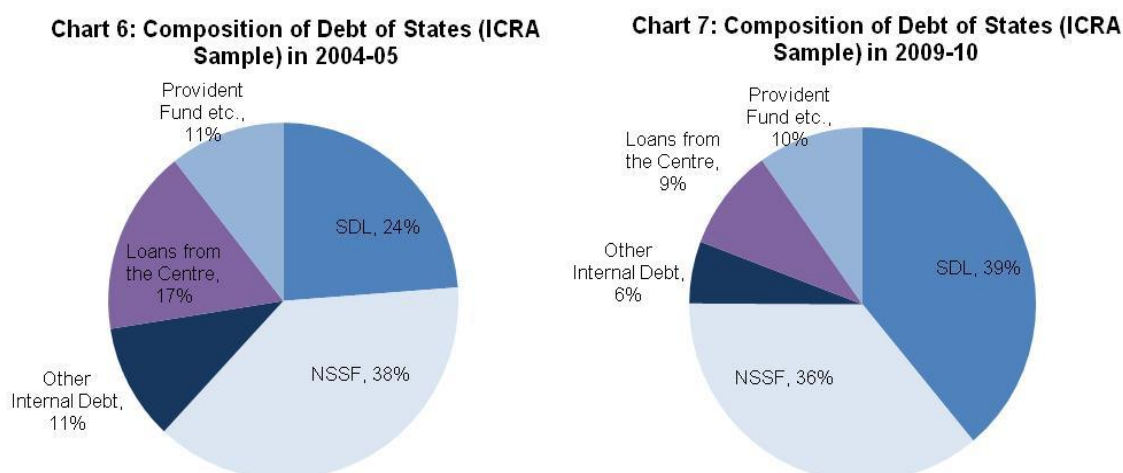
⁷ The estimate for Gujarat's GSDP for 2010-11 is not available on CSO's website. Accordingly, the estimate included in the State's Budget for 2011-12 has been used.

⁸ According to data published by the RBI in State Finances: A Study of Budgets of 2009-10 and State Finances: A Study of Budgets of 2010-11. The latter includes data on the RE for 2009-10 and the BE for 2010-11.

Change in Composition of State Government Debt since 2004-05

The composition of the debt stock of the Indian States has changed considerably since 2005-06. The TwFC had recommended that the Central Government should no longer play the role of an intermediary, and allow the State Governments to raise funds directly from the markets.⁹ With the Centre largely disintermediating from the borrowings of State Governments from 2005-06 onwards, loans from the Centre played an insignificant role in the financing of State deficits in the subsequent years. While receipts from the NSSF formed a considerable proportion of additional debt in 2005-06 and 2006-07, inflows from this source declined substantially in the ensuing years on account of various factors. As a result, State Governments have increasingly contracted market borrowings in the form of SDL¹⁰.

Accordingly, there has been a vast change in the composition of the debt stock of the States in the ICRA sample between 2004-05 and 2009-10¹¹. The proportion of Internal Debt¹² within the debt stock rose substantially. Simultaneously, there was a considerable decline in the share of loans from the Centre as well as a marginal decline in that of Provident Fund etc. within the debt stock of the States in the sample. Amongst the components of Internal Debt, the average proportion of SDL in total debt has increased from 24% in 2004-05 to 39% in 2009-10. The proportion of loans from the NSSF (in the form of Special State Government Securities) declined marginally, whereas that of other sources of Internal Debt (aside from SDL and NSSF) declined substantially.



Source: RBI publication "State Finances A Study of Budgets of 2010-11", ICRA Research

⁹ Previously, plan assistance was provided by the Central Government to the General Category States in the form of 70% loan and 30% grant and to the Special Category States in the form of 10% loan and 90% grant. Accordingly, a General Category State seeking assistance of Rs. 100 from the Centre would receive a grant of Rs.30 and was required to borrow Rs.70 from the latter, typically at a rate of interest exceeding the open market rate. The TwFC recommended a halt to this process of providing loans by the Centre to the States, while allowing for two exceptions. External assistance was to be transferred to the States by the Centre on the same terms and conditions as attached to such assistance by external funding agencies. Moreover, fiscally weak states that were unable to raise funds from the market, were allowed to approach the Centre; however, the TwFC recommended that the interest rates remain aligned with the marginal cost of borrowing for the Centre.

¹⁰ SDLs are dated securities issued through auctions conducted by the RBI. Typically, these auctions are conducted every two weeks. Interest is payable on a half-yearly basis. SDLs are eligible securities for the statutory liquidity ratio (SLR) to be maintained by Banks. The Reserve Bank in consultation with the respective State Governments and Gol decides on the timing, tenure and notified amount of SDLs.

¹¹ Data for 2010-11 included in the RBI publication "State Finances A Study of Budgets of 2010-11" reflects the trends forecast in the BE for 2010-11 published by the State Governments'. However, actual debt raised during the year, for instance through SDLs, differed substantially as compared to the BE for 2010-11. Accordingly, this note discusses the composition of debt in 2009-10 instead of 2010-11.

¹² The Internal Debt of States includes State Development Loans, loans from the National Small Savings Fund (NSSF), loans from Banks and Financial Institutions, Power Bonds, ways and means advances from the RBI etc.

Significant growth in loans from NSSF between 2003-04 and 2006-07, followed by a slowdown in subsequent years

With effect from April 1999, a fund known as the National Small Savings Fund (NSSF) was established in the Public Account of GoI. Subsequently, collections from various small savings schemes are being credited to this Fund and withdrawals under such schemes by the depositors are being made out of the balance available in this Fund. The balance in the NSSF is invested in special securities issued by the Central and State Governments, based on norms set by GoI.

The stock of NSSF loans for the States in the ICRA sample rose sharply from approximately Rs. 11,000 crore in 1999-2000 to roughly Rs. 205,000 crore by 2006-07. Thereafter, the pace of inflows of NSSF loans declined sharply. The accretion to the stock of State Governments' loans from the NSSF (in the form of Special State Government Securities) has varied significantly over the years based on the norms regarding the minimum share of States in the net collections as well as the relative attractiveness of the interest rates offered relative to the Bank deposit interest rates.

Table 2: Net Increase in the stock of NSSF loans (Rs. crore)

	1999-00 to 2002-03	2003-04 to 2006-07	2007-08 to 2009-10
AP	5,594	17,304	1,185
Gujarat	13,354	28,308	3,109
Karnataka	4,486	13,870	292
Maharashtra	16,549	50,707	4,654
Punjab	6,352	13,121	1,248
TN ¹³	4,974	19,643	-749

Source: RBI, ICRA Research

The minimum share of States in the net small savings collections raised in their respective territory has been modified over the years. From 2002-03 to 2006-07, the entire net collections in a State were invested in Special State Government Securities (SSGS) issued by the respective State Governments. From 2007-08 onwards, the compulsory share of States was reduced to 80%, although States were allowed to accept up to 100% of the net deposits.

The relative attractiveness of the interest rates offered by the small savings schemes relative to the Bank deposit interest rates, reflects the prevailing monetary stance as well as liquidity conditions. Prior to 2005-06, these loans offered a relatively higher interest rate as compared to other instruments, as a result of which there was a large inflow of savings towards these instruments. With the hardening of interest rates from 2005-06 onwards, the interest rate offered by the small savings instruments become relatively less attractive, thus restricting inflows. The net accretion to NSSF loans was substantial in 2005-06 and 2006-07, before declining sharply in 2007-08. Subsequently, five of the six States in the sample (except Maharashtra) witnessed a net outflow of NSSF loans in 2008-09 according to data published by the RBI. However, collections improved to an extent in 2009-10, as policy rates as well as deposit rates being offered by Banks remained low.

The Thirteenth Finance Commission (ThFC) recommended that the interest rate on loans to the States from the NSSF contracted until 2006-07¹⁴ and outstanding at the end of 2009-10 be reset at 9%, given the high cost associated with the same. These loans carried an interest rate of either 9.5% or 10.5%, depending on the year in which they were contracted.¹⁵ The benefit of the interest reset was estimated by the ThFC at around Rs. 13,500 crore over the ThFC period and at a total of Rs. 28,360 crore over the life of the instruments concerned for all the Indian States.

Since the ThFC set the same target for reducing the financing gap of the Centre (to 3% of GDP) and the States (to 3% of GSDP), the Committee on the Comprehensive Review of the NSSF recommended in June 2011 that incremental inflows into the NSSF should be equally shared between the Centre and the States. Accordingly, in 2011-12, GoI announced a further reduction in the minimum share of the States in the net small savings collections raised in their respective territory to 50%. In addition, GoI accepted the recommendation made by the Committee on Comprehensive Review of NSSF to reduce the period of repayment of NSSF loans to 10 years, with no moratorium, from the present tenure of 25 years including a moratorium of five years. However, a notification to this effect is still awaited.

¹³ State Governments were allowed to prepay a portion of their liabilities to the NSSF following the recommendations of a sub-committee of the National Development Council that was set up in 2005. However, only TN and Orissa availed of this option. TN prepaid Rs. 1,126.5 crore of NSSF loans (received in 1999-00 and 2000-01) in 2007-08, as a result of which its stock of NSSF loans declined in that fiscal year.

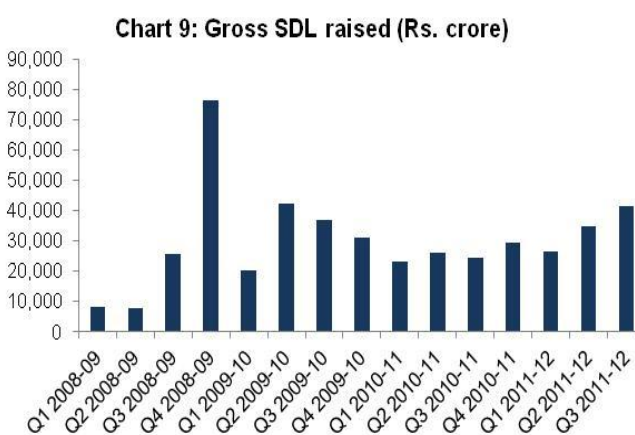
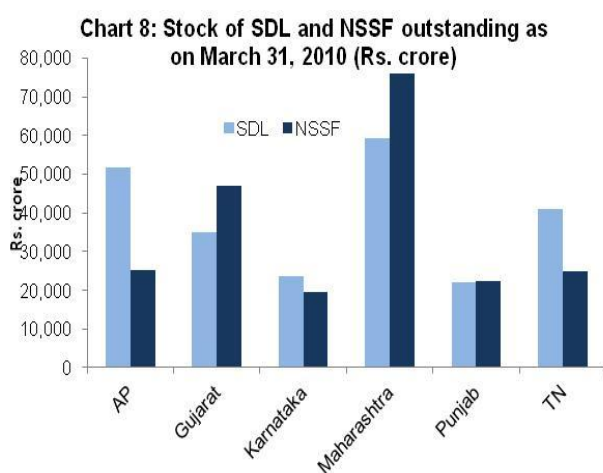
¹⁴ Relief is to be provided on loans contracted until 2006-07, since a portion of the funds collected under the NSSF from 2007-08 onwards was borrowed by the Central Government.

¹⁵ The rate of interest on the SSGS declined over the years from 13.5% in 1999-00 to 9.5% since 2003-04. Subsequently, the rate of interest on SSGS contracted between 1999-2000 and 2001-02 (ranging from 11.0% to 13.5%), was reset at 10.5% effective April 1, 2007.

Incremental Debt largely led by State Development Loans since 2007-08

Following a slowdown in inflows from the NSSF in 2007-08 as well as the weakening of fiscal balances and widening of the financing gap since 2008-09, the magnitude of SDL raised by the Indian States rose sharply at the aggregate level. Gross SDL raised by the 28 Indian States increased from roughly Rs. 28,000 crore in 2006-07 to approximately Rs. 131,000 crore in 2009-10, before declining to around Rs. 104,000 crore in 2010-11.¹⁶ The six States in the ICRA sample accounted for nearly 50% of the total funds raised by the Indian States through SDL since 2007-08.

A majority of incremental debt was raised through SDL by the States in the sample between 2007-08 and 2010-11 (according to the RE for 2010-11). On the lower end, Karnataka garnered 56% of its total incremental debt through SDL during this time period. Contrastingly, more than 80% of incremental debt was contracted through SDL by AP, Punjab and TN between 2007-08 and 2010-11 (refer *Annexure II*). At the end of 2009-10, the stock of SDLs exceeded that of NSSF in AP, Karnataka and TN. However, the stock of NSSF substantially exceeded that of SDL in the case of Maharashtra and Gujarat.



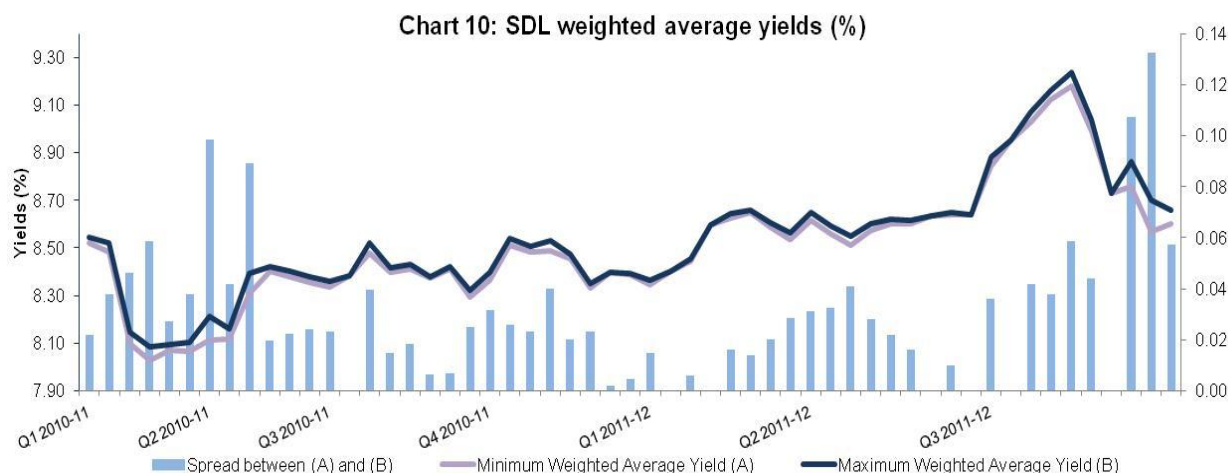
Source: RBI, ICRA Research

Data published by the RBI¹⁷ indicates that the weighted average yield of the gross SDLs borrowed by all the Indian States rose to 8.39% in 2010-11 from 7.87% in 2008-09 and 8.11% in 2009-10. This primarily reflects the increase in headline inflation from November 2009 onwards and increase in the policy rates by the RBI from March 2010 onwards. However, the weighted average spread between 10-year benchmark GoI securities and SDLs narrowed to 86 basis points in 2009-10 from 122 basis points in 2008-09. This is partly related to the surplus systemic liquidity conditions during most of 2009-10, with the RBI's Liquidity Adjustment Facility (LAF) largely remaining in absorption mode throughout that year. Moreover, a majority of SDLs borrowings were undertaken during the second half (H2) in 2008-09 (87%), whereas SDL auctions were more evenly distributed in 2009-10 (around 48% in H1 and 52% in H2). The absence of bunching aided the narrowing of spreads in 2009-10.

The TwFC's recommendation that States increasingly finance their deficits through market borrowings was intended to expose the States' fiscal health to greater market scrutiny, with differential interest rates signaling the perceived health of States' finances. However, since 2010-11, the weighted average yields at which SDLs were raised by various States remained fairly clustered at each auction. The difference between the highest and lowest weighted average yield at which debt was contracted by various States exceeded 5 basis points (bps) on only 7 occasions over this time period. For instance, on December 20, 2011, the difference between the weighted average yield at which debt was contracted by Gujarat (8.76%) and Nagaland (8.86%) was around 10.7 bps. To a large extent, the yields at which funds are raised reflect the prevailing liquidity conditions and the size of borrowings being undertaken by each State. Moreover, the fact that SDLs are eligible securities for maintenance of statutory liquidity ratio (SLR) by Banks, imparts a degree of substitutability amongst the SDLs of various States. This suggests that relatively lower emphasis is given to the relative credit profile of the individual States, contrary to the TwFC's aim to expose the State Governments to increasing market scrutiny and discipline. Notwithstanding the low spreads at which SDL are raised by various States, a significant portion of debt has been contracted at market-linked interest rates rather than at administered rates in recent years.

¹⁶ The 28 Indian States raised gross SDL of Rs. 67,000 crore in 2007-08 and Rs. 118,000 crore in 2008-09.

¹⁷ According to data published by the RBI in State Finances: A Study of Budgets of 2010-11.



Source: RBI, ICRA Research

In 2011-12, yields at SDL auctions hardened from around 8.4% in April 2011 to around 9.1% in November 2011, reflecting the increase in the repo rate by 175 basis points (bps) over the course of the year. Subsequently, yields declined to around 8.6-8.7% in January 2012, partly reflecting the open market purchases of bonds of Rs. 71,900 crore by the RBI between November 24, 2011 and January 20, 2012.

Despite substantial build-up of debt stock, maturity profile remains fairly back-ended; likely to support liquidity position of States in the next five years

At present, loans from the NSSF in the form of special securities issued by the State Governments have a tenure of 25 years, providing a long-term source of funding for the State Governments. Following a moratorium of five years, repayment is made in 20 equal instalments from the sixth year onwards, resulting in limited redemption pressure.

Typically, SDLs have a shorter tenure of 10 years. Since considerable funds were raised through this source from 2007-08 onwards, the redemption pressure is relatively low until 2017-18. As a result, the maturity profile is fairly back-ended across the States, which is a positive from the liquidity perspective in the medium term. However, there would be considerable redemption pressure subsequent to 2017-18, which could result in bunching of repayments and higher refinancing requirements in those years. As compared to the other States in the ICRA sample, the maturity profile is somewhat less back-ended in the case of Karnataka, following relatively lower borrowings in recent years.

While a number of the States in the sample have set up Consolidated Sinking Funds (CSF), which are meant to afford a cushion for amortising the debt liabilities, the balance available in the CSF remains small relative to the extent of the debt stock.

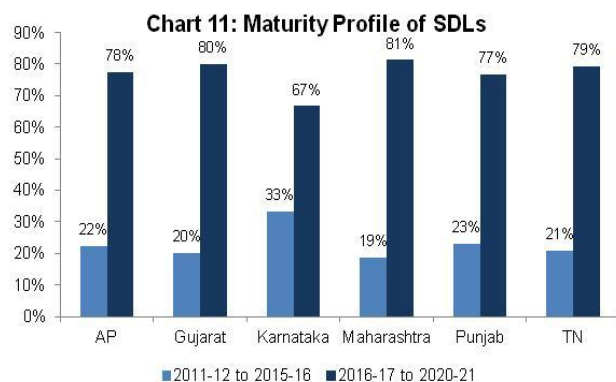


Table 3: Consolidated Sinking Fund

	Set up*	Balance 2009-10 (Rs. Crore) ^	% of Debt Stock^
AP	Yes	3,151	2.9%
Gujarat	Yes	4,964	4.8%
Karnataka	No	NA	NA
Maharashtra&	Yes	5,068	3.5%
Punjab	Yes	0	0.0%
TN	Yes	2,451	2.8%

Source: RBI, ICRA Research

* *RBI State Finances: A Study of Budgets 2010-11^ Budget Documents, & Finance Accounts for 2008-09 for Government of Maharashtra*

Trends in 2011-12 and Outlook for 2012-13

The BE for 2011-12 published by the States in the ICRA sample forecast a secular improvement in the performance on various indicators (Debt/RR, Debt/SOTR and Interest Payments/RR) relative to the respective levels in 2009-10. Nevertheless, Gujarat and Punjab are likely to remain relatively more indebted within the sample; the debt stock of these two States is expected to remain in excess of 2 times RR, even though at an absolute level, the magnitude of their debt stock is likely to remain smaller than other States, particularly Maharashtra and AP. Moreover, in 2011-12, the interest payments of Gujarat and Punjab would continue to exceed 15% of RR, the target that had been set by the TwFC for 2009-10.

The broad trend of improvement in the indebtedness levels is aided by the high growth of RR and SOTR forecast by the States in the RE for 2010-11 and/or the BE for 2011-12. The CAGR for revenue receipts for the two years ending 2011-12 (according to the BE for 2011-12) remains substantial, particularly for Punjab (33%), as compared to a moderate 17-18% for Karnataka and Maharashtra. ICRA expects tax revenues to expand at a moderate pace in 2011-12,² which may dampen the pace of growth of RR relative to the BE for 2011-12. Accordingly, the performance on leverage indicators may be somewhat inferior to what is suggested by the BE for the current fiscal.

Table 4: Leverage Indicators

	Debt/RR		Debt/SOTR		Interest Payments/RR		CAGR 2009-10 to 2011-12 (BE)	
	2009-10	2011-12 BE	2009-10	2011-12 BE	2009-10	2011-12 BE	RR	SOTR
AP	1.77	1.48	3.07	2.46	14.7%	12.2%	24%	27%
Gujarat	2.51	2.26	3.86	3.46	20.9%	18.0%	21%	21%
Karnataka	1.36	1.28	2.17	1.94	10.7%	10.5%	17%	20%
Maharashtra	1.92	1.70	2.78	2.45	16.5%	14.5%	19%	19%
Punjab	3.51	2.43	5.27	3.80	27.8%	20.5%	33%	30%
TN	1.61	1.40	2.43	1.99	12.1%	10.4%	24%	28%

Source: Budget Documents, ICRA Research

The increase in the Bank deposit rates (reflecting the tight monetary policy stance), has reduced the attractiveness of small savings instruments and resulted in an outflow of funds under various small savings schemes so far in 2011-12. Despite the recent enhancement of interest rates on various small savings instruments as well as the increase in the annual ceiling on investment under the public provident fund to Rs. 1 lakh from Rs. 70,000, it is unlikely that the accretion to NSSF would be substantial in 2011-12.

The six States in the ICRA sample together raised Rs. 60,450 crore of SDL in April 2011-January 2012, higher than the Rs. 51,900 crore raised in fiscal year 2010-11. Notably, Karnataka's gross borrowings through SDL have remained low in both 2010-11 (Rs. 2,000 crore) and 2011-12 (Rs. 4,000 crore so far), despite a substantial estimated financing gap (around Rs. 11,700 crore in 2010-11 RE and Rs. 12,500 crore in 2011-12 BE). This is likely to partly reflect a drawdown of its substantial surplus cash balances, reflected in investments such as 14-days intermediate treasury bills (Rs. 8,907 crore as on March 31, 2010 according to data published by the RBI). Karnataka, Maharashtra (Rs. 20,116 crore) and TN (Rs. 17,465 crore) accounted for nearly 50% of the total investment outstanding of all the States in 14-days intermediate treasury bills as on March 31, 2010.

Table 5: Gross SDL raised in 2011-12* (Rs. Crore)

AP	13,500
Gujarat	10,500
Karnataka	4,000
Maharashtra	16,000
Punjab	6,500
TN	9,950

Source: RBI, ICRA Research, *Till 24th January, 2012

As compared to a gross SDL of around Rs. 103,000 crore in 2010-11, the 28 Indian States have already raised SDL of around Rs. 122,600 crore in 2011-12. Given the low anticipated inflow of NSSF funds and the likely moderation in tax revenues in the current fiscal year relative to the BE for 2011-12, it is likely that the States in the sample may borrow substantial funds through SDLs in February-March 2012.

In 2012-13, the anticipated easing of policy rates¹⁸ would result in an easing of Bank deposit rates (as well as the yields at which fresh SDL are contracted) and may result in an upswing in NSSF inflows if the rates of various schemes remain unchanged. However, with the planned reduction in the minimum share of States in the net small savings collections to 50% from 80%, the magnitude of funds to be raised by the State Governments through SDL is likely to remain significant in 2012-13.

¹⁸ Please refer ICRA's publication *ICRA Comments on the RBI's Third Quarter Review of Monetary Policy for 2011-12 – January 2012* available on ICRA's website www.icra.in.

Annexure I

State Entities Rated by ICRA

The following table is a list of State entities with ICRA-assigned ratings that are currently outstanding for the debt they have raised using guarantees from the State Governments concerned. The ratings reflect the credit quality of the guarantor as well as the integrity of and the extent of adherence to the structured payment mechanism stipulated by ICRA.

Entity	State	Long-Term Rating
Andhra Pradesh Power Finance Corporation Limited	AP	[ICRA] A(SO), [ICRA] A(SO)!
Andhra Pradesh Water Resources Development Corporation	AP	[ICRA] A(SO)
Transmission Corporation of Andhra Pradesh Limited	AP	[ICRA] A(SO)
Karnataka Neeravari Nigam Limited	Karnataka	[ICRA] A+(SO), [ICRA] A+(SO)!
Karnataka State Financial Corporation	Karnataka	[ICRA] A+(SO), [ICRA] A+(SO)!
Karnataka State Industrial Investment & Development Corporation	Karnataka	[ICRA] A+(SO)
Maharashtra Water Conservation Corporation	Maharashtra	[ICRA] BB(SO)
MSEB Residual Board	Maharashtra	[ICRA] B(SO)
Punjab Infrastructure Development Board	Punjab	[ICRA] BBB(SO)
Tamil Nadu Transmission Corporation Limited	TN	[ICRA] A-(SO), [ICRA] A-(SO)!
Tamil Nadu Generation and Distribution Corporation Limited	TN	[ICRA] A-(SO), [ICRA] A-(SO)!

Note: SO: Structured Obligation; !: Conditional Rating; For complete rating definition, please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

Source: ICRA Limited

The following table is a list of State entities with ICRA-assigned ratings that are currently outstanding for the debt that they have raised without recourse to State Government guarantees. However, given the strong linkages of these entities with the respective State Governments, the ratings assigned by ICRA to the debt of the State entities are correlated to the credit quality of the State Governments concerned.

Entity	State	Long Term Rating
Andhra Pradesh Central Power Distribution Corporation Limited	AP	[ICRA] A- (Stable)
Dakshin Gujarat Vij Company Limited	Gujarat	[ICRA] A- (Stable)
Gujarat Energy Transmission Corporation Limited	Gujarat	[ICRA] A- (Stable)
Gujarat State Electricity Corporation Limited	Gujarat	[ICRA] A- (Stable)
Gujarat Urja Vikas Nigam Limited	Gujarat	[ICRA] A- (Stable)
Madhya Gujarat Vij Company Limited	Gujarat	[ICRA] A- (Stable)
Paschim Gujarat Vij Company Limited	Gujarat	[ICRA] A- (Stable)
Uttar Gujarat Vij Company Limited	Gujarat	[ICRA] A- (Stable)
Karnataka Neeravari Nigam Limited	Karnataka	[ICRA] A(SO)
Karnataka Water and Sanitation Pooled Fund	Karnataka	[ICRA] A+(SO)
Karnataka Power Corporation Limited	Karnataka	[ICRA] A- (Stable)
Tamil Nadu Electricity Board	TN	[ICRA] D

Source: ICRA Limited

Annexure II

Table 6: Net Increase in the stock of NSSF loans (Rs. crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
AP	4,914	4,144	183	-13	1,015
Gujarat	8,459	5,774	423	-73	2,759
Karnataka	4,327	2,593	209	-164	247
Maharashtra	15,733	9,278	1,475	428	2,751
Punjab	3,402	2,990	457	-213	1,004
TN	6,094	4,014	-783	-238	272

Source: RBI, ICRA Research

Table 7: Net Increase in stock of SDL (Rs. crore)

	2007-08	2008-09	2009-10	2010-11	Total SDL 2007-11 (A)
AP	5,642	9,151	13,285	10,361	38,439
Gujarat	6,300	7,857	8,070	10,606	32,833
Karnataka	288	6,584	4,954	1,037	12,863
Maharashtra	7,745	16,967	14,611	10,586	49,909
Punjab	3,793	4,645	4,361	4,529	17,328
TN	4,129	8,792	11,724	8,703	33,348

Source: RBI, ICRA Research

Table 8: Incremental net SDL raised as a proportion of Incremental Debt

	2007-08	2008-09	2009-10	2010-11	Overall 2007-11
AP	80%	83%	92%	75%	83%
Gujarat	89%	98%	67%	66%	76%
Karnataka	16%	82%	69%	17%	56%
Maharashtra	79%	93%	75%	48%	72%
Punjab	83%	95%	77%	74%	82%
TN	92%	86%	84%	69%	81%

Source: RBI, ICRA Research



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