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## STATE GOVERNMENT FINANCES – Weekly SDL Auction

Spread between 10-year SDLs and  
G-sec narrows to 63 bps from 73  
bps in the previous week

**December 15, 2020**

Jayanta Roy  
+91 33 7150 1120  
jayantan@icraindia.com

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

Nine states raised Rs. 104 billion through state development loans (SDLs) in the auction held on December 15, 2020, nearly 10% lower than the amount that was initially indicated for this week. However, today's SDL issuance was 8.5% higher than the year ago level, after the YoY decline recorded in the previous two auctions. As a result, the gross amount raised through SDLs between December 1-15, 2020, has recorded a contraction of 8.2% (after the high 48.4% expansion recorded in April-November 2020). Improving tax inflows during the festive season seem to have eased the pressure on state government borrowings in the ongoing month.

So far in Q3 FY2021 (till Dec 15, 2020), Rs. 1,714 billion SDLs have been raised, which is 84.7% of the Rs. 2,022 billion indicated for Q3 FY2021. In Q3 FY2021 (so far), Maharashtra has borrowed Rs. 165 billion, a sharp 53.2% lower than the substantial Rs. 310 billion that it had indicated to borrow in this period. In contrast, West Bengal has raised Rs. 110 billion through SDLs, even though it had not indicated that it would participate in the SDL auctions in the ongoing quarter.

In today's auction, a substantial Rs. 65 billion or 63% of the issuance was in the 15 to 30-year tenors, Rs. 34 billion or ~32% in the 10-year bucket, and the balance Rs. 5 billion (~5%) in the 5-year bucket.

The weighted average cut-off of the 10-year and the cut-off of the 20-year SDL declined by 6 bps and 4 bps, respectively, to 6.52% and 6.66%, respectively, on December 15, 2020, relative to the previous week. The weighted average cut-off of the 15-year SDLs and cut-offs of 20-year and 30-year SDL were in a narrow range of 6.66-6.67%. The 10-year G-sec (05:85 GS 2030) closed at 5.89% on December 15, 2020, 3 bps higher than the previous week, possibly on account of rising oil prices, lack of one-way open market operations (OMOs) and a smaller than expected size of the twist OMOs. Accordingly, the spread between the 10-year SDL and G-sec narrowed sharply to 63 bps on December 15, 2020 from 73 bps in the previous week.

Despite the increase in weighted average tenor of SDLs to 17 years in the auction held on December 15, 2020 from 15 years last week, the weighted average cut-off eased by 4 bps to 6.56% from 6.59%.

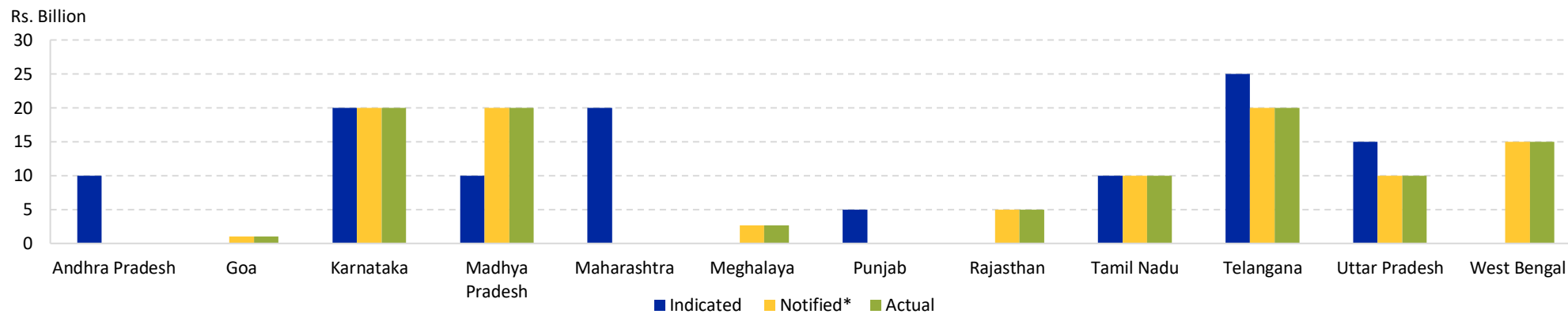
**Exhibit 1: Nine states raised Rs. 104 billion through SDLs in the auction held on December 15, 2020, nearly 10% lower than the amount that had been initially indicated for that week; however, SDL issuance was 8.5% higher than the year ago level; so far in Q3 FY2021 (till Dec 15, 2020), Rs. 1,714 billion SDLs have been raised, which is 84.7% of the Rs. 2,022 billion indicated for Q3 FY2021**

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of December 15, 2020	115	104	104	5,250
Week of December 17, 2019	NA		96	3,678
Growth			8.5%	42.7%

Note: \*Including green shoe

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

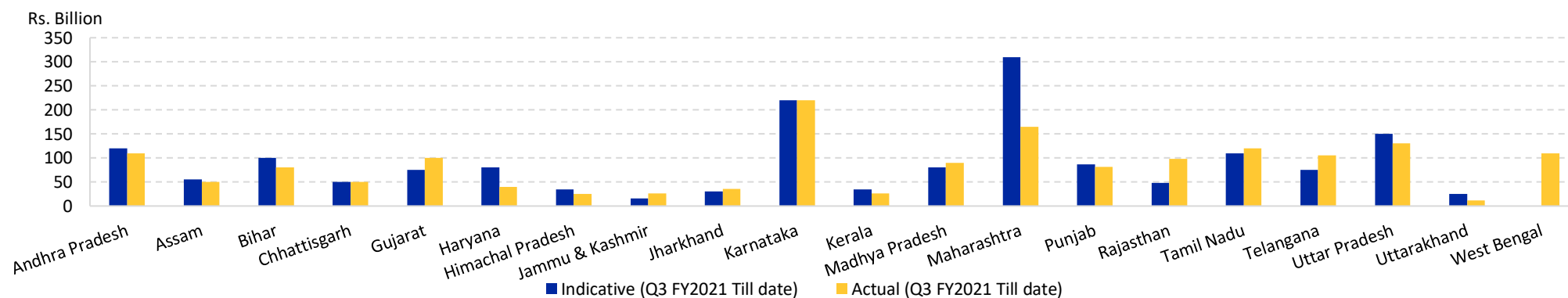
**Exhibit 2: Andhra Pradesh (Rs. 10 billion), Maharashtra (Rs. 20 billion), Punjab (Rs. 5 billion) had initially indicated that they would borrow in today's auction, but eventually did not participate; Telangana and Uttar Pradesh have each borrowed Rs. 5 billion less than the previously indicated amount, while Madhya Pradesh has raised Rs. 10 billion more than indicated; the combined SDL issuance by Goa, Meghalaya, Rajasthan and West Bengal stood at Rs. 24 billion in today's auction, even though they had not indicated earlier that they would participate**



Note: \*Including green shoe

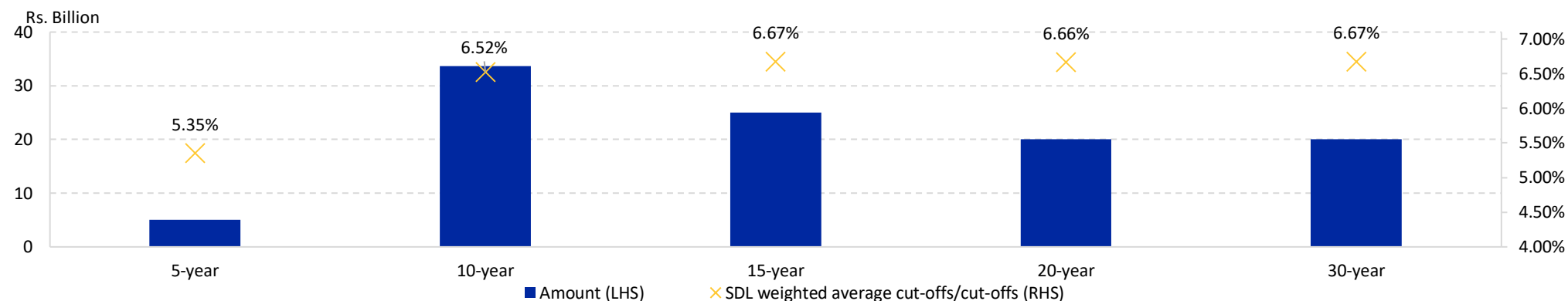
Source: RBI; ICRA research

**Exhibit 3: In Q3 FY2021 (so far), Maharashtra has borrowed Rs. 165 billion, a sharp 53.2% lower than the substantial Rs. 310 billion that it had indicated to borrow in this period; in contrast, West Bengal has raised Rs. 110 billion through SDLs, even though it had not indicated that it would participate in the SDL auctions in the ongoing quarter**



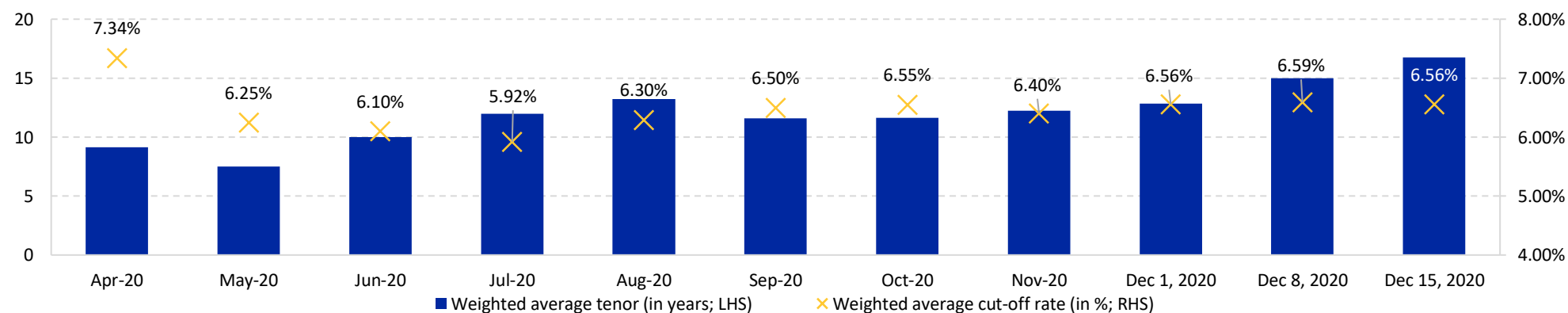
Source: RBI; ICRA research

**Exhibit 4: In today's auction, a substantial Rs. 65 billion or 63% of the issuance was in the 15 to 30-year tenors, Rs. 34 billion or ~32% in the 10-year bucket, and the balance Rs. 5 billion (~5%) in the 5-year bucket; the weighted average cut-off of the 10-year and cut-offs of 20-year SDL declined by 6 bps and 4 bps, respectively, to 6.52% and 6.66%, respectively, on December 15, 2020 relative to the previous week; the weighted average cut-off of 15-year SDLs and cut-off of 20-year SDLs and 30-year SDLs were in a narrow range of 6.66-6.67%**



Source: RBI; ICRA research

**Exhibit 5: Despite the increase in the weighted average tenor of SDLs to 17-years in the auction held on December 15, 2020 from 15-years last week, the weighted average cut-off eased by 4 bps to 6.56% from 6.59%**



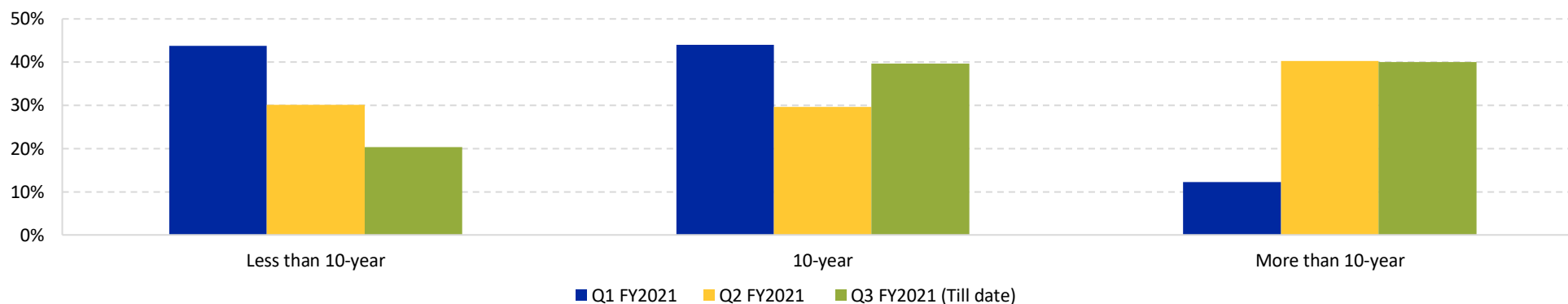
Source: RBI; ICRA research

**Exhibit 6: The weighted average cut-off of 10-year SDLs declined by 6 bps to 6.52% on December 15, 2020 relative to the previous week; however, the 10-year G-sec (05:85 GS 2030) closed 3 bps higher at 5.89% in the same period; accordingly, the spread between the 10-year SDL and G-sec narrowed sharply to 63 bps on December 15, 2020 from 73 bps in the previous week**

10-year SDL cut-offs	Nov 10, 2020	Nov 17, 2020	Nov 24, 2020	Dec 1, 2020	Dec 8, 2020	Dec 15, 2020
Arunachal Pradesh		6.54%				
Assam		6.60%	6.64%		6.62%	
Goa	6.55%		6.57%		6.55%	6.54%
Gujarat	6.50%		6.50%			
Haryana	6.59%					
Jammu and Kashmir				6.65%		
Karnataka	6.47%	6.49%	6.50%	6.53%	6.54%	6.52%
Maharashtra			6.52%			
Manipur				6.60%		
Meghalaya						6.60%
Nagaland					6.62%	
Punjab		6.60%				
Rajasthan	6.61%	6.54%	6.59%	6.62%	6.60%	
Sikkim	6.60%					
Tamil Nadu		6.47%				6.46%
Uttar Pradesh	6.60%		6.58%			6.56%
<b>Weighted Average 10-year SDL cut-offs (A)</b>	<b>6.55%</b>	<b>6.53%</b>	<b>6.55%</b>	<b>6.60%</b>	<b>6.58%</b>	<b>6.52%</b>
<b>Minimum 10-year SDL cut-off</b>	<b>6.47%</b>	<b>6.47%</b>	<b>6.50%</b>	<b>6.53%</b>	<b>6.54%</b>	<b>6.46%</b>
<b>Maximum 10-year SDL cut-off</b>	<b>6.61%</b>	<b>6.60%</b>	<b>6.64%</b>	<b>6.65%</b>	<b>6.62%</b>	<b>6.60%</b>
<b>10-year G-sec closing yield (B)</b>	<b>5.92%</b>	<b>5.88%</b>	<b>5.88%</b>	<b>5.85%</b>	<b>5.86%</b>	<b>5.89%</b>
<b>Spread (A-B)</b>	<b>63 bps</b>	<b>65 bps</b>	<b>67 bps</b>	<b>75 bps</b>	<b>73 bps</b>	<b>63 bps</b>

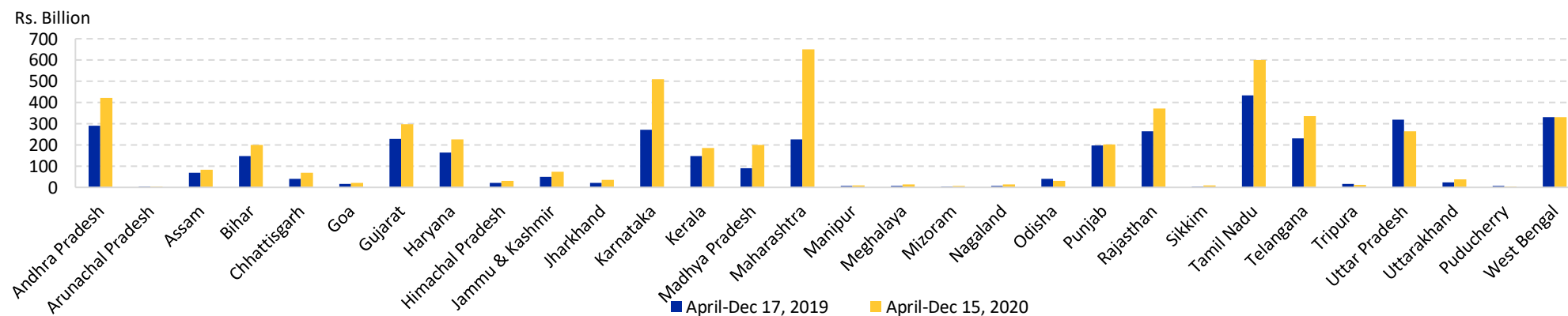
Source: RBI; ICRA research

**Exhibit 7: The share of shorter-tenor SDLs in total issuance had declined from 43.7% in Q1 FY2021 to 30.1% in Q2 FY2021, and further to 20.3% in Q3 FY2021 (till December 15, 2020); the proportion of 10-year SDLs in total issuance, which had declined from 44.1% in Q1 FY2021 to 29.6% in Q2 FY2021, has risen to 39.6% in Q3 FY2021; with the concentration of longer tenor issuance in today's auction, the share of this bucket in Q3 FY2021 is now nearly at par with the level in Q2 FY2021**



Source: RBI; ICRA Research

**Exhibit 8: 28 state governments and two Union Territories (UTs) have raised Rs. 5,250 billion during April – December 15, 2020, a YoY rise of 42.7%; nearly 61% of the increase in SDL issuance has been led by Maharashtra, Karnataka, Tamil Nadu and Andhra Pradesh**



Source: RBI; ICRA Research

## 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.

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- 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  
Tel: +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:

1105, Kailash Building, 11th Floor,  
26, Kasturba Gandhi Marg,  
New Delhi - 110 001  
Tel: + 91 11 2335 7940-45

## 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,  
Opposite Karnavati Club  
S.G. Highway, Ahmedabad - 380015  
Tel: +91 79 4027 1500/01

## 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

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

## Hyderabad 2

4A, 4th Floor, SHOBHAN,  
6-3-927, A&B Somajiguda,  
Raj Bhavan Road,  
Hyderabad – 500082  
Tel: +91 40 40676500

## 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 0194, 020 6606 9999

Email: info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.icraresearch.in