



## STATE GOVERNMENT FINANCES – Weekly SDL Auction

*Spread of 10-year SDL and G-sec widened despite announcement of second SDL OMO*

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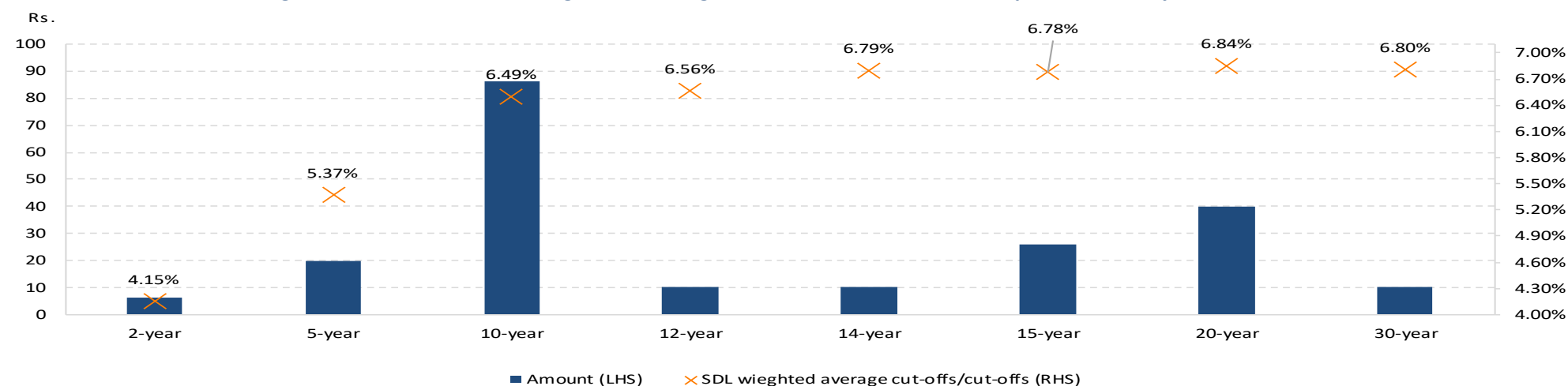
**Exhibit 1: 18 state governments/Union territories raised Rs. 209 billion through state development loans (SDLs) in the auction held on November 3, 2020, 32.0% higher than initially indicated amount for this auction; moreover, SDL issuance today was a substantial 162.3% higher than the year ago level; a total of Rs. 951 billion has been raised in the weekly SDL auctions held in Q3 FY2021 (till November 3, 2020), which is 47.0% of Rs. 2,022 billion indicated to be raised in Q3 FY2021**

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of November 3, 2020	158	209	209	4,487
Week of November 5, 2019			80	2,936
Growth			162.3%	52.8%

Note: \* Includes additional borrowing or green shoe option

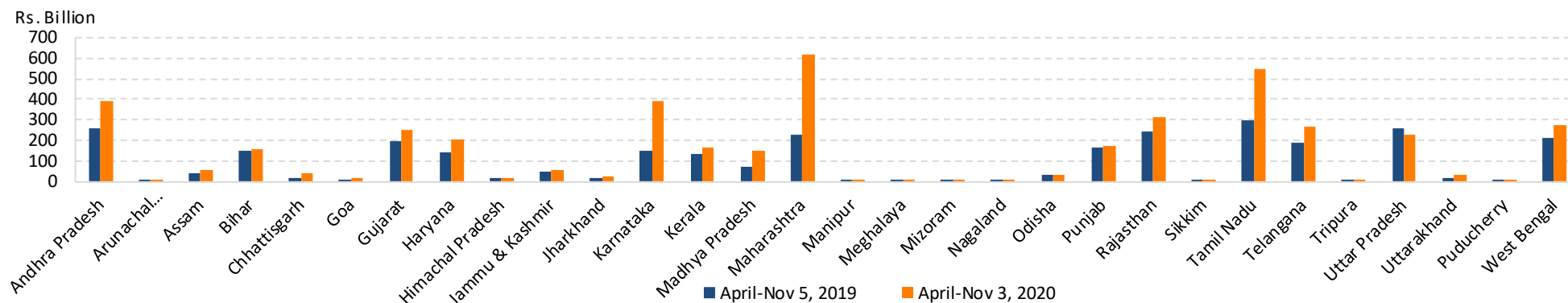
Source: Reserve Bank of India (RBI); ICRA research

**Exhibit 2: Ten states issued Rs. 86 billion SDLs or 41.3% of the total issuance in the 10-year tenor, at a weighted average cut-off of 6.49%, 7 bps higher than the previous weekly auction; Rs. 96 billion or 46.0% of the total issuance was in the 12-30-year tenor; 15, 20 and 30-year SDLs were issued at cut-offs of 6.78-6.84% on November 3, 2020, 2-8 bps higher than the previous week; Jammu and Kashmir (J&K) raised a 15-year SDL at a cut-off of 6.80%, while Telangana raised a 30-year SDL at the same cut-off, which may indicate differences in the market participants' perception of the different states' individual fiscal positions; despite the RBI's announcement of the second Open Market Operation (OMO) in SDLs (purchase) of 15 states for Rs. 100 billion to be conducted on November 5, 2020, SDL cut-offs hardened in the week ending November 3, 2020, reversing some of the gains that had been made in the previous weekly auction**



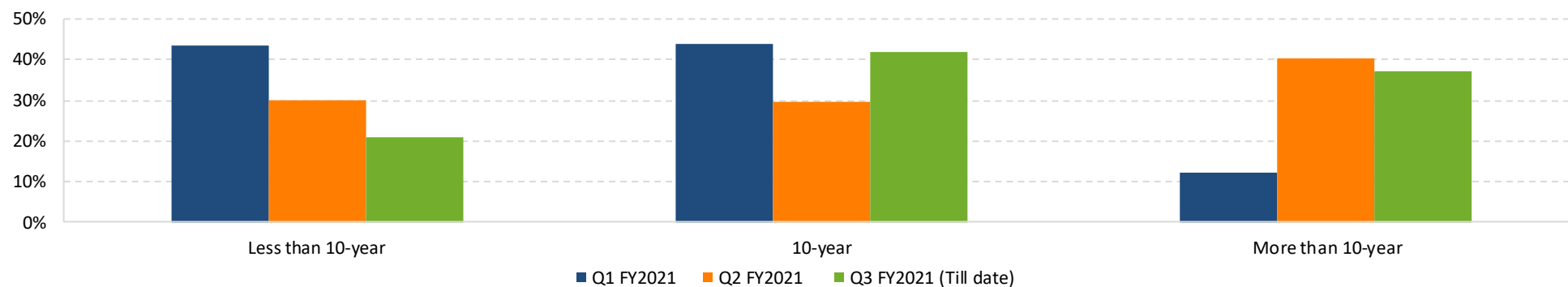
Source: RBI; ICRA research

**Exhibit 3: 28 state governments and two UTs have raised Rs. 4,487 billion during April – November 3, 2020, a YoY rise of 52.8%; nearly two-thirds of the increase in SDL issuance has been led by Maharashtra, Karnataka, Tamil Nadu (TN) and Andhra Pradesh (AP), with YoY expansions of 175.6%, 156.6%, 84.0% and 51.6%, respectively, during this period**



Source: RBI; ICRA Research

**Exhibit 4: Share of shorter tenor SDLs in total issuance continued to decline from 43.7% in Q1 FY2021 to 30.1% in Q2 FY2021, and further to 20.8% in Q3 FY2021 (till November 3, 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 increased to 42.0% in Q3 FY2021**



Source: RBI; ICRA Research

**Exhibit 5: The weighted average 10-year SDL cut-off increased by 7 bps on November 3, 2020 from the previous week, while the 10-year G-sec yield rose by 5 bps in the same period; accordingly, the spread between the two increased by 2 bps to 59 bps on November 3, 2020 from 57 bps on October 27, 2020**

10-year SDL cut-offs	Sept 29, 2020	Oct 6, 2020	Oct 13, 2020	Oct 20, 2020	Oct 27, 2020	Nov 3, 2020
Andhra Pradesh						6.43%
Assam	6.90%	6.91%		6.56%		6.48%
Goa	6.89%	6.90%			6.42%	
Gujarat	6.83%	6.84%			6.40%	6.46%
Himachal Pradesh		6.90%				
Jharkhand		6.93%		6.62%		
Karnataka	6.85%	6.86%	6.61%	6.51%	6.40%	6.40%
Maharashtra		6.87%	6.63%	6.56%		6.40%
Meghalaya	6.90%		6.65%			
Mizoram						6.48%
Nagaland		6.91%				6.50%
Puducherry						6.52%
Punjab			6.69%			
Rajasthan	6.85%	6.92%	6.60%		6.45%	6.75%
Sikkim						
Tamil Nadu		6.84%	6.63%		6.40%	
Tripura					6.55%	
Uttar Pradesh	6.90%	6.91%	6.63%	6.54%	6.42%	6.59%
Uttarakhand	6.90%		6.62%		6.44%	
<b>Weighted Average 10-year SDL cut-offs (A)</b>	<b>6.87%</b>	<b>6.89%</b>	<b>6.63%</b>	<b>6.56%</b>	<b>6.42%</b>	<b>6.49%</b>
<b>Minimum 10-year SDL cut-off</b>	<b>6.83%</b>	<b>6.84%</b>	<b>6.60%</b>	<b>6.51%</b>	<b>6.40%</b>	<b>6.40%</b>
<b>Maximum 10-year SDL cut-off</b>	<b>6.90%</b>	<b>6.93%</b>	<b>6.69%</b>	<b>6.62%</b>	<b>6.55%</b>	<b>6.75%</b>
<b>10-year G-sec closing yield (B)</b>	<b>6.04%</b>	<b>6.03%</b>	<b>5.90%</b>	<b>5.93%</b>	<b>5.85%</b>	<b>5.90%</b>
<b>Spread (A-B)</b>	<b>84 bps</b>	<b>86 bps</b>	<b>72 bps</b>	<b>63 bps</b>	<b>57 bps</b>	<b>59 bps</b>

Source: RBI; ICRA research



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