



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

STATE GOVERNMENT FINANCES – Weekly SDL Auction

**SDL issuance 33% lower than
indicated in January 2021**

January 25, 2021

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SUMMARY

Ten states and one UT raised Rs. 163 billion through SDLs, lower than the indicated and notified amount, as well as the year-ago level

Weighted average cut-off for 10-year SDLs inched up to 6.63% from 6.62% last week

With a 1 bp increase in 10-year G-sec yield, the spread between 10-year SDLs and G-sec declined to 71 bps today from 72 bps last week

Weighted average cut-off of SDLs increased to 6.53% today from 6.48% last week, reflecting the increase in weighted average tenor to 15 years from 12 years

Ten states and one Union Territory (UT) raised Rs. 163 billion through state development loans (SDLs) on January 25, 2021, 38.3% lower than the amount initially indicated for this week, 3.0% lower than the notified amount (including green shoe of Rs. 7.5 billion), and 10.6% below the year-ago level

The actual SDL issuance has trailed the indicated amount in each of the four SDL auctions held in January 2021. Cumulatively, a total of Rs. 558 billion SDLs have been issued in January 2021, nearly 33% lower than the indicated Rs. 833 billion for this month, which may be indicative of a higher-than-estimated pickup in other revenue streams.

In today's auction, Rs. 70 billion or ~43% of the issuance was in the 10-year bucket, Rs. 65 billion or ~40% was in the 12-34-year tenors, and the balance Rs. 28 billion (~17%) was raised in 4-8-year SDLs. The weighted average cut-off of the 10-year SDLs stood at 6.63% on January 25, 2021, a mild 1 bp higher than last week. The 10-year G-sec (05:85 GS 2030) yield closed at 5.92% today, 1 bp higher than 5.91% last week. Accordingly, the spread between the 10-year SDLs and G-sec declined to 71 bps on January 25, 2021 from 72 bps last week.

Interestingly, the weighted average cut-off of 20-year Haryana and Rajasthan SDLs (6.62%), and the cut-offs of the 30-year Telangana SDL (6.61%) and the 34-year Tamil Nadu SDL (6.60%) were mildly lower than the weighted average cut-off of the 10-year SDLs issued by Gujarat, Himachal Pradesh, Rajasthan, Uttar Pradesh and West Bengal, making the yield curve mildly inverted at the longer end.

The weighted average tenor of SDLs increased to 15 years on January 25, 2021 from 12 years last week, and accordingly the weighted average cut-off increased by 5 bps to 6.53% from 6.48%.

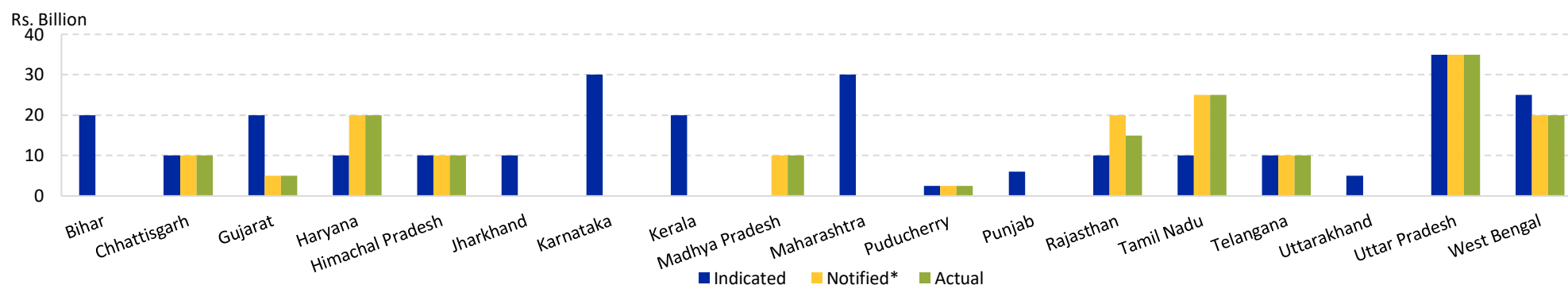
Exhibit 1: Ten states and one UT raised Rs. 163 billion through SDLs in the auction held on January 25, 2021, a substantial 38.3% lower than the initially indicated amount; moreover, today's issuance was 10.6% lower than the year-ago level

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of January 25, 2021	264	168	163	6,117
Week of January 28, 2020	192	182	182	4,526
Growth	37.2%	-7.8%	-10.6%	35.1%

Note: *Including green shoe

Source: RBI; ICRA research

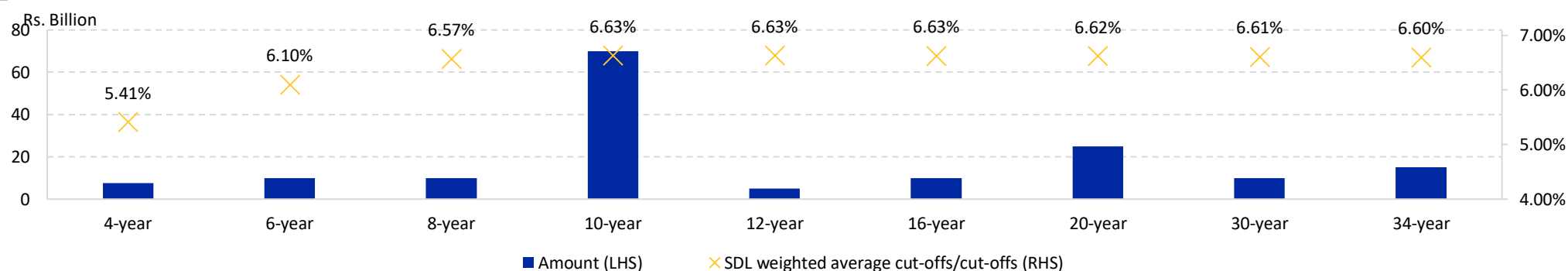
Exhibit 2: Bihar, Jharkhand, Karnataka, Kerala, Maharashtra, Punjab and Uttarakhand had initially indicated that they would together raise Rs. 121 billion on January 25, 2021, but eventually did not participate in this auction; additionally, Gujarat (by Rs. 15 billion) and West Bengal (by Rs. 5 billion) borrowed less than the originally indicated amount and Rajasthan did not accept the green shoe option (Rs. 5 billion) for its 10-year SDL; in contrast, Haryana, Rajasthan and Tamil Nadu raised Rs. 30 billion more than the amount initially indicated for this week; Madhya Pradesh raised Rs. 10 billion in today's auction even though it had originally not indicated that it would participate in this auction



Note: *Including green shoe

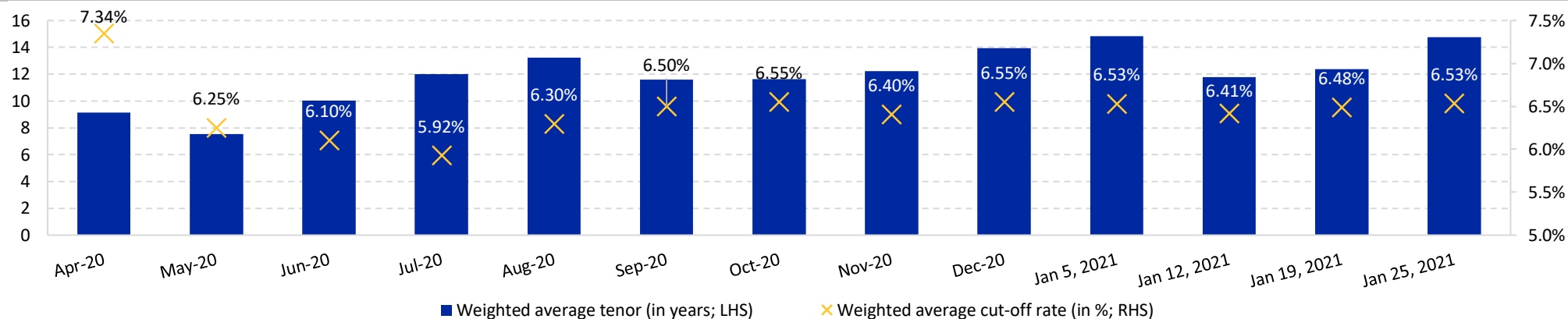
Source: RBI; ICRA research

Exhibit 3: In today's auction, Rs. 70 billion or ~43% of the issuance was in the 10-year bucket, Rs. 65 billion or ~40% was in the 12-34-year tenors, and the balance Rs. 28 billion (~17%) was raised in 4-8-year SDLs; the weighted average cut-off of the 10-year SDLs rose by a mild 1 bp to 6.63% on January 25, 2021; interestingly, the weighted average cut-off of 20-year Haryana and Rajasthan SDLs (6.62%), and the cut-offs of the 30-year Telangana SDL (6.61%) and the 34-year Tamil Nadu SDL (6.60%) were mildly lower than the weighted average cut-off of the 10-year SDLs issued by Gujarat, Himachal Pradesh, Rajasthan, Uttar Pradesh and West Bengal, making the yield curve mildly inverted at the longer end



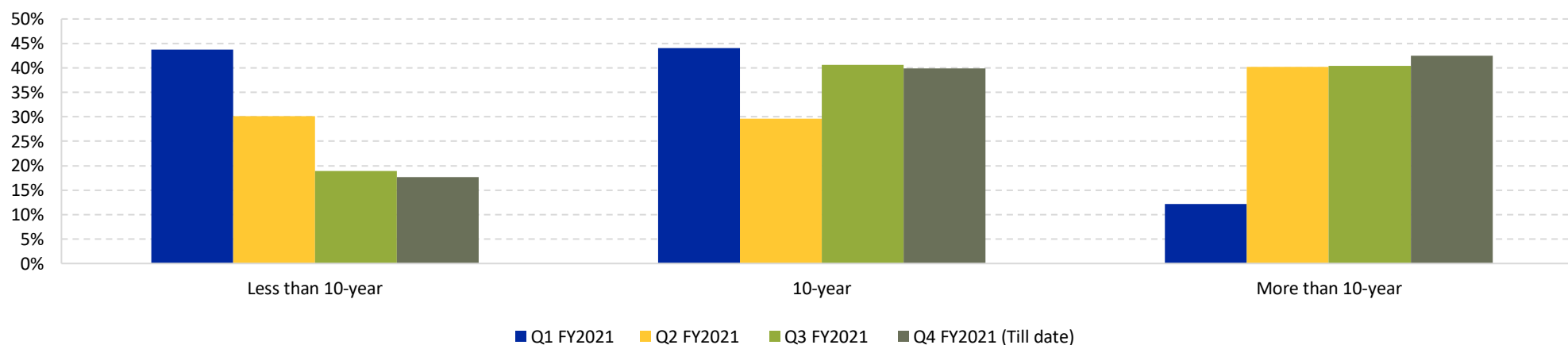
Source: RBI; ICRA research

Exhibit 4: Weighted average tenor of SDLs increased to 15 years on January 25, 2021 from 12 years in last week's auction; accordingly, the weighted average cut-off increased by 5 bps to 6.53% from 6.48%



Source: RBI; ICRA research

Exhibit 5: So far, in Q4 FY2021 (till January 25, 2021), the share of longer tenor SDLs in total issuance has risen to 42.5%, whereas the share of 10-year and less than 10-year SDLs in total issuance has dipped



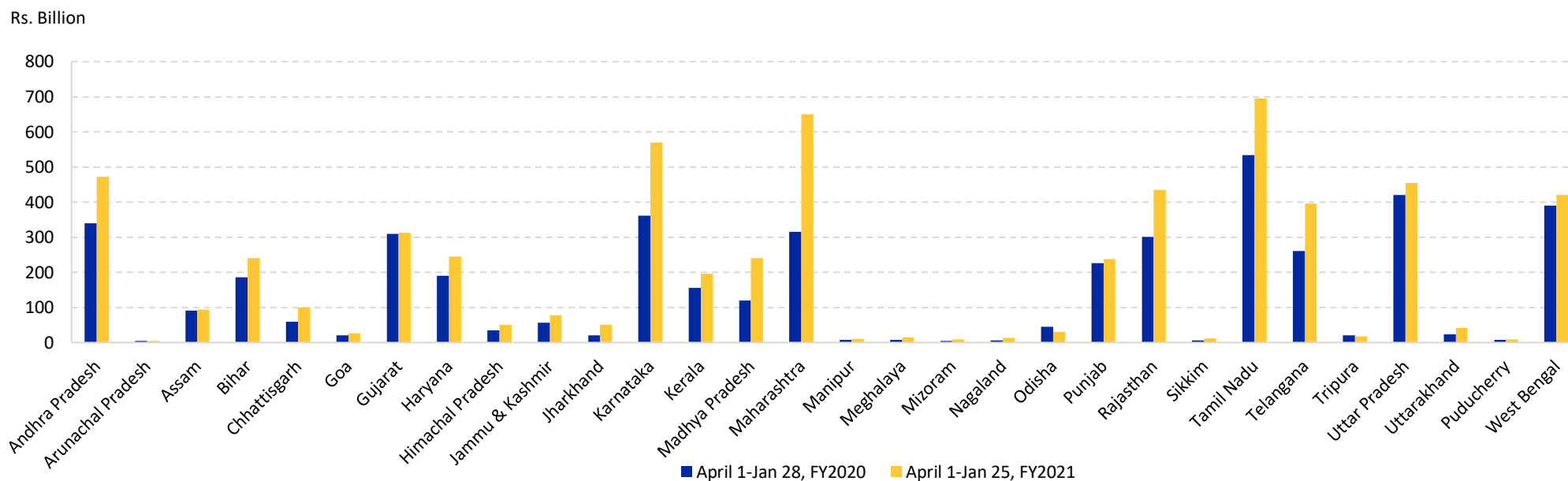
Source: RBI; ICRA Research

Exhibit 6: The 10-year G-sec (05:85 GS 2030) yield closed at 5.92%, 1 bp higher than last week; accordingly, the spread between the 10-year SDLs and G-sec declined to 71 bps on January 25, 2021 from 72 bps last week

10-year SDL cut-offs	Dec 22, 2020	Dec 29, 2020	Jan 5, 2021	Jan 12, 2021	Jan 19, 2021	Jan 25, 2021
Assam	6.60%					
Goa	6.58%		6.58%		6.62%	
Gujarat						6.57%
Himachal Pradesh	6.57%					6.63%
Karnataka	6.51%	6.51%				
Manipur			6.63%			
Meghalaya		6.60%			6.63%	
Rajasthan		6.60%	6.59%	6.61%		6.61%
Sikkim				6.64%		
Tamil Nadu		6.46%	6.53%	6.57%		
Uttar Pradesh	6.60%	6.62%	6.60%	6.61%	6.62%	6.64%
Uttarakhand			6.60%			
West Bengal		6.60%				6.63%
Weighted Average 10-year SDL cut-offs (A)	6.58%	6.58%	6.58%	6.60%	6.62%	6.63%
Minimum 10-year SDL cut-off	6.51%	6.46%	6.53%	6.57%	6.62%	6.57%
Maximum 10-year SDL cut-off	6.60%	6.62%	6.63%	6.64%	6.63%	6.64%
10-year G-sec closing yield (B)	5.91%	5.89%	5.82%	5.92%	5.91%	5.92%
Spread (A-B)	67 bps	70 bps	75 bps	68 bps	72 bps	71 bps

Source: RBI; ICRA research

Exhibit 7: 28 state governments and two UTs have raised Rs. 6,117 billion during April 1 – January 25, FY2021, a YoY rise of 35.1%; nearly 77% of the increase in SDL issuance has been led by Maharashtra, Karnataka, Tamil Nadu, Rajasthan, Telangana, Andhra Pradesh and Madhya Pradesh



Source: RBI; ICRA Research

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