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STATE GOVERNMENT FINANCES – Weekly SDL

Spread between 10-year SDL and
G-sec remains eased to four-week
low 93 bps, while remaining
elevated

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SUMMARY

Fourteen states raised Rs. 222 billion through SDLs today, a quarter of which was issued by UP

Weighted average cut-off for 10-year SDLs eased to 7.14% from 7.18% last week

10-year G-sec yield declined to 6.21% from 6.24% on last Tuesday

Spread between 10-year SDLs and G-sec narrowed to 93 bps from 95 bps last week

Weighted average cut-off of SDLs increased to 7.09% today from 6.92% last week, with a rise in the weighted average tenor to 12 years from 10 years

Gross SDL issuance expected to cross Rs. 8 trillion in FY2021

Fourteen state governments raised Rs. 222 billion through state development loans (SDLs) on March 9, 2021, 28.3% lower than the amount initially indicated for this week and a mild 1.0% lower than the year-ago level. Nevertheless, in FY2021 (till March 9, 2021), the cumulative SDL issuance stands at Rs. 7,368 billion, around 30% higher than the year-ago level. With three auctions left in March 2021, we expect total gross SDL issuance to exceed Rs. 8 trillion in FY2021.

In today's auction, Rs. 110 billion or ~50% of the issuance was in the 10-year bucket (half of which was accounted for by Uttar Pradesh or UP), Rs. 71 billion or ~32% was in the 12-30-year bucket, and the balance Rs. 41 billion (~18%) was issued in 3-8-year tenors. The inter-state spread in the 10-year SDLs increased to 10 bps (10-year Gujarat SDL at 7.08% and 10-year Sikkim SDL at 7.18%) in today's auction from 8 bps last week.

The weighted average cut-off of the 10-year SDLs eased to 7.14% on March 9, 2021 from 7.18% last week. This is somewhat sharper than the decline in the yield of the 10-year benchmark 5:85 GS 2030 to 6.21% today from 6.24% last Tuesday, leading to the spread between them narrowing to a four-week low 93 bps from 95 bps, respectively.

The weighted average cut-off of more than 10-year SDLs eased to 7.25% on March 9, 2021 from 7.27% last Tuesday. However, the weighted average cut-off of the less than 10-year SDLs rose sharply by 44 bps to 6.69% on March 9, 2021 from 6.25% last week. Within the less than 10-year SDL, nearly 75% of the amount was raised through the 7-8-year segment at a cut-off of 7.02% in today's auction compared to around 50% of the issuance in the same segment last Tuesday at a similar cut-off of 7.02%. Nearly 25% of the SDLs in the less than 10-year SDLs were issued in the 3-4-year segment today at a cut-off of 5.42-5.93% compared to around 50% of the issuance in the 2-3-year bucket with a cut-off of 4.94-5.52% last Tuesday. Overall, the weighted average cut-off of SDLs rose by 17 bps to 7.09% from 6.92% last week, with the weighted average tenor increasing to 12 years from 10 years.

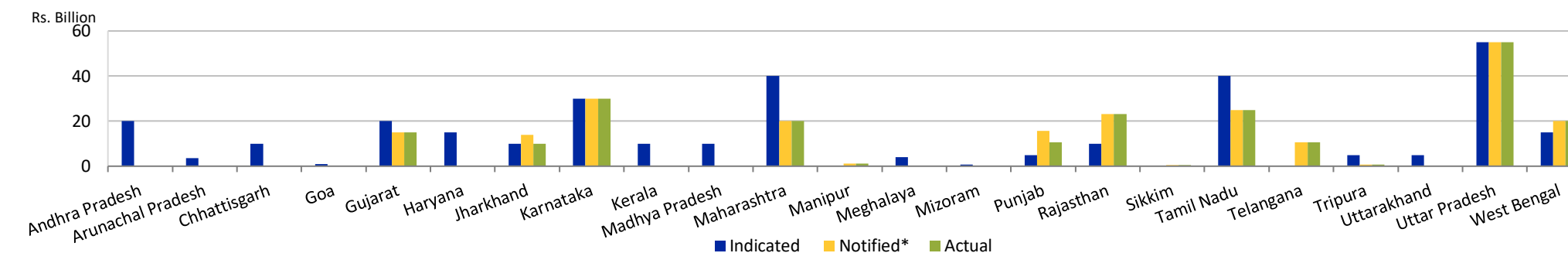
Exhibit 1: Fourteen state governments raised Rs. 231 billion through SDLs in the auction held on March 9, 2021, 28.3% lower than the initially indicated amount and a mild 1.0% lower than the year-ago level

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of March 9, 2021	309	231	222	7,368
Week of March 9, 2020	199	225	224	5,675
Growth	55.4%	2.4%	-1.0%	29.8%

Note: *Including green shoe

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

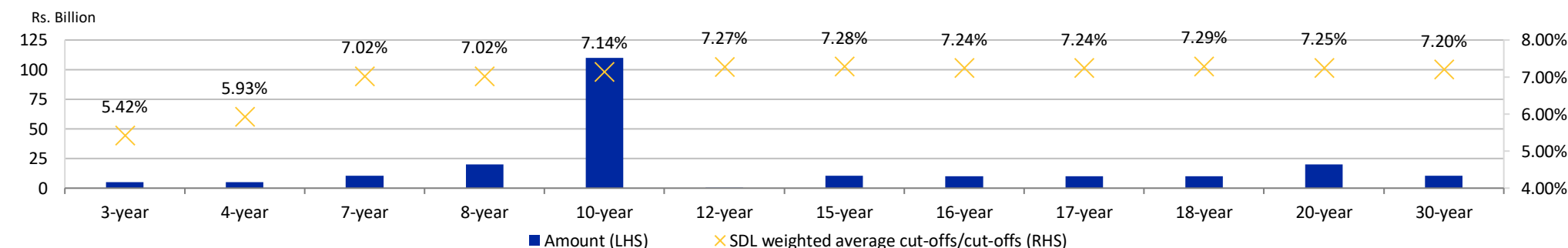
Exhibit 2: Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Goa, Haryana, Kerala, Madhya Pradesh, Meghalaya and Uttarakhand had initially indicated that they would together raise Rs. 78 billion SDLs on March 9, 2021, but did not participate in today's auction; Gujarat, Maharashtra, Mizoram, Tamil Nadu and Tripura together borrowed Rs. 45 billion less than initially indicated in today's auction; in contrast, Punjab, Rajasthan and West Bengal together borrowed an additional Rs. 24 billion SDLs compared to the amount that they had initially indicated; Manipur, Sikkim and Telangana had initially indicated that they would not participate in today's auction but have together borrowed Rs. 12 billion SDLs



Note: *Including green shoe

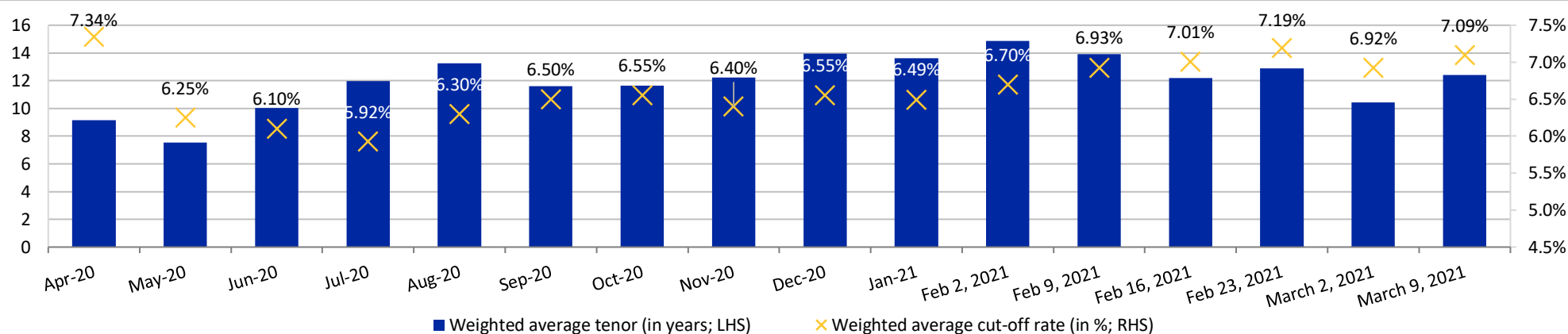
Source: RBI; ICRA research

Exhibit 3: In today's auction, Rs. 110 billion or ~50% of the issuance was in the 10-year bucket (half of which was raised by UP), Rs. 71 billion or ~32% was in the 12-30-year bucket, and the balance Rs. 41 billion (~18%) was issued in 3-8-year tenors; the weighted average cut-off of the 10-year SDLs and more than 10-year SDLs eased by 4 bps and 2 bps, respectively, to 7.14% and 7.25% respectively on March 9, 2021 relative to last week; however, the weighted average cut-off of the less than 10-year SDLs rose sharply by 44 bps to 6.69% on March 9, 2021 from 6.25% last week



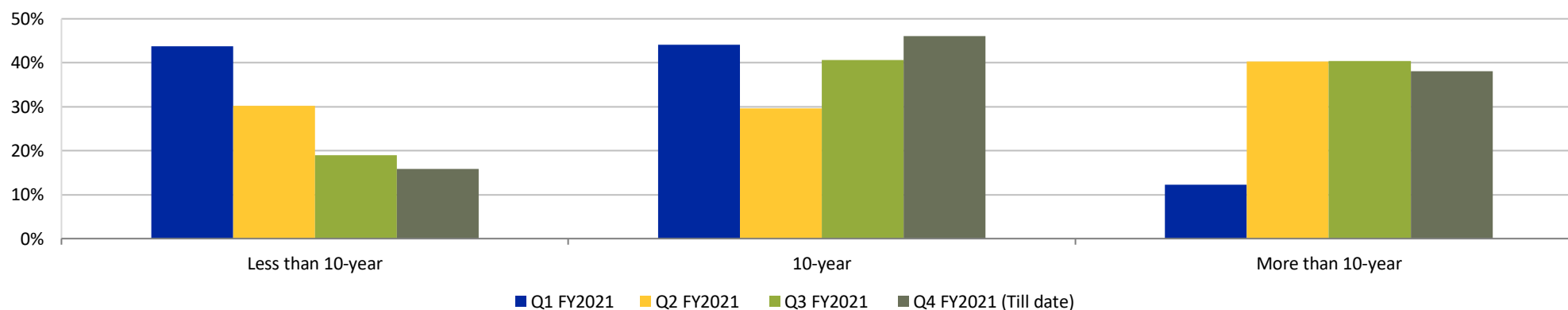
Source: RBI; ICRA research

Exhibit 4: The weighted average cut-off of SDLs rose by 17 bps to 7.09% from 6.92% last week, with the weighted average tenor increasing to 12 years from 10 years



Source: RBI; ICRA research

Exhibit 5: In Q4 FY2021 (till March 9, 2021), the share of issuances in the 10-year bucket has risen to a high 46.0%, that of longer-term issuances has declined mildly to 38.1%, while the share of shorter tenor issuances has dipped to 15.8%



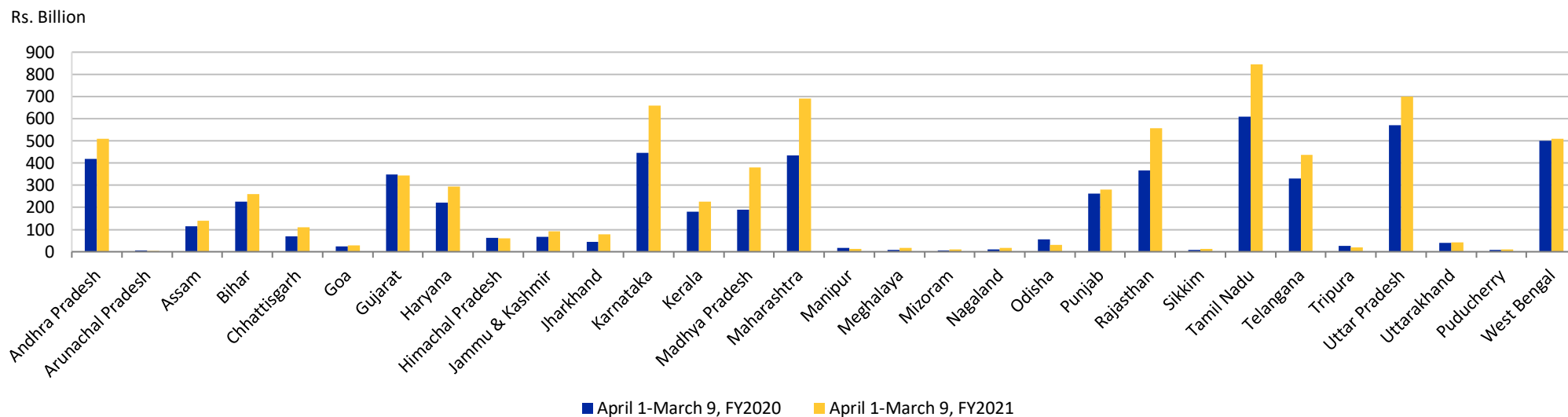
Source: RBI; ICRA Research

Exhibit 6: The 10-year G-sec yield (05:85 GS 2030) declined to 6.21% today from 6.24% last Tuesday; accordingly, the spread between the 10-year SDLs and G-sec narrowed to a four-week low 93 bps on March 9, 2021 from 95 bps last week, while remaining elevated; with the issuance of 10-year Gujarat SDL at 7.08% and 10-year Sikkim SDL at 7.18%, the inter-state spread in the 10-year SDLs increased to 10 bps from 8 bps last week

10-year SDL cut-offs	Feb 2, 2021	Feb 9, 2021	Feb 16, 2021	Feb 23, 2021	March 2, 2021	March 9, 2021
Assam		6.98%	7.07%	7.24%	7.17%	
Goa	6.85%			7.20%		
Gujarat			6.93%	7.07%		7.08%
Jammu and Kashmir	6.99%					
Madhya Pradesh			7.03%	7.24%		
Maharashtra				7.08%		
Manipur	6.88%					7.18%
Meghalaya					7.17%	
Nagaland			7.05%			
Punjab		7.05%			7.23%	
Rajasthan	6.85%	6.95%	7.05%		7.15%	7.13%
Sikkim				7.19%		7.18%
Tamil Nadu		6.95%	6.95%	7.17%	7.16%	7.12%
Uttar Pradesh	6.88%	6.94%	7.08%	7.20%	7.19%	7.17%
West Bengal			7.05%			
Weighted Average 10-year SDL cut-offs (A)	6.89%	6.96%	7.03%	7.19%	7.18%	7.14%
Minimum 10-year SDL cut-off	6.85%	6.94%	6.93%	7.07%	7.15%	7.08%
Maximum 10-year SDL cut-off	6.99%	7.05%	7.08%	7.24%	7.23%	7.18%
10-year G-sec closing yield (B)	6.13%	6.08%	6.02%	6.17%	6.24%	6.21%
Spread (A-B)	76 bps	88 bps	101 bps	101 bps	95 bps	93 bps

Source: RBI; ICRA research

Exhibit 7: 28 state governments and two Union Territories (UTs) have raised Rs. 7,368 billion during April 1 – March 9, FY2021, a YoY rise of 29.8%; nearly 72% of the increase in SDL issuance has been led by Maharashtra, Tamil Nadu, Karnataka, Madhya Pradesh, Rajasthan and Uttar Pradesh; the cumulative SDL issuance stands at Rs. 1,809 billion so far in Q4 FY2021, nearly 25% lower than the amount initially indicated for this period (Rs. 2,405 billion)



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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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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