

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cut-off SDLs rises
by 5 bps to 6.89% today with the
increase in tenor to 11 years**

AUGUST 24, 2021





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Seven state governments raised Rs. 112 billion SDLs, ~8% lower than the Rs. 122 billion indicated for this week

Spread between the 10-year SDLs and new 10-year G-sec eased to 73 bps today from 74 bps last week

Weighted average cut-off of SDLs rose by 5 bps to 6.89% in today's auction, with the weighted average tenor increasing to 11 years

Seven state governments raised Rs. 112 billion through state development loans (SDLs) on August 24, 2021, a modest 8% lower than the indicated Rs. 122 billion. Moreover, the SDL issuance today was a sharp 19.1% lower than the year-ago level of Rs. 139 billion.

Out of the 10 state governments that had initially indicated that they would borrow in this week, Haryana (Rs. 10 billion), Punjab (Rs. 5 billion) and Telangana (Rs. 10 billion) did not participate in today's auction. In contrast, Kerala borrowed Rs. 25 billion SDLs today, higher than the Rs. 10 billion that it had initially indicated for this week.

Following the release of Rs. 750 billion goods and services tax (GST) compensation loan by the Government of India to the state governments on July 15, 2021, the SDL issuances have remained lower-than-indicated for the sixth consecutive week.

Cumulatively, 24 state governments/Union Territory (except Himachal Pradesh, Jharkhand, Karnataka, Odisha, Tripura and Puducherry) have borrowed Rs. 2,382 billion SDLs so far in FY2022, 12.0% lower than the year-ago (Rs. 2,705 billion) level.

In today's auction, Rs. 82 billion or ~73% of the total issuance was raised in the 10-year bucket, Rs. 20 billion or ~18% of the total issuance was borrowed in shorter tenor and the remaining Rs. 10 billion (~9% of the total issuance) was raised in a 30-year paper.

The weighted average cut-off of 10-year SDLs rose by 1 bp to 6.98% on August 24, 2021 from 6.97% last week. The new 10-year G-sec (6.10% GS 2031) yield closed at 6.25% today, 2 bps higher than last week. Accordingly, the spread between the 10-year weighted average SDL and the new G-sec yield declined mildly to 73 bps today from 74 bps last week.

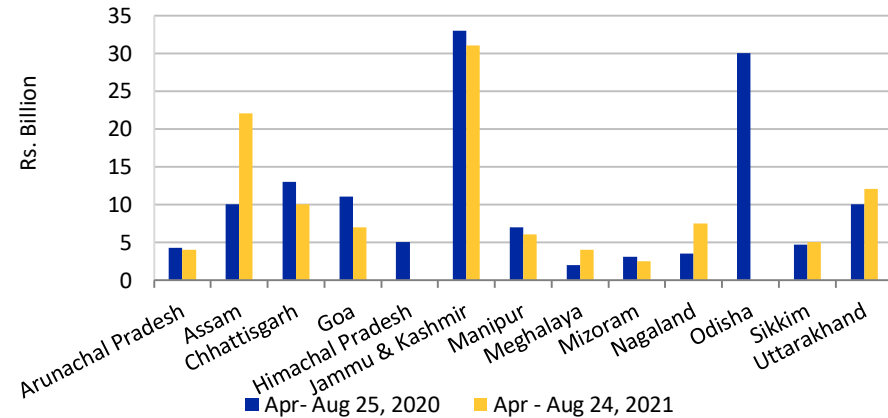
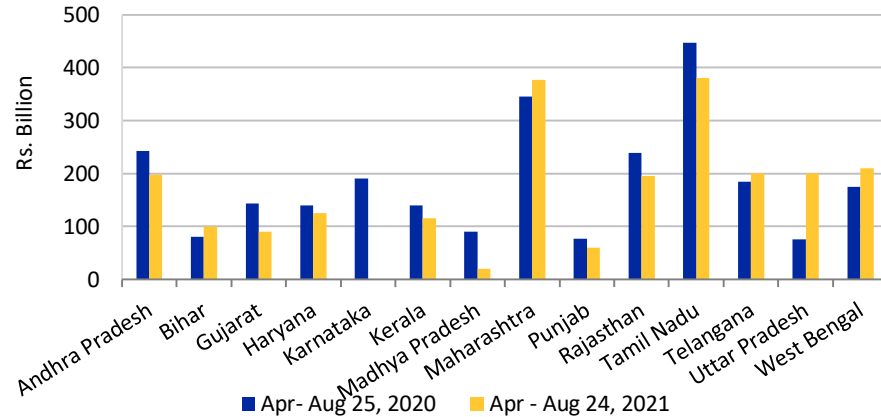
The weighted average cut-off of the aggregate SDL issuance rose by 5 bps to 6.89% today from 6.84% last week, with the weighted average tenor of SDLs increasing to 11 years from nine years.

SDL issuance declined by 12.0% during April-Aug 24, 2021 on a YoY basis; state wise trend mixed, with lower YoY borrowings by 17 states/UT

Exhibit: SDL issuances during April 8-Aug 24, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Aug 24, 2021	122	112	112	2,382
Week of Aug 25, 2020	201	139	139	2,705
Growth	-39.3%	-19.1%	-19.1%	-12.0%

Exhibit: Cumulative SDL issuance during April 8-Aug 24, 2021

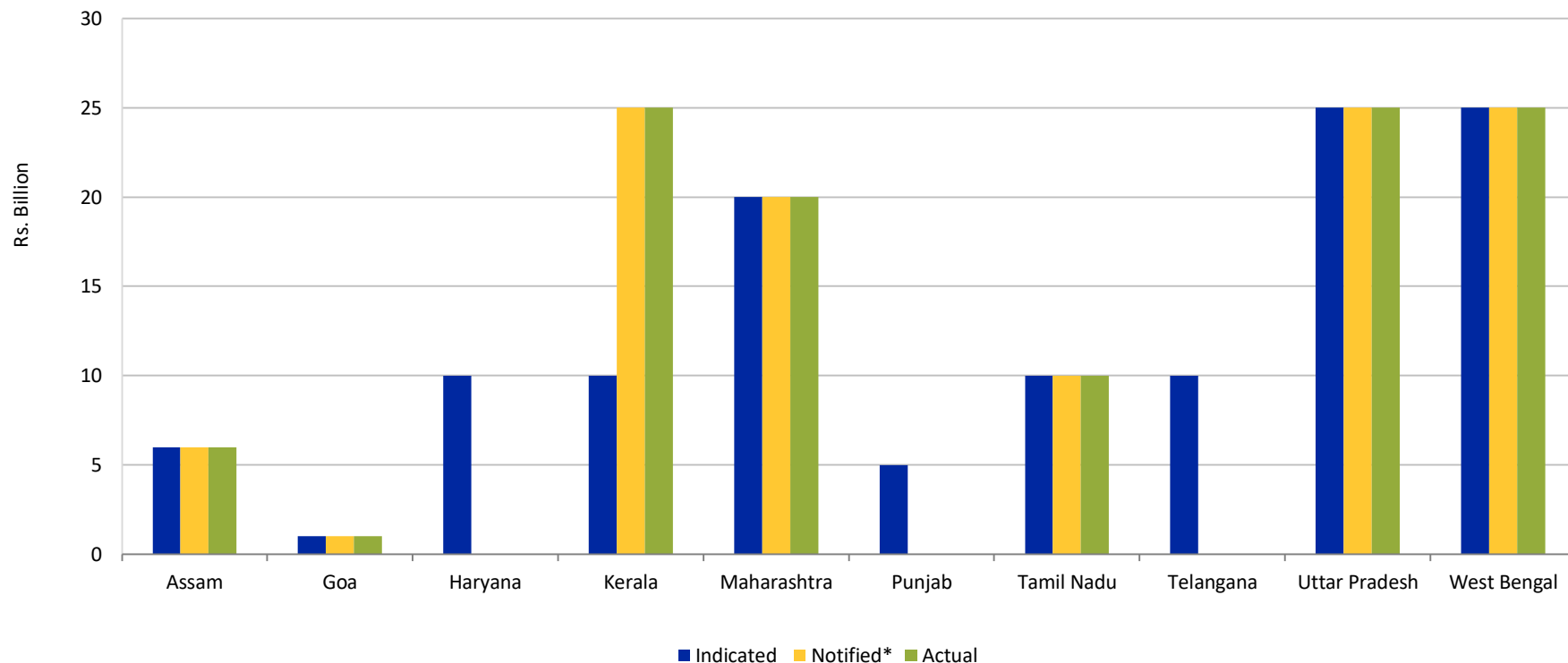


Note: *Including green shoe

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

Haryana, Punjab and Telangana chose not to borrow today in contrast to what they had initially indicated

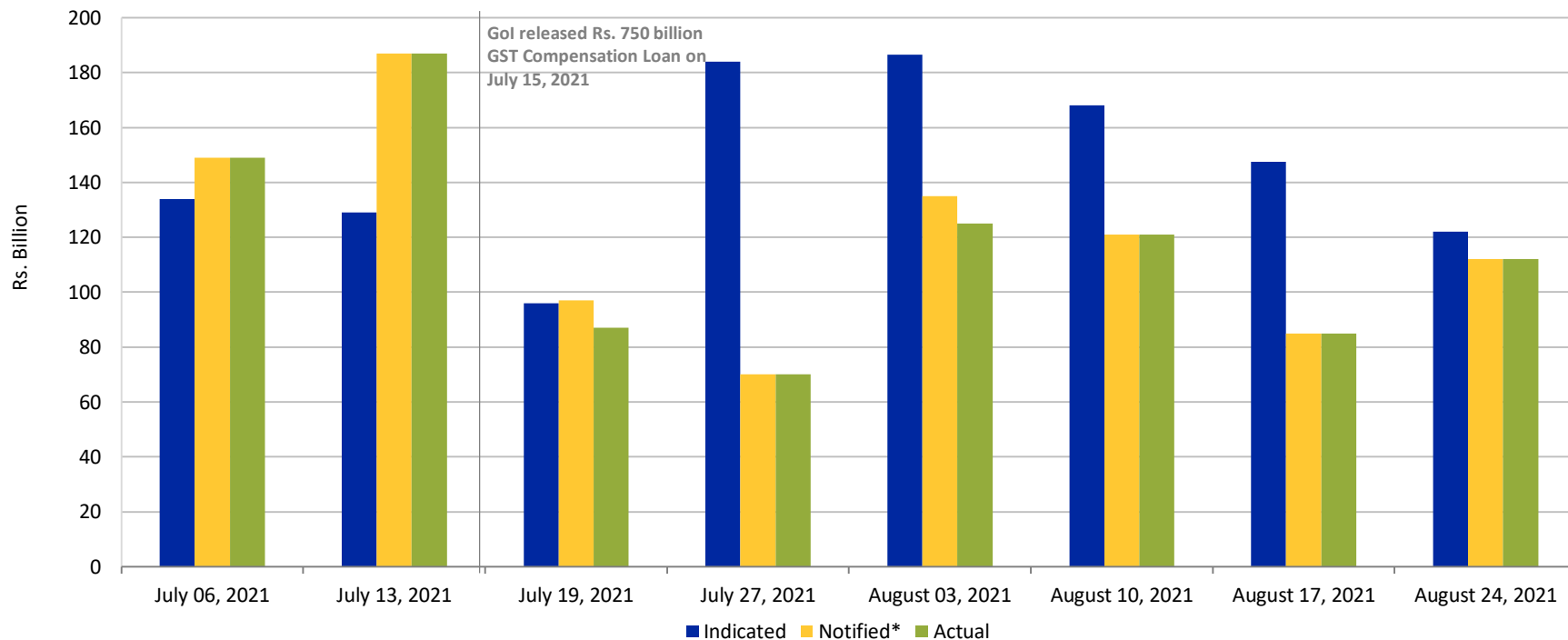
Exhibit: State-wise indicated, notified and actual SDL issuance on Aug 24, 2021



Note: *Including green shoe
Source: RBI; ICRA research

SDL issuance remains lower-than-indicated since the release of GST compensation back-to-back loan

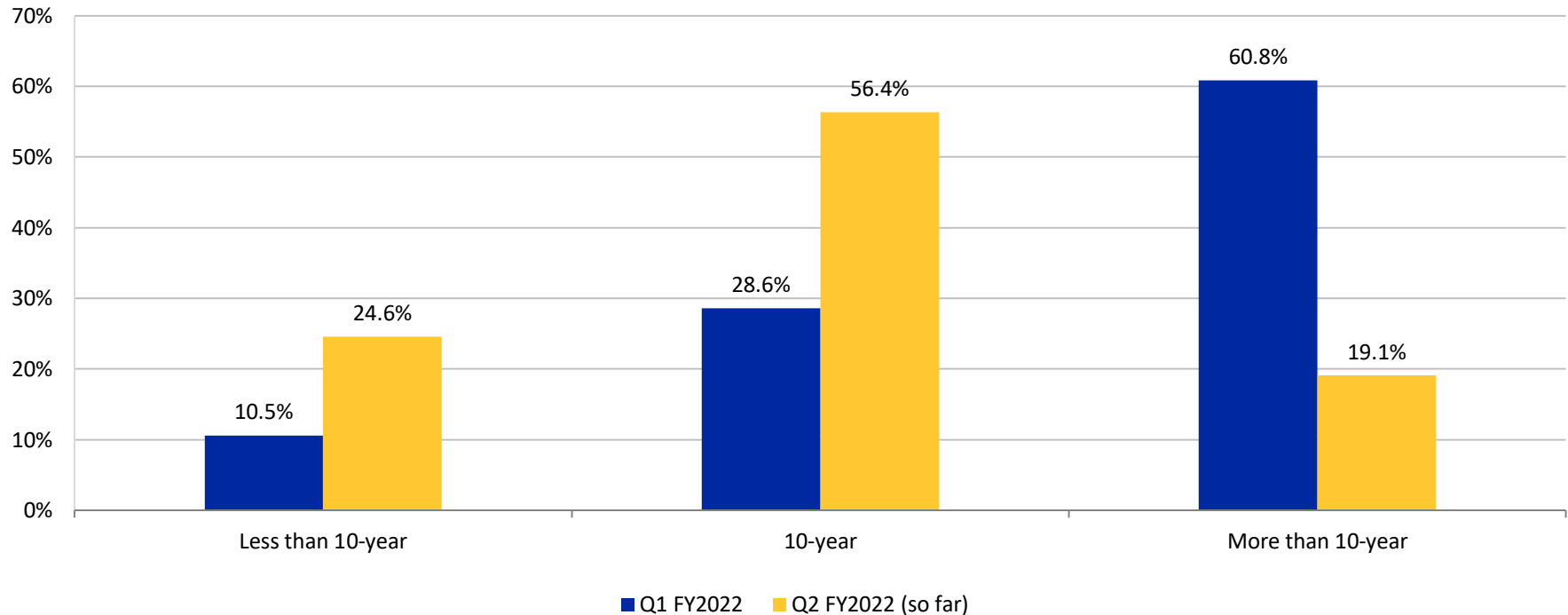
Exhibit: Indicated, notified and actual SDL issuances in Q2 FY2022 (so far)



Note: *Including green shoe
Source: RBI; ICRA research

Sharp rise in share of shorter tenor and 10-year issuances in Q2 FY2022 (so far), relative to Q1 FY2022

Exhibit: Classification of SDL issuance in FY2022 (so far)



Weighted average cut-off of SDLs rose to 6.89% today from 6.84% last week, with 30-year issuance elongating the weighted average tenor

Exhibit: Tenor-wise SDL issuances and cut-offs on Aug 24, 2021

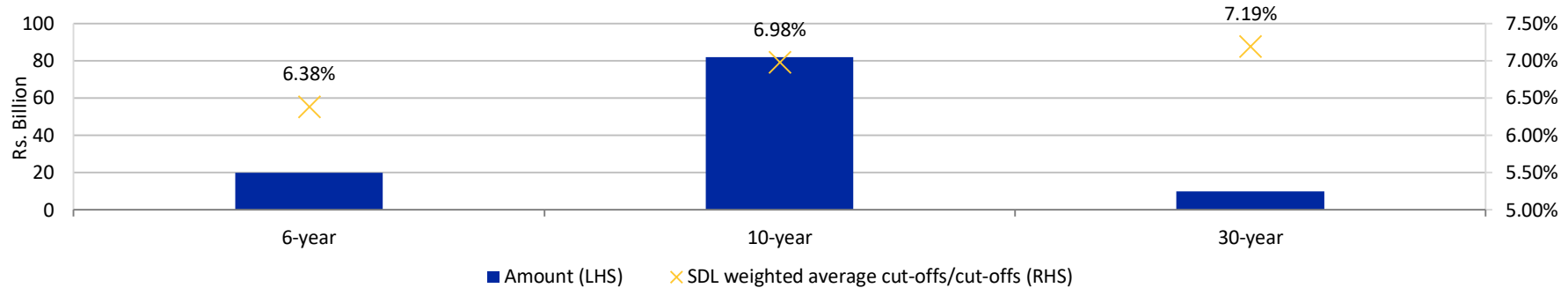
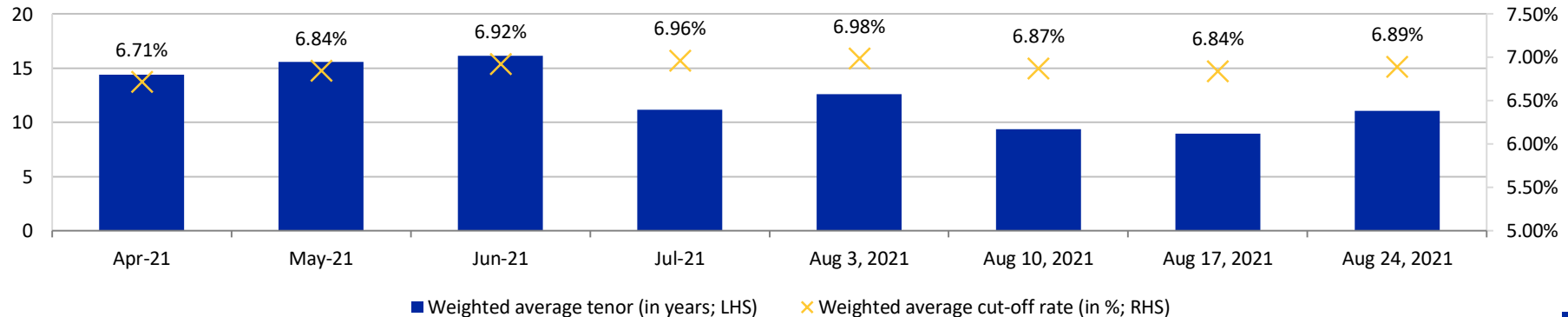


Exhibit: Weighted average cut-off and tenor of SDLs during April- Aug 24, 2021



Spread between the 10-year SDLs and new G-sec eased to 73 bps on August 24, 2021 from 74 bps last week

Exhibit: 10-year SDL and G-sec cut-offs

10-year SDL cut-offs	July 27, 2021	Aug 3, 2021	Aug 10, 2021	Aug 17, 2021	Aug 24, 2021
Assam				6.97%	6.98%
Goa			6.99%		6.97%
Gujarat			6.98%		
Haryana		6.98%			
Kerala					6.97%
Nagaland				6.97%	
Punjab				6.97%	
Tamil Nadu	6.97%	6.98%	7.00%	6.97%	6.95%
Uttar Pradesh	6.99%		7.02%	6.97%	6.98%
West Bengal		7.00%			6.99%
Weighted Average 10-year SDL cut-offs (A)	6.98%	6.98%	7.00%	6.97%	6.98%
Minimum 10-year SDL cut-off	6.97%	6.98%	6.98%	6.97%	6.95%
Maximum 10-year SDL cut-off	6.99%	7.00%	7.02%	6.97%	6.99%
10-year G-sec closing yield (B)	6.18%	6.20%	6.23%	6.23%	6.25%
Spread (A-B)	80 bps	78 bps	77 bps	74 bps	73 bps



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