

STATE GOVERNMENT FINANCES- Weekly SDL

**Yields soften across tenors, even as
issuance exceeds indicative and
year-ago level**

AUGUST 31, 2021





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12 state governments/UT raised Rs. 164 billion SDLs, ~21% higher than the Rs. 135 billion indicated for this week

Spread between the 10-year SDLs and new 10-year G-sec eased to 70 bps today from 73 bps last week

Weighted average cut-off of SDLs declined by a sharp 13 bps to 6.76% in today's auction, despite a mild rise in weighted average tenor to 12 years from 11 years

Eleven state governments and one Union Territory (UT) raised Rs. 164 billion through state development loans (SDLs) on August 31, 2021, a sharp ~21% higher than the previously indicated Rs. 135 billion, reversing the trend of lower-than-indicated borrowings in the preceding six auctions. Moreover, the SDL issuance today was 18.1% higher 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, Chhattisgarh (Rs. 10 billion), Maharashtra (Rs. 15 billion) and Tamil Nadu (Rs. 10 billion) did not participate in today's auction and Andhra Pradesh borrowed Rs. 5 billion less than initially indicated. In contrast, Punjab borrowed Rs. 13 billion SDLs today, higher than the Rs. 10 billion that it had initially indicated for this week. Moreover, Kerala (Rs. 35 billion), West Bengal (Rs. 15 billion), Haryana (Rs. 10 billion), Telangana (Rs. 10 billion) and Jammu & Kashmir (Rs. 6 billion), raised Rs. 76 billion today, even though they had originally not indicated that they would participate in this auction.

In today's auction, Rs. 81 billion or ~50% of the total issuance was raised in longer tenor issuances, Rs. 43 billion or ~26% of the issuance was in the 10-year bucket and the remaining Rs. 40 billion (~24% of the total issuance) was raised in shorter tenors. The weighted average cut-off of 10-year SDLs declined by 6 bps to 6.92% on August 31, 2021 from 6.98% last week. The new 10-year G-sec (6.10% GS 2031) yield softened by 3 bps to 6.22% today from 6.25% last week, benefitting from the comments of the Chairman of the US Federal Reserve on August 27, 2021, that suggested that rate hikes remain distant even as the commencement of tapering of bond purchases in CY2021 is imminent. Accordingly, the spread between the 10-year weighted average SDL and the new G-sec yield declined to 70 bps today from 73 bps last week, lowest since April 19, 2021.

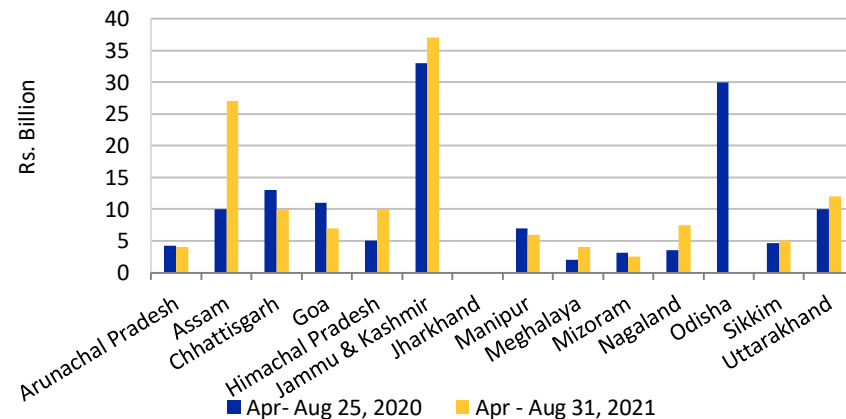
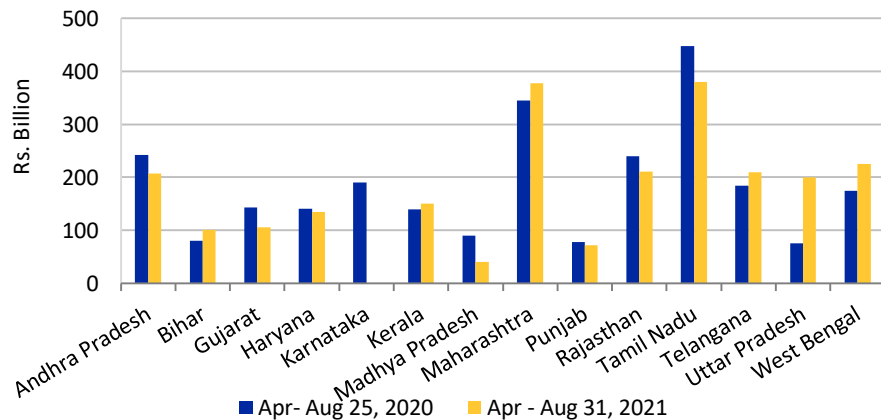
Weighted average cut-off of shorter and longer tenor SDLS eased by 41 bps (to 5.97% from 6.38%) and 13 bps (to 7.06% from 7.19%), respectively on August 31, 2021 from last week. With the softening of yields across tenors, and the curve being quite flat at the longer end, the weighted average cut-off of the aggregate SDL issuance declined by a sharp 13 bps to 6.76% today from 6.89% last week, despite a mild increase in weighted average tenor of SDLs to 12 years from 11 years.

18% expansion in SDL issuance today moderates YoY decline in cumulative issuance to ~6% during Apr-Aug 2021

Exhibit: SDL issuances during April 8-Aug 31, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Aug 31, 2021	135	166	164	2,545
Week of Aug 25, 2020	201	139	139	2,705
Growth	-32.8%	19.9%	18.1%	-5.9%

Exhibit: Cumulative SDL issuance during April 8-Aug 31, 2021

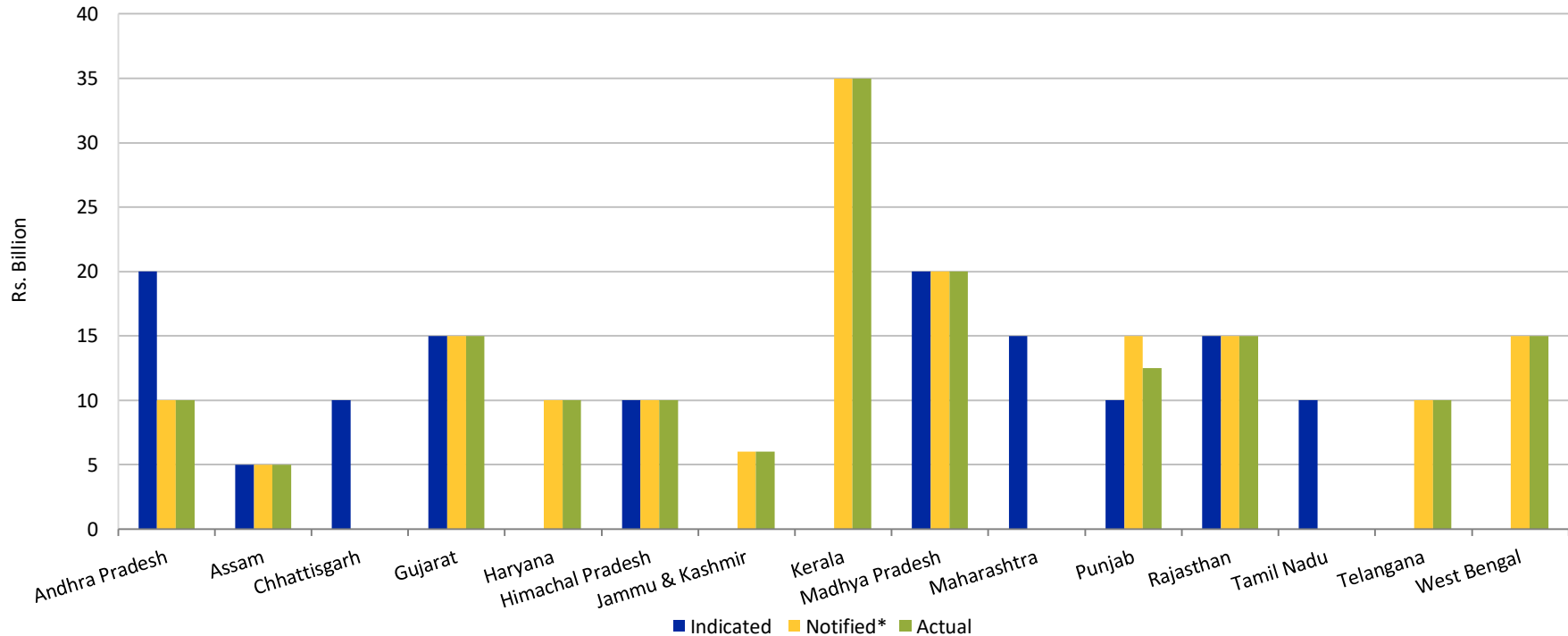


Note: *Including green shoe

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

Kerala, West Bengal, Telangana, Haryana, and Jammu & Kashmir, borrowed Rs. 76 billion, although they had initially not indicated their participation in this auction

Exhibit: State-wise indicated, notified and actual SDL issuance on Aug 31, 2021

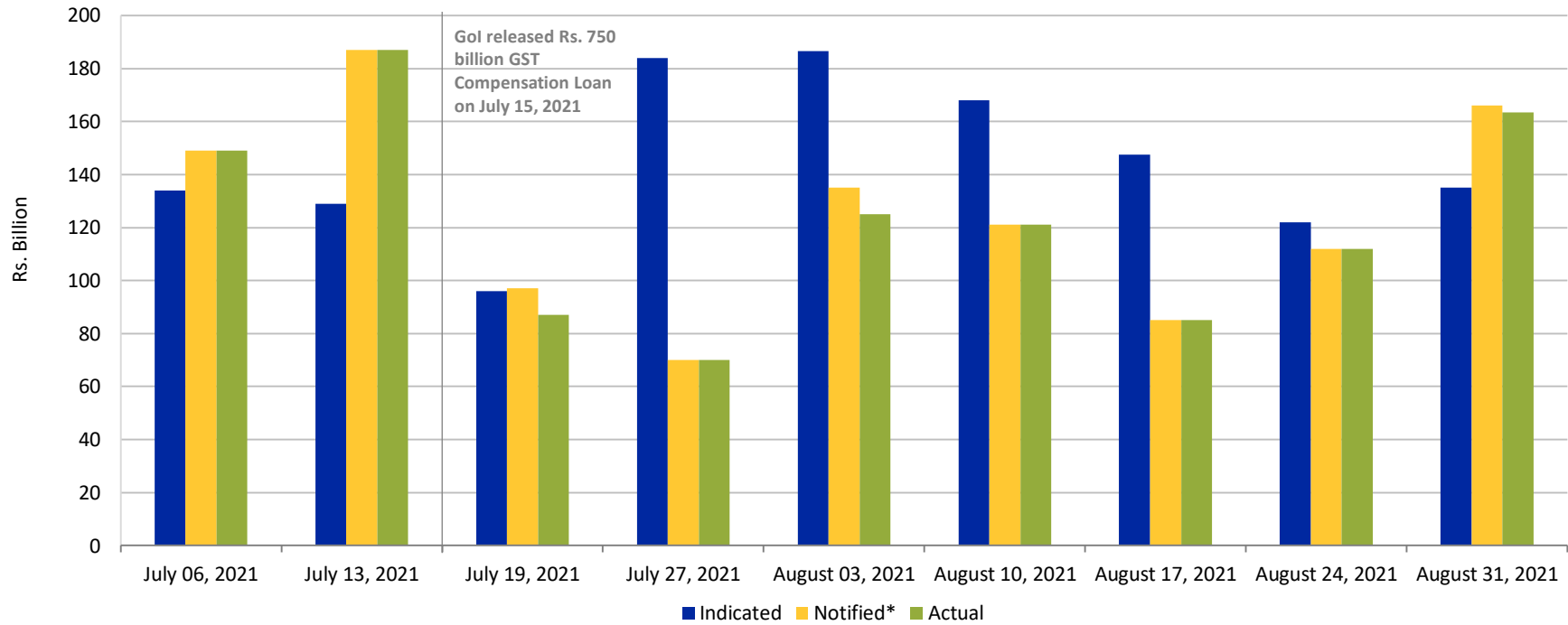


Note: *Including green shoe

Source: RBI; ICRA research

SDL issuance was higher than indicated today, after trailing the indicative amount in the preceding six auctions

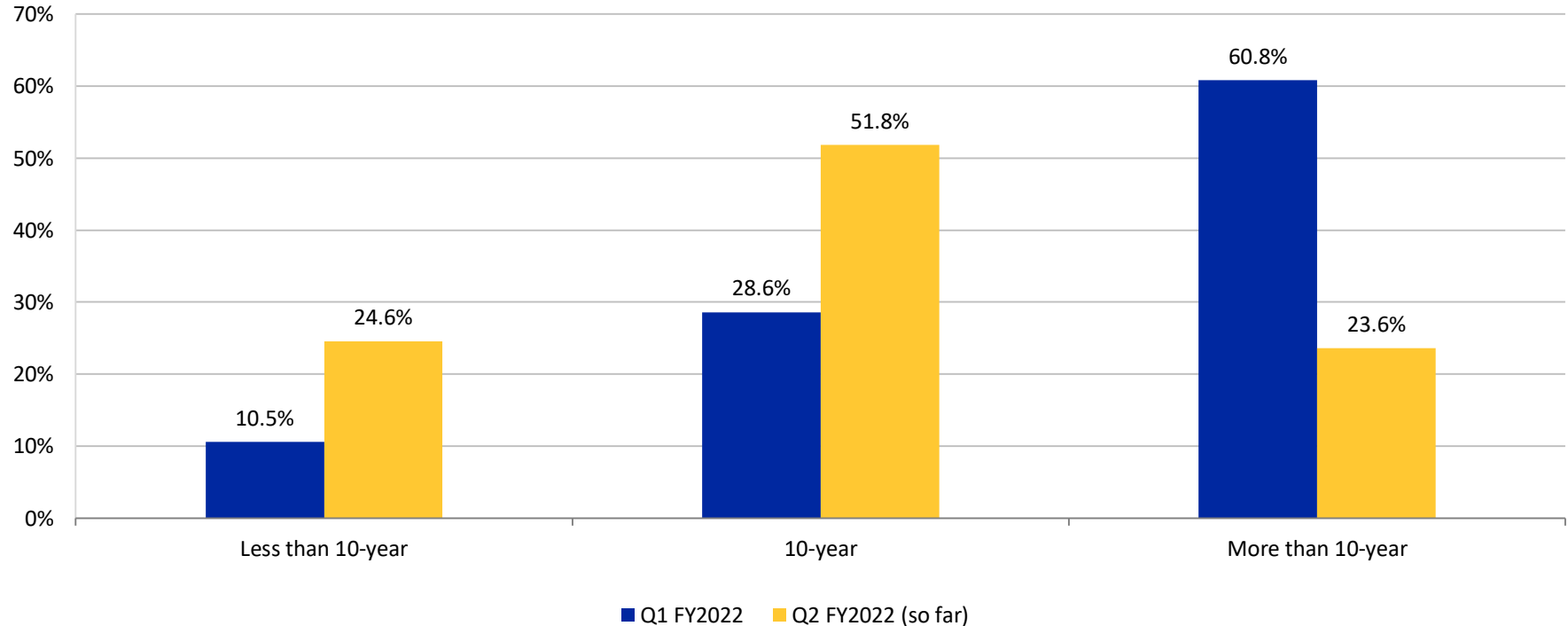
Exhibit: Indicated, notified and actual SDL issuances in Q2 FY2022 (so far)



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

Despite the high share of longer tenor issuances today, their share in total issuances has declined considerably in Q2 FY2022 (so far), relative to Q1 FY2022

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



Weighted average cut-off of SDLs eased to 6.76% today from 6.89% last week, reflecting softening yields across tenors

Exhibit: Tenor-wise SDL issuances and cut-offs on Aug 31, 2021

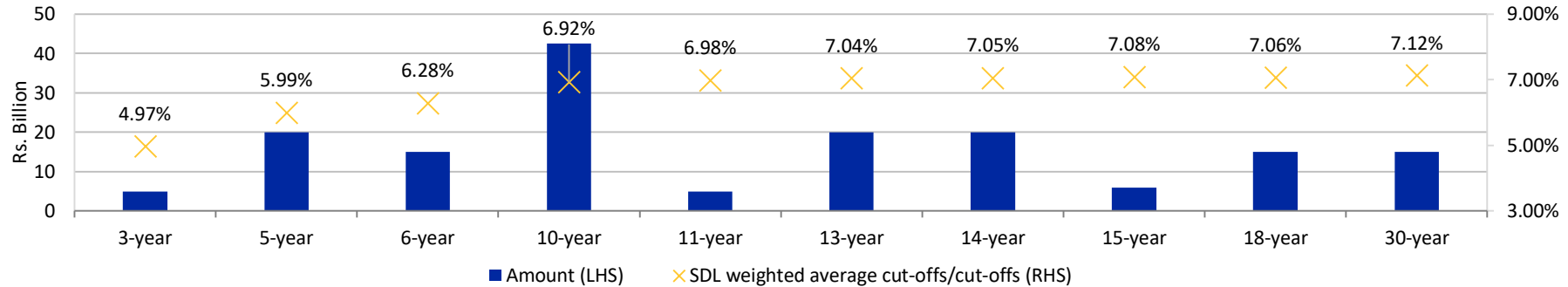
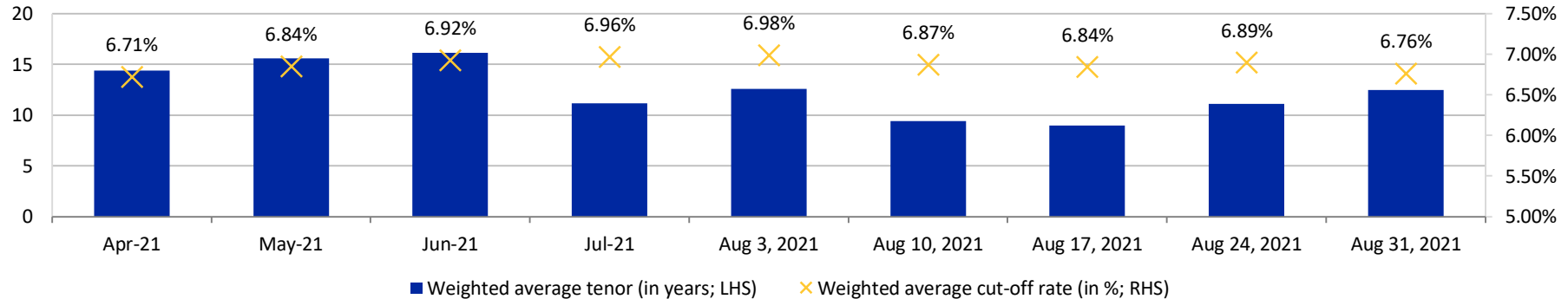


Exhibit: Weighted average cut-off and tenor of SDLs during April- Aug 31, 2021



Spread between the 10-year SDLs and new G-sec compressed to 70 bps on August 31, 2021 from 73 bps last week, lowest since April 19, 2021 auction

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

10-year SDL cut-offs	Aug 3, 2021	Aug 10, 2021	Aug 17, 2021	Aug 24, 2021	Aug 31, 2021
Assam			6.97%	6.98%	
Goa		6.99%		6.97%	
Gujarat		6.98%			
Haryana	6.98%				6.87%
Himachal Pradesh					6.93%
Kerala				6.97%	
Nagaland			6.97%		
Punjab			6.97%		6.96%
Rajasthan					6.91%
Tamil Nadu	6.98%	7.00%	6.97%	6.95%	
Uttar Pradesh		7.02%	6.97%	6.98%	
West Bengal	7.00%			6.99%	
Weighted Average 10-year SDL cut-offs (A)	6.98%	7.00%	6.97%	6.98%	6.92%
Minimum 10-year SDL cut-off	6.98%	6.98%	6.97%	6.95%	6.87%
Maximum 10-year SDL cut-off	7.00%	7.02%	6.97%	6.99%	6.96%
10-year G-sec closing yield (B)	6.20%	6.23%	6.23%	6.25%	6.22%
Spread (A-B)	78 bps	77 bps	74 bps	73 bps	70 bps



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