

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cut-off of 10-year
SDLs rises above 7%**

December 28, 2021





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14 state governments and 2 UTs raised Rs. 242 billion SDLs, ~3% higher than the indicated level for this week

Cut-off of 10-year SDL yield today crossed above 7%

Spread with the 10-year SDL yield widened to 55 bps today from 50 bps last Tuesday

In the largest auction so far in FY2022, 14 state governments and two Union Territories (UTs) raised Rs. 242 billion through state development loans (SDLs) on December 28, 2021, ~3% higher than what had been indicated in the auction calendar for this quarter (Rs. 235 billion). Four states/UT borrowed Rs. 39 billion SDLs even though in the quarterly auction calendar they had not indicated participation in today's auction. Additionally, four states raised Rs. 51 billion more SDLs than the amount mentioned in the auction calendar. In contrast, four states did not participate in today's auction even though they had initially indicated they would borrow Rs. 69 billion and two states borrowed Rs. 13 billion less SDLs than what they had indicated.

Moreover, today's SDL issuance was 28.5% higher than the year-ago borrowing (Rs. 189 billion). Cumulatively, 29 state governments/UTs (except Odisha) have raised Rs. 4,663 billion SDLs during Apr-Dec 28, 2021, 16.1% lower than the same period last year (Rs. 5,559 billion).

In today's auction, Rs. 141 billion (~58% of the issuance) was raised in the longer tenor SDLs, Rs. 88 billion (~36%) in the 10-year bucket and the balance Rs. 14 billion (~6%) was borrowed in shorter tenor SDLs. The weighted average tenor of SDLs in today's auction was 12 years in line with last Tuesday, while the weighted average cut-off rose by 4 bps to 7.05% from 7.01%.

The weighted average cut-off of the 10-year SDLs increased by 7 bps to 7.03% today. The benchmark 10-year Government of India security (G-sec; 6:10 GS 2031) yield rose by 1 bp to 6.48% from 6.47% last Tuesday, amid weak demand for G-secs as indicated by the devolvement of a substantial portion of the G-sec by the RBI in last Friday's auction. Sentiment in the bond market remained weak, reflecting several factors including the recent increase in global crude oil prices, faster domestic liquidity absorption etc. Accordingly, the spread between the 10-year weighted average SDL and G-sec yield rose to 55 bps from 50 bps, respectively.

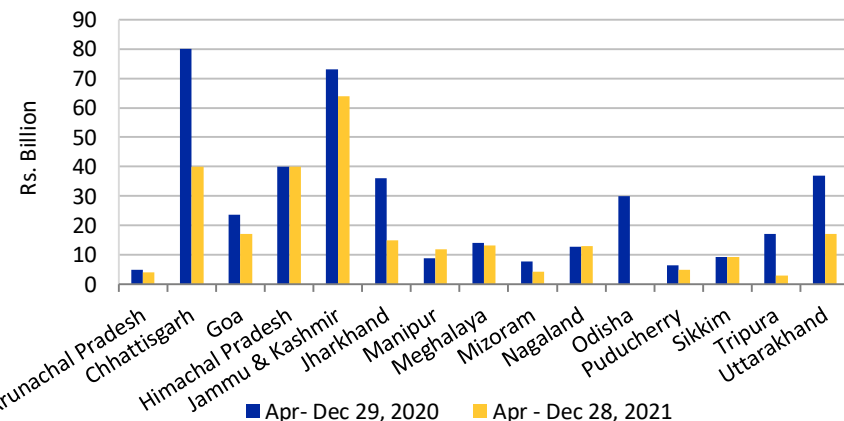
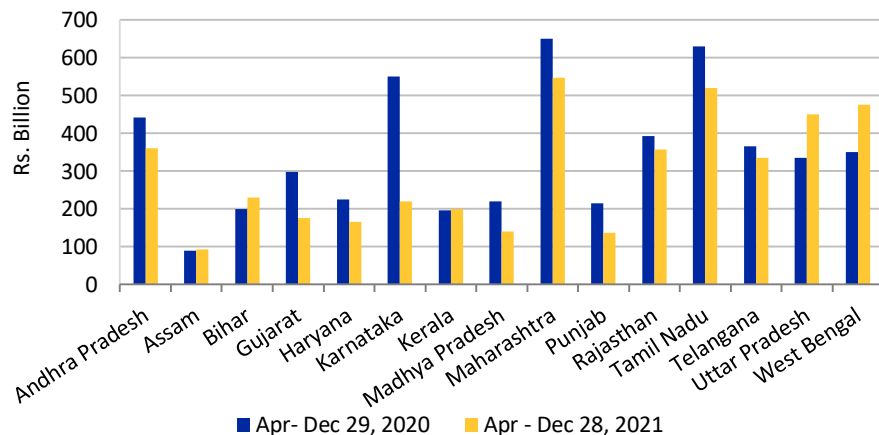
Separately, the usage of Ways and Means Advances (WMA) facilities by the state governments/UTs from the RBI declined to 150 days in October 2021 from 188 days in September. Nevertheless, some states such as Andhra Pradesh, Jammu & Kashmir, Manipur and Telangana have repeatedly utilised the WMA facility from the RBI for more than 25 days per month, in several months in FY2022 so far.

SDL issuance declined by 16.1% during April-Dec 28, 2021 on a YoY basis, led by 21 states/UTs

Exhibit: SDL issuances during April 8-Dec 28, 2021

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of Dec 28, 2021	235	253	242	4,663
Week of Dec 29, 2020	131	189	189	5,559
Growth	80.2%	34.4%	28.5%	-16.1%

Exhibit: Cumulative SDL issuance during April 8-Dec 28, 2021

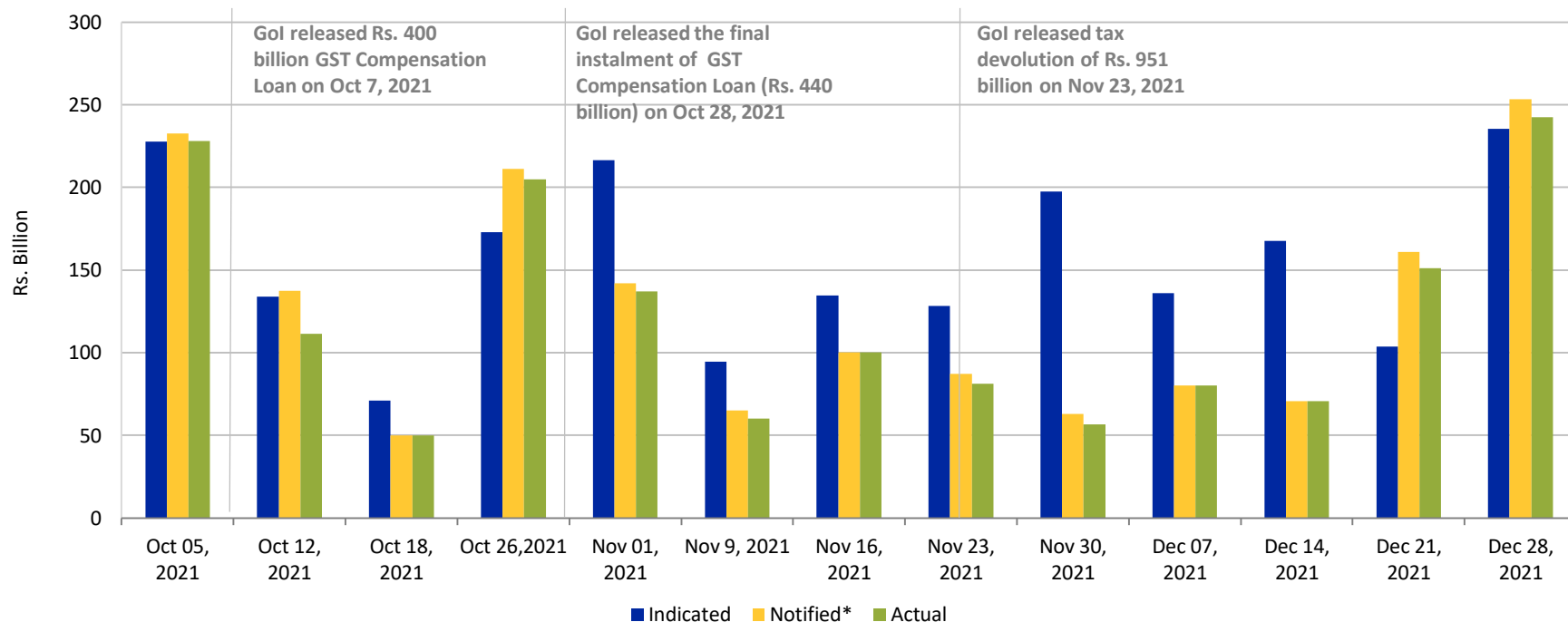


Note: *Including green shoe

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

SDL issuance today was 3% higher-than-indicated for the week

Exhibit: Indicated, notified and actual SDL issuances in Q3 FY2022

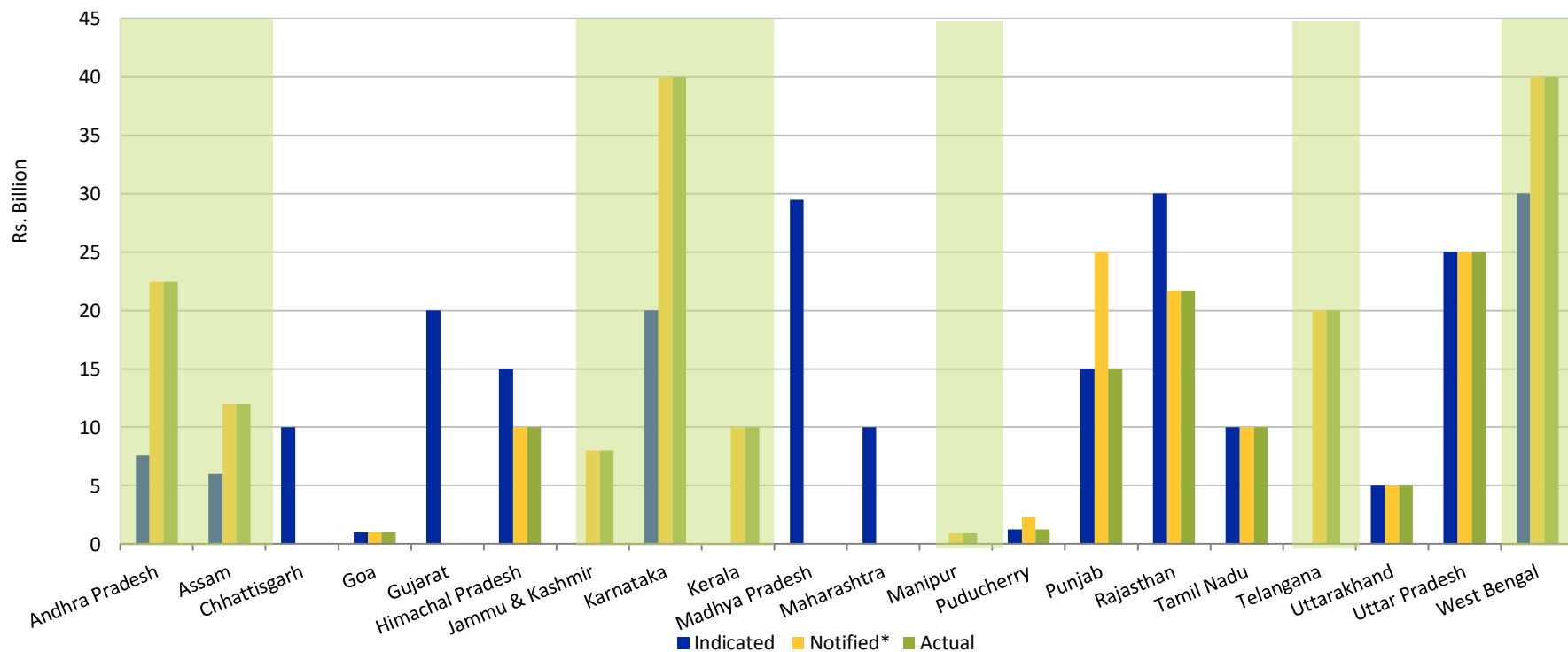


Note: *Including green shoe

Source: RBI; ICRA Research

Eight states/UT borrowed higher-than-indicative Rs. 90 billion SDLs today, out of these four states/UT had not indicated their participation in the auction calendar

Exhibit: State-wise indicated, notified and actual SDL issuance on Dec 28, 2021

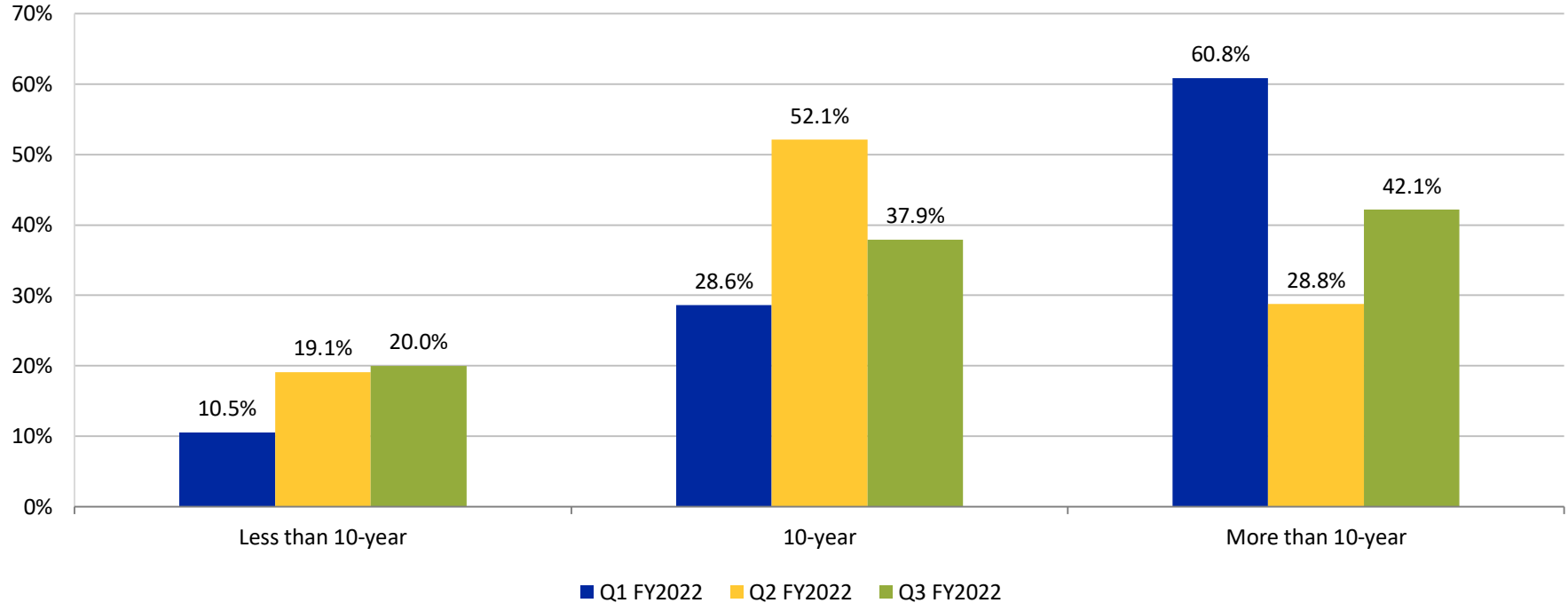


Note: *Including green shoe

Source: RBI; ICRA Research

Proportion of greater than 10-year SDLs has risen to ~42% in Q3 FY2022 from ~29% in Q2 FY2022, while that of 10-year SDLs fell to ~38% from ~52%

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



Weighted average cut-off of 10-year SDLs hardened by 7 bps to 7.03% today; the longer end of the curve was flat

Exhibit: Tenor-wise SDL issuances* and cut-offs on Dec 28, 2021

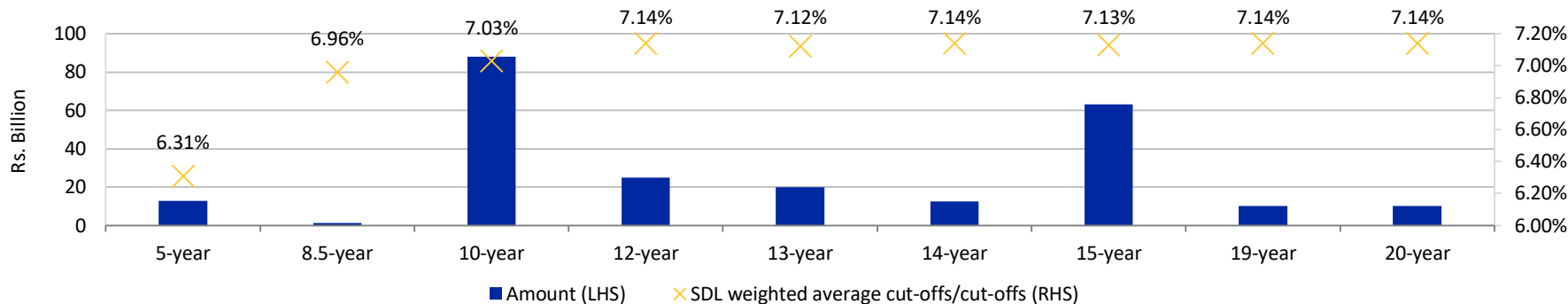
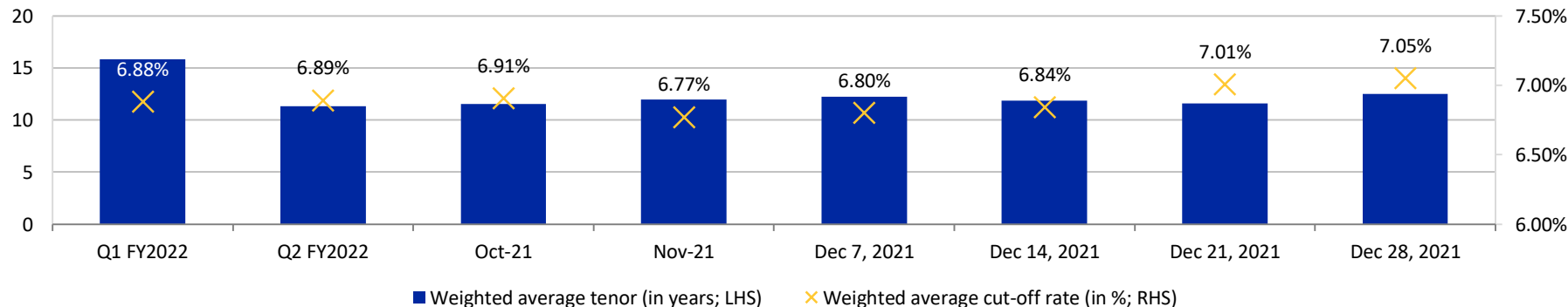


Exhibit: Weighted average cut-off and tenor of SDLs during April- Dec 28, 2021



Note: * Puducherry raised Rs. 125 crore in a 8.5 year SDL

Source: RBI; ICRA Research

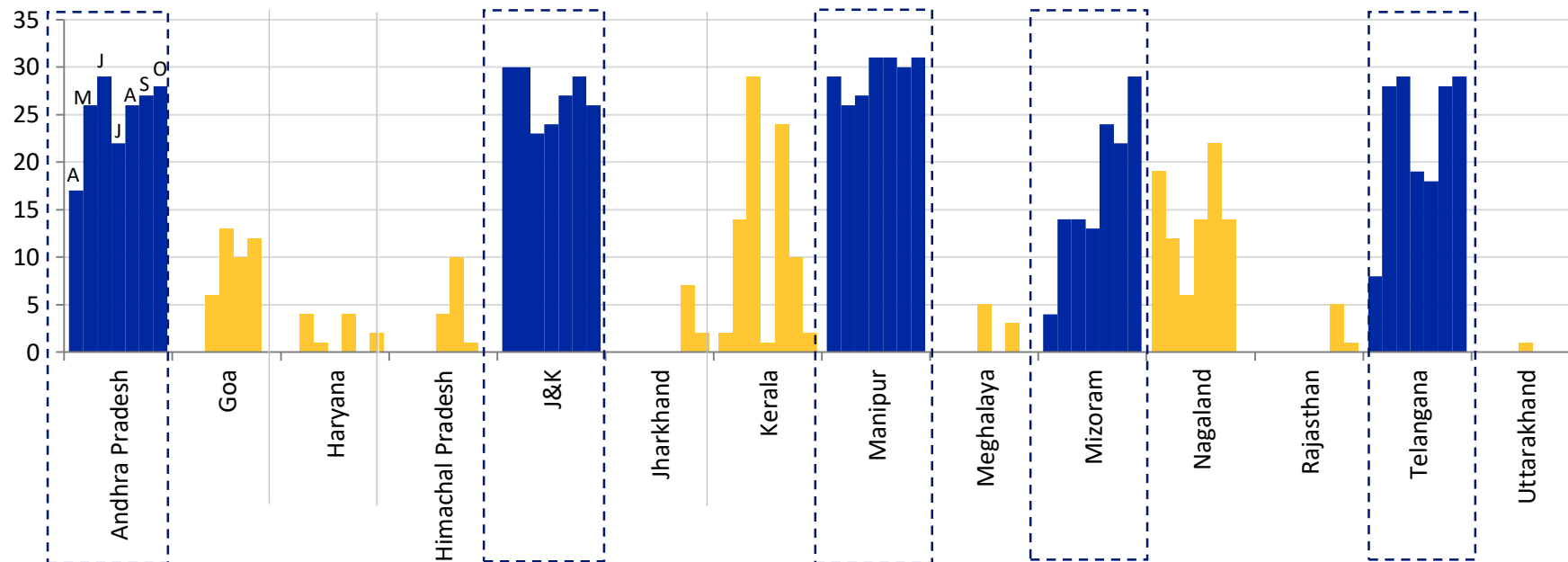
Spread between the 10-year SDLs and G-sec rose to 55 bps today from 50 bps in the last auction

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

10-year SDL cut-offs	Nov 30, 2021	Dec 7, 2021	Dec 14, 2021	Dec 21, 2021	Dec 28, 2021
Assam		6.87%		6.97%	7.03%
Goa			6.85%	6.98%	7.00%
Himachal Pradesh					7.03%
Karnataka	6.83%	6.83%	6.83%	6.96%	7.02%
Manipur					7.00%
Nagaland				7.00%	
Rajasthan	6.84%				7.03%
Sikkim	6.87%				
Tamil Nadu			6.83%		7.02%
Uttar Pradesh				6.96%	7.04%
Uttarakhand					7.05%
Weighted Average 10-year SDL cut-offs (A)	6.84%	6.84%	6.83%	6.96%	7.03%
Minimum 10-year SDL cut-off	6.83%	6.83%	6.83%	6.96%	7.00%
Maximum 10-year SDL cut-off	6.87%	6.87%	6.85%	7.00%	7.05%
10-year G-sec closing yield (B)	6.33%	6.39%	6.36%	6.47%	6.48%
Spread (A-B)	51 bps	45 bps	47 bps	50 bps	55 bps

High monthly usage of WMA facility by few states during Apr-Oct FY2022

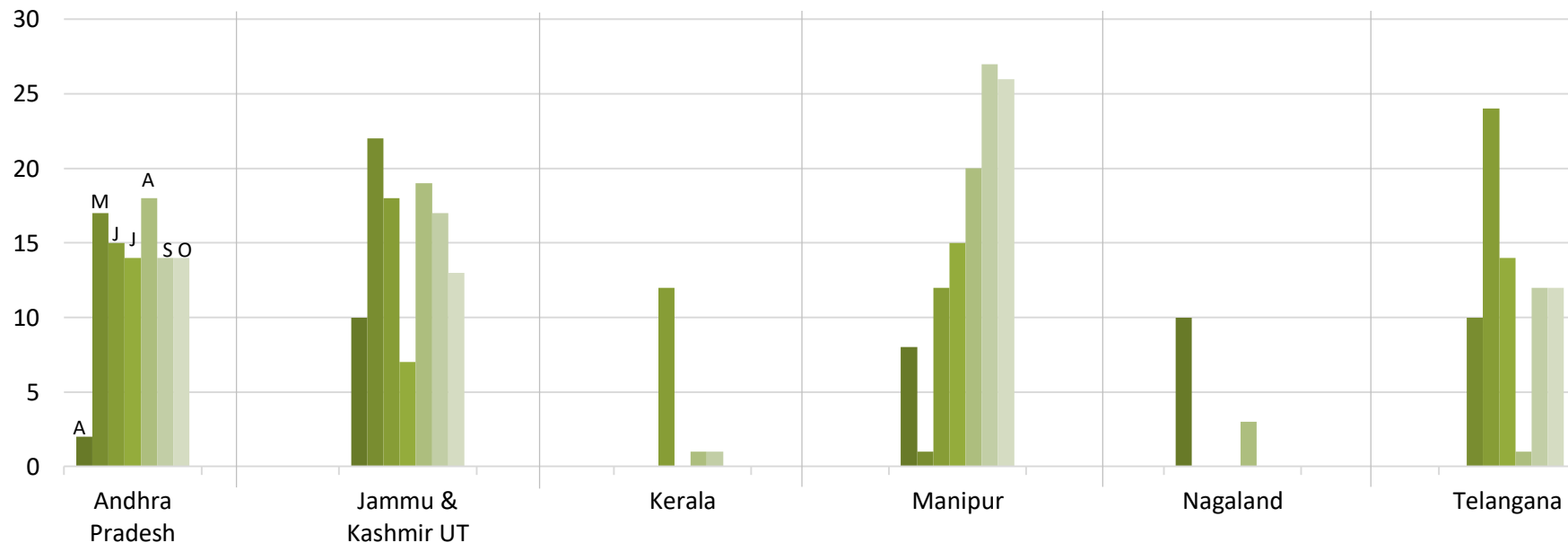
Exhibit: Number of days the WMA facilities were availed by states/UTs during each month from April 2021 to October 2021



- During FY2022 (till Oct 2021), 14 states/UT have availed WMA facility from the RBI. Amongst these states, Andhra Pradesh, Jammu & Kashmir, Manipur, Mizoram and Telangana have consistently accessed this facility for a significant part of each of these months.

Andhra Pradesh and Manipur have availed Overdraft for more than 10 days in each month since June 2021

Exhibit: Number of days in OD during Apr-Oct FY2022



- During FY2022 (till Oct 2021), 6 states/UT have availed of overdraft (OD), amongst which Andhra Pradesh tapped the OD facility for more than 10 days each month in six of the seven months of the ongoing fiscal.
- Additionally, the OD usage of Manipur, Jammu and Kashmir and Telangana has been considerable during Apr-Oct FY2022.



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