

STATE GOVERNMENT FINANCES

One-fifth of SDL stock to be
redeemed during FY2033-60,
dominated by Telangana, WB, AP,
TN, Karnataka

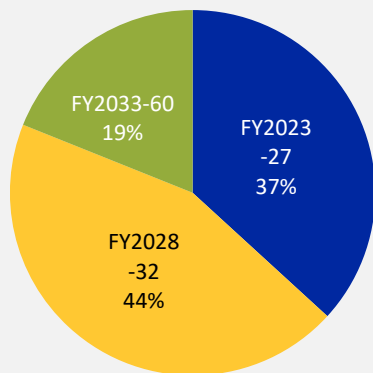
JUNE 2022





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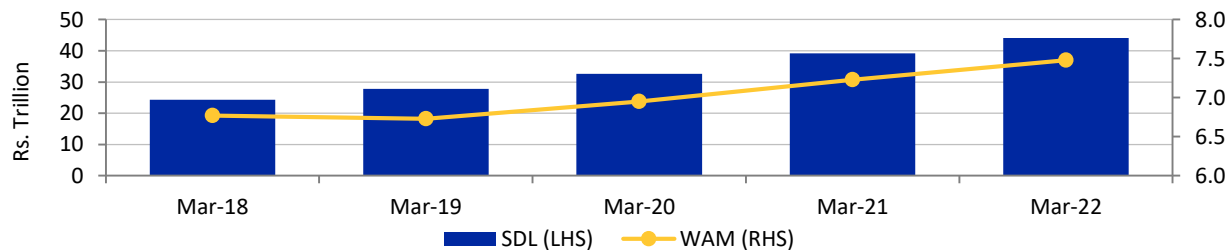
Exhibit: Redemption of SDL stock as on March 31, 2022



ICRA estimates that the stock of State Developments Loans (SDLs), the chief source of funding the fiscal deficit of the state governments, increased to Rs. 44.1 trillion as on March 31, 2022, from Rs. 24.3 trillion as on March 31, 2018. Till FY2017, the issuance of SDLs was largely concentrated in the 10-year maturity bucket. However, this trend changed from FY2018 onward with the issuance of 10% of the total SDLs in the longer dated SDLs (more than 10 year) in that fiscal, which increased to a substantial 45% in FY2022. Accordingly, the weighted average maturity (WAM) of the stock of SDLs outstanding has risen fairly steadily to 7.48 years as on March 31, 2022, from 6.82 years as on March 31, 2018. Out of the estimated stock of SDL outstanding as on March 31, 2022, 36.8% and 44.3%, respectively, is expected to be redeemed during FY2023-27 and FY2028-32.

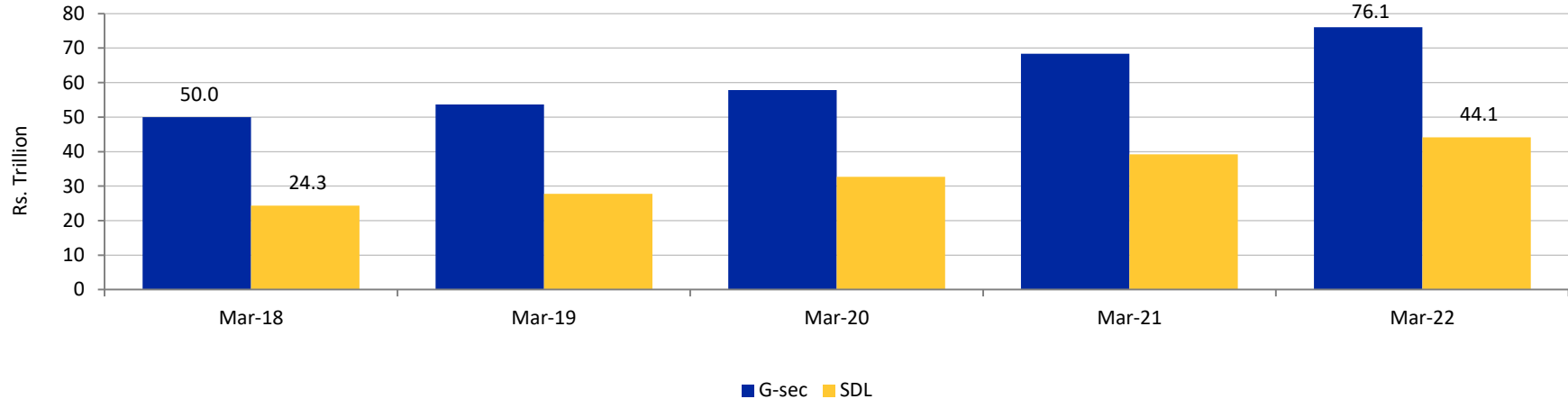
Notably, nearly one-fifth of the stock of SDLs (Rs. 8.3 trillion) would mature during FY2033-60, dominated by states such as Telangana, West Bengal (WB), Andhra Pradesh (AP), Tamil Nadu (TN), and Karnataka. The redemption profile of the aggregate stock of SDLs suggests scope for issuing 4-year and 9-year SDLs, in addition to 10-year and longer dated SDLs, although the state-wise pattern varies. If 40% of our estimated gross SDL issuance of Rs. 8.4 trillion in FY2023 is issued in the 10-year bucket (in line with the recent trend), the SDL redemption in FY2033 will rise to Rs. 4.3 trillion, exceeding the prevailing peaks of Rs. 4.1 trillion of redemption due each in FY2027, FY2028 and FY2030.

Exhibit: Stock of SDL issuances and weighted average maturity



Stock of SDLs increased at a CAGR of 16.1% during FY2018-22, exceeding the ~11% growth of G-secs

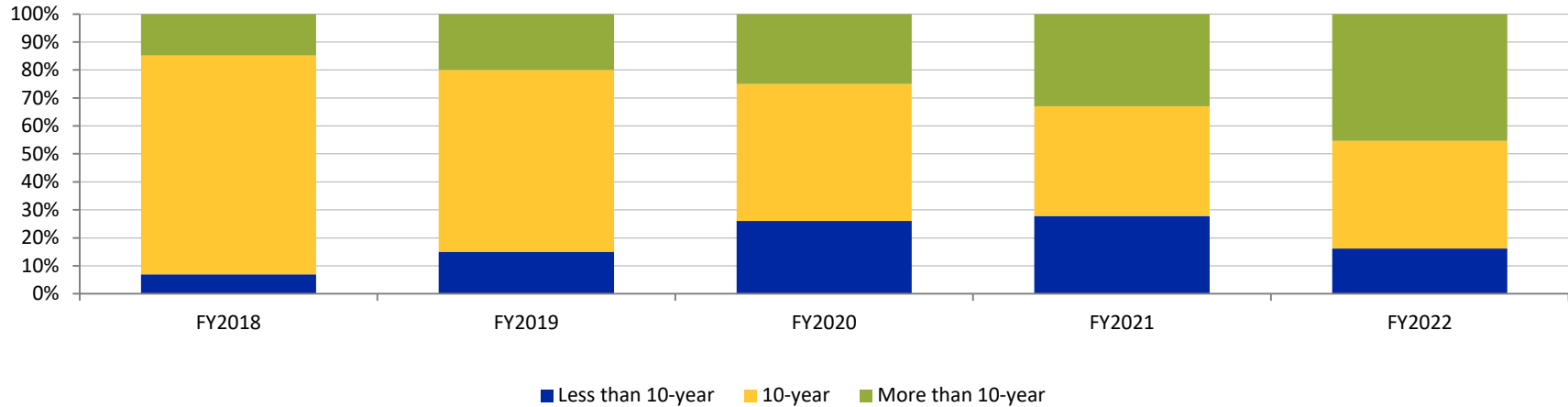
Exhibit: Stock of G-sec and SDL issuances



- SDLs are the chief source of financing the fiscal deficit of a state governments.
- As on March 31, 2022, the stock of SDLs outstanding estimated at Rs. 44.1 trillion, equivalent to nearly ~58% of the stock of Government of India securities (G-sec) outstanding of Rs. 76.1 trillion, up from ~49% at end-March 2018.
- The stock of SDLs increased at a CAGR of 16.1% between FY2018-22, higher than the 11.1% rise in G-secs. Regardless, the absolute increase in G-sec was higher than that in SDLs over the same period.

Share of longer dated SDLs in total issuance increased sharply to 45% in FY2022 from 10% in FY2018

Exhibit: Share of less than 10-year, 10-year and more than 10-year issuances in total issuances



- There was a shift in preference for longer dated SDLs (more than 10-year) over the standard 10-year maturity bucket during FY2018 to FY2022.
- In FY2018, 10 states/UT had raised SDLs in the 11–25-year maturity bucket, while as many as 19 states/UT raised SDLs in the range of 11-35 years in FY2022, which may have been in anticipation of a looming rise in interest rates.
- Moreover, the weighted average tenor of SDLs issued in FY2022 increased to 12.9 years from 11.1 years in FY2018. In the same period, the weighted average tenor of G-secs increased to 17.0 years from 14.1 years.

WAM of SDL outstanding has elongated since FY2019, reflecting longer dated issuances by states such as Telangana, TN, AP and WB

Exhibit: Weighted average tenor of stock of G-sec and SDL outstanding

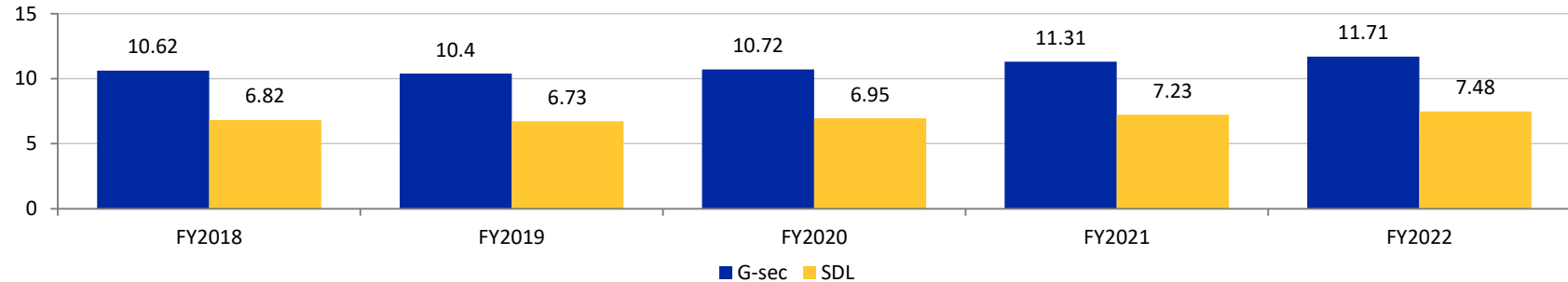
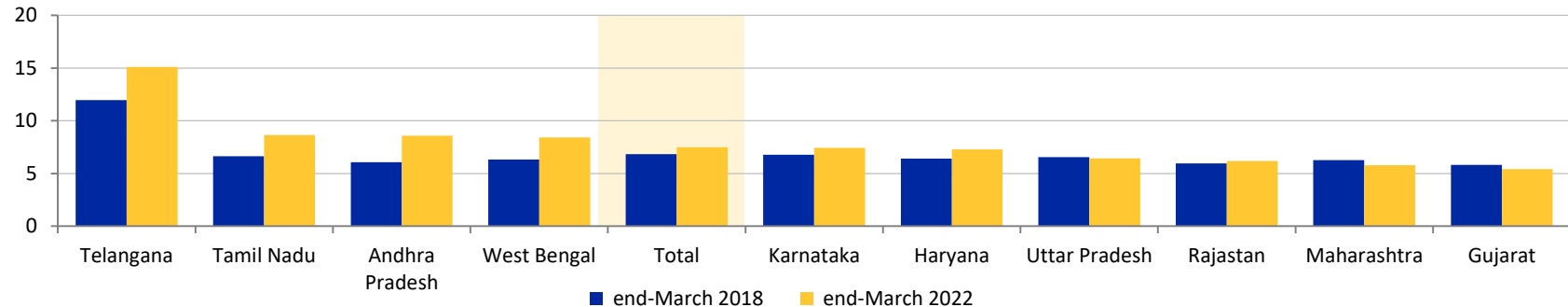
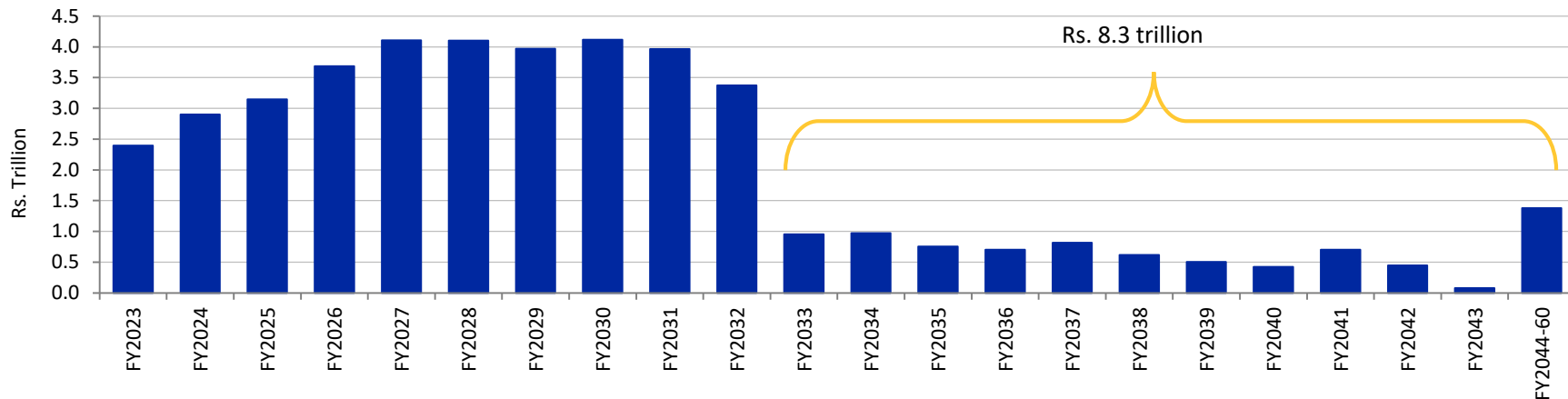


Exhibit: State-wise weighted average maturity (WAM) of SDLs outstanding (top 10 states in aggregate stock of SDLs as at end-March 2022)



SDL redemptions will rise sharply till FY2027 and then plateau until FY2031

Exhibit: Redemption profile of SDL issuances of all states/UTs



- SDL redemptions are expected to rise steadily from Rs. 2.4 trillion in FY2023 to Rs. 4.1 trillion in FY2027 aggregating to Rs. 16.2 trillion during this five-year period. This is equivalent to 36.8% of the stock of SDLs outstanding of Rs. 44.1 trillion as on March 31, 2022.
- SDL redemptions are expected to remain in a narrow range of Rs. 4-4.1 trillion each during FY2028-31 before dipping to Rs. 3.4 trillion. Overall, Rs. 19.5 trillion or 44.3% of the stock of SDLs outstanding would be redeemed during FY2028-32. Notably, one-fifth of the stock of SDLs now has a residual maturity exceeding 10 years, dominated by Telangana, WB, AP, TN and Karnataka.
- The redemption profile of the aggregate stock of SDLs suggests scope for issuing 4-year and 9-year SDLs, in addition to 10-year and longer dated SDLs, although the state-wise pattern varies.

ICRA estimates stock of SDLs that will mature in FY2033, to rise to Rs. 4.3 trillion by end-March 2023

Exhibit: State-wise share of SDL stock issued till March 31, 2022 that are set to mature in FY2033

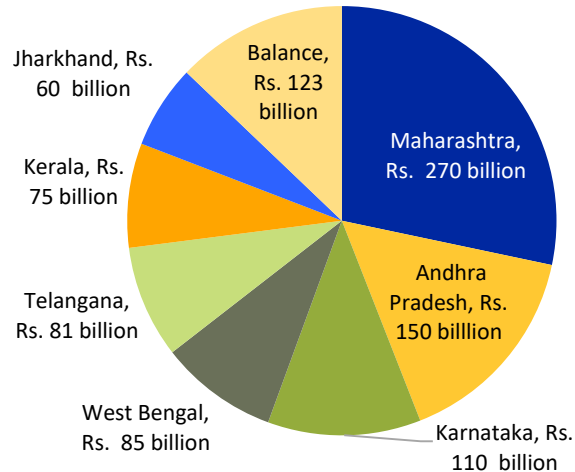
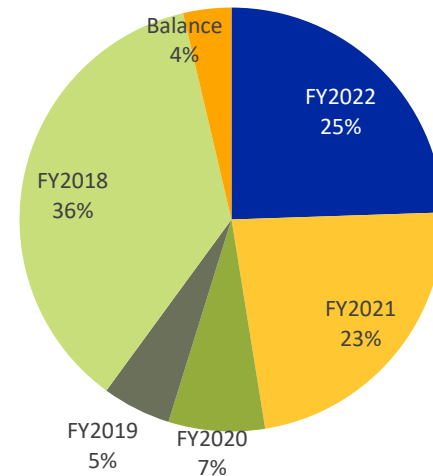


Exhibit: Year of issuance of SDL till March 31, 2022 that are set to mature in FY2033

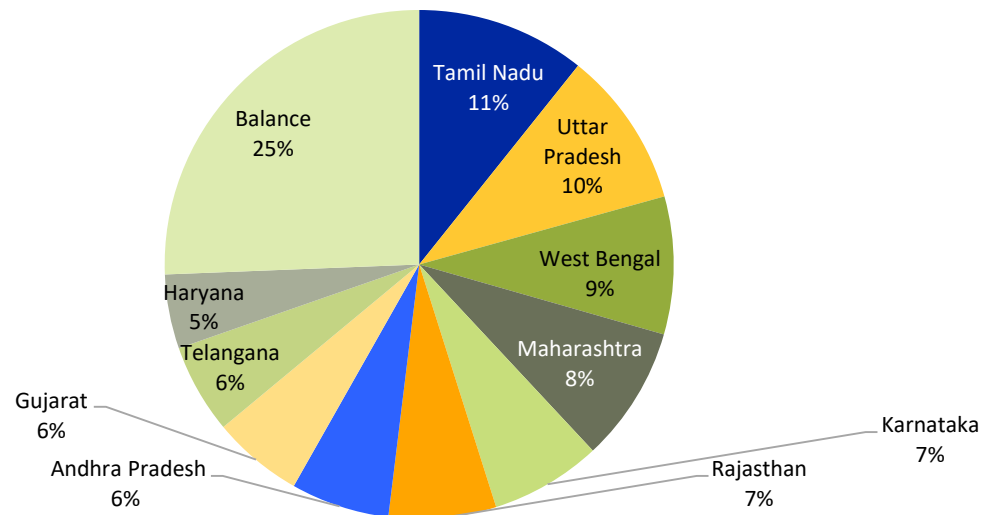


- As many as 16 states had issued Rs. 1.0 trillion of SDLs by end-March 2022, that are to mature in FY2033, dominated by Maharashtra, AP, Karnataka, WB, Telangana and Kerala. These SDLs were predominantly issued in FY2018, FY2021 and FY2022.
- So far in Q1 FY2023, Rs. 225 billion SDLs or 23.5% of the total issuance has been borrowed in the 10-year maturity bucket by 10 states including, Maharashtra, WB, TN, Haryana and AP.
- If 40% of our estimated gross SDL issuance of Rs. 8.4 trillion in FY2023 is issued in the 10-year bucket (in line with the recent trend), the SDL redemption in FY2033 will rise to Rs. 4.3 trillion by end-March 2023, higher than the prevailing peaks of Rs. 4.1 trillion of redemption due each in FY2027, FY2028 and FY2030.**

Source: RBI; ICRA Research

Ten states account for three-fourth of the outstanding stock of SDLs as at end-March 2022

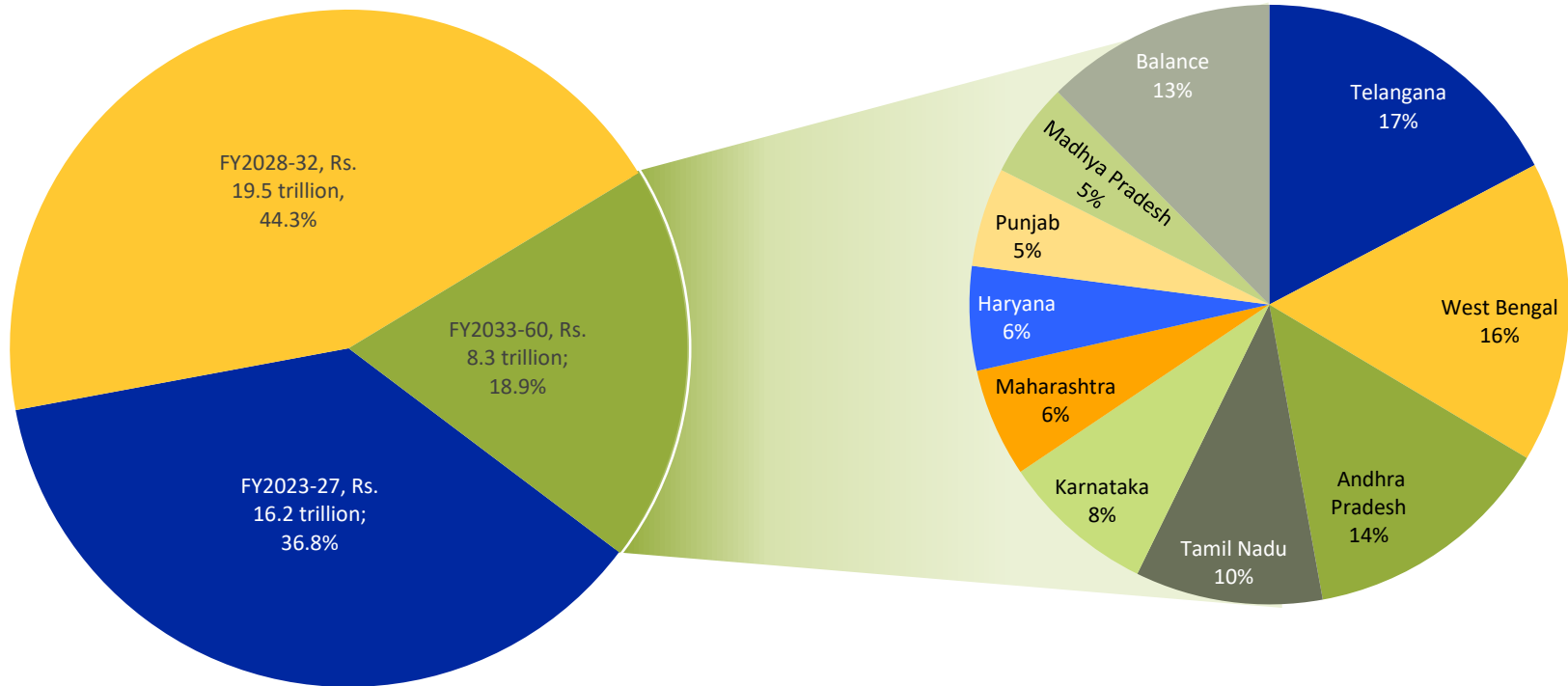
Exhibit: State-wise share of outstanding stock of SDLs



- Stock of SDLs of TN, Uttar Pradesh (UP), WB, Maharashtra, Karnataka, Rajasthan, AP, Gujarat, Telangana and Haryana, comprised ~74% of the total SDLs outstanding of all states as on March 31, 2022.
- The subsequent Annexes include some key highlights of these 10 states' stock of SDLs.

A fifth of the SDL stock will be redeemed during FY2033-60, dominated by Telangana, WB, AP, TN and Karnataka

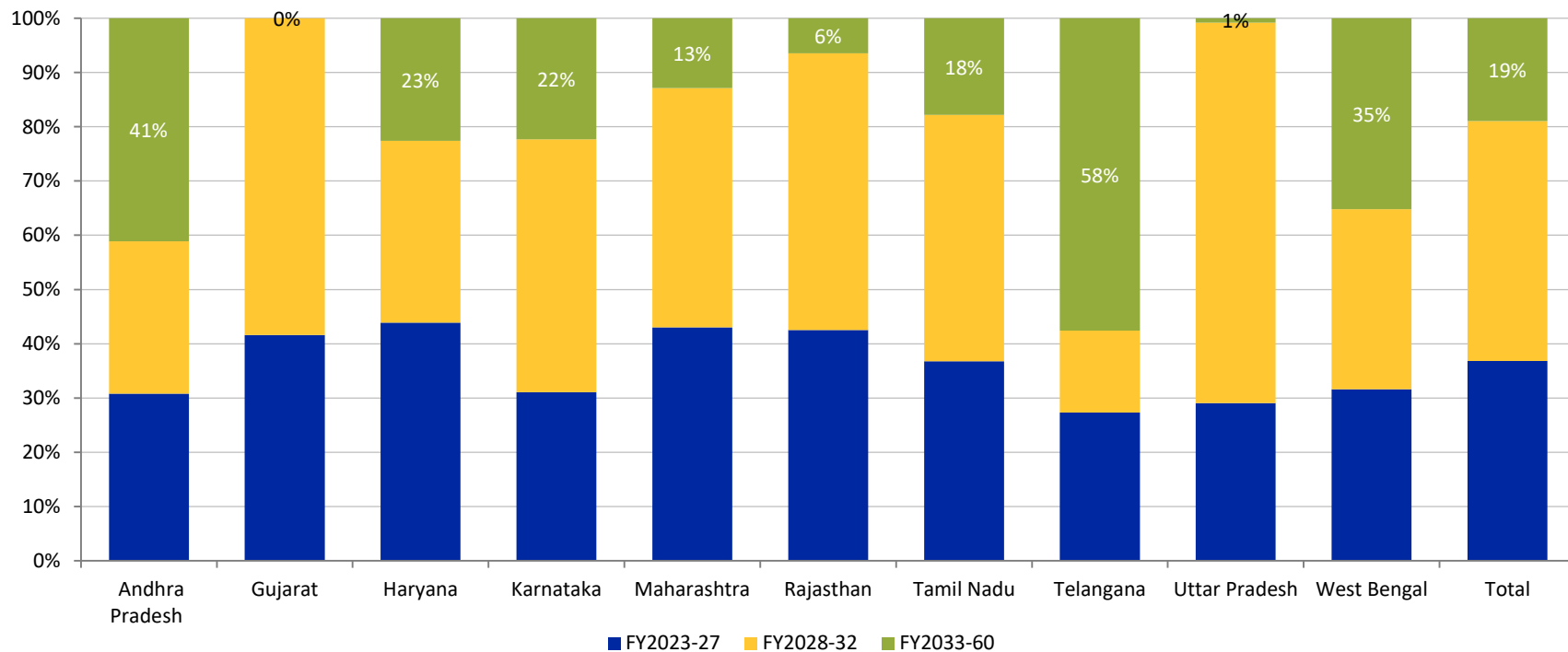
Exhibit: : Redemption of SDL stock as on March 31, 2022



Source: RBI; ICRA Research

Bulk of SDL stock of Gujarat, UP and Rajasthan to be redeemed during FY2023-32

Exhibit: : State-wise proportion of redemption of SDL stock as on March 31, 2022 during FY2023-60



Source: RBI; ICRA Research



ANNEXES

Relatively large redemption of TN SDLs are due in FY2028 and FY2031; issuance of longer dated SDLs in FY2021 and FY2022 has elongated WAM

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

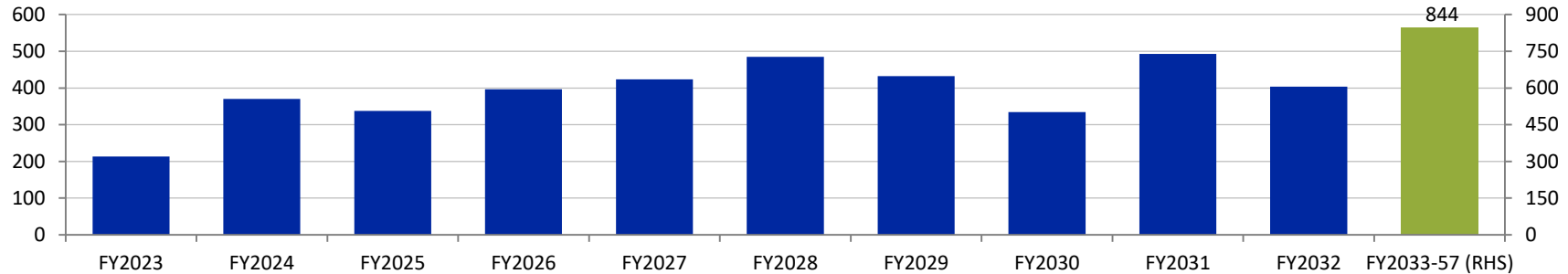
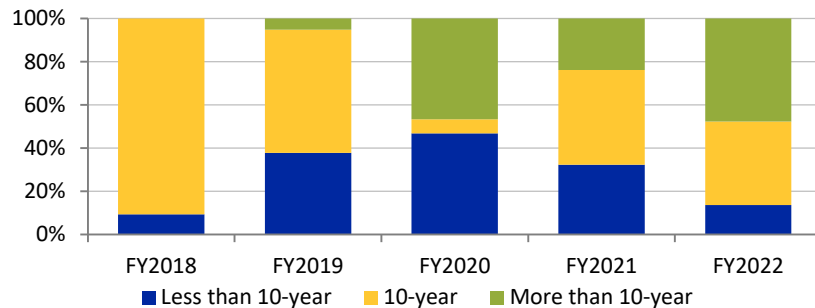


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of TN SDLs as on March 31, 2022, at Rs. 4.7 trillion. Out of this, relatively large redemptions exceeding Rs. 480 billion are due in FY2028 and FY2031. However, during the period FY2024-32, the amount due for redemption is less than Rs. 340 billion each in FY2025 and FY2030.

There has been a marked shift in tenor-wise issuance of TN's SDLs, with nil borrowing in longer dated papers in FY2018 and nearly 48% of the total issuance in this maturity bucket in FY2022. This approach has elongated the weighted average maturity (WAM) of TN's stock of SDL outstanding to 8.65 years at end-March 2022 (higher than the average for all states) from 6.63 years as at end-March 2018. A considerable Rs. 844 billion or 18% of the total stock of SDLs is set to mature between FY2033-57.

UP has considerable redemptions during FY2030-32, following concentration of issuance in 10-year bucket

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

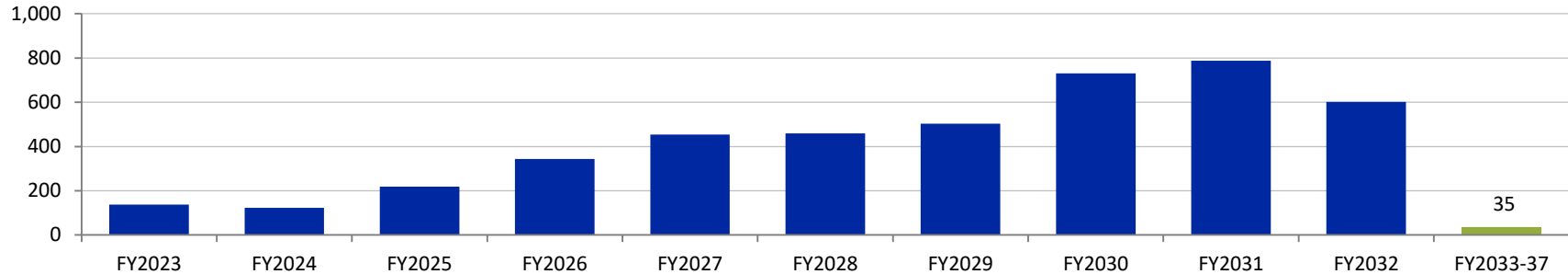
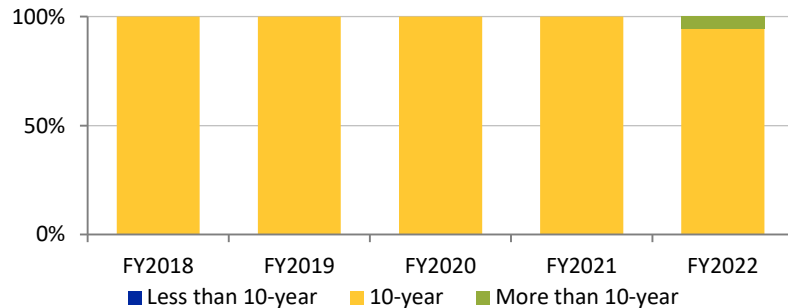


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of UP SDLs as on March 31, 2022, at Rs. 4.4 trillion, 80% of which is due for redemption between FY2027-32.

This is one of the few states that issued SDLs entirely in the 10-year maturity bucket during FY2018-21. For the first time, UP issued 12 and 15-year SDLs in FY2022, comprising a small 6% of the total issuance in that fiscal.

The WAM of UP's stock of SDL outstanding as at end-March 2022 declined mildly to 6.43 years from 6.54 years as at end-March 2018. Moreover, reflecting the non-issuance of SDLs in longer maturities until FY2022, the WAM of UP's stock of SDL outstanding as at end-March 2022 continued to trail the aggregate WAM of all SDLs.

Maturity profile of WB SDLs displays spikes in FY2027 and FY2030; WAM of WB SDLs exceeds average led by concentration of longer dated issuances

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

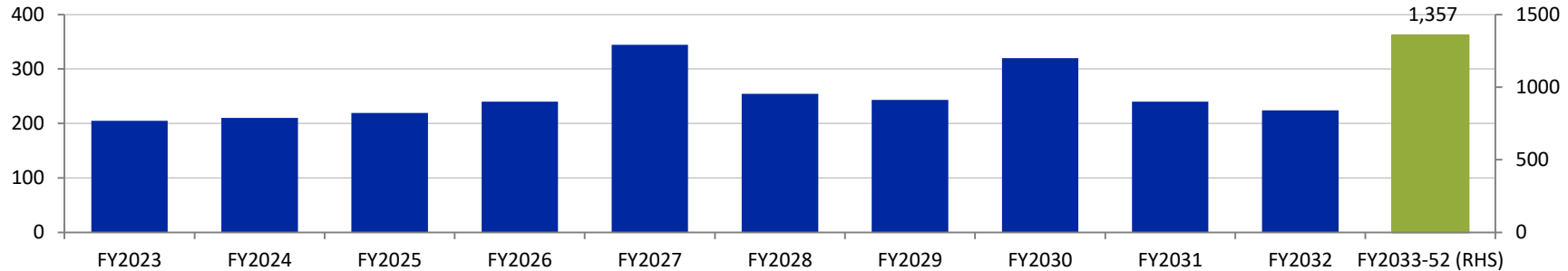
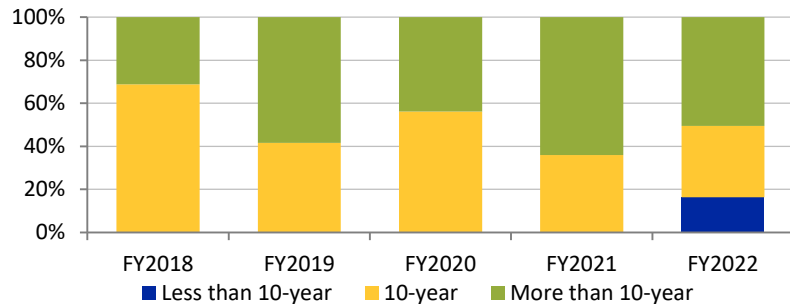


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of WB SDLs outstanding as on March 31, 2022, at Rs. 3.9 trillion. The redemption of WB SDLs is evenly spread in a range of Rs. 200-250 billion during FY2023 and FY2032, with spikes in FY2027 (Rs. 344 billion) and FY2030 (Rs. 320 billion). A significant Rs. 1,357 billion or ~35% of the total stock of SDLs is set to mature between FY2033-52.

During FY2018-21, WB skipped issuing shorter tenor SDLs. However, it issued 16% of the total issuance in FY2022 in the 7 and 9-year tenors.

The WAM of WB's stock of SDL outstanding increased sharply to an above-average 8.41 years at end-March 2022 from 6.33 years as at end-March 2018, with considerable long-term issuance from FY2019 onwards.

Maharashtra SDLs to have a peak redemption of Rs. 395 billion in FY2027; WAM of its SDL stock trails average, with short-term issuance in recent years

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

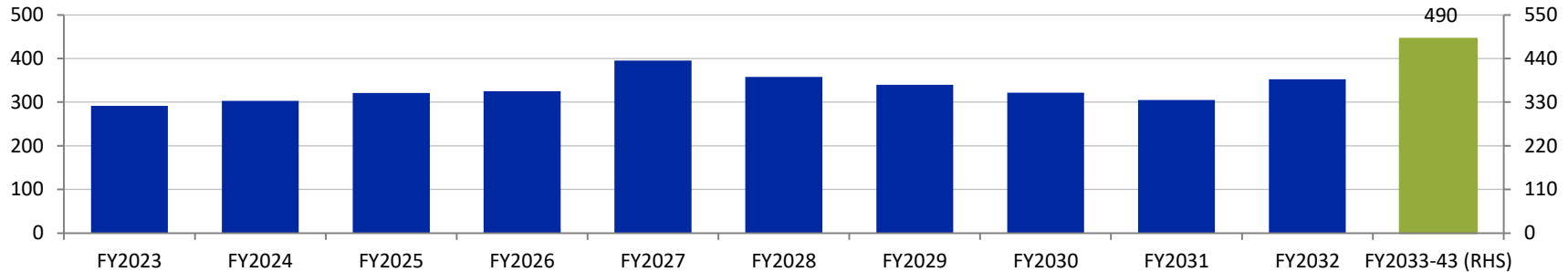
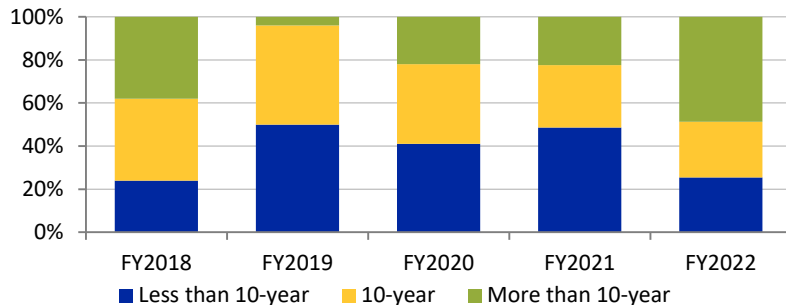


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of Maharashtra SDLs outstanding as on March 31, 2022, at Rs. 3.8 trillion. During FY2024-32, Rs. 300-400 billion Maharashtra SDLs are expected to be redeemed, with peak redemption of Rs. 395 billion in FY2027, followed by Rs. 358 billion in FY2028. Additionally, Rs. 490 billion or ~13% of the total stock of SDLs is set to mature between FY2033-42.

During FY2019-21, Maharashtra issued 40-50% of its SDLs in the shorter tenors, which evened out its maturity profile.

However, following this, the WAM of Maharashtra's stock of SDL outstanding as at end-March 2022 declined to 5.78 years from 6.25 years as at end-March 2018, trailing the average level during both these time periods.

Karnataka's SDL redemption profile plateaus from FY2027 to FY2031

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

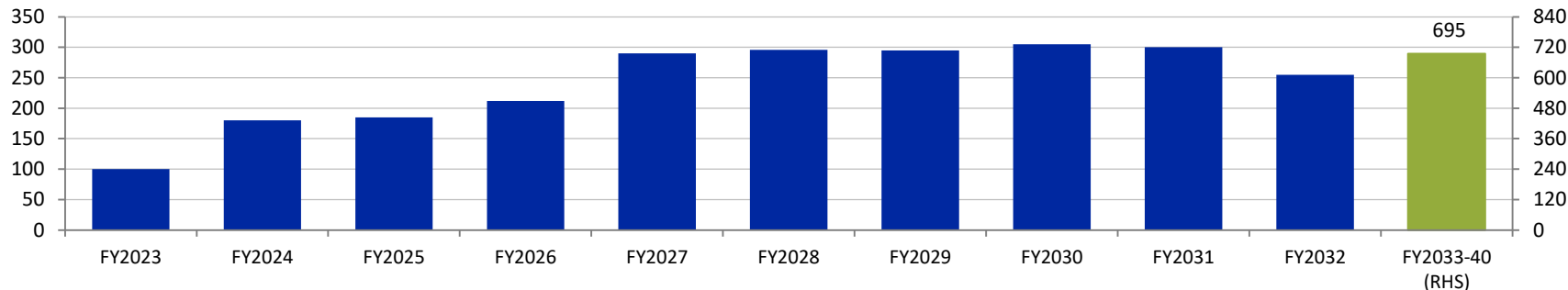
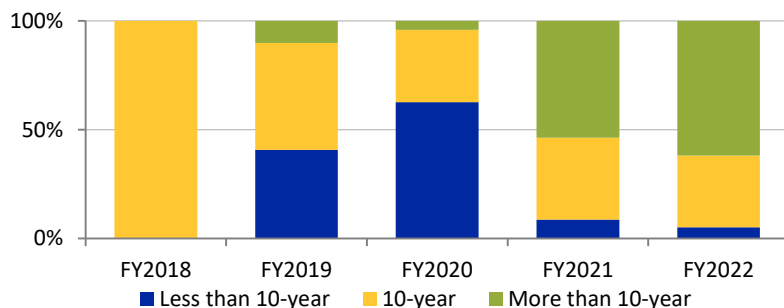


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of Karnataka SDLs outstanding as on March 31, 2022, at Rs. 3.1 trillion. Following a gradual step up from FY2023-26, SDLs of around Rs. 300 billion each are expected to be redeemed during FY2027-31. Rs. 695 billion Karnataka SDLs are expected to mature during FY2033-40, nearly 22% of the total stock of Karnataka SDLs as on March 31, 2022.

During FY2019-20, under 10% of Karnataka's SDL issuance was in the longer tenor. However, in a shift of strategy, the state government issued the bulk of its SDLs in the longer tenors during FY2021-22.

As a result, the WAM of Karnataka's stock of SDL outstanding as at end-March 2022 increased to 7.42 years from 6.77 years as at end-March 2018, remaining similar to the average during both these time periods.

Rajasthan's SDL redemption profile is somewhat uneven, exceeding Rs. 300 billion in four years during FY2023-32

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

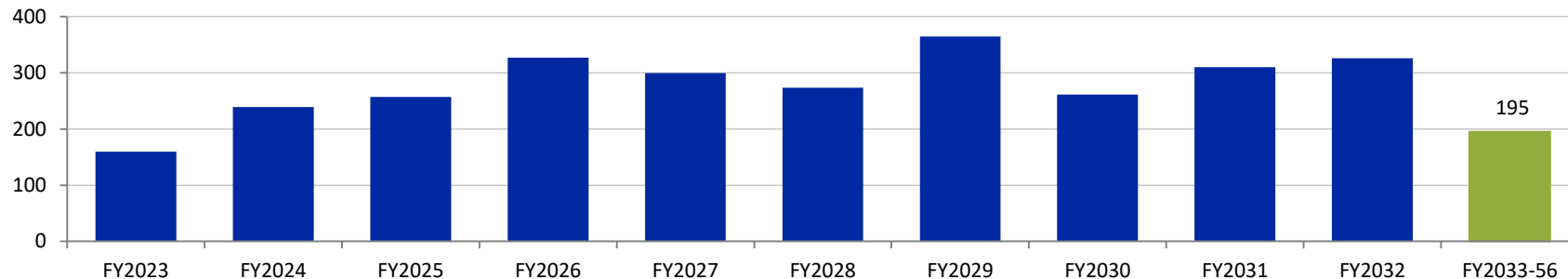
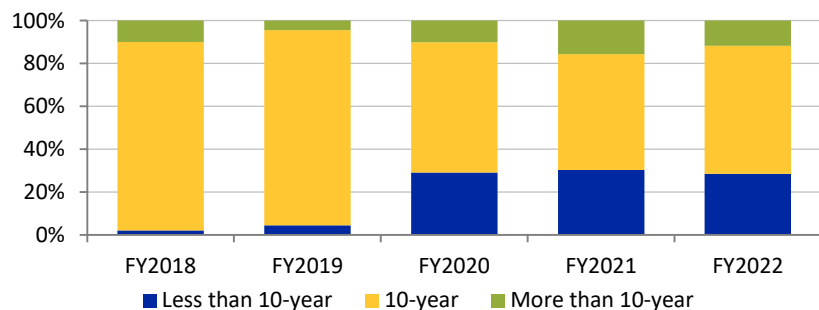


Exhibit: Tenor-wise share in total issuances



ICRA estimates Rajasthan's stock of SDLs at Rs. 3.0 trillion as on March 31, 2022. The maturity profile is somewhat uneven, with peaks in FY2026 (Rs. 327 billion) and FY2029 (Rs. 365 billion).

During FY2018-22, less than 20% of Rajasthan's total SDL issuance was in the longer tenor. As a result, a limited 6% or Rs. 195 billion of SDLs outstanding as on March 31, 2022, is expected to mature during FY2033-56.

The WAM of Rajasthan stock of SDL outstanding increased to 6.19 years as at end-March 2022 from 5.94 years as at end-March 2018. Despite this, it remained below the WAM of aggregate stock of SDLs during both these time periods.

Maturity profile of AP SDLs is uneven over the next 10 years; WAM of AP SDLs exceeds the average led by dominance of longer tenor SDLs since FY2018

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

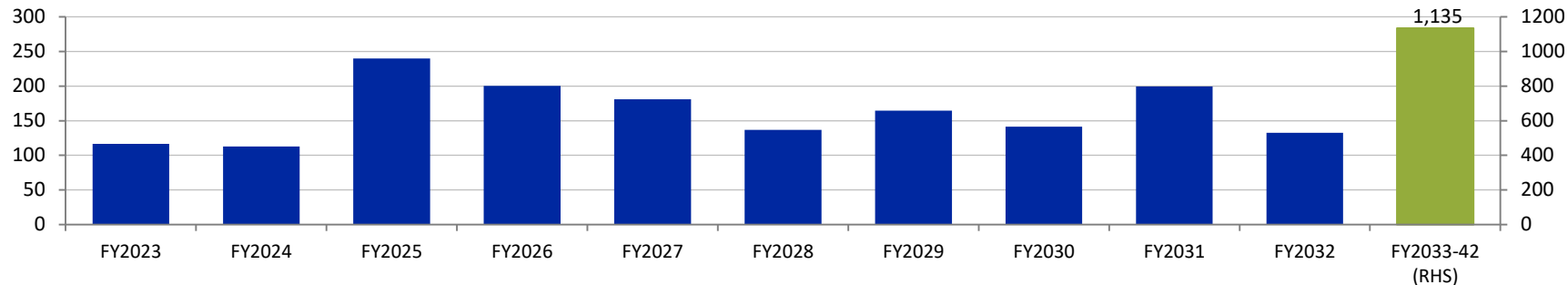
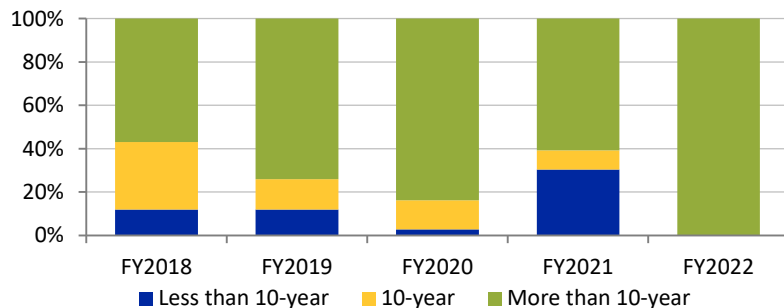


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of AP SDLs outstanding as on March 31, 2022, at Rs. 2.8 trillion. The maturity profile of AP SDLs during the next 10 years is somewhat uneven. In particular, nearly 41% of the AP SDLs is expected to be redeemed during FY2033-42, making it one of the most back-ended maturity profiles amongst the states. This follows from AP having issued 57-100% of the total SDLs in the longer tenor, in the range of 11-20-years, during FY2018-22.

Continued issuance of longer tenor SDLs elongated the WAM of AP's stock of SDL outstanding to 8.59 years as at end-March 2022 from 6.06 years as at end-March 2018, exceeding the aggregate WAM by a relatively wider margin at end-March 2022.

Gujarat's SDL redemption profile slopes up till FY2029; non-issuance of longer dated SDLs implies below-average WAM of Gujarat SDLs

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

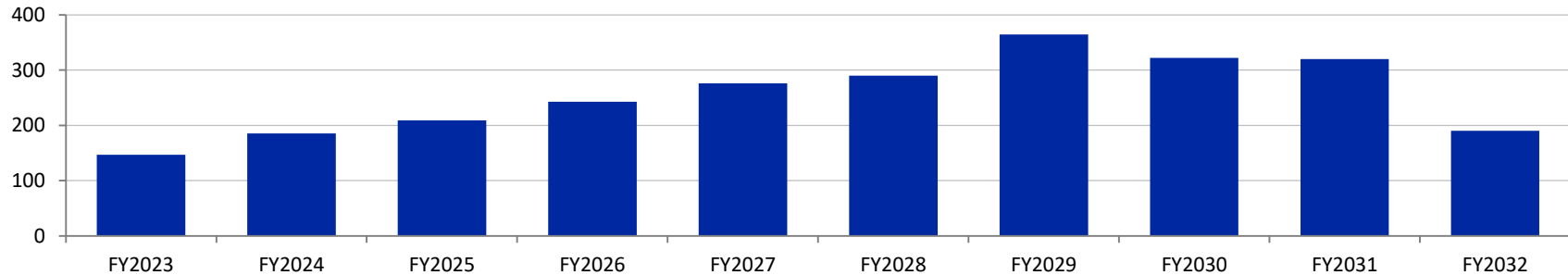
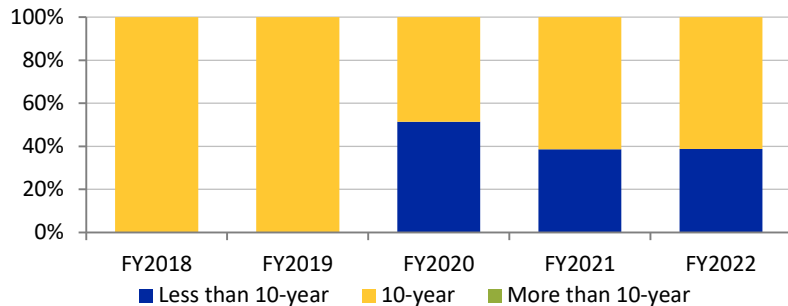


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of Gujarat SDLs outstanding as on March 31, 2022, at Rs. 2.5 trillion. 69% of the stock of SDLs outstanding as on March 31, 2022, is set to mature during FY2027-32, with an upward sloping maturity profile.

After issuing 100% of its SDLs in the 10-year bucket during FY2018-19, Gujarat split the issuance amount evenly between the shorter tenor and the 10-year bucket in FY2020. In FY2021 and FY2022, Gujarat issued 61% of its total SDLs in the 10-year tenor, and the balance in the shorter tenors, avoiding the longer maturities in each of the last five years.

Accordingly, the WAM of Gujarat's stock of SDL outstanding declined to 5.40 years as at end-March 2022 from 5.82 years as at end-March 2018 and remained significantly below the aggregate WAM in both these periods.

Less than 50% of Telangana's SDL stock will mature during FY2023-32; preference for longer dated SDLs has led to the highest WAM among all states

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

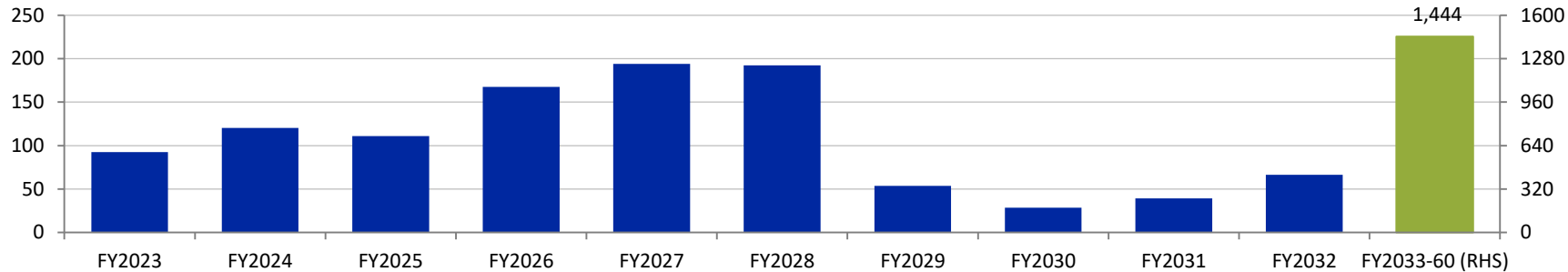
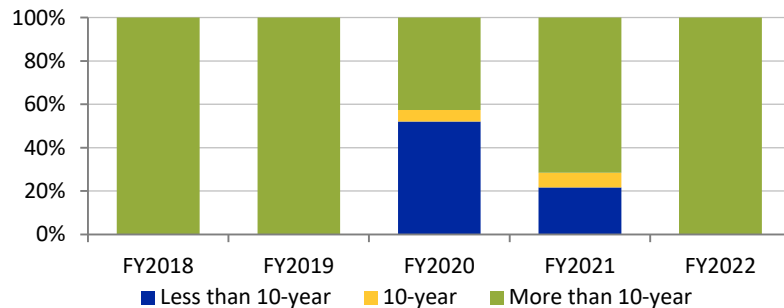


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of Telangana SDLs outstanding as on March 31, 2022, at Rs. 2.5 trillion. Out of this, 42% is expected to be redeemed during FY2023-32, the lowest among all the states/UTs, with the balance maturity spread over 28 years from FY2033-60.

Telangana issued 100% of total SDLs in the longer tenors in FY2018-19 and FY2022 and a sizable ~43% and ~72% in FY2020 and FY2021, respectively.

The WAM of Telangana's stock of SDL outstanding increased to 15.11 years at end-March 2022 from 11.95 years as at end-March 2018, the highest among all states in both these years.

Step-down in Haryana's SDL maturity from FY2026 onward; WAM of Haryana SDLs remains below the aggregate WAM

Exhibit: Redemption profile of SDL issuances (Rs. Billion)

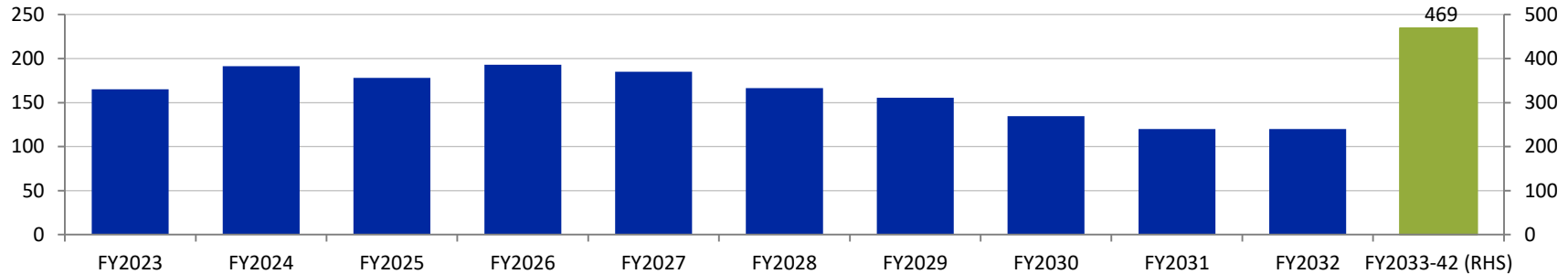
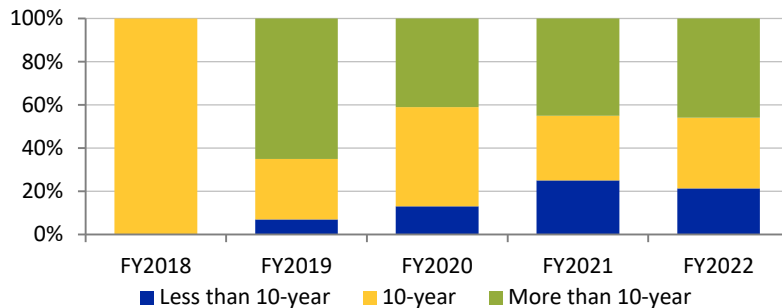


Exhibit: Tenor-wise share in total issuances



ICRA estimates the stock of Haryana SDLs outstanding as on March 31, 2022, at Rs. 2.1 trillion. During FY2023-26, Rs. 165-200 billion Haryana SDLs are estimated to be redeemed while the maturities are expected to decline gradually during FY2027-32. Rs. 469 billion or ~23% of the Haryana SDLs are expected to be redeemed during FY2033-42.

Haryana issued 40-65% of SDLs in the longer tenor during FY2019-22, along with some shorter tenor securities as well.

The WAM of Haryana's stock of SDL outstanding increased to 7.27 years as at end-March 2022 from 6.41 years as at end-March 2018. Despite this, it remained below average during both these time periods.



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ICRA Analytical Contact Details



Aditi Nayar

Chief Economist

Neetika Shridhar

Assistant Vice President

Jaspreet Kaur

Analyst



aditin@icraindia.com

neetika.shridhar@icraindia.com

jaspreet.kaur@icraindia.com



0124- 4545 385

0124 – 4545 305

0124 – 4545 853





ICRA

Business Development/Media Contact Details



L. Shivakumar

Executive Vice-President

Jayanta Chatterjee

Executive Vice-President

Naznin Prodhani

Head Media & Communications



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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