

STATE GOVERNMENT FINANCES- Weekly SDL

**Weighted average cut-off of SDLs eased by
9 bps to 7.85%**

June 21, 2022





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*6 states raised Rs. 65 billion SDLs,
~60% lower than the indicated level*

*Weighted average cut-off of SDLs
eased by 9 bps to 7.85% today*

*Spread between 10-year SDL and G-sec
yield rose to 37 bps today from 36 bps
last week*

Six states raised Rs. 65 billion through state development loans (SDLs) on June 21, 2022, nearly 60% lower than the indicated amount for this week. Eight states did not participate today, even though they had indicated that they would borrow a substantial Rs. 96 billion this week in the auction calendar. Additionally, Andhra Pradesh and Tamil Nadu each borrowed Rs. 10 billion less SDLs today compared to the amount indicated for this week. In contrast, Assam and Rajasthan together borrowed additional Rs. 14 billion and Mizoram and Nagaland raised Rs. 5 billion SDLs even though they had not indicated to participate in today's weekly auction.

Overall, the SDL issuance has trailed the indicated amount in eight of the 12 weekly auctions held in Q1 FY2023. The total Rs. 907 billion raised by 16 state governments/Union Territory (UT) raised so far in Q1 FY2023, are nearly 47% lower than the indicated Rs. 1,716 billion. On a YoY basis, the borrowings are 26.8% lower than the year-ago level (Rs. 1,240 billion).

In today's auction, Rs. 35 billion (or ~54% of the total issuance) was in the longer tenors SDLs, Rs. 25 billion (~38% of the total issuance) in the 10-year bucket and the balance Rs 5 billion (~8% of the total issuance) was raised by Andhra Pradesh in the 9-year maturity bucket. The weighted average cut-off of SDLs eased by 9 bps to 7.85% today from 7.93% in the last auction, with the weighted average tenor of SDLs increasing to 15 years from 13 years. The benchmark 10-year Government of India (GoI) security (G-sec; 6:54 GS 2032) yield declined to 7.48% today from 7.58% last Tuesday, amidst a dip in crude oil prices and softening US Treasury yields. The weighted average cut-off of the 10-year SDL softened by 9 bps to 7.85% today from last Tuesday. Accordingly, the spread between the weighted average 10-year SDL and 10-year G-sec yield increased mildly to 37 bps from 36 bps during the same period.

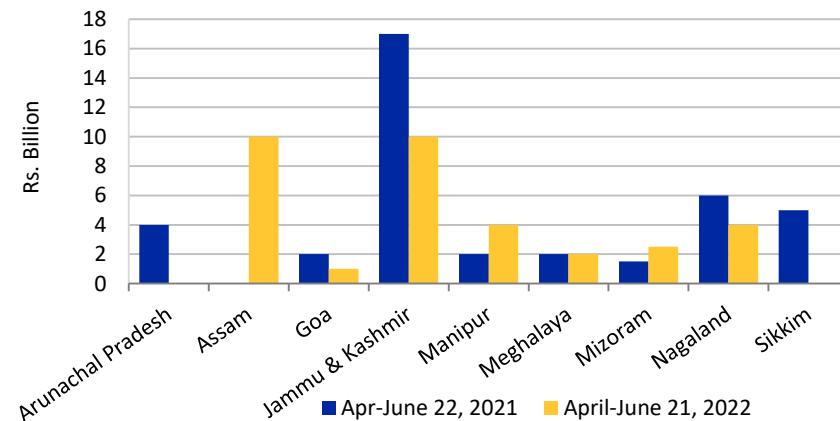
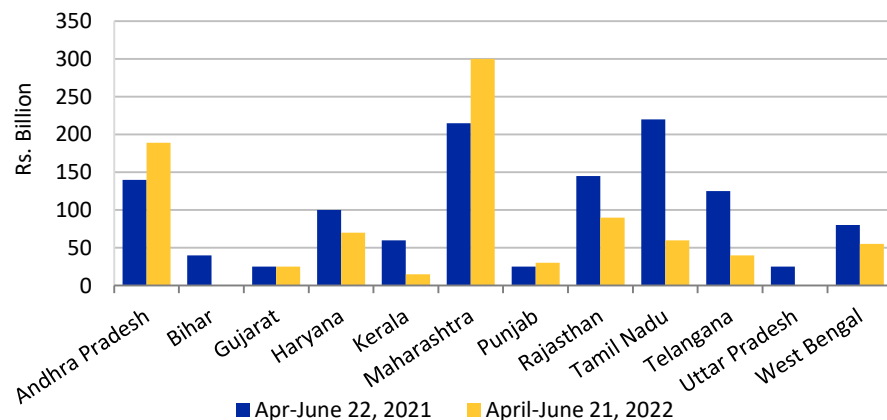
Separately, fewer states availed Ways and Means Advances (WMA) and Overdraft (OD) facilities in April 2022 compared to April 2021, possibly on account of their comfortable cash position. However, the number of days for which Telangana availed WMA and OD in April 2022 (23 and 11, respectively) increased relative to April 2021 (8 and nil, respectively). This could be on account of delay in receiving borrowing permission by the state government for FY2023 from the GoI.

SDL issuance has declined by 26.8% in FY2023 so far on a YoY basis, led by 13 states/UT

Exhibit: SDL issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of June 21, 2022	162	65	65	907
Week of June 22, 2021	115	196	196	1,240
Growth	40.9%	-66.8%	-66.8%	-26.8%

Exhibit: Cumulative SDL issuance during April-June 21, 2022, and year-ago level

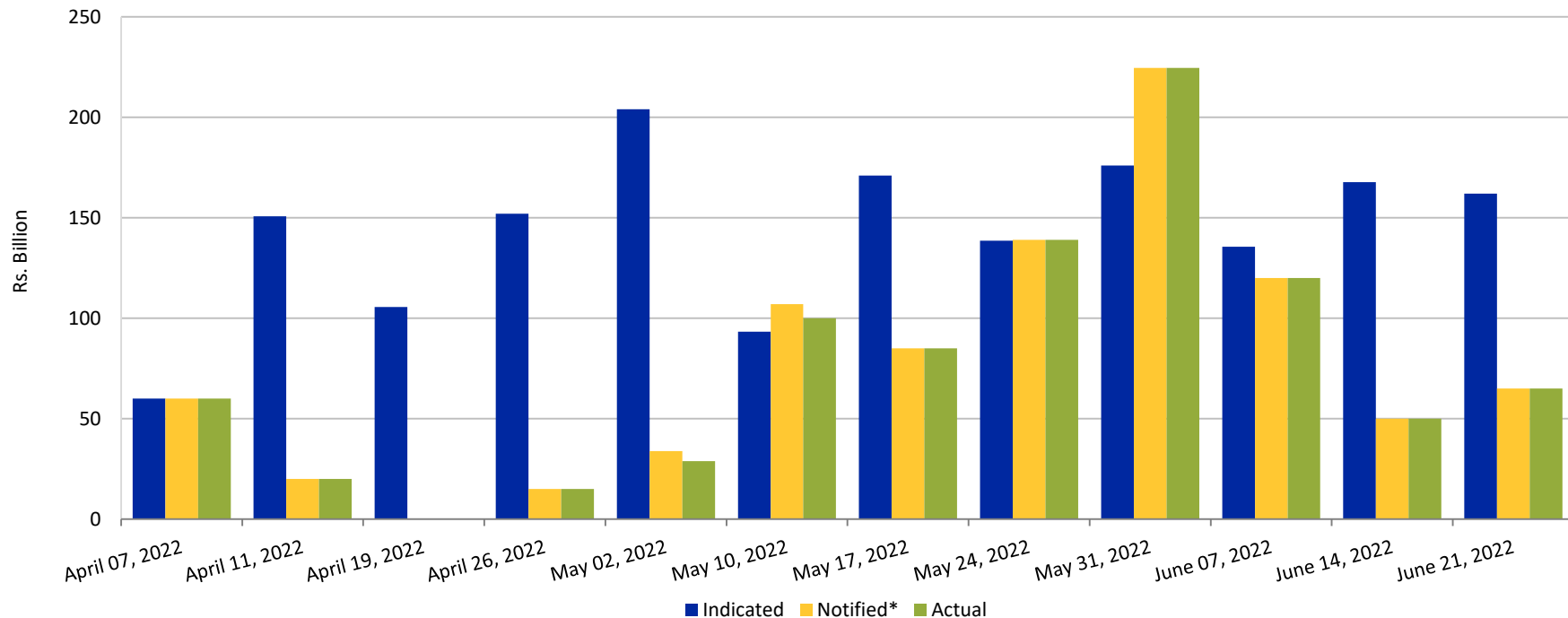


Note: *Including green shoe

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

SDL issuance today was a sharp 60.0% lower than indicated for this week

Exhibit: Indicated, notified and actual SDL issuances in Q1 FY2023 (so far)

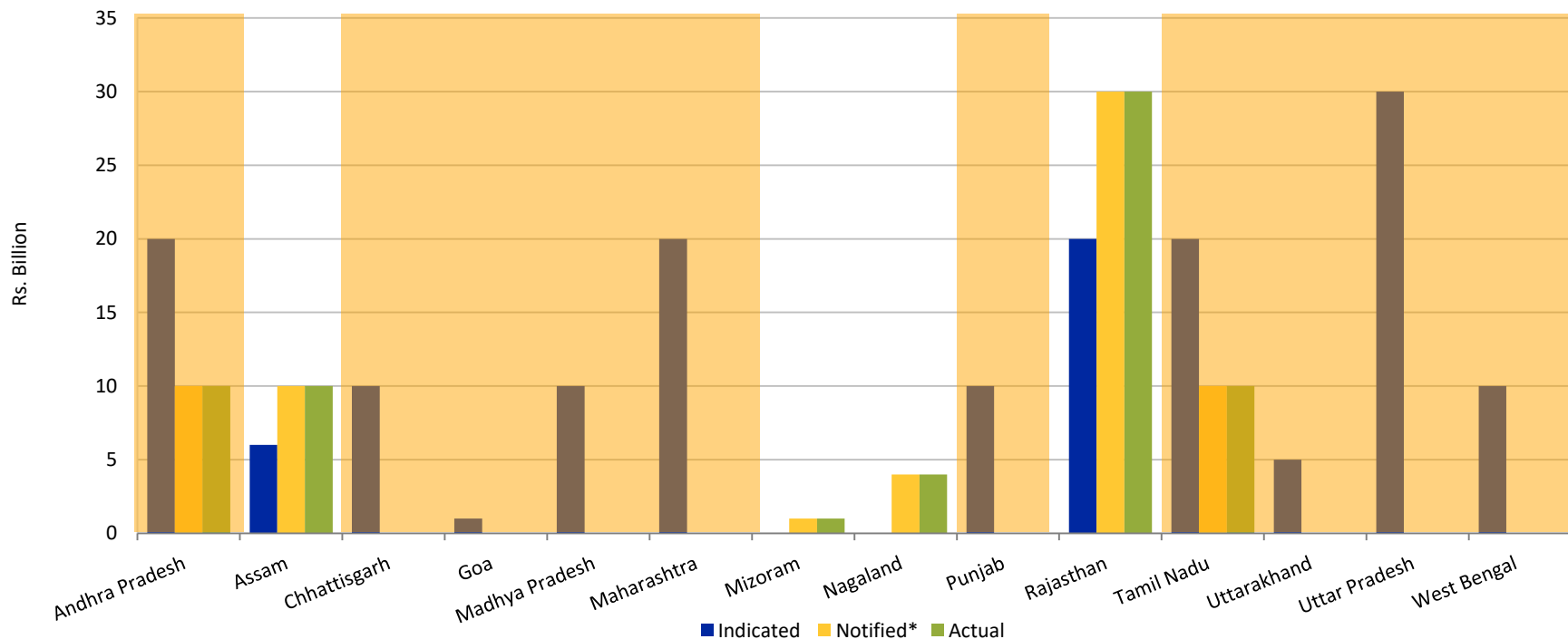


Note: *Including green shoe

Source: RBI; ICRA Research

Eight states, which had indicated to borrow Rs. 96 billion SDLs, did not participate in today's auction; two states borrowed Rs. 20 billion less than indicated

Exhibit: State-wise indicated, notified and actual SDL issuance on June 21, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SDLs softened by 9 bps to 7.85% today from last week

Exhibit: Tenor-wise SDL issuance and cut-offs on June 21, 2022

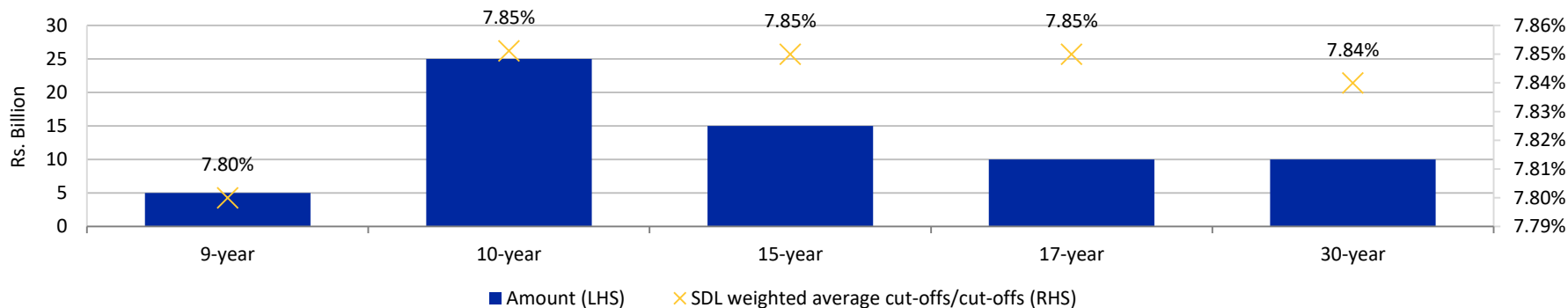
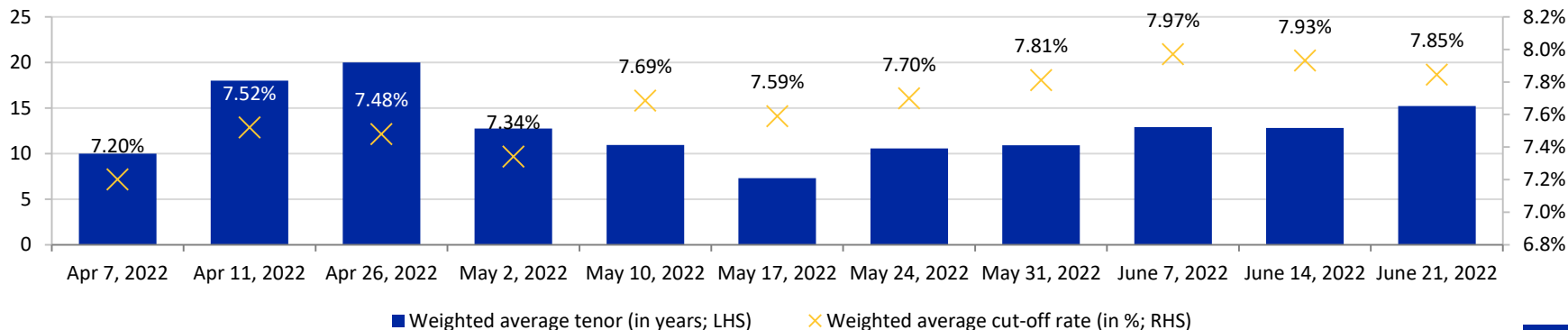
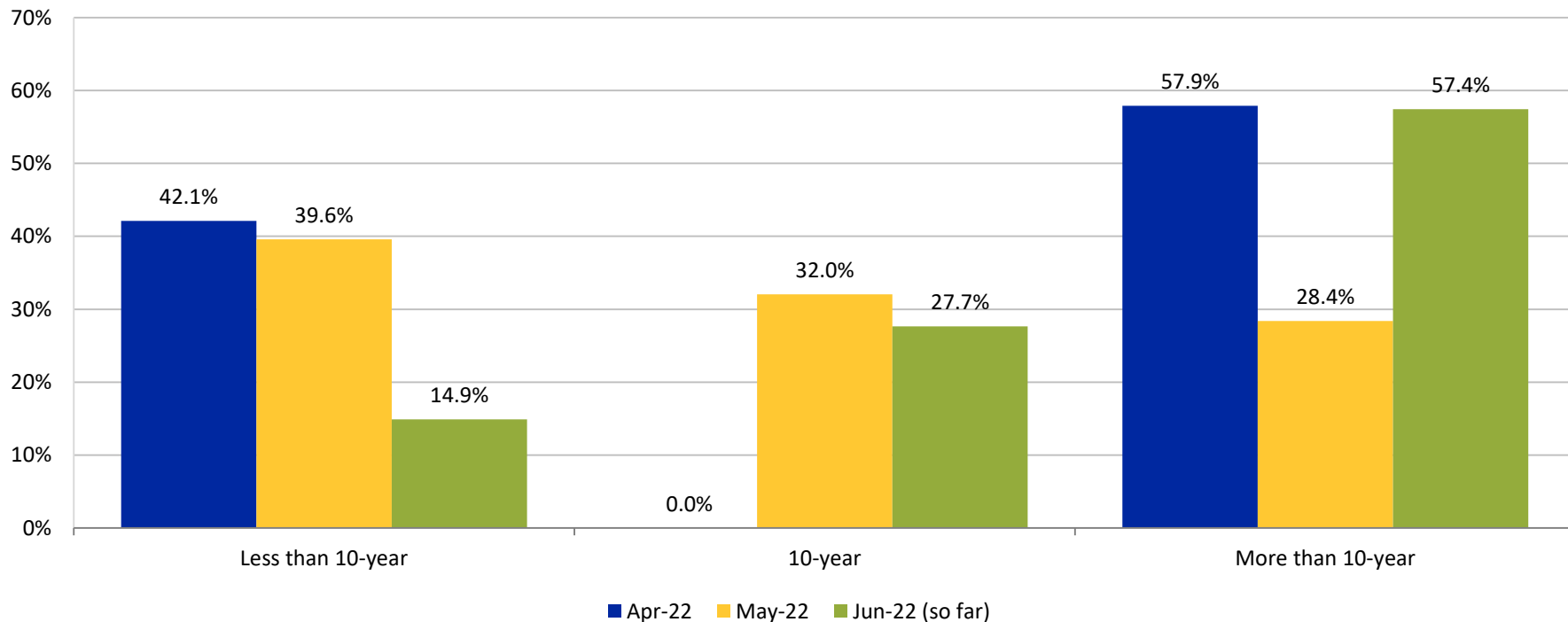


Exhibit: Weighted average cut-off and tenor of SDLs during April-June 21, 2022



Share of longer tenor issuances has risen to ~57% in June 2022 from ~28% in May 2022, similar to the level in April 2022

Exhibit: Classification of SDL issuance in Q1 FY2023 (so far)



Spread between the 10-year SDL and G-sec increased mildly to 37 bps today from 36 bps last week

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

	May 24, 2022	May 31, 2022	June 7, 2022	June 14, 2022	June 21, 2022
Andhra Pradesh	7.71%				
Assam					7.86%
Goa		7.81%			
Gujarat		7.80%			
Haryana		7.81%		7.95%	
Jammu & Kashmir	7.72%				
Maharashtra	7.70%	7.81%	7.89%		
Manipur	7.69%	7.82%			
Mizoram					7.86%
Nagaland					7.88%
Rajasthan					7.83%
Tamil Nadu		8%		7.94%	
West Bengal	7.73%	7.83%			
Weighted Average 10-year SDL cut-offs (A)	7.72%	7.81%	7.89%	7.95%	7.85%
Minimum 10-year SDL cut-off	7.69%	7.80%	7.89%	7.94%	7.83%
Maximum 10-year SDL cut-off	7.72%	7.82%	7.89%	7.95%	7.88%
10-year G-sec closing yield (B)	7.36%	7.42%	7.52%	7.58%	7.48%
Spread (A-B)	36 bps	40 bps	37 bps	36 bps	37 bps

Fewer states availed WMA and OD in April 2022 compared to April 2021; Increased usage of these facilities by Telangana due to delay in borrowing permission

Exhibit: Number of days the WMA facilities were availed by states/UTs during Apr 2021 and 2022

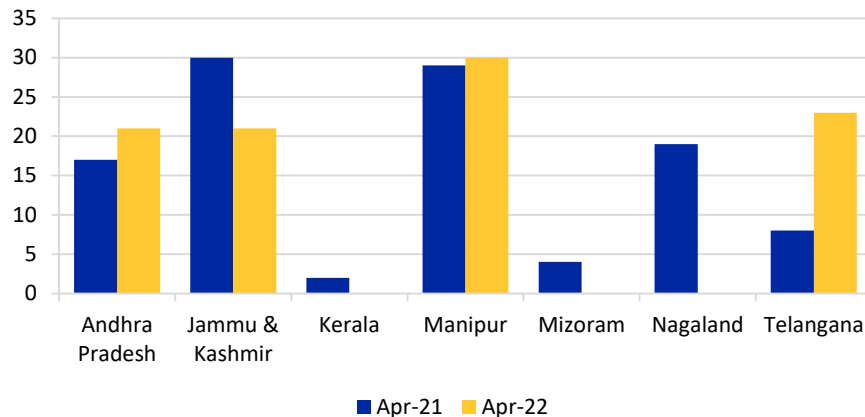
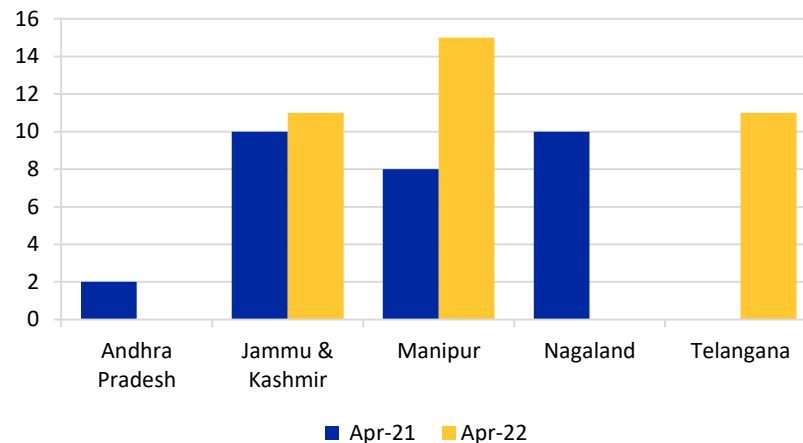


Exhibit: Number of days in OD during April 2021 and April 2022



- On a YoY basis, WMA usage declined to 95 days in April 2022 from 109 days in April 2021. The number of states/UT also decreased to four from seven during the same period, with Kerala, Mizoram and Nagaland abstaining from tapping the WMA window.
- Although the number of states/UT availing of OD declined to three in April 2022 from four in April 2021 (with exclusion of Andhra Pradesh and Nagaland and inclusion of Telangana), the number of days for which these states/UT availed OD increased to 37 from 30 during the same period led primarily by Telangana. This could be on account of delay in receiving borrowing permission by the state government for FY2023 from the GoI.
- The decline in usage of these facilities by some states in April 2022 could be on account of their relatively comfortable cash position with the back-ended release of tax devolution.



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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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