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STATE GOVERNMENT FINANCES- Weekly SGS

Weighted average cut-off of SGS rises by 12 bps to 7.84% today

OCTOBER 25, 2022

Highlights

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14 states raised Rs. 252 billion in today's auction, ~3% higher than indicated

Weighted average cut-off of SGS increased by 12 bps to 7.84% today

Spread between 10-year SGS and G-sec yield rose to 39 bps today from 30 bps last week

In the second largest auction so far in FY2023, 14 state governments raised Rs. 252 billion through state government securities (SGS) on October 25, 2022, ~3% higher than the Rs. 245 billion indicated for this week in the Q3 FY2023 auction calendar. The weighted average cut-off of the SGS rose by 12 bps to 7.84% today from 7.72% in the last auction, with a rise in weighted average tenor to 13 years from 12 years. The 10-year G-sec (7.26 GS 2032) yield increased mildly to 7.44% today from 7.43% last Tuesday. The weighted average cut-off of the 10-year SGS jumped to 7.83% from 7.73% in the same period. Accordingly, the spread between the weighted average cut-off of 10-year SGS and the 10-year G-sec yield increased to 39 bps from 30 bps in the same period.

Haryana, Rajasthan, Uttar Pradesh (UP) and West Bengal (WB) raised Rs. 45 billion more than the amount that they had indicated in the Q3 FY2023 auction calendar. Additionally, Meghalaya borrowed Rs. 3 billion today, despite not having indicated its participation in the auction calendar for this week. In contrast, Karnataka, Punjab and Uttarakhand did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 25 billion for this week, and Goa, Gujarat and Madhya Pradesh borrowed Rs. 16 billion less than indicated.

In today's auction, Rs. 130 billion (or ~52% of the total) was in the longer tenors, Rs. 69 billion (~27%) in the 10-year bucket and the balance (~21%) was in the shorter tenors. Notably, Kerala issued a 22-year SGS at a cut-off of 7.81% and Tamil Nadu issued a 20-year SGS at a cut-off 7.83% in today's auction. These cut-offs were in line with or lower than the weighted average for the 10-year SGS, and softer than the cut-off of 11 to 18 years securities raised by Madhya Pradesh, Rajasthan, UP, WB today's auction.

Overall, the cumulative SDL issuance of Rs. 3.5 trillion by 22 state governments and two Union Territories (UTs) during October 25, 2022, is ~6% lower than the year-ago level (Rs. 3.7 trillion).

SGS issuance has declined by ~6% during Apr-Oct 25, 2022, on a YoY basis, led by 20 states/UT

Exhibit: SGS issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of October 25, 2022	245	277	252	3,468
Week of October 26, 2021	173	211	205	3,684
Growth	41.7%	31.1%	22.9%	-5.9%

Exhibit: Cumulative SGS issuance during Apr-Oct 25, 2022, and year-ago level
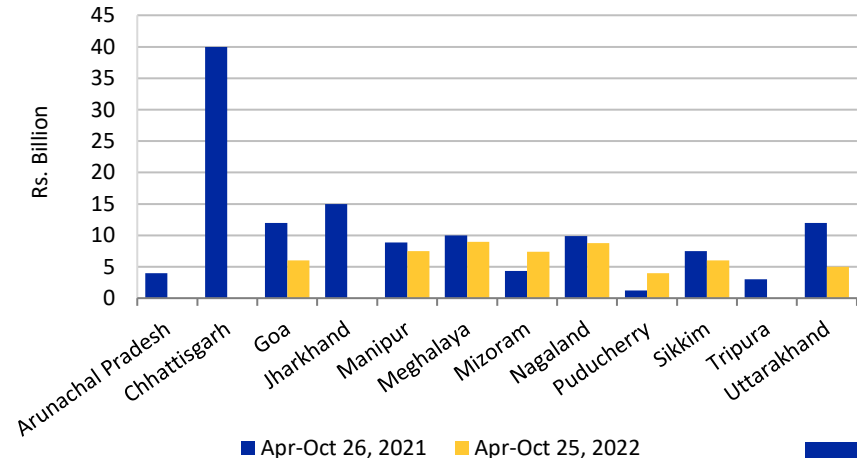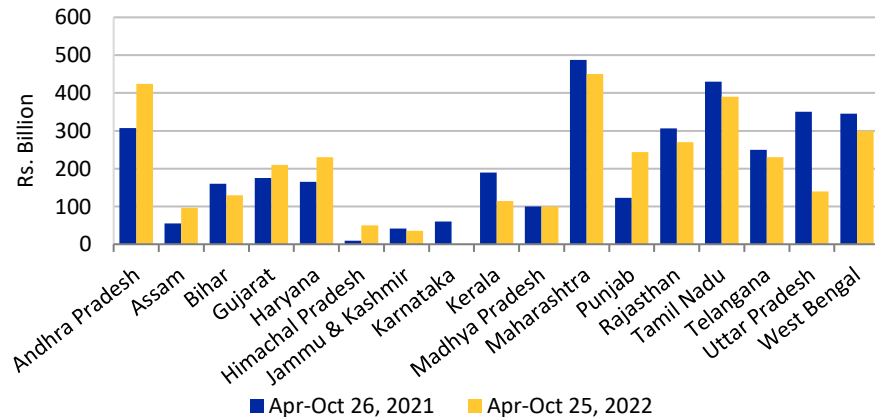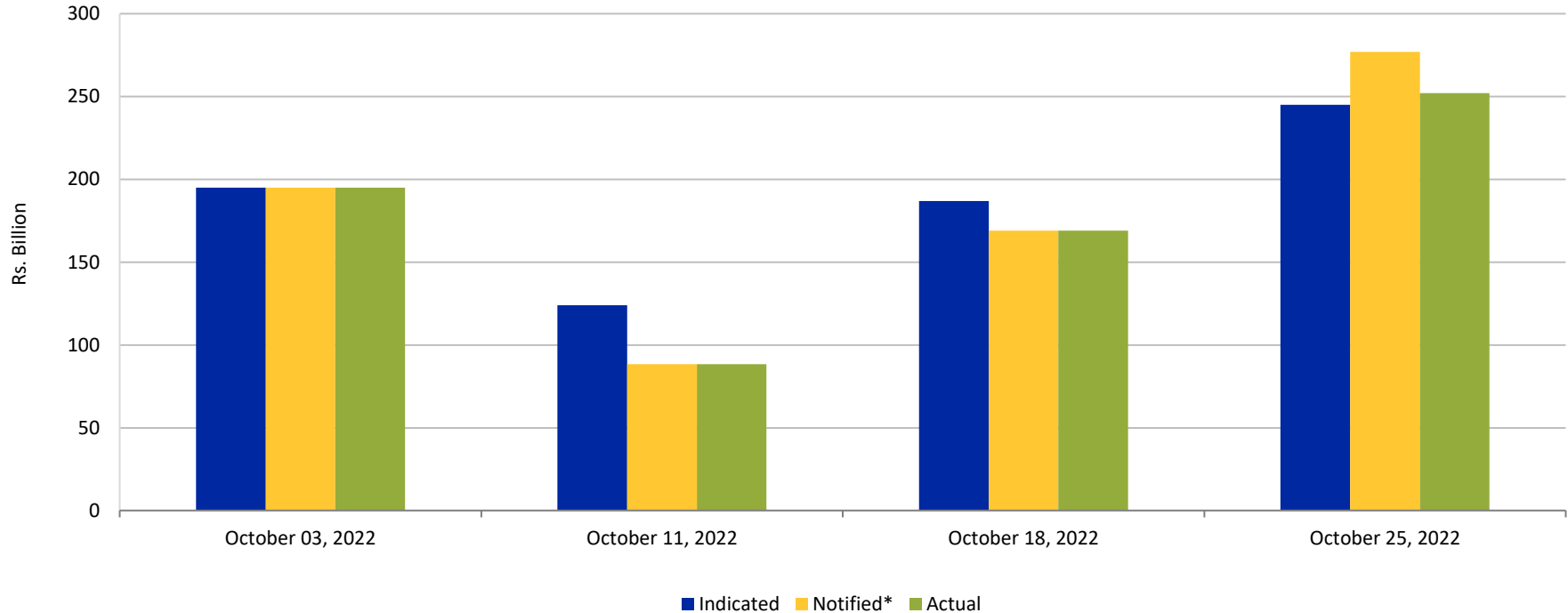

Note: *Including green shoe
Source: Reserve Bank of India (RBI); ICRA Research

Today's SGS issuance was ~3% higher than initially indicated, albeit lower than notified for the week

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**Exhibit: Indicated, notified and actual SGS issuances in Q3 FY2023 (so far)**

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

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Haryana, Rajasthan, UP and WB raised an additional Rs. 45 billion today and Meghalaya borrowed Rs. 3 billion even though it had not indicated its participation

Exhibit: State-wise indicated, notified and actual SGS issuance on October 25, 2022

Legend: ■ Indicated ■ Notified* ■ Actual
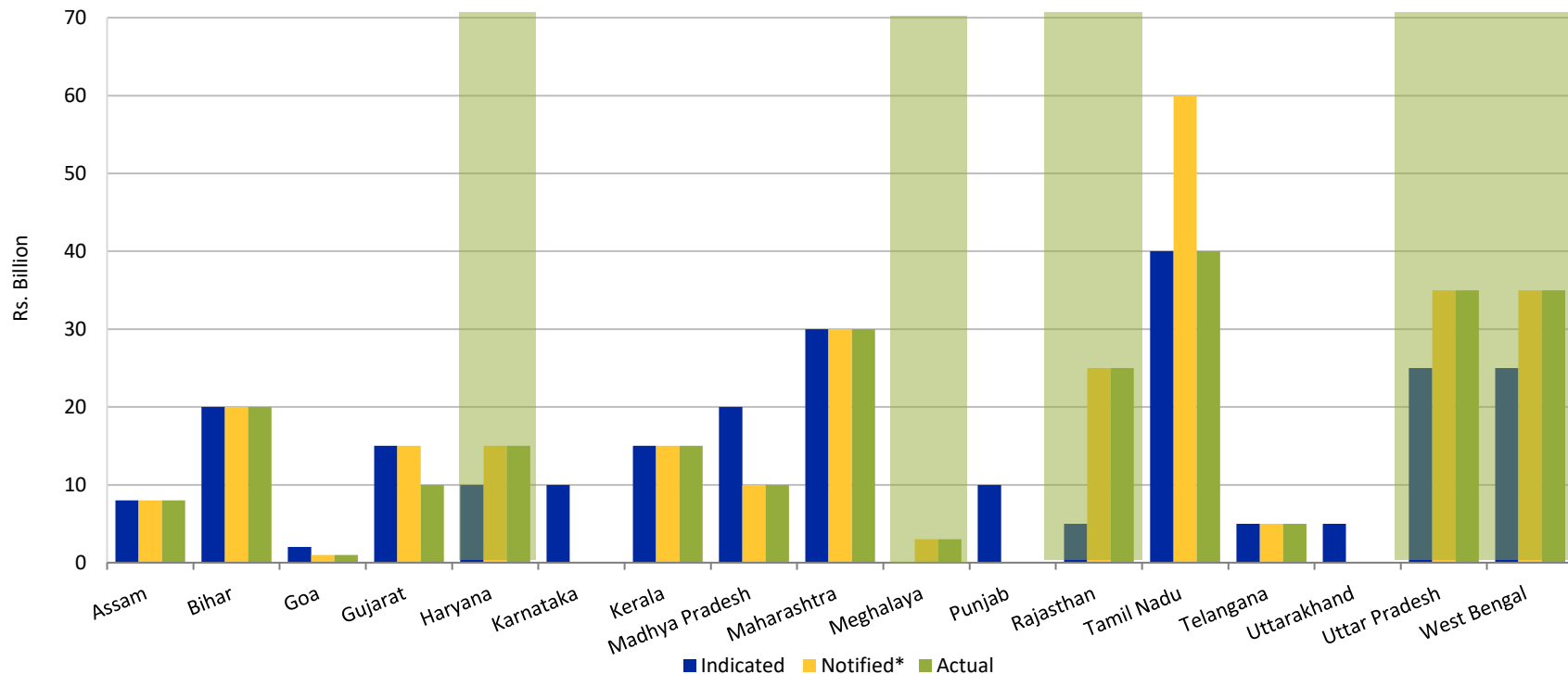
Note: *Including green shoe
Source: RBI; ICRA Research

Weighted average cut-off of SGS rose by 12 bps to 7.84% today from last week

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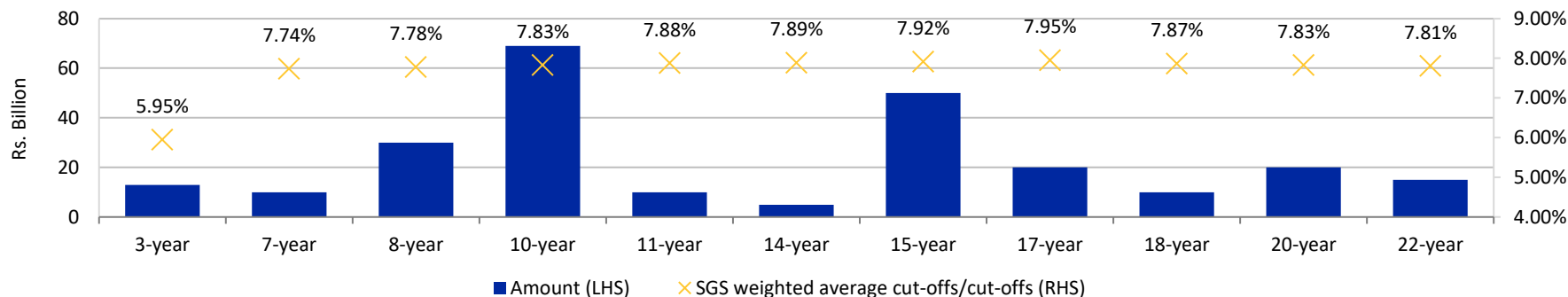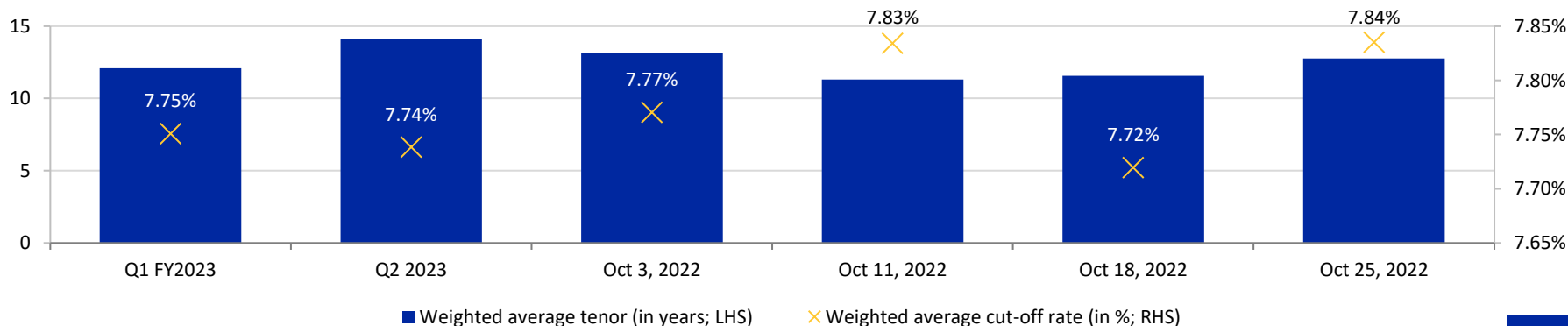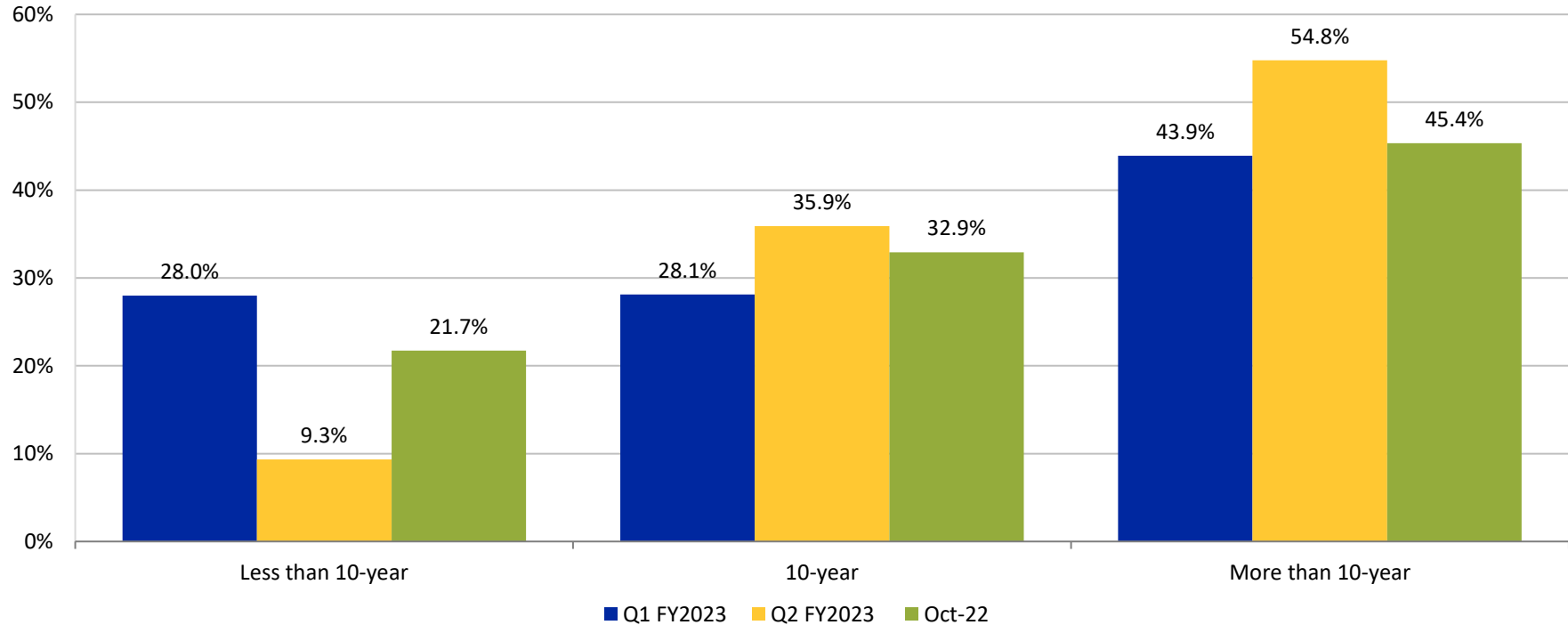**Exhibit: Tenor-wise SGS issuance and cut-offs on October 25, 2022**

Chart showing Amount (LHS) in Rs. Billion (bars) and SGS weighted average cut-offs/cut-offs (RHS) across tenors:

Tenor	Cut-off
3-year	5.95%
7-year	7.74%
8-year	7.78%
10-year	7.83%
11-year	7.88%
14-year	7.89%
15-year	7.92%
17-year	7.95%
18-year	7.87%
20-year	7.83%
22-year	7.81%

■ Amount (LHS) ✕ SGS weighted average cut-offs/cut-offs (RHS)

Exhibit: Weighted average cut-off and tenor of SGS during FY2023 (so far)

Period	Weighted average cut-off rate
Q1 FY2023	7.75%
Q2 2023	7.74%
Oct 3, 2022	7.77%
Oct 11, 2022	7.83%
Oct 18, 2022	7.72%
Oct 25, 2022	7.84%

■ Weighted average tenor (in years; LHS) ✕ Weighted average cut-off rate (in %; RHS)

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Nearly 45% of the total issuance has been in the longer tenors in Q3 FY2023 (so far), lower than ~55% in Q2 FY2023

Exhibit: Classification of SGS issuance in FY2023 (so far)

Chart: Classification of SGS issuance by tenor

- Less than 10-year: Q1 FY2023 = 28.0%, Q2 FY2023 = 9.3%, Oct-22 = 21.7%
- 10-year: Q1 FY2023 = 28.1%, Q2 FY2023 = 35.9%, Oct-22 = 32.9%
- More than 10-year: Q1 FY2023 = 43.9%, Q2 FY2023 = 54.8%, Oct-22 = 45.4%

Legend: ■ Q1 FY2023 ■ Q2 FY2023 ■ Oct-22

Spread between the 10-year SGS and G-sec yields rose to 39 bps today from 30 bps last week

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

	September 27, 2022	October 3, 2022	October 11, 2022	October 18, 2022	October 25, 2022
Assam			7.85%		7.84%
Bihar	7.69%		7.85%	7.73%	7.85%
Goa	7.69%			7.74%	7.83%
Gujarat		7.75%	7.81%		
Haryana	7.67%		7.83%		7.81%
Maharashtra	7.64%				
Manipur	7.71%				
Mizoram		7.78%			
Rajasthan	7.65%	7.79%			7.84%
Sikkim			7.85%		
Tamil Nadu		7.79%			7.82%
Uttar Pradesh	7.68%	7.81%			
Uttarakhand			7.85%		
West Bengal	7.68%				
Weighted Average 10-year SGS cut-offs (A)	**7.67%**	**7.79%**	**7.83%**	**7.73%**	**7.83%**
Minimum 10-year SGS cut-off	**7.64%**	**7.75%**	**7.81%**	**7.73%**	**7.81%**
Maximum 10-year SGS cut-off	**7.71%**	**7.81%**	**7.85%**	**7.74%**	**7.85%**
10-year G-sec closing yield (B)	**7.29%**	**7.47%**	**7.43%**	**7.43%**	**7.44%**
Spread (A-B)	**38 bps**	**32 bps**	**41 bps**	**30 bps**	**39 bps**

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