



STATE GOVERNMENT FINANCES

Actual borrowings in Q4 FY2025 could modestly trail the indicated level, led by expected undershooting in capex

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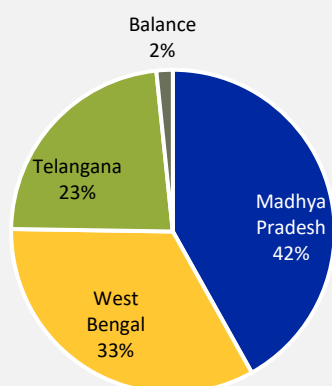


SUMMARY



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Exhibit: State-wise share in incremental Q4 FY2025 indicative SGS issuance of Rs. 704 billion



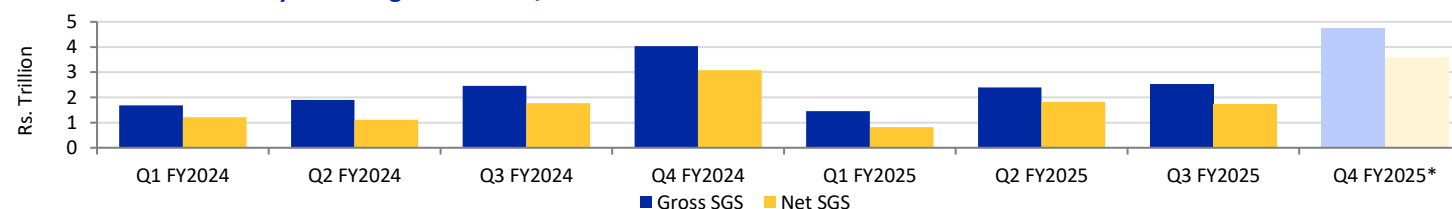
Source: RBI; ICRA Research

The Reserve Bank of India (RBI) has pegged the gross issuance of State Government Securities (SGS) at Rs. 4.7 trillion for Q4 FY2025, implying a year-on-year (YoY) expansion of ~17% (Rs. 4.0 trillion in Q4 FY2024). Madhya Pradesh (MP), Telangana and West Bengal (WB) comprises nearly the entire incremental indicated amount of Rs. 704 billion for Q4 FY2025 relative to the year-ago level. The high amount planned for borrowing in Q4 FY2025 could be on account of some states opting to communicate to the RBI the balance amount left after raising the funds in the first nine months out of the total sanctioned amount for FY2025 by the Government of India (GoI). This does not necessarily indicate the actual intent of a state to borrow to the full extent included in the indicative calendar for Q4 of a fiscal.

Based on the provisional data of the state governments for FY2025 released by the Controller General of Accounts (CAG), the capital spending of 20 states (excluding Arunachal Pradesh, Goa, Himachal Pradesh, Jharkhand, Nagaland, Manipur, Meghalaya, Mizoram) contracted by 2.7% during April-November FY2025 from the year ago level. The high 50.6% YoY growth or Rs. 5.0 trillion required to be spent during Dec-Mar FY2025 for meeting the combined budgeted capex of Rs. 8.8 trillion of the 20 states, appears challenging. If the actual capex of 20 states in FY2025 is around 80-90% of the BE, the spending during the last four months of FY2025 could be around Rs. 3.3-4.1 trillion, compared to Rs. 3.3 trillion in Q4 FY2024. We expect several states to recalibrate their borrowings in Q4 FY2025 relative to the indicated amount, based on their capacity to bridge the large gap between the actual and the budgeted capex for FY2025. Accordingly, at present, we have retained our full-year estimate of SGS issuance for FY2025 at Rs. 10.5-11 trillion. Based on this ICRA expects the gross SGS issuance in Q4 FY2025 to be around Rs. 4.1-4.6 trillion, modestly lower than the indicated Rs. 4.7 trillion.

If the gross SGS raised in Q4 FY2025 are in line with the indicated amount, the total borrowing in FY2025 would expand by 10.5% to Rs. 11.1 trillion from Rs. 10.1 trillion in FY2024. After adjusting for the estimated redemptions of Rs. 3.2 trillion, the net SGS issuance is pegged at Rs. 7.9 trillion in FY2025, 10.6% higher than Rs. 7.2 trillion in FY2024.

Exhibit: Net and Gross SGS by all state governments/UTs



Note: * Q4 FY2025 based on Q4 indicative borrowing calendar

Source: RBI; ICRA Research

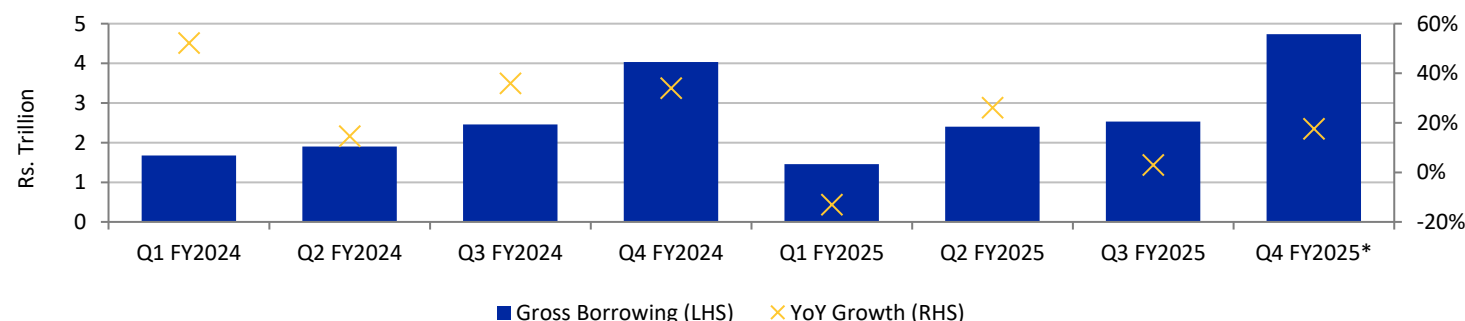
28 states and 2 UTs have indicated borrowings of Rs. 4.7 trillion for Q4 FY2025, 17.5% higher on a YoY basis

GROSS SGS ISSUANCE IN Q4 FY2025 INDICATED AT RS. 4.7 TRILLION, 17% HIGHER ON A YoY BASIS

The auction calendar of market borrowings by 28 state governments and two Union Territories (UTs) for Q4 FY2025 released by the RBI on Dec 31, 2024, has placed the total market borrowing at Rs. 4.7 trillion. This implies a considerable YoY growth of 17.5% on the back of gross issuance of Rs. 4.0 trillion in Q4 FY2024 (versus indicated Rs. 4.1 trillion; ~34% YoY growth; refer Exhibit 1). We estimate the SGS redemptions to increase to Rs. 1.2 trillion in Q4 FY2025 from Rs. 954 billion in Q4 FY2024. Accordingly, the net SGS issuance in Q4 FY2025 is assessed at Rs. 3.6 trillion, 16% higher than the actual net issuance of Rs. 3.1 trillion in Q4 FY2024.

In our understanding, for Q4, some state governments tend to indicate the entire amount left after reducing their actual borrowings in the first nine months of a fiscal from the total borrowings for the full year that is sanctioned to them by the GoI. This does not necessarily indicate their actual intent to borrow to the full extent included in the indicative calendar for Q4.

Exhibit 1: Gross SGS issuance by all state governments/UTs and their YoY growth



Note: * FY2025 based on Q4 indicative borrowing and YoY growth is over actual SGS issued in Q4 FY2024

Source: RBI; ICRA Research

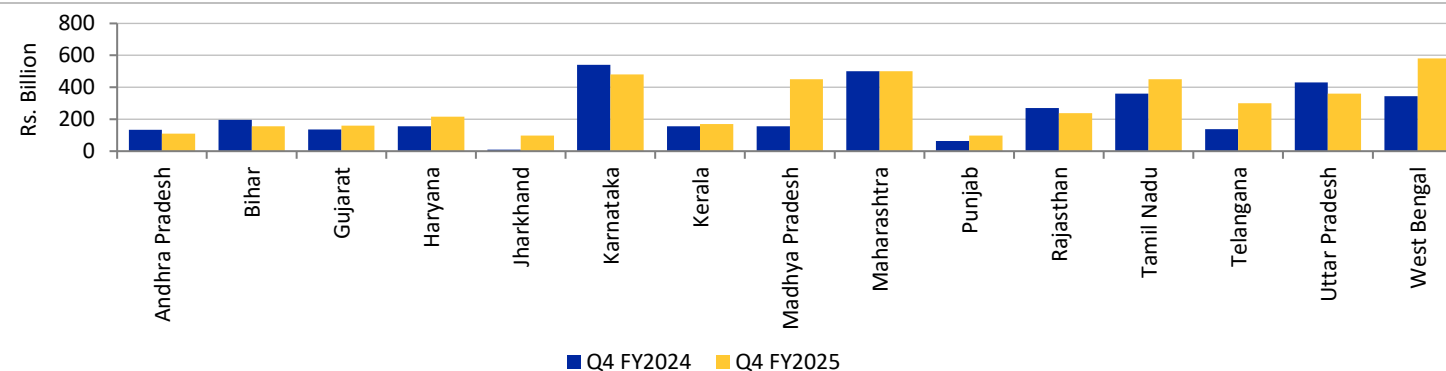
The Q4 FY2025 auction calendar has pegged the SGS issuance in Jan 2025 at Rs. 1.47 trillion or 31% of the indicated Rs. 4.7 trillion. The size of the four SGS auctions in Jan 2025 will vary widely between Rs. 247 billion and Rs. 486 billion. Subsequently, Rs. 1.52 trillion SGS is proposed to be issued in February 2025 (32% of the total), in four weekly auctions, with the size of the auctions ranging between Rs. 296 billion and Rs. 499 billion. The balance Rs. 1.7 trillion (37% of the total) SGS indicated for Q4 FY2025 is to be issued in four auctions in March 2025, with a weekly size ranging from Rs. 386 billion to Rs. 541 billion.

MP has indicated gross issuance of Rs. 450 billion in Q4 FY2025 (refer Exhibit 2), which is Rs. 295 billion higher than the amount borrowed in Q4 FY2024 (Rs. 155 billion). Further, WB has indicated to borrow Rs. 580 billion (highest among 30 states/UTs) in the Q4 auction calendar, sharply higher than the Rs. 345 billion that it had raised in Q4 FY2024. Telangana plans to raise Rs. 300 billion in Q4 FY2025, more than double the amount

Combined incremental borrowing of MP, WB and Telangana is indicated at Rs. 693 billion for Q4 FY2025, comprises ~98% of the total increase of Rs. 704 billion from the year-ago level

it borrowed in Q4 FY2024 (Rs. 137 billion). This pegs those incremental borrowings in Q4 FY2025 compared to Q4 FY2024 of MP, WB and Telangana at Rs. 295 billion, Rs. 235 billion and Rs. 163 billion, respectively. The combined incremental borrowing of these three states (Rs. 693 billion), accounts for nearly 98% of the total increase of Rs. 704 billion from Q4 FY2025.

Exhibit 2: State-wise actual issuance in Q4 FY2024 and indicated issuance in Q4 FY2025 (top 15 states)



Source: RBI; ICRA Research

The actual borrowings of MP and WB in Q4 FY2024 were equivalent to 40% and 58%, respectively, of their indicated amounts. However, the extent of undershooting in the actual borrowings by these states in the last quarter of recent years relative to the indicated amount has been mixed. Telangana's actual borrowing in the last quarter tends to be higher than indicated. If these states borrow in line with the past trends, we expect the actual borrowing of MP and WB to trail the indicated amount by 20-40%.

Interestingly, several states, including Uttar Pradesh (by Rs. 70 billion), Karnataka (by Rs. 60 billion) and Rajasthan (by Rs. 34 billion) have indicated a modest step-down of up to Rs. 75 billion in Q4 FY2025 relative to the actual issuances in Q4 FY2024, while Chhattisgarh has indicated a relatively larger drop of Rs. 170 billion.

ICRA EXPECTS SGS ISSUANCES IN Q4 FY2025 TO TRAIL THE INDICATED AMOUNT WITH CAPEX TO LAG THE FY2025 BE

The provisional fiscal monthly data of the state governments for FY2025 that was released by the Controller General of Accounts (CAG) reveals that the capital expenditure and net lending of 20 states in Apr-Nov FY2025 stood at Rs. 3.7 trillion. This is ~3% lower than the capital spending of Rs. 3.9 trillion by these states during Apr-Nov FY2024 (~40% YoY growth). **The contraction in capex in the first eight months of FY2025,**

Full utilisation of the allocated capex loan for FY2025 appears unlikely

Upside in tax devolution likely to be modest

reflected several factors including, a lull in capital spending during the early part of FY2025 due to Parliamentary Elections, subsequent disruptions due to heavy monsoon rainfall in some of the states and a high base.

The combined capex spending by 20 state governments during Apr-Nov FY2025 was equivalent to 43% of their aggregate budgeted capex of Rs. 8.8 trillion for FY2025. During the last three years, the actual combined capex of 27 states (except Goa) had undershot the BE by 10-20% amid wide state-wise variation. We expect this trend to continue in FY2025 as the high 50.6% YoY growth or Rs. 5.0 trillion required during Dec-Mar FY2025 for meeting the combined budgeted capex of the 20 states, appears challenging. If the actual capex of 20 states in FY2025 is around 80-90% of the BE, the spending during the last four months of FY2025 could be around Rs. 3.3-4.1 trillion, compared to Rs. 3.3 trillion in Q4 FY2024.

While states would fund a major portion of the capex by borrowing from the market, they would also avail funds under the “Special Assistance as Loan to States for Capital Expenditure” scheme of the GoI (capex loans). Till November 24, 2024, the GoI has disbursed Rs. 506 billion to the states (Source: Lok Sabha’s website) under the capex loan scheme, 34% of the allocated amount of Rs. 1.5 trillion for FY2025 (refer Exhibit 3). **The moderate pace of off-take of the capex loan in the first eight months of FY2025 and the fulfilment of the prescribed conditions by states before availing this loan, raises doubts over the full utilisation of the allocated amount for FY2025.**

Exhibit 3: Trends in progressive approvals and releases under capex loans

Amount in Rs. Billion		Q1	Q2	Q3	Q4	Total
FY2023	Approval	0	511	260	180	951
	Releases	-	-	411	401	813
FY2024	Approval	633	306	72	265	1,276
	Releases	268	268	80	481	1,096
FY2025	Approval	338	168	NA		NA
	Releases	149	152	205*		506*

Note: * Data available till Nov 24, 2024 for releases

Source: Ministry of Finance, India; Lok Sabha; Press Information Bureau (PIB) release; ICRA Research

Additionally, the GoI has disbursed Rs. 9.0 trillion as tax devolution to the state governments during April-December FY2025. Excluding this amount from the budgeted Rs. 12.5 trillion for FY2025, implies that Rs. 3.5 trillion needs to be devolved to the states during Q4 FY2025. This is ~9% lower than the Rs. 3.8 trillion transferred to the states during Q4 FY2024. Based on the trends in the gross tax revenues of the GoI during April-November FY2025, we expect only a modest upside in tax devolution for FY2025. ICRA expects the undershooting in capex to lead to recalibration of the borrowing requirements for Q4 FY2025, relative to the planned issuances.

ICRA retains the estimate of gross SGS issuance Rs. 10.5-11 trillion for FY2025

If the gross SGS issuance for Q4 FY2025 is in line with the indicated amount of Rs. 4.7 trillion, the gross SGS issuance of FY2025 will stand at Rs. 11.1 trillion

ICRA RETAINS ESTIMATE OF GROSS SGS ISSUANCE AT Rs. 10.5-11.0 TRILLION IN FY2025

In April 2024, we had forecast gross SGS issuance in FY2025 at Rs. 10.5-11 trillion (refer Exhibit 4). Based on ICRA's estimate of FY2025 GSDP, we had projected the aggregate net borrowing limit of the state governments at Rs. 9.7 trillion for FY2025.¹ This implies that the gross SGS issuance would be around Rs. 4.1-4.6 trillion for Q4 FY2025, modestly below the indicated amount for this quarter.

Exhibit 4: Net and gross SGS issuance estimate in FY2025 and YoY growth as per ICRA's estimate

Amount in Rs. Trillion	FY2024		FY2025		YoY Growth	
		Scenario I	Scenario II	Scenario I	Scenario II	
Net Borrowing	7.2	7.3	7.8	1.5%	8.3%	
Redemption	2.9	3.2	3.2	10.3%	10.3%	
Gross Borrowing	10.1	10.5	11.0	4.0%	8.8%	

Source: RBI; ICRA Research

If the gross SGS raised in Q4 FY2025 is in line with the indicated Rs. 4.7 trillion, the total borrowing in FY2025 would expand by 10.5% to Rs. 11.1 trillion from Rs. 10.1 trillion in FY2024 (refer Exhibit 5). After adjusting for the estimated redemptions of Rs. 3.2 trillion, the net SGS issuance is pegged at Rs. 7.9 trillion in FY2025, 10.6% higher than Rs. 7.2 trillion in FY2024.

Exhibit 5: Net and gross SGS issuance for FY2025 and YoY growth based on the Q4 FY2025 indicative calendar

Amount in Rs. Trillion	FY2024	FY2025	YoY Growth
Net Borrowing	7.2	7.9	10.6%
Redemption	2.9	3.2	10.1%
Gross Borrowing	10.1	11.1	10.5%

Source: RBI; ICRA Research

¹ Refer to ICRA's publication, '[Gross SGS issuance projected at Rs. 10.5-11.0 trillion in FY2025](#)' published in April 2024.



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