

## STATE GOVERNMENT FINANCES- Weekly SDL

**Augmented Central transfers in Jan-Feb 2022 helped reduce Q4 FY2022 SDL issuance below the auction calendar by Rs. 0.9 trillion, in line with our expectation**

**March 29, 2022**





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*15 state governments raised Rs. 309 billion SDLs, nearly 24% higher than indicated*

*Spread between the 10-year SDLs and G-sec increased to 50 bps today from 42 bps last week*

*In line with our expectations, Q4 FY2022 SDL issuance trailed the indicative level by ~38%, led by a few states*

In the final state development loans (SDLs) auction of FY2022 held on March 29, 2022, which was this fiscal's largest, 15 states raised Rs. 309 billion, a substantial ~24% higher than the amount that had initially been indicated for this week. Tamil Nadu, Kerala, Uttar Pradesh and West Bengal issued higher-than-indicated SDLs and accounted for nearly two-thirds of the total issuance today. The weighted average cut-off of the 10-year SDLs in today's auction hardened to 7.33% from 7.25% in the last week, while the 10-year benchmark G-sec (06:54 GS 2032) yield remained stable at 6.83% in the same period. Accordingly, the spread between the 10-year SDLs and G-sec rose to a nine-week high 50 bps today from 42 bps in the previous week.

In line with our expectations, the gross SDL issuance of Rs. 2,353 billion in Q4 FY2022 was a significant 37.7% lower than the Rs. 3,240 billion indicated in this quarter's auction calendar, benefitting from augmented transfers from the Government of India (GoI) to the states in the first two months of the quarter. This included (a) enhanced tax devolution in January 2022 (Rs. 951 billion) and February 2022 (Rs. 1,473 billion) (b) goods and services tax (GST) compensation grant of Rs. 180 billion and an ad-hoc settlement of Rs. 350 billion of Integrated GST revenues in January 2022, which eased the cash flow situation of the states in Q4 FY2022.

Nearly 81% of the lower-than-indicative issuance in Q4 FY2022 was on account of Maharashtra (by Rs. 175 billion), Andhra Pradesh (by Rs. 151 billion), Punjab (by Rs. 145 billion), Karnataka (by Rs. 130 billion) and Uttar Pradesh (by Rs. 118 billion). In contrast, six states/Union Territories (UTs), namely Tamil Nadu (by Rs. 92 billion), Rajasthan (by Rs. 62 billion), Jammu & Kashmir (by Rs. 9 billion), West Bengal (by Rs. 7 billion), Manipur (by Rs. 3 billion) and Puducherry (by Rs. 1 billion), borrowed more than indicated in Q4 FY2022. Moreover, issuance in Q4 FY2022 was a mild 3.1% lower than the year-ago level (Rs. 2,430 billion).

The weighted average cut-off of SDLs stood at 7.17% in Q4 FY2022, higher than the cut-off of 6.78% in Q4 FY2021 as well as from 6.88-6.89% during first three quarters of FY2022. The weighted average cut-off of the shorter tenor, 10-year and the longer tenor SDLs issued in Q4 FY2022 stood at 6.62%, 7.21% and 7.31%, respectively, remaining higher than the cut-offs in the same period last year and the preceding three quarters of FY2022.

*Gross and net SDL issuance in FY2022 was ~12% and ~24% lower than FY2021, respectively*

*States/UTs raised a higher proportion of longer tenor SDLs in FY2022*

*Weighted average cut-off SDLs in FY2022 stood at 6.98%, a sharp 43 bps higher than last year*

*Spreads between 10-year SDLs and G-sec narrowed to 64 bps in FY2022 from 74 bps in FY2021*

On a YoY basis, the gross SDL issuance declined by 12.2% to Rs. 7.0 trillion in FY2022 from Rs. 8.0 trillion in FY2021, led by 21 states and 2 UTs. Adjusting for the estimated SDL redemptions of Rs. 2.1 trillion in FY2022, the net SDL issuance stood at Rs. 4.9 trillion, 24.4% lower than Rs. 6.5 trillion in FY2021. ~85% of the YoY decline in gross SDL issuance in FY2022 was led by Madhya Pradesh (by Rs. 236 billion), Gujarat (by Rs. 137 billion), Uttar Pradesh (by Rs. 130 billion), Karnataka (by Rs. 100 billion), Chhattisgarh (by Rs. 90 billion), Punjab (by Rs. 72 billion) and Rajasthan (by Rs. 62 billion). In contrast, West Bengal (by Rs. 77 billion), Telangana (by Rs. 19 billion) and Bihar (by 12 billion) were amongst the seven states that raised more SDLs in FY2022 compared to FY2021.

In terms of tenor wise profile, the share of 10-year maturity bucket in total SDL issuance in FY2022 (38.5%) was similar to FY2021 (39.2%). However, the states displayed a preference for longer tenor SDLs with their share increasing to 45.3% in FY2022 from 33.0% in FY2021. This was offset by a decline in the share of shorter tenor SDLs to 16.2% in FY2022 from 27.7% in FY2021.

The weighted average cut-off of the SDLs issued in FY2022 stood at 6.98%, nearly 43 bps higher than 6.55% in FY2021. The weighted average cut-off of the shorter, 10-year and longer tenor SDLs increased to 6.53%, 7.01% and 7.13%, respectively, in FY2022 from 5.85%, 6.81% and 6.84%, respectively, in FY2021.

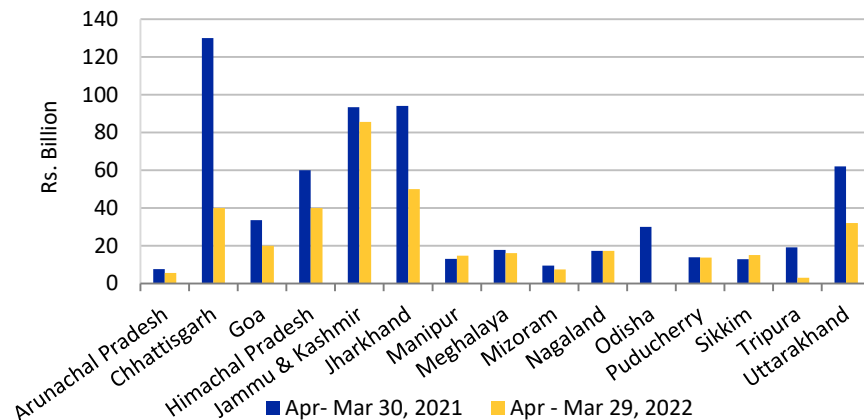
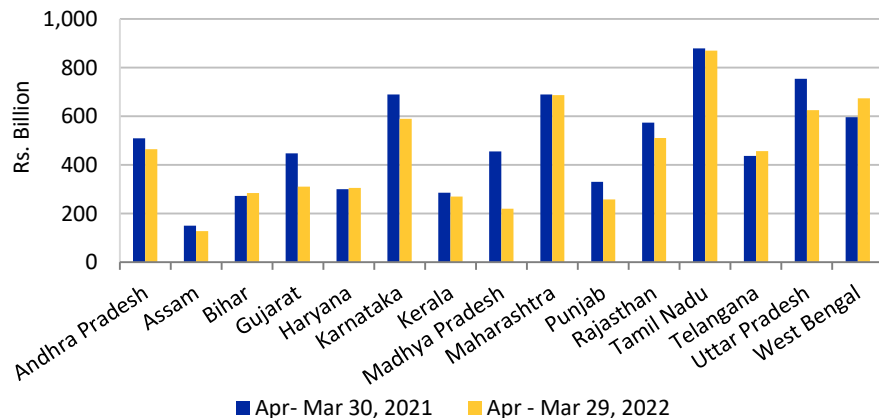
The average spread between 10-year SDL and G-sec remained elevated in a range of 71-84 bps during Apr-Aug FY2022. The spreads moderated to 57-65 bps during Sep-Nov FY2022, before touching a low of 49 bps in Dec FY2022. This reflected lower than indicated issuance in Nov-Dec FY2022 on account of step-up in tax devolution and disbursement of GST related flows by the GoI to the states. Subsequently, with the release of the Q4 auction calendar indicating a large supply of SDLs, the spreads increased to 61 bps in January 2022. However, with the actual issuances in 8 out of the 9 weekly auctions in Feb-Mar FY2022 being lower than indicated, the spreads narrowed to 41 bps in these two months. Overall, the average spread between the 10-year SDLs and G-sec narrowed to 64 bps in FY2022 from 74 bps in FY2021, reflecting the compressed spreads in Q4 FY2022 compared to the trend in the recent years.

# SDL issuance declined by 12.2% in FY2022 on a YoY basis, led by 23 states/UT

Exhibit: SDL issuances during FY2022

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of March 29, 2022	249	379	309	7,016
Week of March 30, 2021	260	220	206	7,988
Growth	-4.2%	71.7%	49.5%	-12.2%

Exhibit: Cumulative SDL issuance during FY2021 and FY2022



Note: \*Including green shoe

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

# Weighted average cut-off of 10-year SDLs hardened by 8 bps to 7.33% today, possibly reflecting the large auction size

Exhibit: Tenor-wise SDL issuance and cut-offs on March 29, 2022

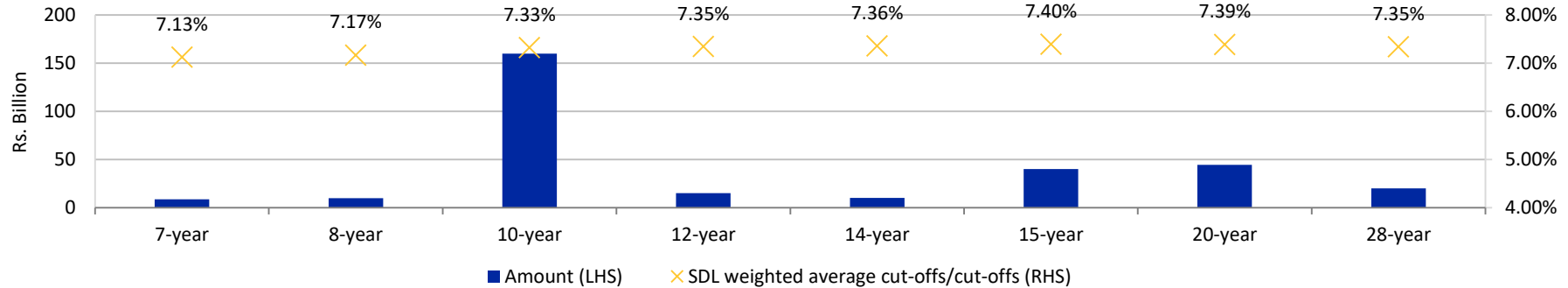
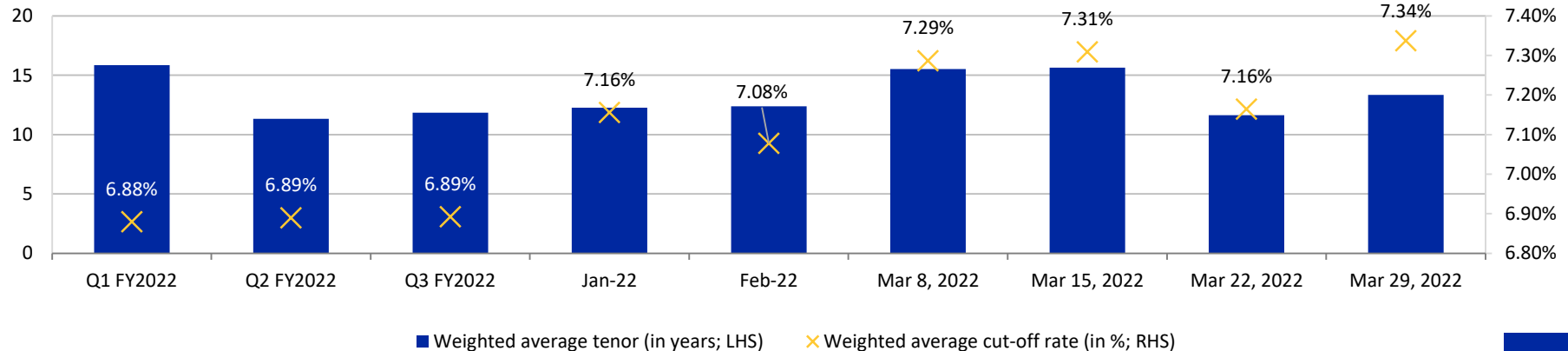
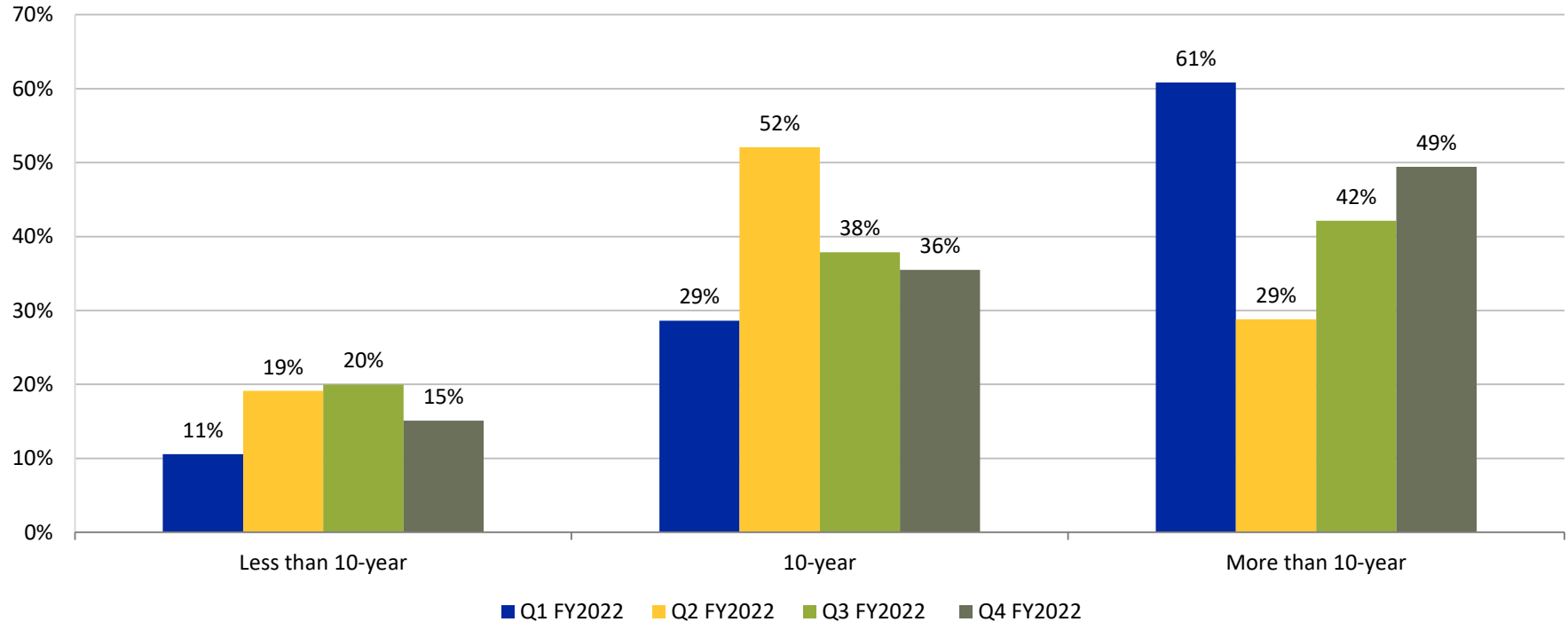


Exhibit: Weighted average cut-off and tenor of SDLs during April- March 29, 2022



# Share of longer tenor SDLs rose to ~49% in Q4 FY2022 from ~29% and ~42%, respectively, in Q2 and Q3 FY2022

Exhibit: Classification of SDL issuance in FY2022



# Spread between the 10-year SDLs and G-sec rose to 50 bps today from 42 bps in the last auction, with the rise in cut-off of the former

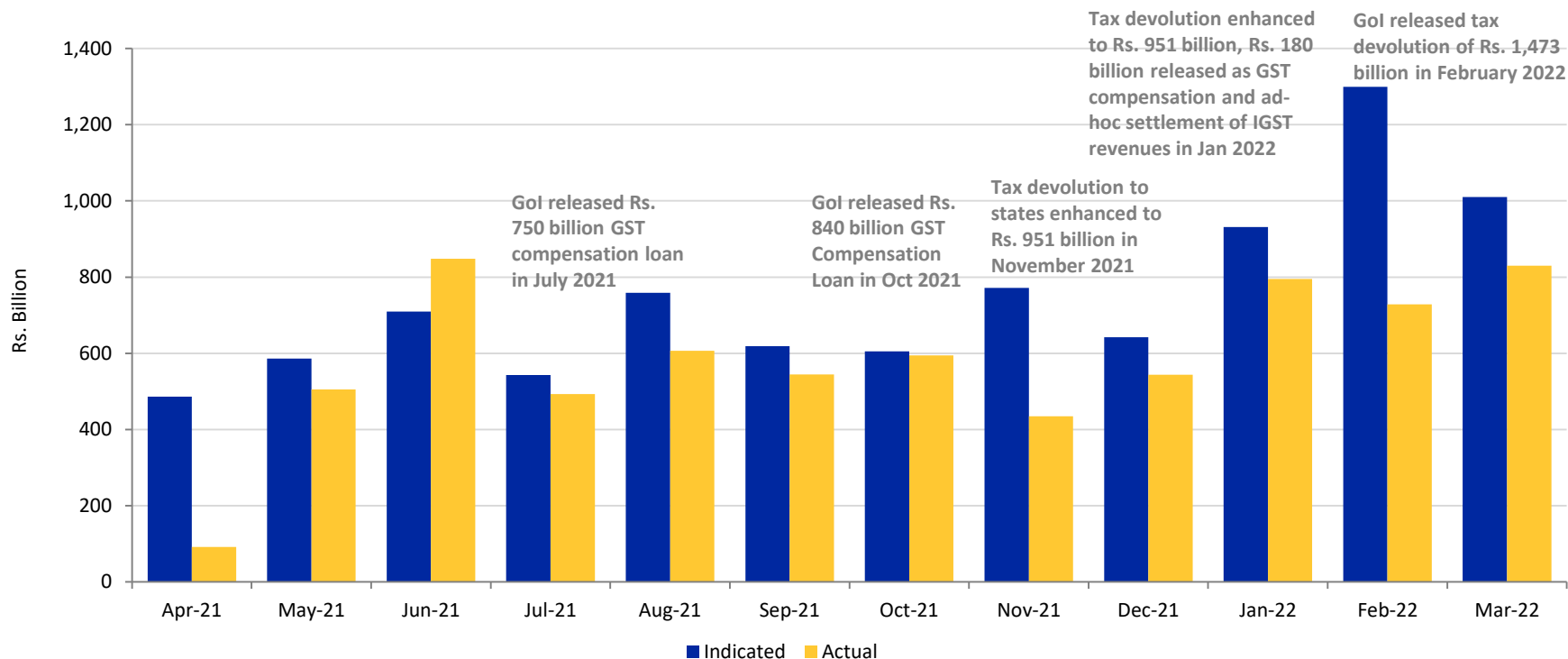
Exhibit: 10-year SDL and G-sec cut-offs

10-year SDL cut-offs	Feb 28, 2022	March 8, 2022	March 15, 2022	March 22, 2022	March 29, 2022
Assam					7.33%
Bihar	7.17%				
Goa	7.15%				7.34%
Gujarat	7.12%	7.25%			7.29%
Haryana		7.25%		7.26%	
Kerala	7.17%				7.31%
Manipur					7.34%
Meghalaya				7.27%	
Nagaland					7.34%
Rajasthan			7.22%	7.24%	7.29%
Sikkim			7.24%		7.35%
Tamil Nadu	7.14%	7.25%	7.19%	7.23%	7.30%
Uttar Pradesh					7.34%
Uttarakhand					7.34%
West Bengal	7.17%				7.36%
<b>Weighted Average 10-year SDL cut-offs (A)</b>	<b>7.16%</b>	<b>7.25%</b>	<b>7.20%</b>	<b>7.25%</b>	<b>7.33%</b>
<b>Minimum 10-year SDL cut-off</b>	<b>7.12%</b>	<b>7.25%</b>	<b>7.19%</b>	<b>7.23%</b>	<b>7.29%</b>
<b>Maximum 10-year SDL cut-off</b>	<b>7.17%</b>	<b>7.25%</b>	<b>7.24%</b>	<b>7.27%</b>	<b>7.36%</b>
<b>10-year G-sec closing yield (B)</b>	<b>6.77%</b>	<b>6.89%</b>	<b>6.82%</b>	<b>6.83%</b>	<b>6.83%</b>
<b>Spread (A-B)</b>	<b>39 bps</b>	<b>36 bps</b>	<b>38 bps</b>	<b>42 bps</b>	<b>50 bps</b>

Source: RBI; ICRA Research

# Actual issuance trailed the indicated amount by ~22% in FY2022

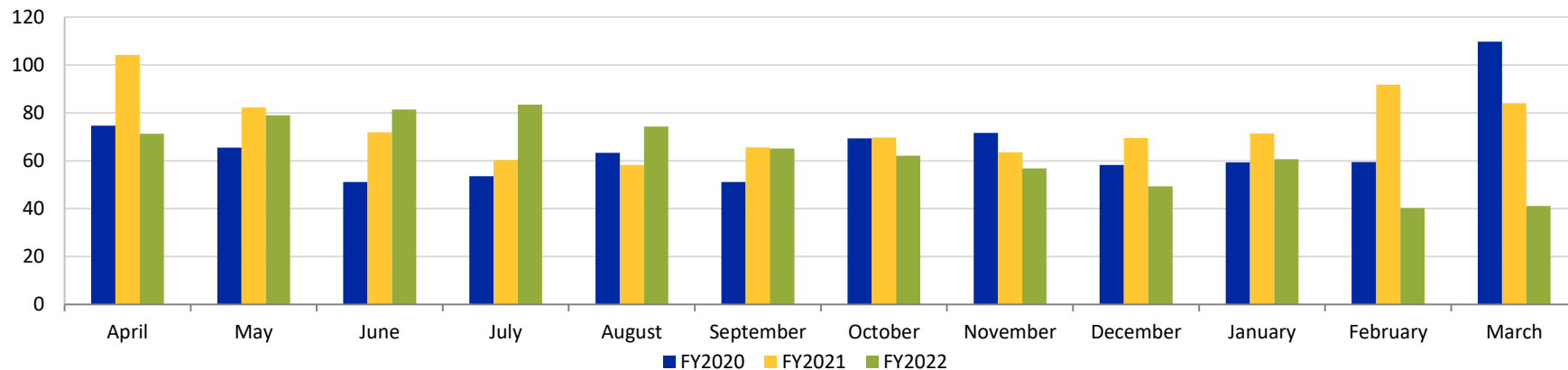
Exhibit: Indicated and actual SDL issuances in FY2022





# Spread between 10-year SDLs and G-sec narrowed to 64 bps in FY2022 from 74 bps in FY2021, on account of compressed spreads in Q4 FY2022

**Exhibit: Month-wise average spreads between cut-off of 10-year SDLs and G-sec**



**Exhibit: Weighted average cut-offs of SDLs**

	FY2021					FY2022				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Shorter tenor SDLs	5.97%	5.44%	5.77%	6.18%	5.85%	6.43%	6.54%	6.46%	6.62%	6.53%
Longer tenor SDLs	7.18%	6.70%	6.77%	6.94%	6.84%	6.98%	7.05%	7.04%	7.31%	7.13%
10-year SDLs	7.02%	6.60%	6.58%	6.97%	6.81%	6.83%	6.93%	6.95%	7.21%	7.01%
Total SDLs	6.58%	6.29%	6.50%	6.78%	6.55%	6.88%	6.89%	6.89%	7.17%	6.98%



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