

After soaring last week, states' debt cost falls below 7%

Synopsis

With 13 states collectively raising Rs 23,378 crore at the latest auction, 28 states and two Union territories have cumulatively raised Rs 7.14 lakh crore from the market so far this fiscal. The latter amount is 31 per cent more than the year-ago period when it stood Rs 5.45 lakh crore.



Tamil Nadu, Maharashtra, UP, Karnataka, Rajasthan and Andhra have been the top six borrowers accounting for 53 per cent of the total borrowings so far.

After jumping to an 11-month high at 7.19 per cent at the last auctions, states' cost of market borrowing moderated on Tuesday at the latest round of state development loan auctions wherein 13 states raised Rs 23,378 crore at an average price of 6.92 per cent.

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Care Ratings

NSE -0.39 %

Significantly, the yields on the bonds moderated from a near record high last week to 6.92 per cent, down 27 basis points.

The weighted average cost of borrowings across states and tenures stood at 6.92 per cent, which is cheaper by 27 bps compared to 7.19 per cent on February 23, the agency said.

However, the yields for longer tenure securities (10-year bonds) continues to be elevated, having risen in tandem with the GSec yields in recent weeks. Low demand for government securities (issued by both the Centre and states) amid the surge in supply of these securities have been pushing up the yields.

Despite the prevalence of surplus liquidity in the banking system and OMOs (Open Market Operations), bond yields have been high, indicative of the low investor appetite for these securities, as per Care Ratings.



The weighted average yields of the 10-year state bonds across states stood at 7.18 per cent, nearly stable at week ago levels (7.19 per cent) and continued to be at levels seen last in mid-April 2020.

The spread between the 10-year state bonds and GSecs declined marginally by 1 bp from week ago levels of 113 bps.

Meanwhile, there has been a notable year-on-year increase in the market borrowings of large states like MP (112 per cent), Rajasthan (57 per cent), Maharashtra (54 per cent), Karnataka (43 per cent), Tamil Nadu (37 per cent), Telangana (36 per cent) and Andhra Pradesh (28 per cent).

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