

State Government Borrowings – 12 January 2021

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Ten states raised a total of Rs.12,294 crores at the auction of the state government securities or state development loans (SDLs) held today. Assam was scheduled to raise Rs.1,000 crores at the auction through the issue of two securities of tenure 5 and 10 years but did not accept any amount.

So far in the current fiscal year (7 Apr'20 -12 Jan'21), 28 states and 2 UTs have cumulatively raised a total of Rs.5.82 lakhs crores via market borrowings, 37% more than the borrowings in the corresponding period of 2019-20 (Rs. 4.25 lakh crores). The states have so far raised 71% of the scheduled market borrowings as per the indicative calendar for 2020-21.

The average weekly SDL borrowings so far in 2020-21 have been Rs.16,253 crores.

Table 1: Auction of State Development Loans of State Governments: 12 January'21

State	Notified Amount (Rs Crs)	Amount Raised (Rs Crs)	Cut Off Yield (%)	Tenure (Yrs)
Andhra Pradesh	1000	1000	6.63	16
Assam	500	0	NA	4
	500	0	NA	10
Bihar	2000	2000	5.72	5
Chhattisgarh	1000	1000	5.97	6
Mizoram	90	90	6.64	11
Punjab	500	500	6.63	30
Rajasthan	1000	1000	6.61	10
Sikkim	204	204	6.64	10
Tamil Nadu	2000	2000	6.57	10
Uttar Pradesh	2500	2500	6.61	10
West Bengal	2000	2000	6.63	20

Source: RBI

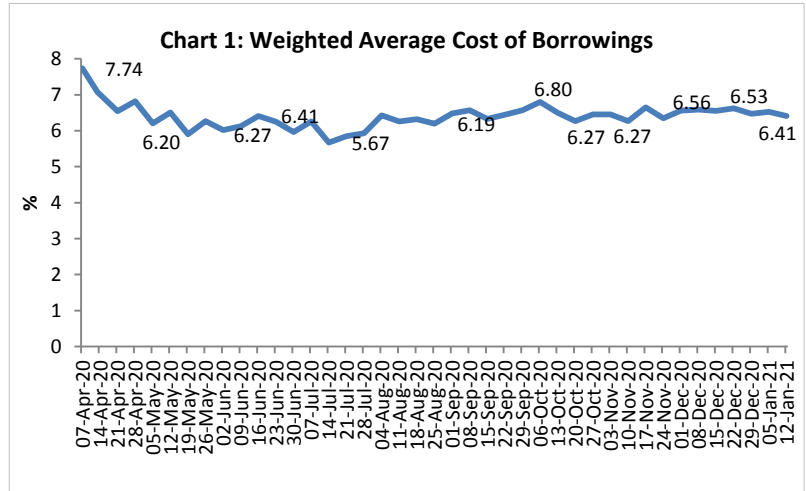
Decline in the cost of borrowings (weighted average)

- The borrowing cost for state governments at today's auction moderated to a seven weeks low.
- The weighted average cost of borrowing for the state government dated securities auctioned today; across states and tenures, at 6.41% was 11 bps lower than a week ago (6.53% on 5 Jan'21).

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Despite the RBI announcing on Friday that it would be resuming normal liquidity operation that could result in the liquidity surplus in the banking system moderating, the weighted average cost of borrowing for the state governments witnessed a decline. This can be attributed to expectation that the RBI would continue with its open market purchase of GSecs and SDLs which in turn would anchor yields of the same. The sustained liquidity surplus in the banking system along with the OMO purchases by the RBI has been keeping yields of government securities low despite the sharp increase in supply in the current financial year.

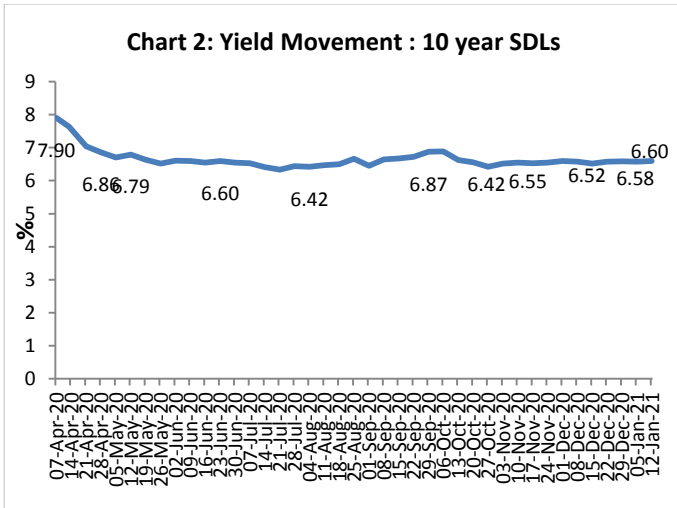
The RBI has so far purchased SDLs of Rs.30,000 crores via OMOs, spread across 3 auctions since late October'20.



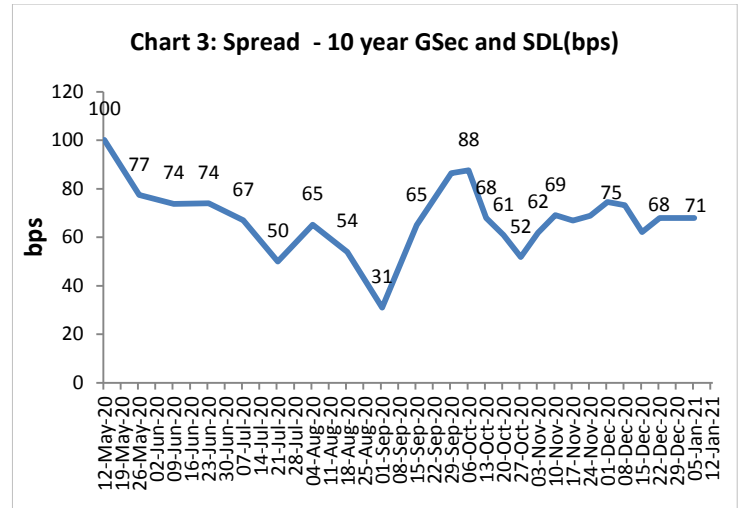
Source: CARE Ratings calculations

Widening of Spread over GSec

The (weighted average) yields of the 10 year SDLs (across states) at the auction held today at 6.60% was 2 bps higher than from week ago. The spread between the 10 year SDLs and GSecs rose by 4 bps to 71 bps.



Source: RBI and CARE Ratings calculations



State-wise Borrowings and weighted average cost of borrowings

States have been resorting to higher market borrowings to meet the shortfalls in their finances consequent to the sharp fall in the revenues due to the lockdown led disruptions in economic activity along with the increase in expenditure that is being incurred by them for controlling and mitigating the impact of the pandemic. The majority of the states have seen a notable increase in their market borrowing in the ongoing financial year as against a year ago. The year-on-year state-wise increase in market borrowings has been highlighted in table 2 below.

Only two states i.e. Odisha (lower by 25%) and Uttar Pradesh (1% lower) has borrowed less than year ago period. Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, and Rajasthan have been the top 5 borrowing states, accounting for 47% of the total borrowings so far in 2020-21.

There has been a notable year-on-year increase in the market borrowings of large states such as Maharashtra (by 128%), Madhya Pradesh (83%), Karnataka (71%), Andhra Pradesh (48%), Telangana (47%), Rajasthan (41%), and Tamil Nadu (30%).

Table 2: State-wise market borrowings (Rs. Crores)

	FY 20 (9 April-14 January'20)	FY 21 (7 April-12 January'21)	% change
Andhra Pradesh	31,967	47,250	48
Arunachal Pradesh	472	481	2
Assam	8,100	9,400	16
Bihar	16,642	22,000	32
Chhattisgarh	5,000	9,000	80
Goa	2,081	2,454	18
Gujarat	28,400	30,780	8
Haryana	18,001	22,500	25
Himachal Pradesh	3,000	4,000	33
Jammu & Kashmir	5,592	7,810	40
Jharkhand	2,000	5,000	150
Karnataka	32,100	55,000	71
Kerala	15,182	19,566	29
Madhya Pradesh	12,000	22,000	83
Maharashtra	28,500	65,000	128
Manipur	803	1,030	28
Meghalaya	745	1,415	90
Mizoram	450	864	92
Nagaland	650	1,284	98
Odisha	4,000	3,000	-25
Puducherry	600	650	8
Punjab	22,055	23,723	8
Rajasthan	29,332	41,411	41
Sikkim	593	1,131	91
Tamil Nadu	51,390	67,000	30
Telangana	25,124	37,034	47
Tripura	1,680	1,713	2
Uttar Pradesh	39,500	39,000	-1
Uttarakhand	2,350	4,200	79
West Bengal	37,010	37,000	0

Source: RBI and CARE Ratings

Table 3: Weighted average cost of borrowings state-wise (%)

	Apr-20	Oct-20	Dec'20	1-12 Jan'21
Andhra Pradesh	6.85	6.87	6.61	6.64
Arunachal Pradesh	7.98			
Assam	8.00	6.19	6.61	5.32
Bihar		5.34		5.72
Chhattisgarh		5.66	5.91	5.97
Goa	7.76	6.66	6.38	6.58
Gujarat	7.73	6.55	6.49	6.45
Haryana	8.00	6.72		
Himachal Pradesh		6.62	6.57	
Jammu & Kashmir	8.15	7.15	6.65	6.64
Jharkhand		6.76	6.68	6.66
Karnataka	7.87	6.66	6.59	
Kerala	8.32		6.20	
Madhya Pradesh	5.89	6.96	6.65	
Maharashtra	7.76	6.68		
Manipur	8.00	6.65	6.60	6.63
Meghalaya			6.60	
Mizoram	7.04		6.68	6.64
Nagaland	8.00	6.91	6.62	
Odisha	5.98	6.92		
Puducherry		5.75	6.64	
Punjab	6.86		6.69	6.63
Rajasthan	7.13	6.43	6.23	6.39
Sikkim	7.14			6.64
Tamil Nadu	7.00	5.9	6.58	6.55
Telangana	7.21	6.86	6.69	6.64
Tripura		6.55	6.65	
Uttar Pradesh	7.20	6.6	6.61	6.60
Uttarakhand	7.85	6.52		6.60
West Bengal	6.85	6.87	6.66	6.63

Source: CARE Ratings calculations

In terms of the cost of borrowings, the weighted average cost of borrowings has declined across states over the months as highlighted in table 3 above. For the state with large borrowing viz. Andhra Pradesh and Telangana, the weighted average cost of borrowings has declined by 22-23 bps since October'20. Among the states that raised market borrowings so far in January'21, the weighted average borrowing cost has been amongst the highest for Jharkhand (6.66%) and the lowest for Assam at 5.32%.

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