

State Government Borrowings: 5 January'21

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Thirteen states raised a total of Rs.15,050 crores at the auction of the state government securities or state development loans (SDLs) held today. While two states viz. Jharkhand and Telangana accepted an additional amount of Rs. 400 crores and Rs.2000 crores respectively over the notified amount of the auction, Assam did not accept any amount in its 10 year security.

So far in the current fiscal year (7 Apr'20 -5 Jan'21), 28 states and 2 UTs have cumulatively raised a total of Rs.5.70 lakhs crores via market borrowings, 41% more than the borrowings in the corresponding period of 2019-20 (Rs. 4.04 lakh crores). The states have so far raised 69% 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.16,352 crores.

Table 1: Auction of State Development Loans of State Governments: 05 January'21

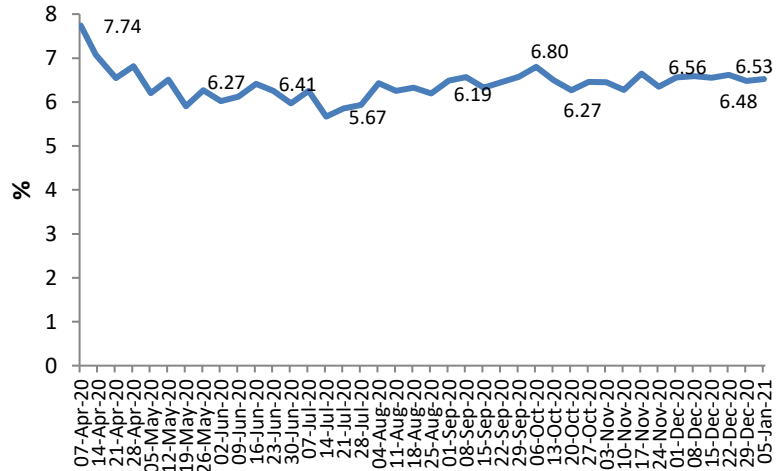
State	Notified Amount (Rs Crs)	Amount Raised (Rs Crs)	Cut Off Yield (%)	Tenure (Yrs)
Andhra Pradesh	1000	1000	6.64	18
	1000	1000	6.65	20
Assam	500	500	5.32	5
	500	-	-	10
Goa	100	100	6.58	10
Gujarat	1000	1000	6.45	9
UT of Jammu & Kashmir	500	500	6.64	15
Jharkhand	1000	1400	6.66	13
Manipur	150	150	6.63	10
Punjab	1700	1700	6.629	Re-issue of 6.65% Punjab SDL 2050
Rajasthan	600	600	5.82	6
	600	600	6.59	10
Tamil Nadu	2000	2000	6.53	10
Telangana	750	1000	6.64	30
Uttarakhand	500	500	6.6	10
Uttar Pradesh	3000	3000	6.6	10

Source: RBI

Increase in cost of borrowings (weighted average)

- The cost of borrowing for state governments at today's auction was higher than a week ago and saw a reversal of the decline seen a week earlier.
- The weighted average cost of borrowing for the state government dated securities (across states and tenures) auctioned today at 6.53% was 5 bps higher than a week ago (6.48% on 29 Dec'20).
- The firming of the cost of borrowings this week, despite the RBI's recent OMO purchase of SDL's (of Rs.10,000 crores on 23 Dec'20) can be attributed to concerns over the large borrowings by the government (centre and state) and consequently the high supply of government securities.

Chart 1: Weighted Average Cost of Borrowings



- Despite the increase in the weighted average yield of SDL on a weekly basis, the cost of borrowing for the state governments continued to be lower than that in early October'20 (by 27 bps). This decline in cost of borrowings can be attributed to the RBI's OMO purchase of SDLs aimed at stimulating demand for these securities amid increased supplies. The RBI has so far purchased SDLs of Rs.30,000 crores via OMOs spread across 3 auctions since late October'20.

Spread over GSec - Stable

The (weighted average) yields of the 10 year SDLs (across states) at the auction held today was stable at 6.58. The spread between the 10 year SDLs and GSecs too was stable at 68 bps since the last three weeks.

Chart 2: Yield Movement : 10 year SDLs

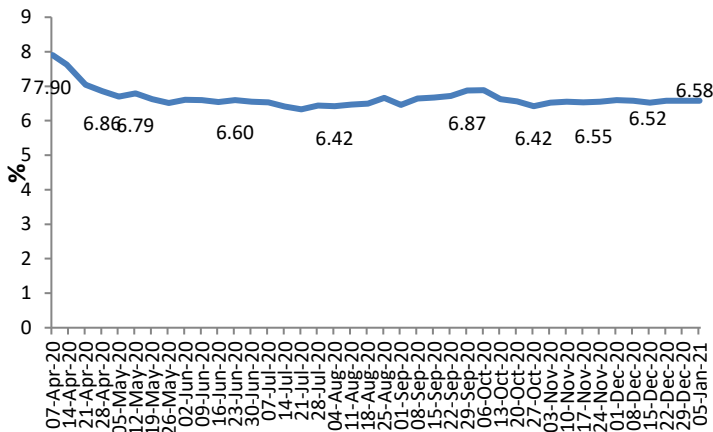
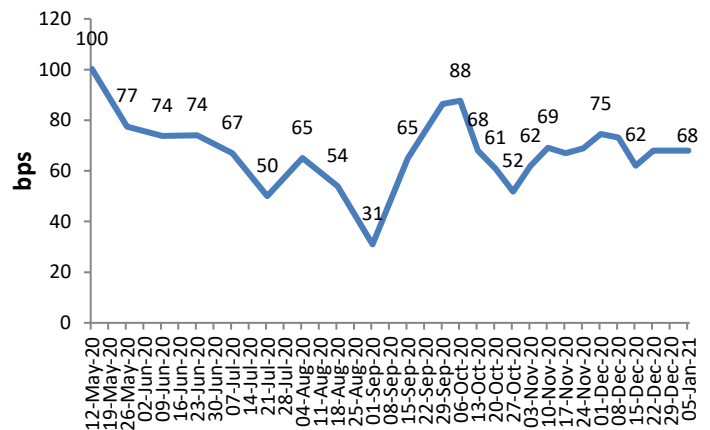


Chart 3: Spread - 10 year GSec and SDL(bps)



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 (3% lower) have borrowed less than year ago period. Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, and Rajasthan have been the top 5 borrowing states, accounting for nearly 50% 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 155%), Madhya Pradesh (100%), Karnataka (77%), Telangana (60%), Andhra Pradesh (60%) and Tamil Nadu (34%).

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

	FY 20 (9 April- 7 January'20)	FY 21 (7 April-5 January'21)	% change
Andhra Pradesh	28,967	46,250	60
Arunachal	472	481	2
Assam	8,100	9,400	16
Bihar	15,642	20,000	28
Chhattisgarh	5,000	8,000	60
Goa	2,081	2,454	18
Gujarat	27,400	30,780	12
Haryana	18,001	22,500	25
Himachal Pradesh	3,000	4,000	33
Jammu & Kashmir	4,992	7,810	56
Jharkhand	2,000	5,000	150
Karnataka	31,100	55,000	77
Kerala	14,682	19,566	33
Madhya Pradesh	11,000	22,000	100
Maharashtra	25,500	65,000	155
Manipur	803	1,030	28
Meghalaya	745	1,415	90
Mizoram	450	774	72
Nagaland	650	1,284	98
Odisha	4,000	3,000	-25
Puducherry	600	650	8
Punjab	21,355	23,223	9
Rajasthan	28,832	40,411	40
Sikkim	451	927	106
Tamil Nadu	48,390	65,000	34
Telangana	23,124	37,034	60
Tripura	1,680	1,713	2
Uttar Pradesh	37,500	36,500	-3
Uttarakhand	2,350	4,200	79
West Bengal	35,010	35,000	0

Source: RBI and CARE Ratings

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

	Apr-20	Oct-20	Dec'20	5 Jan'21
Andhra Pradesh	6.85	6.87	6.61	6.65
Arunachal Pradesh	7.98			
Assam	8.00	6.19	6.61	5.32
Bihar		5.34		
Chhattisgarh		5.66	5.91	
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	
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	6.21
Sikkim	7.14			
Tamil Nadu	7.00	5.9	6.58	6.53
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	

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, Rajasthan and Telangana, the weighted average cost of borrowings has declined by 22-23 bps since October'20.

Among the states that raised market borrowings at today's, the weighted average borrowing cost has been amongst the highest for Jharkhand (6.66%), followed by Andhra Pradesh (6.65%), Telangana and Jammu and Kashmir (at 6.64% each).

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