

CPSE ETF (FFO 5) (6th Tranche)

The government of India will launch a Further Fund Offer (FFO5) in the Central Public Sector Enterprises (CPSE) ETF. The Exchange Traded Fund (ETF) is managed by Reliance Nippon AMC. CPSE ETF was launched in order to facilitate Govt of India's initiative to dis-invest some of its stake in selected CPSEs through the innovative ETF route. Investors are being offered a 3% discount on the 'reference market price' of the underlying ETF shares. The CPSE ETF was launched in 2014 and has seen five tranches since then. The current offering is the sixth tranche. The CPSE ETF has 10 PSUs, but just 4 companies – ONGC, NTPC, Coal India and Indian Oil – make up as much as 80% of the ETF.

CPSE ETF FFO5 – Key Information:

- **Date:** FFO5 to open and close for:
 - Anchor investors on July 18 2019
 - Non anchor investor on July 19, 2019
- **Issue size:** Tentative between Rs 8000 crs to Rs 12000 crs (Base size of Rs 8000 crs plus additional size to be decided by GoI)
- **Discounts:** 3% upfront to all categories of investors purchased from GoI. Discount not applicable if individual shares purchased from open market.
- **Proposed category wise allocation:**
 - 30% to Anchor Investors and
 - Balance 70% to Retail Investors and QIB (Retirement Funds) (Includes Anchor Investors unsubscribed portion)
 - Residual portion (if any) from Retail Individual Investors and QIB (Retirement Funds) to be allocated to QIB (other than Retirement Funds) / NIIIs.

The current constituent as on 28th June, 2019:

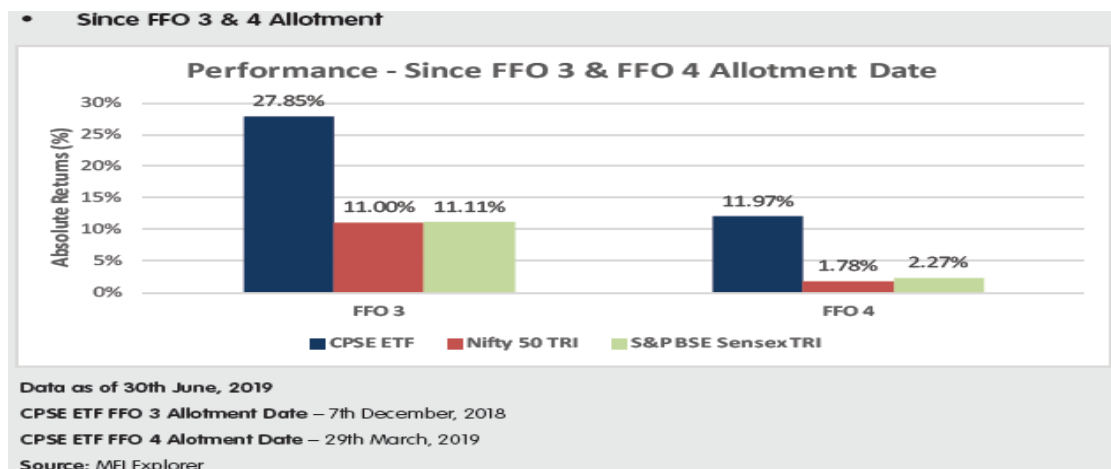
Company Name	Weightage (%)
Oil & Natural Gas Corporation Ltd	20
NTPC Ltd	20
Coal India Ltd	20
India Oil Corporation Ltd	20
Power Finance Corporation Ltd	7.8
Bharat Electronics Ltd.	6.04
Oil India Ltd.	3.01
NBCC (India) Ltd.	1.84
NLC India Ltd.	0.73
SJVN Ltd	0.58
Total	100

History:

Tranche	Launch Date	Offer Size (Rs)	Gross Collection (Rs)	Participation	Listing
NFO	Mar-14	3000 crs	4363 crs	37322 investors	04-Apr-14
FFO	Jan-17	6000 crs	13705 crs	270770 folios	31-Jan-17
FFO2	Mar-17	2500 crs	10083 crs	166460 folios	28-Mar-17
FFO3	Nov-18	17000 crs	31203 crs	189619 folios	10-Dec-18
FFO4	Mar-19	10000 crs	30464 crs	212145 folios	01-Apr-19
FFO5	Jul-19	8000 crs*			

* Tentative issue size between Rs 8000 crs to Rs 12000 crs (Base size of Rs 8000 crs plus additional size to be decided by GoI)

CPSE ETF Performance Snapshot:



Attractive Valuation and Superior Dividend Yield – Compared to Other Broader Indices

Index Name	P/E Ratio	P/B Ratio	Dividend Yield (%)
Nifty CPSE Index	9.37	1.58	4.89
Nifty 50 Index	28.98	3.71	1.24
Nifty Next 50 Index	46.00	4.07	0.91
Nifty 100 Index	30.43	3.75	1.20
Nifty 500 Index	30.96	3.41	1.17

Source: NSE. Data as of 28th June, 2019

Investment Rationale:

- Investment in bluechip Maharatna, Navaratna and Miniratna CPSE stocks
- Superior Dividend yields (4.89% viz a viz 1.24% for Nifty 50 Index)
- Listed on exchanges and hence flexibility of trading on real time basis
- Significantly lower expense ratio i.e 0.0095%
- Diversification across the 7 different sectors with 10 stocks amongst Public Sector Companies
- GOI has proposed in latest Union Budget on July 05, 2019 that it will provide an investment option in ETFs on the line of equity linked savings schemes (ELSS)

View:

CPSE ETFs has given better returns in the last few months and great tool of investments in PSEs. We believe that CPSE ETF may give opportunity for short-term traders, but have not been successful in creating alpha against the indices performance in longer timeframe. Further, GOI in recent budget has proposed to provide investment option in ETFs on the line of equity linked savings schemes (ELSS). Though it increases the options to save tax under Section 80C, investors need to be cautious as government ownership does not ensure capital protection in equity instruments.

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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