# CPSE ETF

## An Open Ended Index Exchange Traded Fund

MEHTA
REWARDING RELATIONSHIPS

### Investment Objective

The investment objective of the Scheme is to provide returns that, before expenses, closely correspond to the total returns of the Securities as represented by the Nifty CPSE Index, by investing in the Securities which are constituents of the Nifty CPSE Index in the same proportion as in the index.

### Fund Overview

**Benchmark Index**
Nifty CPSE Index

**Face Value**
Rs. 10

**Type of Scheme**
Open-ended index scheme, listed in exchange as ETF

**Load Structure**
Entry Load: Nil | Exit Load: Nil

**Fund Manager**
Ms. Payal Wadhwa Kaipunjal


**For More details and information**
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### What is it?

It is a unique financial product which operates like a mutual fund and holds stocks of 10 PSUs. The CPSE ETF basket consists of shares of ten big public sector units (PSUs) - Oil & Natural Gas Corp (ONGC), GAIL India, Coal India, Indian Oil, Oil India, Power Finance Corporation (PFC), Rural Electrification Corporation (REC), Container Corp, Engineers India and Bharat Electronics.

### Structure of the ETF

Nifty CPSE Index is constructed in order to facilitate the government of India's initiative to disinvest some of its stake in selected CPSEs. The government opted for the ETF route as one of the methods for disinvestment. The ETF shall track the performance of the Nifty CPSE Index. The index values are to be calculated by free-float market capitalisation methodology. The index has base date of 01-Jan-2009 and base value of 1000. Weights of index constituents shall be realigned (i.e. capped at 25%) every quarter e ective from 2nd Monday of February, May, August and November.

| Company | Broad Theme* | Weight |
|---|---|---|
| Oil & Natural Gas Corporation Ltd | Energy | 24.35% |
| Coal India Ltd | Energy | 20.54% |
| Oil India Ltd | Energy | 3.39% |
| Indian Oil Corporation Ltd | Other Oil PSUs | 17.96% |
| GAIL (India) Ltd | Other Oil PSUs | 11.17% |
| Container Corporation of India Ltd | Infra. & Engineering | 5.04% |
| Bharat Electronics Ltd | Infra. & Engineering | 4.33% |
| Engineers India Ltd | Infra. & Engineering | 2.26% |
| Power Finance Corporation Ltd | PSU Financials | 5.58% |
| Rural Electrification Corporation Ltd | PSU Financials | 5.21% |

*Sectors are classified under four broad themes; Weight as on Dec - 16

The exchange traded fund of select central public enterprises was launched in Mar 2014. It was for the first time that government of India chose the ETF route to divest its holding in PSUs. The NFO was a major success as investors across category found value in this innovative route. There were also some unique incentives o ered during the NFO period like –

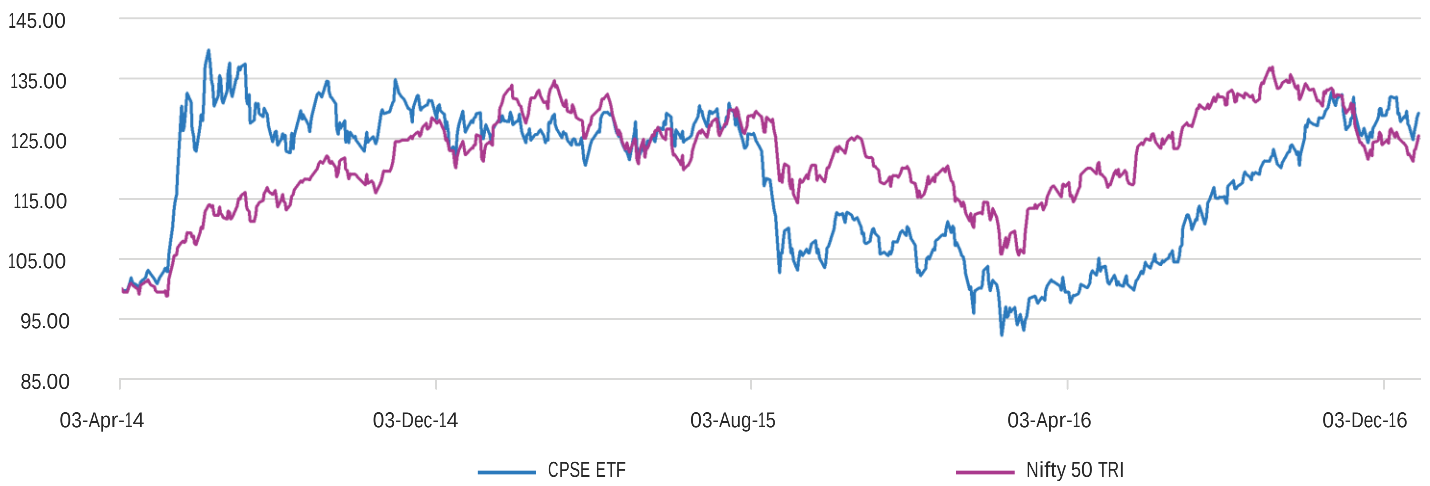
- All category of investors received upfront NFO discount of 5% on the underlying Nifty CPSE Index shares
- Apart from the upfront discount, retail investors also received loyalty units in the ratio of 1:15 loyalty unit

### Illustration of Rs. 1 lakh investment in NFO of CPSE ETF

| Particulars | Retail Investors | Non-retail Investors |
|---|---|---|
| Initial investment | 100,000.00 | 100,000.00 |
| Allotment price per unit (post 5% discount) | 17.4504 | 17.4504 |
| No. of units | 5,730.53 | 5,730.53 |
| No. of loyalty units (1:15 retail category) | 382.04 | NA |
| Total no. of units available | 6,112.56 | 5,730.53 |
| Current NAV (30th Dec 2016) | 25.3145 | 25.3145 |
| Current portfolio value | 154,736.47 | 145,065.44 |
| P2P return | 54.74% | 45.07% |
| CAGR Return | 17.13% | 14.42% |

## Performance of the Fund

Fund's NAV vis-a-vis Nifty 50 TRI movement since inception (rebased to 100)




| | 3 Month | 6 Month | 9 Month | 1 Year | Since Inception |
|---|---|---|---|---|---|
| CPSE ETF (A) | 5.66 | 20.61 | 27.00 | 18.78 | 14.42 |
| Nifty 50 TRI (B) | -4.81 | -0.73 | 6.97 | 5.04 | 12.01 |
| Outperformance by CPSE ETF (A - B) | 10.47 | 21.34 | 20.04 | 13.74 | 2.41 |

As on 30th Dec - 16

Since inception, the fund has given annualised returns of 15.15% (non-retail category) as compared with 12.09% generated by Nifty 50 TRI. In the same time period, the retail investors received 17.96% after adjusting for loyalty units.

## Investment Case

- CPSE ETF gives investors an opportunity to invest in Public Sector Undertakings (PSUs) through the ETF route. The ETF has exposure to 10 stocks across sectors, which can be broadly clubbed under the following four investment themes - energy; other oil PSUs;
infrastructure and engineering and PSU financials.
- Government is focussing on making PSUs financially healthy and e cient. Oil sector has been practically liberalised and other sectors such as fertilizers, energy and power are also on the verge of sustained liberalisation.
- India is transitioning from quality to growth, driven by domestic consumption and public spending on infrastructure, which clearly benefits the broad investment themes mentioned above. In a season of global uncertainty and expectations for slower growth worldwide, India is bucking the trend and building on steady economic momentum.
- The recent demonetisation decision by the government will have short-term negative impact on sectors that are driven by cash. However, in the medium- to long-term basis, it is expected to put the Indian economy on a strong footing. In recent times, public capital expenditure has supported the economy. Government is trying its best to make everything transparent which will result in the improved financials of the PSUs moving forward.
- In the FY17 Budget, the Centre announced a 17% increase in public capex, equating to 3.7% of GDP. With expected increase in tax collection, it is expected that this figure will rise further in the upcoming Union Budget for FY18. Public capex would not only drive near-term growth, but it would also boost India's medium-term growth potential by adding to the capital stock and productivity.

## Energy

- India is among the fastest growing economies of the world. The energy needs too are fast expanding with its increased industrialization and capacity addition in Power generation.
- Energy stocks underperformed globally due to correction in the crude oil prices. However, since the oil prices has started showing the positive trend, it would have a positive impact on the underlying stocks in the portfolio.
- As per recent Niti Aayog report, although the share of renewable energy will increase in coming times but due to the large demand of energy requirement of the economy, and adequate availability of coal reserves, the share of coal in the energy mix is set to rise from 46% in 2012 to 52% in 2030.

## Other Oil PSU's

- Sharp decline in crude oil prices and reforms initiated by GOI like deregulation of diesel prices will led to decline in gross crude oil under recoveries.
- Moreover, hike of 25 paisa per month in the kerosene prices and Direct Benefit Transfer (DBT) scheme for LPG cylinders are steps in the right direction for upstream PSUs.
- The government's decision to cap its sharing of kerosene subsidy at Rs. 12/litre and LPG at Rs. 15/kg and the rest by upstream companies is a welcome move for Oil Marketing Companies. The company will also benefit from lower interest rate scenario and is likely to achieve working capital e ciencies on account of diesel price deregulation, DBT for LPG cylinders and lower crude oil prices.

## Infrastructure and Engineering

- Infrastructure sector plays a key role in the overall development of India's economy. The sector includes power, bridges, dams, roads and urban infrastructure development.
- Huge capex is planned in oil & gas, defence and logistics which will be beneficial for the companies in this sector
- In recent times, the government is initiating policies to ensure time-bound creation of world class infrastructure in the country.
- The infrastructure's role in the defence spending also holds positive trigger for the sector. About 35% of defence equipment is manufactured in India, mainly by PSUs.
- The prime minister of India launched the 'Make in India' campaign in 2014 with the central objective of boosting manufacturing and generating employment by focusing on 25 sectors, including Defence.
- The Government of India has made a record allocation Rs 221,246 crore (US$ 33.07 billion) for several infrastructure projects in Union Budget 2016-17, which is expected to provide significant boost to Indian infrastructure sector.

## PSU Finance

- The financial sector of India has undergone rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market.
- The recent boost in the power industry is likely to hold positive outlook for the PSU finance companies. Reforms such as reducing cost of power generation and cutting distribution losses will benefit the PSU finance companies in the short to medium term. The government has also adopted a slew of measures to enhance transparency in power sector.
- The rural electrification project is also likely to hold positive outlook for the PSU finance sector. The launch of the Ujwal DISCOM Assurance Yojana (UDAY) is a major boost for the sector.
- Several measures have been outlined in the Union Budget 2016-17 that aim at reviving and accelerating investment which, inter alia, include fiscal consolidation with emphasis on expenditure reforms and continuation of fiscal reforms with rationalization of tax structure.

## Technical Evaluation

| Index Name | P/E Ratio | P/B Ratio | Dividend Yield |
|---|---|---|---|
| Nifty CPSE Index | 11.44 | 2.00 | 4.07 |
| Nifty 50 Index | 21.93 | 3.10 | 1.35 |

As on 30th Dec - 16

CPSE index is priced at a significant discount to the Nifty Index

Source: MFI Explorer, ICRA Online Research, Reuters Eikon, KPMG, Make in India, IBEF, McKinsey, Niti Aayog & respective company's website

# Knowing ETF

An Exchange Traded Fund (ETF) is primarily a mutual fund scheme which is listed and traded on a stock exchange. It is a unique financial product which provides the composite advantage of both stocks and mutual funds. It is suitable for all both retail investors and institutional investors.

An ETF, based on its investment objective, can invest in equities, debt, commodities as well as money market instruments. It can be judiciously used by investors to diversify the portfolio and achieve investment goals. ETFs provide the flexibility of a stock and diversification o ered by a mutual fund.

## Benefits for investors similar to Mutual Funds

a. Lower Transaction Cost: ETFs comes with a lower transaction cost since they are traded on an exchange. It lowers the cost of distribution. These savings in cost are passed to investors in form of reduced costs.

b. Open Ended: An ETF is like a traditional open ended fund. One can reap the benefits of diversification as one can invest in a particular investment theme at a much lower cost based on the investment objective.

c. Benchmarked Against an Index: An ETF follows the passive way of investing and mirrors the index and hence it is much easier to benchmark the performance. Thus an investor can have market exposure to all the constituent stocks of an index as a single tradable unit.

## Benefits for investors similar to Stocks

a. Real Time Tracking: Since ETFs are traded like stocks on exchanges and they mirror a given index they can be tracked on a real time basis during trading hours. A sharp rise or fall in the market gets reflected immediately in the traded price of the ETF.

b. Smaller Investment Amount: Retail investors find it simple and convenient to buy or sell ETFs as investment amount is comparatively lower. They facilitate FIIs, Institutions and Mutual Funds to have easy asset allocation, hedging, equitising cash at a low cost.

c. Flexibility in Terms of putting limit orders etc.: ETFs can be easily bought or sold through the broker. Investors will be able to react swiftly to market changes and place limit orders accordingly while trading. ETFs can be held in the DP account with other portfolio holdings and hence are easier to manage as compared to other investments.

## Why CPSE ETF?

- Investing in CPSE ETF is an innovative way of adding the PSU flavour to one's portfolio. It is beneficial to both retail and non-retail investors as it provides them with the ability to diversify exposure across a number of PSUs through a single instrument
- The PSU stocks selected in the CPSE ETF have lower P/E ratio and high dividend yields and are available at attractive valuations.
- The discount o ered during the NFO period to all types of investors and the loyalty units given to the retail investors during first tranche should also add to its advantage.
- The performance of the ETF should also get some benefit from the stable government at the centre. The government of India through its di erent ministries is continuously monitoring the performance of key PSU stocks and there is visible e ort to achieve production and revenue targets. India is slowly and steadily coming out of the subsidy regime. Once it's fully done the real value of these stocks will be unlocked.
- The investors can also look forward for the tax benefits by staying invested in it for one year as there is no tax on long-term capital gains.
- Together with the advantages, investors should also keep in mind that It is not a diversified index and is skewed towards the oil and energy sector. Any untoward global or domestic event impacting this sector will act as a negative trigger for the entire portfolio.