Bharat 22 ETF - Part II

Click here for Part I

\n\n

Why did the government choose the ETF route?

\n\n

\n
- Earlier disinvestment is done through a series of follow-on offers and offers for sale in the market.
\n
- Frequent visits to the market by disinvestment candidates led to an oversupply of public sector paper.
\n
- This made for sub-optimal timing of the issues and depressed valuations, as their stock prices were inevitably hammered in the run-up to such offers.
\n
- ETFs act as a superior alternative to this method of PSU stake sales.
\n
- It allows the Centre to sidestep these issues through a one-shot offer.
\n
- The government managed to raise Rs.8,500 crore via the second tranche of the CPSE ETF in FY17.
\n

\n\n

How Bharat 22 is different from CPSE-ETF?

\n\n

\n
- CPSE ETF had exposure of over 62% in the public sector energy giants, with marginal weights in other firms.
\n
- This single sector concentration made it quite a risky portfolio to own.
\n

- With 22 firms drawn from six different sectors, Bharat 22 fund offers a more diversified, mutual fund-like basket to retail investors.
\n
- Bharat 22 plans to maintain its individual stock and sector weights at about 15 per cent and 20% respectively, with an annual rebalancing feature.
\n
- Bharat 22 blends sectors with secular growth prospects (like FMCG and utilities), and cyclical ones (like energy, metals, industrials).
\n
- The addition of equity stakes held by the SUUTI in private sector blue-chips such as L&T, Axis Bank and ITC should also help Bharat 22 garner better response.
\n

\n\n

What should be done?

\n\n

\n
- Good packaging is merely not enough to make PSU stakes attractive.
\n
- Many investors in India are reluctant of investing on PSUs owing to the Government's unwillingness to allow them to operate on wholly commercial lines.
\n
- e.g irrational dividend and buyback norms, or structuring deals including the recent ONGC-HPCL merger to appropriate their cash coffers.
\n
- Repairing this investor-unfriendly image is critical for State-owned firms.
\n

\n\n

\n\n

Source: Business Line

\n