Bharat 22 ETF - Part II

Click here for Part I

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Why did the government choose the ETF route?

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- Earlier disinvestment is done through a series of follow-on offers and offers for sale in the market.
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- Frequent visits to the market by disinvestment candidates led to an oversupply of public sector paper.
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- 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.
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- ETFs act as a superior alternative to this method of PSU stake sales.
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- It allows the Centre to sidestep these issues through a one-shot offer.
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- The government managed to raise Rs.8,500 crore via the second tranche of the CPSE ETF in FY17.
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How Bharat 22 is different from CPSE-ETF?

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- CPSE ETF had exposure of over 62% in the public sector energy giants, with marginal weights in other firms.
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- This single sector concentration made it quite a risky portfolio to own.
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- With 22 firms drawn from six different sectors, Bharat 22 fund offers a more diversified, mutual fund-like basket to retail investors.
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- Bharat 22 plans to maintain its individual stock and sector weights at about 15 per cent and 20% respectively, with an annual rebalancing feature.
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- Bharat 22 blends sectors with secular growth prospects (like FMCG and utilities), and cyclical ones (like energy, metals, industrials).
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- 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.
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What should be done?

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- Good packaging is merely not enough to make PSU stakes attractive.
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- 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.
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- e.g irrational dividend and buyback norms, or structuring deals including the recent ONGC-HPCL merger to appropriate their cash coffers.
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- Repairing this investor-unfriendly image is critical for State-owned firms.
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Source: Business Line

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