CPSE Exchange Traded Fund

What is EPF?

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- The present government has specially constructed a fund to **sell the equity stakes in PSUs.** It is called CPSE Exchange Traded Fund.
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- CPSE ETF was originally managed by Goldman Sachs MF, which was acquired by Reliance MF in October 2015.
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- The government had raised Rs 6,000 crore through the second tranche of CPSE ETF in January 2017 and Rs 3,000 crore from first tranche in March 2014.
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- The fund-raising will **help the government inch towards its Rs 56,500 crore disinvestment target** for the current fiscal.
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- CPSE ETF, which functions like a mutual fund scheme, comprises scrips of 10 PSUs — ONGC, Coal India, IOC, GAIL (India), Oil India, PFC, Bharat Electronics, REC, Engineers India and Container Corporation of India.
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- During the offer, the CPSE ETF is available at a 5% discount to prevailing market prices.
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- But if you miss this window, the ETF is listed on the stock exchanges and you can buy or sell units in the secondary market.
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Why is it important?

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- When the Centre floats its disinvestment offers one at a time, the investor response is often dependent on market conditions.
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- So if markets are soaring and the sector to which the PSU belongs is

favoured, the offer gets lapped up.
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- But if markets are downbeat the offer bombs, prompting LIC or another state institution to do the rescue act.
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- When the Centre disinvests through the ETF route, **a bunch of PSUs can be disinvested at one shot**.
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- Thus, the offer can be timed to good market conditions with a high decibel marketing campaign.
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- A healthy mop up from disinvestment will mean **lower burden on tax payers.**
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Why should I care?

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- If you're a big fan of state-run firms, **the CPSE ETF offer is a good opportunity to buy a basket of them.**
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- With a price earnings ratio of about 11 times, compared to the Nifty index's 22 times, the CPSE basket is inexpensive too.
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- Investors who bought into the first tranche of the CPSE ETF have made a **54% return on their buy price.** They also received bonus units.
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What are the risks involved?

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- The past performance is no guarantee of future returns.
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- **PSUs do suffer from constant government intervention** in their business and pricing decisions.
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- With nearly 74% of its portfolio dedicated to energy stocks, the CPSE basket is heavily reliant on the commodity and economic cycle.
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- An investment can work out splendidly for either the seller or the buyer. So if the Government wins, you lose.
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Source: Business Line

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