

## Bharat 22 ETF - Part II

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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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