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Anchors bid 4 times the CPSE ETF offer

The exchange-traded fund receives bids worth ₹6,000 crore against ₹1,500 crore on offer

BS REPORTER
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The government's disinvestment drive for 2016-17 has got a boost with the second tranche of the CPSE ETF witnessing strong demand from institutional investors. The anchor portion of the exchange-traded fund (ETF) received bids worth ₹6,000 crore, four times more than the units on offer.

The ETF is a basket of 10 central public sector enterprises (CPSE), including Oil and Natural Gas Corporation (ONGC), Coal India and Indian Oil. The government is divesting shares in these companies to raise about ₹6,000 crore as part of its 2016-17 disinvestment programme, the target for which is ₹56,500 crore.

The Employees' Provident Fund Organisation (EPFO) is one of the biggest bidders in the anchor category, which submitted an application worth ₹800 crore, according to sources.

Besides, other pension funds, mutual funds (MFs), insurance companies also participated in the offering. HDFC Ergo, Nomura, JPMorgan, Axis Bank, Kotak Mutual Fund and Birla Sun Life Mutual Fund were among the bidders, sources added.

"The issue saw very strong participation from the private sector, in addition to government participation, on the first day itself and we are hopeful of strong momentum in the retail category that opens tomorrow", Sundeep Sikka, chief executive of Reliance Mutual Fund

Of the ₹6,000 crore, ₹1,500 crore is reserved for anchor investors. Given the high demand, these investors may be allotted shares on a proportionate basis. The subscription for the remaining will be open from January 18 to 20 as part of the further fund offer (FFO) of the CPSE ETF

Retail investors — those investing up to ₹200,000 — will be given preference. However, in case retail demand is insufficient, retirement funds would be given priority over other institutional investors.

According to sources the EPFO has approval to invest up to ₹2,800 crore in the CPSE ETF. The retirement fund manager has invested ₹800 crore and could invest more in the FFO.

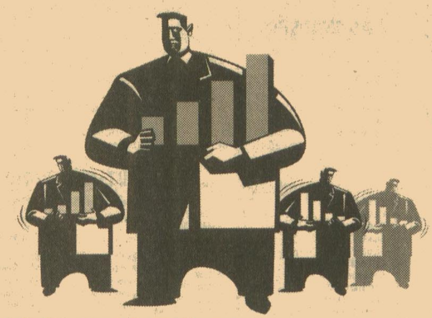
Market players say investors have been enthused by the recent outperformance of the CPSE ETF. In the past one year, the CPSE ETF has rallied over 30 per cent, twice the gains made by the benchmark Nifty. Experts say the high dividend yield and relatively attractive valuations of the CPSE ETF index augurs well for conservative investors.

However, experts are cautious, given the high allocation to the energy sector, making the instrument risky if the outlook for the sector turns negative. "Investors investing in CPSE ETF, one should have a view on the underlying stocks. More than 5-10 per cent exposure to the fund is not advisable," says Kaustubh Belapurkar, director (Fund Research) at Morningstar India.

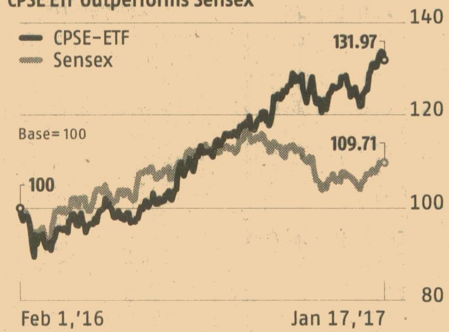
To attract investors, the Centre is offering a five per cent discount to those applying in the FFO.

The scheme has a strong track record, as it has outperformed most equity funds since its inception in March 2014.

The fortune of the index rests largely on ONGC and Coal India, given their high weight. On Tuesday, incidentally, both the stocks dragged the CPSE ETF 0.8 per cent lower. Shares of ONGC, which account for 24.35 per cent of the weight, dipped 1.7 per cent, while those of Coal India slipped 2.14 per cent.



CPSE ETF outperforms Sensex



HOW THEY STACK UP

CPSE ETF's P/E ratio and dividend yields are better compared to broader market indices

	P/E ratio	P/B ratio	Dividend yield (%)
CPSE ETF	11.44	2.00	4.07
Nifty	21.93	3.10	1.35
Nifty Next 50	25.14	3.29	1.69
Nifty 100	22.40	3.13	1.40
Nifty 500	25.30	2.82	1.32

The composition of the index is skewed in favour of energy stocks

	Sectors	Weight (%)
ONGC	Oil	24.35
Coal India	Mining	20.54
Indian Oil	Petro. products	17.96
Gail India	Gas	11.17
Power Fin. Corp	Finance	5.58
REC	Finance	5.21
Container Corp	Logistics	5.04
Bharat Electronics	Capital goods	4.33
Oil India	Oil	3.39
Engineers India	Construction	2.26

Note: As on December 30, 2016 Sources: NSE, Reliance MF