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New CPSE ETF with a new set of companies on the way

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Based on the success of the recently launched Central Public Sector Enterprise Exchange Traded Fund (CPSE ETF), the Union Budget for financial year (FY) 2017-18 announced that the government will continue to divest stake in state-owned companies in FY18. Investors will soon get a variety of such ETFs.

Last month, Reliance Nippon Asset Management Co. Ltd had launched the second tranche (or a further fund offering, or FFO) of CPSE ETF. The FFO got listed on 31 January at a market price of Rs27.85. The units were allotted to investors at a new asset value of Rs25.2141. The 10 companies in the Nifty CPSE index are state-owned companies where the Government of India has been disinvesting. This is not the first time that this basket of shares is being made available to the public. In 2014, the government constructed an index (CPSE index) of 10 state-owned companies in which it had firmed up plans to disinvest. The plan was to offload a basket of its shares to an ETF, which would then offer the units to the public. Goldman Sachs Asset Management Co. (India) Ltd was chosen. It collected Rs3,000 crore. This was paid to the government, which then transferred the basket of shares to the fund at a discount of 5%, which was passed on to investors. The fund, then, allotted units to the public. This FFO was an additional portion of an existing offer. Since Goldman Sachs had launched the original CPSE ETF in 2014, Reliance Nippon—which acquired Goldman Sachs last year—got to launch the FFO. The CPSE ETF has done well so far. In the past 3 years, it returned 14.6%, as against 12.3% by Nifty50 and Nifty100's 14.2%.

Budget 2017-18 goes a step further. In addition to talking about merging oil and other state-owned companies "through consolidation, mergers and acquisitions," finance minister Arun Jaitley also said that the government will come up with a new ETF of "diversified CPSE stocks and other government holdings will be launched in 2017-18".

He also spoke about the government's intent of listing railway units such as IRCTC and IRFC, which could then be a part of the new CPSE index.

"There is ample scope for multiple indices and corresponding ETFs. The current CPSE is energy heavy. (But) more such indices with different themes could be created to enable an investor to create a balanced portfolio," said Vineet Arora, executive vice-president, ICICI Securities Ltd.

Last September, ICICI Prudential Asset Management Co. Ltd announced that the Department of Investment and Public Asset Management and the Ministry of Finance had appointed it as the fund house to create and launch a new ETF. This may be the new ETF. ICICI Prudential Asset Management refused to comment on the matter.