Business Standard

Wed, 20 Mar-19; Business Standard - Delhi; Size : 300 sq.cm.;
Circulation:108165; Page : 11

CPSE stocks are currently valued attractively

You can have a limited exposure of 10% and stay invested for two-three years

TINESH BHASIN

The fifth instalment of the Central Public Sector Enterprises exchange-traded fund (CPSE ETF) will open for subscription on Wednesday for retail investors. To sweeten the deal for retail investors, the issue will be offered at a 4 per cent discount.

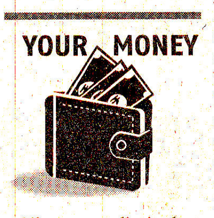
The offer comes at a time when public sector units that are part of the ETF are available at attractive valuations, according to investment experts. "Apart from the 4 per cent discount, the dividend yields of CPSE stocks are around 5.52 per cent," says Vishal Jain, head, ETF and fund manager, Reliance Mutual Fund.

The CPSE ETF comprises 11 stocks, of which the top four have about 77 per cent weight. The stocks include Oil and Natural Gas Corporation (20.43 per cent), NTPC (19.54 per cent), Coal India (19.09 per cent) and Indian Oil Corporation (18.64 per cent). "If an individual invests in the ETF, he is essentially buying a basket of four PSU energy stocks," says Jatin Khemani, founder and chief executive officer, Stalwart Advisors, an independent equity research firm registered with the Securities and Exchange Board of India.

Despite the high concentration of energy stocks in the portfolio, the ETF is an attractive bet for investors, according to investment managers. "The concentration of stocks will work in favour of investors. Apart from oil-marketing companies, all other stocks have attractive valuations. There is a high potential upside with a limited downside risk," says Arun Kejriwal, founder of investment advisory firm KRIS.

The last decade has been tepid for the power sector as well as public sector units, which is why valuations are attractive — most of these are trading at single-digit price-to-earnings multiples or close to book value while offering high dividend yields.

"It could be a sensible, tactical bet where one enters as a contrarian to benefit from the discount and play long-due cyclical recovery over the next two-three years," says Khemani. He doesn't see any major downside in this strategy, given the valuation comfort. Most of these companies are part of the core sector. "India is the fastest-growing economy in the world. As it grows, these core sector enterprises will grow with it," says Jain.



While the new instalment of the CPSE ETF is attractive, do ensure that you don't go overboard. The ETF is a thematic scheme. The core of your portfolio should always be diversified equity funds. An investor should take a limited exposure to theme-based and sector funds. Don't invest more than 10 per cent of the equity portfolio in the CPSE.

Investment advisors also suggest that an investor should not commit long-term (5-10 years) to the scheme. Sector and theme-based funds can be volatile and work under certain market conditions. When the markets correct, they may see a higher fall than the broader index. "With a significant correction in the broader markets over the past 12-15 months, there are many high-quality and well-run businesses with longevity available at reasonable valuations where one can deploy long-term capital and make 18-20 per cent every year," says Khemani. Once the rally in the energy sector comes to an end, instead of reinvesting in the CPSE ETF, one should, therefore, look at other, better options.

TOP 4 COMPANIES HAVE 78% WEIGHTAGE

Stocks	Weightage (%)
Oil & Natural Gas Corporation	20.43
NTPC	19.54
Coal India	19.09
Indian Oil Corporation	18.64
Rural Electrification Corporation	6.72
Power Finance Corporation	6.13
Bharat Electronics	4.06
Oil India	2.84
NBCC (India)	1.46
NLC India	0.63
SJVN	0.47

Index Composition as on February 28, 2019
Source: Reliance MF

Performance

Period	Returns (%)
YTD	9.74
1-month	18.9
3-month	11.5
1-year	-5.2
3-year	11

Returns as on March 18, 2019
Source: Value Research