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INTERVIEW

'What impacts underlying price of the stock will impact ETF'

Government of India's disinvestment through Exchange Traded Fund (ETF) route is back again. The third follow on fund offer of CPSE ETF is slated to open for subscription this week. The fund plans to raise ₹8,000 crore with a greenshoe option to retain oversubscription. The government has decided to give a 4.5 per cent discount to the average traded price of ETF, which comes with a very low expense ratio of 0.0095 per cent per annum. **M C Vaijayanthi** of *TNIE* spoke to **Vishal Jain**, Head (ETF), Reliance Nippon Lift AMC, to find out more about the FFO3..

Tell us about the change in composition of ETF. There have been some exclusions and additions, and it is energy heavy.

The government is always in infrastructure segment, it is not going to be interested in making toothpastes. So, they will be industries that need huge amounts of money and infrastructure — OIL in exploration, an oil marketing company (IOC), a utility (NTPC). These are different players within energy. Energy per se is a big term. Its weightage, at 63 per cent, is big. But they are different kinds of players. These are good companies, monopolies in their industry, Maharatnas and Navratnas, well managed. They will generate cash, and are heavy dividend-paying companies.

Vishal Jain

This basket has dividend yield of over 5 per cent, but will it sustain?

Compared to Nifty dividend yield of 1.5 per cent, the CPSE ETF dividend yield is over 5 per cent. There is a criteria for stock selection that says companies that give a particular per cent of dividend alone can be in … if they don't meet the criteria, they will be removed from the index. These are cash-rich companies. They have money to pay that kind of dividend.

But, what about regulatory risks? OMCs took a beating from the retail fuel subsidy. There is also a fear of some of the stocks in the index coming up with follow on offers independently like NTPC?

First, one day these stocks will turn. Either the stocks were not rightly valued before 2017 or there is an issue with the valuation now. It is not that these companies are not doing well. If there is a reversal in government decision on fuel price, these stocks will shoot up again.

On the issue of follow on offer, investors have been consistently telling the government that there has to be a gap in disinvestment. Anything that impacts the underlying price of the stock will impact the ETF. But it has only a certain weightage. NTPC weightage is only 20 per cent, rest of the stocks make up 80 per cent.

Concor, GAIL and Engineers India excluded. What are the benchmarks for inclusion or exclusion of a stock?

One of the primary reasons was that with the three companies, government had hit the disinvestment limit, and we couldn't do much about that. There is a big replacement pool (of PSU companies), and they are also very good companies. I don't see much trouble with the index. And there is no risk at all.

Last one year, the returns have been negative compared to Nifty. What is the outlook and what do you tell the investors?

We are telling them that fundamentally, these companies are good, and whether someone was valuing it wrong two years ago or now. The gap has already started narrowing (between fund returns and Nifty returns). My job as a fund manager is to ensure that the basket of companies I give is good. It is a matter of time before it starts moving.

There are inevitable comparisons being made with the Bharat ETF, what would you say about that?

I won't say anything bad about them… they had these three private sector stocks they had to divest, that they put it in the index. If I want to do a diversified (investment), I will do Nifty. That doesn't have a theme, whereas it is very clear this is a CPSE fund. I tell them if you want to buy an Indian story, government story, then invest. It is a theme, very much a theme. You can put a small portion of your portfolio in that. If you think all these sectors like energy and others included here are going to grow, then this is going to grow. We never compared, and don't think there is a comparison to be made at all.