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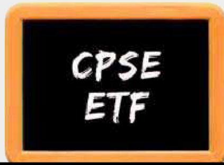
All you wanted to know about...



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SLATE

Every Budget, the Government sets itself an ambitious target for raising cash from selling its equity stakes in PSUs. This target is more often missed than met. Two years ago, the Modi government hit upon the bright idea of selling these stakes through a specially constructed fund — CPSE Exchange Traded Fund or ETF. While the first CPSE ETF was floated in March 2014, a second tranche is set to open this week. The fund is managed by Reliance Nippon Life AMC.

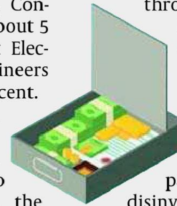
What is it?

An ETF is a mutual fund whose portfolio exactly duplicates an existing index. So, the CPSE ETF holds the same basket of stocks, in the same proportion as the Nifty CPSE Index. You can expect its returns to very closely mirror the performance of this index.

Ten central PSUs make up the portfolio of the Nifty CPSE ETF. Of these, ONGC (24.3 per cent weight), Coal India (20.5 per cent), IOC (17.9 per cent) and GAIL (11.1 per cent) take up the lion's share, while Power Finance Corp, Rural Electrification Corp, Container Corp chip in with about 5 per cent each and Bharat Electronics, Oil India and Engineers India account for 2-4 per cent. These have been shortlisted for their high dividend payouts. The subscriptions will be used by Reliance MF to buy equity stakes from the Centre, in the same proportion. During the offer, the CPSE ETF is available at a 5 per cent discount to prevailing market prices. But if you miss this window, the ETF is listed on the stock exchanges and you can buy or sell units in the secondary market, at the latest quoted price.

Why is it important?

When the Centre floats its disinvestment offers one at a time, the investor response is often dependent on market conditions. So if markets are soaring and the sector to which the PSU belongs is favoured, the offer gets lapped up. But if markets are downbeat the offer bombs, prompting LIC or another state institution to do the rescue act.



When the Centre disinvests through the ETF route, a bunch of PSUs can be disinvested at one shot. The offer can be timed to good market conditions with a high decibel marketing campaign. While one-off disinvestment offers so far this year have raised Rs 400 crore to Rs 3000 crore, the CPSE ETF expects to mop up between Rs 5000 and Rs 6000 crore. This can help the government inch closer to its disinvestment target of Rs 56,500 crore for the year. A healthy mop up from disinvestment will mean lower burden on tax payers.

Why should I care?

If you're a big fan of state-run firms, the CPSE ETF offer is a good opportunity to buy a basket of them. With a price earnings ratio of about 11 times, compared to the Nifty index's 22 times, the CPSE basket is inexpensive too. Investors who bought into the first tranche of the CPSE ETF have made a 54 per cent return on their buy price. They also received bonus units.

But then, past performance is no guarantee of future returns. PSUs do suffer from constant government intervention in their business and pricing decisions. With nearly 74 per cent of its portfolio dedicated to energy stocks, the CPSE basket is heavily reliant on the commodity and economic cycle. With the top three stocks chipping in with over 15 per cent each, it's a concentrated portfolio to own.

The bottomline

An investment can work out splendidly for either the seller or the buyer. So if the Government wins, you lose. And vice-versa.

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