THE FREE PRESS JOURNAL

Tue, 17 Jan-17; Free Press Journal - Mumbai; Size : 329 sq.cm.; Page : 17

CPSE ETF FFO review

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It was March 2014, when the first novel mutual fund scheme called CPSE-ETF (Central Public Sector Enterprise – Exchange Traded Fund) was introduced by Golaman Sachs for bundle of 10 Maharatna and Navratna PSUs. This initial NFO (New Fund Offer) was for Rs 3,000 crore and was oversubscribed to the tune of Rs 4,363 crore and the excess amount of Rs 1,363 crore was refunded to investors.

This maiden offer has given good returns with a CAGR of above 14 per cent since inception.

As the Goldman Sachs AMC was taken over by Reliance Nippon Life Asset Management Company, the second such offer as CPSE ETF FFO (Further Fund Offer) is coming to market from Reliance Mutual Fund. This offer is set to mobilise Rs 6,000 crore (base size is Rs 4,500 crore and green shoe option for Rs 1,500 crore). Out of the total offer, 30 per cent is reserved for Anchor Investors, for whom the offer is open for a day till today and for other categories, the offer opens on January 18, 2017 and will close on January 20, 2017.

Out of the residual portion, 70 per cent is kept for retail investors (i.e. application up to Rs 2 lakh) on firm allotment basis and the second preference would be given to EPFO and PFs and the rest will be for HNIs and QIBs, as informed by the management. The composition of CPSE ETF as on December 12, 2016 was as ONGC (24.35 per cent), Coal India (20.54 per cent), IOC (17.96 per cent), GAIL (11.17 per cent), PFC (5.58 per cent), REC (5.21 per cent), Container Corp (5.04 per cent), BEL (4.33 per cent), Oil India (3.39 per cent) and Engineers India (2.26 per cent). While NFO had a loyalty bonus linked to it, this time, FFO has upfront discount of 5 per cent across the category and firm allotment for retail investors. CPSE ETF has an expense ratio of 6.5 bps, which is much lower than the other non-ETF that has an expense as high as up to 200 bps.

As this novel instrument garnered good response for maiden offer, it is expected that this time too it will have better acceptance despite all odds as it has a proven track record and pack of highly liquid and most prestigious, monopolistic and sector leader PSUs in it. This FFO is part of the Government of India's overall disinvestment program, announced earlier by the Department of Investment and Public Asset Management (DIPAM), Ministry of Finance, using the ETF route.