

## Bharat 22 ETF debuts on Nov 14

The ETF offers 3% discount to all categories of investors during the NFO period which closes on November 17.

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ICICI Prudential Mutual Fund's Bharat 22 ETF is set to make its debut on November 14 for anchor investors and on November 15 for other categories of investors. The ETF is available at a discount of 3% for all categories of investors during the NFO period which closes on November 17. The government is expecting to mop up Rs 8,000 crore during NFO with a green shoe option for oversubscription.

The government has set a divestment target of Rs 72,500 crore in FY2017-18 by divesting stakes in PSUs. Thus, more such ETFs are expected to be in the pipeline. From its first three tranches, the government had raised Rs 11,500 crore from erstwhile CPSE ETF which is being managed by Reliance Mutual Fund.

### What's special about it?

Unlike CPSE ETF which had a concentrated portfolio of 10 stocks, Bharat 22 ETF is more diversified offering of 22 stocks across 12 sectors. Sectors like industrials (22.52%) and utilities (20.63%) have the highest weightage in the index. Larsen and Toubro and ITC together constitute 31% of index's weight. More than 92% of the index is dominated by large cap stocks the remaining 8% by mid cap stocks.

The ETF has an exposure cap of 15% at the stock level and 20% at sector level which will help reduce concentration risk. While more diversified than the CPSE ETF, Bharat 22 is more concentrated when compared to the benchmark indices and diversified equity funds.

One positive about the index is that the underlying companies have a higher dividend yield. "Since the ETF has government companies, the dividend yield is attractive. Moreover, fund managers are currently recommending the stocks that are part of the new ETF offerings," says Kaustubh Belapurkar, director of fund research at Morningstar Investment Adviser India.

### What back testing reveals

On a historical basis the S&P BSE Bharat 22 Index has outperformed Nifty CPSE, S&P BSE Sensex and Nifty 50 across all time periods (1-year, 2-year, 3-year, 5-year and 10-year). Having said that, we once again reiterate, past performance may not sustain in the future.

While the index has delivered higher risk-adjusted return than the broader markets, it has come with higher volatility over the past three and five years.

### We asked advisers if they would recommend this ETF to their clients.

Vinod Jain of Jain Investments says that one can invest to take advantage of the 3% discount and exit after making listing gains. He is not enthused about the portfolio. "While the past performance of the underlying index has been good it is no guarantee of future. The portfolio is designed by default and not design. Also, it is not actively managed portfolio. In such a case, we are not sure if the ETF will work as a portfolio over long term. Even the returns of CPSE ETF which was launched in 2014 has not been encouraging. We would advise investors to keep their investment objective in mind while looking at this fund," says Vinod.

Vishal Dhawan of Plan Ahead Wealth Advisors says investors can look at this fund only from a long-term perspective. "Investors can invest in it only if they have a long-term view. While Bharat 22 ETF is better than

the earlier CPSE ETF in terms of diversification we are cautious at this juncture due to the valuations. Also, we won't recommend investors to time the market by trading in the ETF with a short-term view."

**To note:**

- The ETF will charge a TER of 1bps and will be managed by Kayzad Eghlim.
- The minimum application amount for retail investors is Rs 5,000 with a cap of Rs 2 lakh.
- The ETF will be listed on both NSE and BSE.

**Source:** [www.morningstar.co.in](http://www.morningstar.co.in)