

Bharat 22 ETF recast will see 3 firms cast out

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The Department of Investment and Public Asset Management (Dipam) will reconstitute its flagship exchange traded fund — the Bharat 22 ETF — and remove shares of three companies — National Aluminum Co (Nalco), Engineers India Ltd (EIL), and Rural Electrification Corp — from it.

The first two stocks will be removed from the ETF because any further offering of the financial product will take the government's shareholding in Nalco and EIL to below 52 per cent, something it doesn't want.

REC will be removed because once Power Finance Corp completes its acquisition of the Centre's stake in the REC, the latter will cease to be a state-owned company.

This means the additional offering of Bharat 22 ETF on Thursday, in which the exchequer garnered around ₹10,000 crore, will be its last in the current form. The next offering of the fund, likely in 2019-20, will be with new constituent stocks.

"We will need to reconstitute the ETF. The government will work with the asset manager (ICICI Prudential) to see what other PSUs can be made part of the ETF's basket," said an official. The reconstitution will happen in 2019-20.

The Bharat 22 ETF draws companies from six sectors. The constituents of the basket are Nalco, ONGC, Indian Oil, Bharat Petroleum, Coal India, State Bank of India, Axis Bank, Bank of Baroda, Rural Electrification Corp, Power Finance Corp, Indian Bank, ITC Ltd, Larsen & Toubro (L&T), Bharat

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- Three stocks — Nalco, EIL, REC — to be removed from ETF
- Govt stake in Nalco, EIL will drop below 52% after any further offering of Bharat 22
- REC will be dropped upon completion of PFC's acquisition of the Centre's stake
- Reconstitution to happen next fiscal

Electricals, Engineers India, NBCC, Power Grid Corp, NTPC, Gail India, NHPC Ltd, NLC India, and SJVN.

Though ITC, Axis Bank and L&T are not state-owned enterprises, the government owns shares in them through the Specified Undertaking of Unit Trust of India (SUUTI).

The government has so far raised ₹22,900 crore through the Bharat 22 ETF. While ₹14,500 crore was raised in November 2017, another ₹8,400 crore was raised in June 2018.

The ₹10,000 crore that Dipam earned from SUUTI will go a long way in meeting the disinvestment target of ₹80,000 crore.

The government's other ETF, the CPSE ETF was reconstituted earlier this fiscal as well. Three companies were removed — GAIL, Container Corporation and Engineers India, as the government holding in these companies has fallen below 55 per cent.

These firms have been replaced by four other state-run entities — NTPC, SJVN, NLC, and NBCC. With this, the number of firms in the CPSE ETF basket has increased to 11, as against 10 earlier.