

# Govt plans 3 sectoral ETFs

Banking, energy, metal & commodity CPSE exchange-traded funds under study

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**T**he Ministry of Finance's Department of Investment and Public Asset Management (DIPAM) is examining plans to launch three equity exchange-traded funds (ETFs) in the current fiscal year, *Business Standard* has learnt.

DIPAM expects that the three ETFs will be attractive to investors who want to invest in specific sectors, and will help the Centre meet an ambitious ₹90,000 crore disinvestment target for 2019-20 (FY20).

An ETF is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. It provides diversification to investors and is cheaper than investing in an actively managed mutual fund.

ETFs have become increasingly important for the government's stake sale plans. The proceeds from the Centre's existing ETFs, the central public sector enterprise (CPSE) ETF and Bharat 22 ETF, accounted for about 53 per cent of the ₹84,972 crore that DIPAM earned in 2018-19 (FY19), going past last year's target of ₹80,000 crore. According to the plans being prepared and to be presented to the new government, the new proposed ETFs will be sector-specific, namely one each in banking, metal and commodity, and energy.



## ON THE ANVIL

Possible constituents of ETF basket

### BANKING SECTOR CPSE ETF

Any of the 19 listed public sector banks as well as the Centre's share in Axis Bank

### ENERGY CPSE ETF

Listed public sector undertakings (PSUs) under oil and gas, and power ministries

### METAL & COMMODITY CPSE ETF

PSUs in coal, mining, mineral, steel, and metal sectors

CPSE ETF: Central Public Sector Enterprise Exchange-Traded Fund  
Source: Government sources

The banking sector ETF basket is expected to comprise shares of some of the 19 listed state-owned banks. Marquee names like State Bank of India, Punjab National Bank, and Bank of Baroda could be included, as well as other PSBs, especially the ones in which the Centre has more than a 75 per cent stake.

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This ETF could also include part of the Centre's stake in Axis Bank.

"After the recapitalisation bond programme, the next aim was the reduction of the Centre's stake in PSBs. The proposed PSB ETF is a step towards that. DIPAM and the Department of Financial Services are working on drawing up the contours of a PSB ETF," said an official.

The energy CPSE ETF is expected to comprise shares of state-owned companies in the oil and gas, and power sectors. These firms include upstream giant Oil and Natural Gas Corporation, as well as other PSUs like Oil

India, GAIL (India), two oil-marketing firms, Power Grid, NHPC, NTPC (formerly known as National Thermal Power Corporation), and others.

The metal and commodity CPSE ETF's basket could comprise companies like Coal India, Steel Authority of India, NMDC (previously known as National Mineral Development Corporation), National Aluminium Company (Nalco), Hindustan Copper, and Neyveli Lignite (NLC India).

Officials said the final basket composition of all the three proposed ETFs was being deliberated upon. "The final baskets will be decided on a number of factors, including how much stake the Centre owns in these companies, their balance sheets

and financial status, and investor interest," said the official.

"We want to provide for investors an instrument where they can invest in a sector and spread their risks across equities," the person added.

The process of launching these ETFs will not be a short one. After getting the go-ahead from the political leadership, DIPAM will have to appoint financial and legal advisors and asset managers to manage the ETFs. There will be roadshows for investors. As such, the ETFs are expected to be launched in the second half of the year.

There are currently two ETFs offered by the Centre. The CPSE ETF comprises 11 stocks and is heavily skewed towards the energy and com-

modity sectors. It is managed by Reliance AMC.

The Bharat 22 ETF draws from six sectors and is managed by ICICI Prudential AMC.

CPSE ETFs are being increasingly relied upon by the government to meet its disinvestment target. For FY19, DIPAM was heavily dependent upon the CPSE and Bharat 22 ETFs. From two fund offerings of Bharat 22 in FY19, the Centre garnered ₹18,729.85 crore, while ₹26,500 crore came from the CPSE ETF, again in two tranches.

These two combined accounted for about 53 per cent of the ₹84,972 crore that DIPAM earned in FY19, going past the target of ₹80,000 crore. The target for FY20 is ₹90,000 crore, as set in the interim Budget.