

Centre scraps plans for bank ETF launch in FY20

No clarity yet on which PSBs' shares will make up ETF basket till the mergers

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The Narendra Modi government has scrapped plans of launching a new financial sector exchange traded fund (ETF), at least for this year. This is because there will be no clarity on which banks' shares will make up the ETF basket till the latest round of bank mergers is completed, several officials said.

This means that for the current year, the Department of Investment and Public Asset Management (Dipam) will continue depending on multiple follow-on offerings of its existing ETFs — Bharat 22 and CPSE ETF — to help meet a record divestment target of ₹1.05 trillion for 2019-20.

"We are re-evaluating the PSB ETF. It cannot be done till the latest bank mergers are completed. The banks are busy with mergers. So, there will be uncertainty about the composition of the proposed new ETF," said a senior government official.

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 a fund.

According to the plans so far, the banking sector ETF basket was expected to comprise shares of some of the listed state-owned banks. Marquee names such as State Bank of



ROAD AHEAD

- Dipam had planned to launch a new ETF comprising PSB stocks
- Latest round of PSB mergers means ETF basket cannot be finalised
- ETF basket can only be finalised once the merger process is complete
- Govt depends heavily on ETFs to meet divestment targets
- Multiple offerings of CPSE ETF, Bharat 22 ETF planned for FY20

India, Punjab National Bank, and Bank of Baroda could be included, as well as other PSBs. This ETF could also include part of the Centre's stake in Axis Bank.

Last month, Finance Minister Nirmala Sitharaman announced a mega merger of state-owned banks, which will reduce the number of PSBs from 18 to 12. Punjab National Bank is in the process of acquiring Oriental Bank and United Bank of India, Canara Bank will acquire Syndicate Bank, Union Bank of India will buy Andhra Bank and Corporation Bank,

and Indian Bank will acquire Allahabad Bank.

This will reduce the number of listed PSBs, which will make up the new financial sector ETF. Clarity on which bank shares the ETF will comprise will only happen once the merger is completed. The deadline for completing the integration of the banks is April 2020.

"The ETF will unlikely be launched this year. We can take another look at it after the conclusion of the merger," the official said.

Over the years, ETFs have become an indispensable component of the Centre's disinvestment road map. Along with big mergers of state-owned companies, they contribute the biggest chunk of divestment proceeds in any year.

There are two ETFs offered by the Centre. The CPSE ETF comprises 11 stocks and is heavily skewed towards the energy and commodity sectors. It is managed by Reliance AMC. The Bharat 22 ETF draws from six sectors and is managed by ICICI Prudential.

For 2019-20, the Centre is planning multiple follow-on offerings of the two ETFs. It has already garnered around ₹11,000 crore from a CPSE ETF in July, and is soon expected to launch a ₹5,000-crore offering of Bharat 22.

The proceeds from the two ETFs, accounted for about 53 per cent of the ₹84,972 crore that Dipam earned in 2018-19, going past last year's target of ₹80,000 crore. 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.

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