

BID

Key Data	
Issue Opens	15-Nov-2017
Issue Closes	17-Nov-2017
Issue open & closes for Anchor	14-Nov-2017
Nature of Scheme	An open-ended Index Scheme ETF
Benchmark	S&P BSE Bharat 22 Index
Minimum Investment	Minimum of Rs 5000/- & in multiple of Re 1/- thereafter
Face Value	Rs 10/-
Maximum Issue Size	Rs 8000cr plus additional amount (if any)
Registrar	Computer Age Management Services Pvt Ltd (CAMS)
Managed by	ICICI Prudential AMC Ltd

“Government of India has offered 3% discount on the “Reference Market Price” of the underlying index shares to the investors of Bharat 22 during the NFO.”

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BHARAT 22 EXCHANGE TRADED FUND - (ETF)

After an overwhelming response to CPSE ETF, the Government of India (GoI) has announced its second round of ETF i.e. BHARAT 22 ETF to support its disinvestment program of current fiscal. The Government of India has in the past divested its holdings in selected companies through various routes such as IPO, OFS, and ETF. Bharat 22 ETF is a well-diversified portfolio with focus on six different sectors - Basic Materials, Energy, Finance, FMCG, and Industrials & Utilities.

ICICI Prudential AMC Ltd. has been appointed by the GoI to launch and manage the BHARAT 22 ETF and Asia Index Private Ltd (JV BSE & S&P Global) for Index Provider. ICICI Prudential AMC has launched BHARAT 22 ETF - New Fund Offer (NFO). Bharat 22 is an open-ended exchange traded fund investing in S&P Bharat 22 Index. This exchange traded fund mirrors the S&P BSE Bharat 22 Index, which comprises select companies from the CPSE Universe, stakes held under the Specified Undertaking of the Unit Trust of India (SUUTI) and public sector banks (PSBs).

Other key highlights of Index:

- S&P Bharat 22 Index is designed to measure the performance of select companies divested by the GoI.
- The index values are to be calculated on free float market capitalization methodology.
- Weights of index constituents to be capped at 15% on stock level and 20% on sector level.
- The Bharat 22 Index will be rebalanced annually in March

Selection Criteria:

- Companies may form part of (i) Central Public Sector Enterprises (CPSE); (ii) public sector banks; (iii) stocks held under the categorization of Specific Undertaking of the Unit Trust of India; or (iv) other companies in which the Government of India divests its stake
- The companies must be listed on BSE
- Companies which have given dividend of not less than 4% including bonus for the 7 years immediately preceding or for at least seven out of the eight or nine years immediately preceding.
- Companies having average free float market capitalization of more than Rs. 1000 Cr for last six months.

Key Features of Bharat 22 Index:

- Bharat 22 ETF is a well diversified portfolio with focus on 6 different sectors namely Basic Materials, Energy, Finance, FMCG, and Industrials & Utilities
- Portfolio diversification through investment in blue-chip Maharatna & Navratna CPSE stocks & other corporate entities, which are sector leaders
- Bharat 22 ETF to consist of diversified portfolio of 22 Blue Chip Stocks
- This Index also consists of companies where Government of India includes partial stakes in companies like Axis Bank, L&T & ITC
- Bharat 22 ETF would get listed on BSE/NSE
- This ETF NAV would go up or down based on the share prices of 22 underlying stocks under this ETF.

Structure:

The Bharat 22 is an open-ended exchange scheme which would be listed on exchanges in the form of an exchange traded fund (ETF) tracking the S&P BSE Bharat 22 Index. The scheme will invest in securities, which are constituents of the CPSE Universe & other corporate entities.

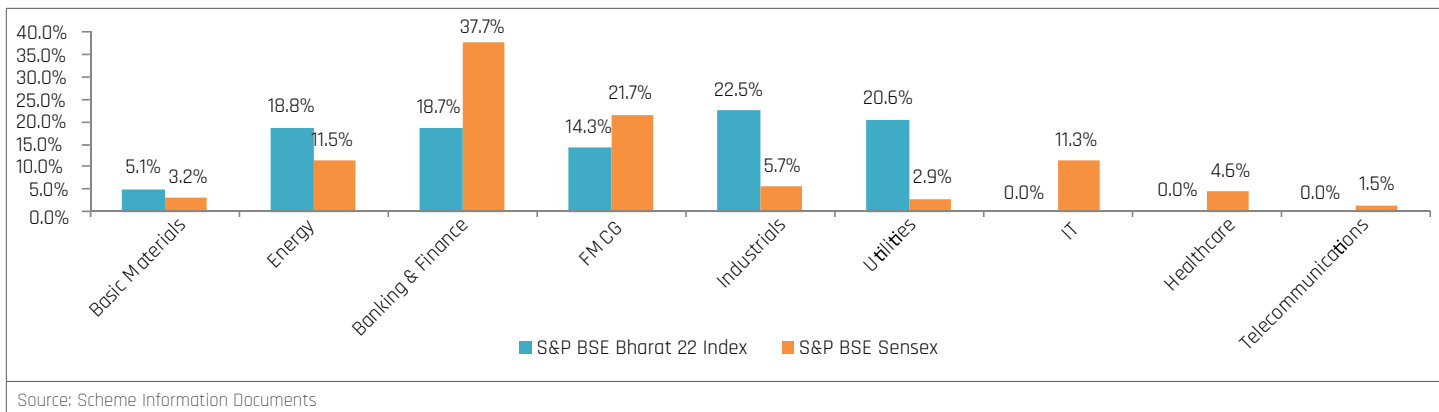
S&P BSE Bharat 22 - Index Constituents			
No	Company Name	Industry	Weightage (%)
1	National Aluminium Co Ltd	Basic Materials	5.13
		Total - Basic Materials (%)	5.13
2	ONGC Ltd	Energy	5.54
3	IOC Ltd	Energy	5.00
4	BPCL Ltd	Energy	4.54
5	Coal India	Energy	3.72
		Total - Energy (%)	18.80
6	State bank of India	Finance	7.25
7	Axis bank	Finance	7.82
8	Bank of Baroda	Finance	1.22
9	REC Ltd	Finance	1.18
10	PFC Ltd	Finance	0.99
11	Indian Bank	Finance	0.21
		Total - Finance (%)	18.67
12	ITC	FMCG	14.26
		Total - FMCG (%)	14.26
13	Larsen & Toubro	Industrials	16.92
14	Bharat Electronics	Industrials	3.48
15	Engineers India	Industrials	1.44
16	NBCC	Industrials	0.68
		Total - Industrial (%)	22.52
17	Power Grid	Utilities	7.73
18	NTPC Ltd	Utilities	7.07
19	GAIL India	Utilities	4.25
20	NHPC Ltd	Utilities	1.08
21	NLC India	Utilities	0.27
22	SJVN	Utilities	0.23
		Total - Utilities (%)	20.63

Source: Scheme Information Documents

Investment Rationale:

Well Diversified Portfolio

Unlike CPSE Index which comprises of only 10 PSU companies primarily focus on energy stocks like ONGC, IOCL, Coal India and so on. Bharat 22 Index is more diversified and includes companies from 6 different sectors (Basic Materials, Energy, Finance, FMCG, and Industrials & Utilities). Further, Bharat 22 has a mix of secular growth sectors like (FMCG & Utilities) as well as cyclical sectors like (Energy, Metals & Industrials). The concentration risk in Bharat 22 index is also significantly low as top 3 stocks account for ~40% allocation as compared to ~58% allocation under CPSE ETF, this means it has too much depend on just 3 stocks. Also sector wise, Bharat 22 Index has given higher weightage to utilities sector i.e. 22.5% v/s 37.7% weightage given to banking & finance under S&P BSE Sensex.



Further, Bharat 22 constitutes 8% of midcap companies as compared to nil for benchmark indices like Nifty 50, Sensex & Nifty 100.

Market Capitalization Break-up			
Market Cap	S&P BSE Bharat 22 Index (%)	Nifty 50/ S&P BSE Sensex (%)	Nifty 100 (%)
Large Cap	92.05	100	99.8
Mid Cap	7.95	-	0.2
Small Cap	-	-	-
Total	100	100	100

Source: Scheme Information Documents

Also, Unlike CPSE ETF, composition of S&P BSE Bharat 22 Index is well diversified among CPSE & other corporate entities. It has allocated greater weightage to SUUTI companies which are privately managed companies i.e. Axis Bank, ITC & L&T. Further, in case of CPSE ETF, it has given almost 2/3 weightage to Maharatna companies of India like (ONGC, GAIL India, Coal India & IOC).

S&P BSE Bharat 22 Index - Category of Index Constituents		
Category	Count	Weight (%)
CPSEs:	16	52.3
Maharatna	6	30.1
Miniratna-I	2	1.3
Navratna	8	20.9
PSU Bank	3	8.7
SUUTI A Group	3	39
Total	22	100

Source: Scheme Information Documents

v/s

CPSE Index Composition - Category of Index Constituents		
Category	Count	Weight (%)
Maharatna	4	69.8
Miniratna-I	2	7.4
Navratna	4	22.9
Total CPSEs	10	100

Source: Scheme Information Documents

We believe, more diversification gives more scope for higher returns. Hence, such diversification would aid in reducing concentrating risk of a particular sector or a stock & thus reduces volatility & improve risk adjusted returns.

Government Reforms & Initiatives augur well for Bharat 22 companies

BJP Led Modi Government has successfully kick started the reform process especially in government oriented sectors like Oil & Gas, Banking, Infrastructure sector etc. We believe, all companies of the Bharat 22 Index will be large beneficiaries of the government's initiatives on the reform process. Following are the key government reforms & initiatives that augur well for growth of Bharat 22 companies going ahead.

Reforms / Initiatives	Key Highlights	Company to benefit
Financial Sectors	Insolvency & Bankruptcy Code 2016, Monetary Policy Committee, Bank Recapitalization, Digital & Cashless Economy, Listing of Insurance Companies	Axis Bank, Bank of Baroda, Indian bank & State Bank of India
Taxation Reforms	Implementation of GST - aimed at eliminating cascading effect of indirect taxes	All companies forming part of the Index
Infrastructure Reforms	Speeding up clearance of stalled infrastructure projects, Bharat Mala Projects	Larsen & Toubro, NBCC, NALCO
Liberal Foreign Direct Investment in India	Progressively Liberalized to permit FDI in most sectors under automatic route	Axis Bank, Bank of Baroda, BEL & SBIN
Make In India	Expanding manufacturing facilities, International skill development centres for domestic workers	ITC, L&T, NALCO
Oil & Gas Sector Reforms	Direct Benefit Transfer of LPG Subsidies, Daily Fuel Pricing, Upward Revision of Gas Prices	BPCL, ONGC, GAIL India
Power Sector Reforms	Providing 24*7 affordable power supply, Saubhagya Scheme	Coal India, NTPC, Power Gird, REC, PFC, NHPC & SJVN

Source: Scheme Information Documents

Strong fundamentals

Government owned companies are fundamentally strong companies with many of these are market leaders or the only players in their sectors. We believe, government companies have a virtual advantage of enjoying monopoly situation in various businesses like Coal Mining, Oil & Gas, Power & Defence etc. We believe, such company also commands pricing power in their respective sector like OMC's, Coal Mining etc & thus helps in improving margins. With gradual recovery in economy & better economic policies, we believe, BHARAT 22 companies to perform well in coming years.

Gradual revival in earnings & attractive valuation

The performance of Bharat 22 over the last few years was subdued due to lack of environmental clearance, weaker economic growth, falling commodity prices & rising interest rates. All this has led to poor financial performance. However, with government reforms & initiatives in place, we believe, this would lead to change in the economic environment & thus led to major growth drivers for revival in earnings in coming quarters. Also, S&P BSE Bharat 22 index companies to grow at 16% CAGR over FY17-FY19E, which is better than BSE Sensex & Nifty 50 CAGR growth of 14% & 13% respectively over the same period. Also, these companies are trading at lower valuation in terms of forward PE & P/B Value as compared to benchmark indices. Hence, favourable valuation makes Bharat 22 a lucrative buy.

Name of the Index	Earnings Growth (FY17 to FY19E)	Price/ Earnings		Price/ Book Value	
		H1FY18	FY19E	H1FY18	FY19E
S&P BSE Bharat 22 Index	16%	19	13	2	1.8
S&P BSE Sensex	14%	23	16	3	2.5
Nifty 50	13%	25	16	3.4	2.5

Source: Scheme Information Documents

Attractive Dividend Yield

All stocks in the Bharat 22 Index are high dividend paying companies. The selection criteria of the index say the company should have paid dividend of not less than 4% including bonus for the seven years immediately preceding or for at least seven out of the eight or nine years immediately preceding. The current weighted average dividend yield of the Bharat 22 index is around 2.4%, which is better than benchmark index such as Sensex and Nifty.

Name of the Index	Dividend Yield (%) - H1FY18
S&P BSE Bharat 22 Index	2.4
S&P BSE Sensex	1.2
Nifty 50	1.2

Source: Scheme Information Documents

Solid Historical Performance & better risk adjusted return

Returns of Bharat 22 Index have consistently outperformed the returns generated by CPSE ETF, BSE Sensex & Nifty 50. Also, 10years CAGR returns from Bharat 22 Index have outperformed the CPSE ETF return by almost 400bps. This is largely led by well diversified portfolio mix as well as well balanced weightage between CPSE & other corporate entities. As on Aug 2017, the one-year CAGR of Bharat 22 Index is 22.5% as against 13.9% given by Nifty CPSE ETF. Further, S&P BSE Bharat 22 Index has posted a better risk adjusted returns as compared to benchmark indices & CPSE ETF also. Below table indicates historical performance in terms of price performance & risk adjusted returns. However, past performance may or may not sustain in the future.

Name of the Index	Total Return (CAGR %)				
	1 year	2 years	3 years	5 years	10 years
S&P BSE Bharat 22 Index	22.5	17.9	10.8	13.8	10.6
Nifty CPSE ETF	13.9	14	2.4	7.5	6.8.
S&P BSE Sensex	20.5	11.6	8.9	13.9	7.1
Nifty 50	21.5	13.3	10.3	14.2	7.4

Source: Scheme Information Documents

Name of the Index	Risk Adjusted Returns				
	1 year	2 years	3 years	5 years	10 years
S&P BSE Bharat 22 Index	1.7	1.2	0.7	0.8	0.5
Nifty CPSE ETF	0.9	0.8	0.1	0.4	0.3
S&P BSE Sensex	2.0	1.1	0.7	1.0	0.3
Nifty 50	2.0	0.9	0.6	1.0	0.3

Source: Scheme Information Documents

Advantage of investing in ETF

ETFs are passively managed mutual fund schemes tracking a benchmark index and reflect the performance of that index. It has best of both mutual fund and stock. The price can be seen on the exchange throughout market hours. ETF also benefits from lower expense ratios due to lower portfolio management, trading and operational expenses.

Like a Fund	Like a Stock
Constructed to track an Index	Trading Flexibility
Open ended mutual fund	Real time Price
Lower Expenses ratio as compared to an active equity fund	Put Limit orders
Lower Turnover	Minimum Trading lot - 1 Unit
More Transparent	Delivery into your Demat Account

Source: Scheme Information Documents



ETF

Investment objective:

The investment objective of the Scheme is to invest in constituents of the underlying Index in the same proportion as in the underlying index, and endeavour to provide returns before expenses, which closely correspond to the total returns of the underlying Index.

SCHEME FEATURES		
NFO Features	Anchor Investors	Non-Anchor Investors
NFO Opens on	14-Nov-17	15-Nov-17
NFO Closes on	14-Nov-17	17-Nov-17
Benchmark Index	S&P Bharat 22 Index	
Fund Manager	Kayzad Eghlim	
Load Structure	Entry & Exit Load: NIL	
Allocation	Anchor Investors: 25%	
	Non-Anchor Investors:	Retail Individual Investor - 25% Retirement Funds - 25% QIB & NII - 25%
Category of Investors# (during NFO)	<ul style="list-style-type: none"> • Retail Individual Investor • Qualified Institutional Buyers or QIB • Non-Institutional Investors • Anchor Investors 	
Minimum application amount (during NFO)	Anchor Investors:	RFs: Rs 10 cr & in multiple of Re 1 thereafter
		QIBs: Rs 10 cr & in multiple of Re 1 thereafter
	Non-Anchor Investors:	RII - Rs 5000 (and in multiple of Re 1) up to Rs 2 lacs
		RFs: Rs. 2,00,001 and in multiples of Re 1/- thereafter
		QIBs - Rs. 2,00,001 and in multiples of Re 1/- thereafter
		NIIs - Rs. 2,00,001 and in multiples of Re 1/- thereafter
Cheque/ Demand Drafts, Transfer requests, RTGS and NEFT from Non-Anchor Investors	Till the end of business hours up to November 17, 2017	
Liquidity	To be listed on BSE Ltd. and NSE Ltd.	

Source: Scheme Information Documents

Asit C. Mehta

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