

## BID

### Key Data

Issue Opens	18-July -2019
Issue Closes	19-July -2019
Issue open & closes for Anchor	18-July-2019
Issue open & closes for Retail	19-July -2019
Nature of Scheme	An open-ended Index Scheme ETF
Benchmark	Nifty CPSE index
Retail Minimum Investment	Minimum of Rs 5000/- & in multiple of Rs 1/- thereafter
Face Value	Rs 10/-
Maximum Issue Size	An initial amount of Rs 8000cr plus an additional amount, if any
Registrar	Karvy Computershare Pvt Ltd
Managed by	Reliance Nippon Life AMC Ltd (RNAM)

**“Government of India has offered 3% discount to all categories of investors”**

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## CPSE ETF - Further Fund Offer (FFO 5)

### Nifty CPSE Index

After an overwhelming response to the recent CPSE ETF (FFO 4), the Government of India (GoI) has announced its sixth tranche of ETF-CPSE ETF (FFO 5) to support its disinvestment program of the current fiscal. The CPSE ETF was launched in 2014, and has seen four additional offerings (tranches) since then. The current offering is the sixth tranche. The Government of India has in the past divested its holdings in select companies through various routes such as IPO, OFS, and ETF. The FFO 5 in the CPSE ETF is part of the government's larger disinvestment program that was announced earlier by the Ministry of Finance.

Reliance Nippon Life Asset Management Ltd (RNAM) that manages Reliance Mutual Fund assets has the mandate for managing CPSE ETF, and has so far brought four tranches of CPSE ETF with a maiden new fund offer (NFO) in July.

### CPSE Index Highlights:

- Nifty CPSE Index is constructed to facilitate Government of India's initiative to disinvest some of its stake in selected CPSEs.
- The Nifty CPSE Index includes 10 listed Central Public Sector Companies across various sectors.
- It is an open-ended index scheme, listed on the exchanges in the form of an Exchange Traded Fund (ETF) tracking the performance of Nifty CPSE Index.
- The index values are to be calculated on free float market capitalization methodology.
- The index has base date of 01-Jan-2009 and base value of 1000.
- Weights of index constituents would be realigned i.e. capped at 20% on a quarterly basis (effective Oct 26, 2018) after the expiry of F&O contracts in March, June, September, and December.
- Government of India has offered 3% discount to all categories of investors.
- Special category created for Retirement Funds along with retail investors.

### Selection Criteria:

- Included in the list of CPSEs published by the Department of Public Enterprise.
- Listed at National Stock Exchange of India Ltd (NSE).
- Companies that have more than 51.5% government holding (stake via Govt of India or President of India) under promoter category.
- Companies that are IRDA dividend norms compliant will be considered eligible to be included in the index i.e. equity shares of any listed company on which not less than 10% dividends have been paid for at least 2 consecutive years immediately preceding.
- Companies having average free float market capitalization of more than Rs. 1000 Cr for six months period ending August 2018.

### Key Features of CPSE ETF:

- CPSE ETF New Fund Offer was first launched in March 2014. Later, the government had launched a follow on CPSE ETF offers four times i.e. Jan 2017, March 2017, November 2018 and March 2019.
- Earlier NFOs have received an overwhelming response across various categories of investors.
- CPSE ETF FFO 5 comprises diversified portfolio through investment in blue-chip Maharatna, Navratna, and Miniratna CPSE stocks majority of which are sector leaders.
- Flexibility of trading on real-time basis.
- Significantly lower expense ratio – 0.0095%.

### Structure:

CPSE ETF FFO 5 is a passive investment fund that was created to help the government in its divestment program of divesting stake in selected CPSE through ETF. This CPSE ETF FFO 5 is similar to CPSE ETF FFO 4.

CPSE ETF FFO 5- Index Constituents & Portfolio Allocation as on June 30, 2019			
No	Company Name	Industry	Weightage (%)
1	NTPC	Energy	20.68
2	Coal India	Metals	19.65
3	Oil & Natural Gas Corporation Ltd.	Energy	19.31
4	Indian Oil Corporation	Energy	16.94
5	Rural Electrification Corp*	Financial Services	6.79
6	Power Finance Corp	Financial Services	6.45
7	Bharat Electronics	Industrial Manufacturing	4.99
8	Oil India Ltd	Energy	2.48
9	NBCC	Construction	1.52
10	NLC India	Energy	0.60
11	SJVN	Energy	0.48
Cash & Other Receivables			0.11
<b>Total - (%)</b>			<b>100</b>

Source: Scheme Information Documents  
\*Rural Electrification excluded from Nifty CPSE Index on 15th July, 2019

### Sector Allocation

Sectors	% Allocation
Energy	60.49%
Metals	19.65%
Financial Services	13.24%
Industrial Mfg	4.99%
Construction	1.52%

Source: Scheme Information Documents

## Investment Rationale:

### Well-diversified fund

CPSE ETF FFO 5 is a well-diversified play on seven different sectors of domestic economy – Oil & Gas, Power, Finance, Petroleum products, Mining, and Construction. Moreover, investors will be able to diversify exposure across a number of public sector companies through a single instrument. We believe a well-diversified portfolio gives more scope for higher returns. Hence, such diversification would aid in reducing concentrated risk of a particular sector or a stock, reducing volatility while improving risk adjusted returns.

### Play on India's growth story

CPSE ETF FFO 5 is good play on India growth story through investment in large CPSE stocks. Majority of stocks in the index are Maharatna, Navratna, and Miniratna CPSE companies, of which many are sector leaders in their respective sector. Further, the Modi-led BJP government has implemented various key reforms, especially in government-oriented sectors such as Oil & Gas, Banking, and Infrastructure sector. We believe all the companies of the Index would be large beneficiaries of various governments' initiative due to leading positions.

### Strong fundamental and cash rich balance sheet

Government owned companies are fundamentally strong companies. Further, CPSE companies are cash rich companies with strong balance sheet structure. Government companies have a virtual advantage of enjoying monopoly situation. Thus, they command pricing power in their respective sectors such as OMC's and Coal Mining, which aids in improving margins. With recovery in the economy and better policy reforms, we believe the index companies will perform well in the coming years.

### Attractive valuation

Savvy investors are always in search of buying strong fundamental companies at attractive valuation. Further, Nifty CPSE Index on an aggregate is being offered at a 33-43% discount to Nifty Valuations as shown in below tables. As on 30th June 2019, Nifty CPSE index trades at lower valuation in terms of PE and P/B Value compared with various benchmark indices.

Index Name	P/E Ratio	P/B Ratio
Nifty CPSE Index	9.37	1.58
Nifty 50 Index	28.98	3.71
Nifty Next 50 index	46	4.07
Nifty 100 index	30.43	3.75
Nifty 500 index	30.96	3.41

Source: www.nseindia.com, Scheme Information Documents

### Attractive Dividend Yield

All stocks in the CPSE index are high dividend paying companies. The selection criteria of the index itself say that companies which are IRDA dividend norms compliant shall be considered eligible to be included in the index; i.e. equity shares of any listed company on which not less than 10% dividends have been paid for at least two consecutive years immediately preceding. The current weighted average dividend yield of the index is around 4.89%, which is much better than benchmark index such as Nifty and other Nifty indices.

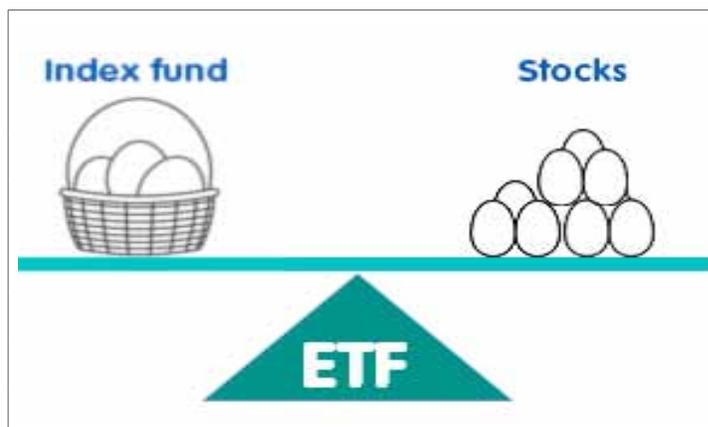
Index Name	Dividend Yield (%) – 30th Jun 2019
Nifty CPSE Index	4.89
Nifty 50 Index	1.24
Nifty Next 50 index	0.91
Nifty 100 index	1.20
Nifty 500 index	1.17

Source: www.nseindia.com, 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 ratio 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	



Scheme Features		
FFO 5 Features	Anchor Investors	Non-Anchor Investors
FFO 5 Opens on	18-July-19	19 -July-19
FFO 5 Closes on	18-July-19	19 -July-19
Benchmark Index	Nifty CPSE Index	
Pricing	1/100th of Nifty CPSE Index	
Fund Manager	Vishal Jain (Since 6th November 2018)	
Inception date	28th March 2014	
Load Structure	Entry & Exit Load: NIL* (Refer Note 1)	
Maximum Amt to be raised during FFO 5	Rs. 8000cr (Refer Note 2)	
Allocation	Anchor Investors: 30%	
	Non-Anchor Investors: 70%	
Category of Investors# (during FFO 5)	<ul style="list-style-type: none"> <li>• Retail Individual Investor</li> <li>• Qualified Institutional Buyers or QIB</li> <li>• Non-Institutional Investors</li> <li>• Anchor Investors</li> </ul>	
Minimum application amt (during FFO 5)	Anchor Investors:	Minimum amount of Rs 10cr and in multiple of Rs 1/- thereafter
	Non-Anchor Investors:	RII - Rs 5000 (and in multiple of Rs 1) up to Rs 2 lacs
		QIBs - Rs. 2,00,001 and in multiples of Rs 1/- thereafter
		NIIs - Rs. 2,00,001 and in multiples of Rs 1/- thereafter
Minimum application amount (during ongoing offer period) (Ongoing Offer commenced on April 04, 2014)	<u>Directly with the Mutual Fund:</u> Create / Redeem in exchange of Portfolio Deposit and cash component in Creation Unit Size of 1 lakh units of the Scheme. On the exchange: 1 (one) Unit and in multiples thereof.	
Listings	FFO 5 Units offered pursuant to the FFO 5, listed on NSE and BSE on or before August 02, 2019. However, Units of the existing CPSE ETF Scheme were listed on 04th April 2014 on NSE & BSE.	
Discount Offered by GOI	Discount of 3% (Three percent) *(Refer Note 3) on the "FFO 5 Reference Market Price" of the underlying shares of Nifty CPSE Index shall be offered to FFO 5 by GOI.	
Source: Scheme Information Documents		

**Note 1:** For applications received during the FFO 5 Period, the AMC/ Mutual Fund may deduct transaction charges of Rs.150 (Rupees One Hundred and Fifty) (for first time investors across mutual funds) or Rs.100 (Rupees One Hundred) (for existing investors across mutual funds) from the Subscription amount, which would be paid to the empanelled AMFI registered Distributor / agent of the Investor (in case the empanelled AMFI registered Distributor / agent has "opted in" to receive the transaction charge for this type of product) and the balance amount shall be invested in the Scheme. Please refer to Section IV (C) (Transaction Charges) of the Supplement to SID for further details.

**Note 2:** : An "Initial Amount" of Rs 8,000 crores plus an "Additional Amount" (if any) - The AMC, on the instruction of the Seller/The Government of India, shall notify the "Additional Amount" (if any) to the investors vide public notification/addendum post closure of Non-Anchor Investor FFO 5 Period.

**Note 3:** : Discount of 3% (Three percent) is on the "FFO 5 Reference Market Price". Post closure of the FFO 5, the Scheme will purchase the underlying Index constituents from GOI. Discount will be on shares to be offered by the GOI. In the event an index constituent is purchased fully or partially from open market to meet the Maximum Amount to be Raised during FFO 5, no discount will be offered on such purchase index constituent from open market.

## 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.

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