

Bharat 22 ETF

A long-term investment opportunity

Managed by ICICI Prudential Asset Management Company Ltd.

NFO Period:

The NFO for Anchor investor is on November 14, 2017 and Non-Anchor shall be between November 15, 2017 and November 17, 2017.

Upfront Discount:

Investors across all categories to get 3% upfront discount of the reference market price.

Executive summary

Since the onset of liberalisation and adoption of the New Economic Policy or NEP in 1991, the Government of India (GoI) has been disinvesting its stake in central public sector undertakings (CPSEs). In recent years, it has opted for the exchange traded fund (ETF) route to sidestep issues of lackadaisical demand and procedural complexities of launching multiple divestment issues. ETFs also provide an attractive opportunity to investors to benefit from passive investment management - a concept quite popular globally, especially in the US.

The latest offering from the government - Bharat 22 ETF (mirrored on the S&P BSE Bharat 22 Index) - 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) that are listed on the BSE. The new ETF is more diversified with 22 companies compared with the previous CPSE ETF, which held 10 companies. Weight of each individual stock is capped at 15% and each BSE sector at 20% of the S&P BSE Bharat 22 index with annual index rebalancing scheduled in March each year. However, despite the diversification, the index is concentrated both at the sector and company levels compared with the S&P BSE Sensex. S&P BSE Bharat 22 index has exposure across 12 sector compared to 21 sectors in Nifty 50 and 14 sectors in S&P BSE Sensex. Construction Projects constitutes 18.36% of S&P BSE Bharat 22 index portfolio, while Nifty 50 and S&P BSE Sensex have highest exposure to Banks at 26.80% and 28.34% respectively. Percentage allocation to the 8 common sectors from the portfolio of S&P BSE Bharat 22, Nifty 50 and S&P BSE Sensex is 86.47%, 64.11% and 68.69%, respectively. At company level top 2 stocks constitute 31% of the S&P BSE Bharat 22 index portfolio vis-a-vis 17% in Nifty 50 and 22% in S&P BSE Sensex.

Analysis of S&P BSE Bharat 22 index TRI since its inception March 2006 shows that it has outperformed both the S&P BSE Sensex TRI (11.21% p.a.) and Nifty 50 TRI (11.43%) with a wide margin by posting 13.80% p.a. returns. An investment of Rs 10,000 in S&P BSE Bharat 22 on March 17, 2006 would have grown to Rs 44,475 vis-à-vis S&P BSE Sensex's Rs 34,084 and Nifty 50's Rs 34,879. Further, during this period, the S&P BSE Bharat 22 Index has also delivered higher risk-adjusted returns than the broader market represented by the S&P BSE Sensex and Nifty 50, evident from its higher Sharpe and information ratios. The index has, however, witnessed higher volatility in returns (as measured by standard deviation) than the broader market in the past three and five years.

Other factors in the index's favour are a high dividend yield ratio of the underlying stocks, double the value compared to S&P BSE Sensex, and low cost. The total expense ratio (TER) of Bharat 22 ETF is one basis point (bp) against the previous CPSE ETF's 6 bps.

While the index provides an attractive investment opportunity, it could be a part of investors' overall portfolio based on their risk-return profile. Further, considering the underlying asset class is equity, investments should be for the long term to derive optimum benefits from the asset class.

Bharat 22 ETF

After the success met by the government in launching CPSE ETF in 2014, garnering up to Rs 11,500 crore in three tranches since then, the government has readied another ETF - Bharat 22 ETF - to disinvest its stake in various companies. The ETF will track the performance of its namesake index S&P BSE Bharat 22 comprising select companies from the CPSE universe, stakes held under SUUTI and PSBs that are listed on BSE.

Index composition highlights

- The index follows a free float adjusted market cap weighing methodology.
- While the number of stocks is capped at 22 out of an investable universe of 69 (see chart below), the weight of each individual stock is capped at 15% and each BSE sector at 20% of the index. These weight constraints are applied during the annual index rebalancing in March each year.
- Companies considered as eligible need to have given dividends of not less than 4% including bonus for the seven years immediately preceding or for at least seven out of the 8/9 years immediately preceding.
- Companies having average free float capitalisation of more than Rs 1,000 crore for the past six months are considered eligible.
- The current composition of companies includes the top 22 by annualised returns for the past five years dated July 31, 2017.

	Count of stocks			
CPSE	16	CPSE	Maharatna	5
PSU Bank	3		Navaratna	9
SUUTI A Group	3		Miniratna - I	2
Total	22			

Market cap

More than 90% of the S&P BSE Bharat 22 Index weight is dominated by large cap stocks (top 100 stocks by marketcap) and only 8% are represented by mid-cap stocks.

BSE size	S&P BSE Bharat 22	S&P BSE Sensex
Large cap	92.05	100.0
Mid-cap	7.95	0.0
Small cap	0	0.0
Total	100.0	100.0

Data of as September 29, 2017

Stock and sector allocation

- Comparison of portfolio of S&P BSE Bharat 22 index with Nifty 50 and S&P BSE Sensex shows that, S&P BSE Bharat 22 portfolio is concentrated both at sector level and company level. However, S&P BSE Bharat 22 index is more diversified at 22 companies, compared to the previous CPSE ETF, which comprised of 10 companies.
- S&P BSE Bharat 22 index has exposure across 12 sector compared to 21 sectors in Nifty 50 and 14 sectors in S&P BSE Sensex. Construction Projects constitutes 18.36% of S&P BSE Bharat 22 index portfolio, while Nifty 50 and S&P BSE Sensex have highest exposure to Banks at 26.80% and 28.34% respectively. Percentage allocation to the 8 common sectors from the portfolio of S&P BSE Bharat 22, Nifty 50 and S&P BSE Sensex is 86.47%, 64.11% and 68.69%, respectively.
- At company level top 2 stocks constitute 31% of the S&P BSE Bharat 22 index portfolio vis-a-vis 17% in Nifty 50 and 22% in S&P BSE Sensex. Percentage allocation to the 11 common companies from portfolio of S&P BSE Bharat 22 and Nifty 50 or S&P BSE Sensex is around 84%, 22% and 24%, respectively.

Sector composition

Sector Name	S&P BSE Bharat 22 index	Nifty 50	S&P BSE SENSEX ¹
Auto	-	9.89	11.51
Auto Ancillaries	-	0.50	-
Banks	16.50	26.80	28.34
Cement	-	1.59	-
Construction	0.68	-	-
Construction Project	18.36	3.74	4.67
Consumer Non-Durables	14.26	9.42	11.91
Ferrous Metals	-	1.16	1.46
Finance	2.17	9.56	9.31
Gas	4.25	0.71	-
Industrial Capital Goods	3.48	-	-
Media & Entertainment	-	0.76	-
Minerals/Mining	3.72	0.94	1.18
Non - Ferrous Metals	5.13	2.48	-
Oil	5.54	1.28	1.62
Pesticides	-	0.76	-
Petroleum Products	9.54	9.78	8.72
Pharmaceuticals	-	4.17	4.58
Power	16.38	2.59	2.94
Software	-	10.98	11.30
Telecom - Equipment & Accessories	-	0.74	-
Telecom - Services	-	1.36	1.46
Transportation	-	0.79	0.99
Grand Total	100.00	100.00	100.00

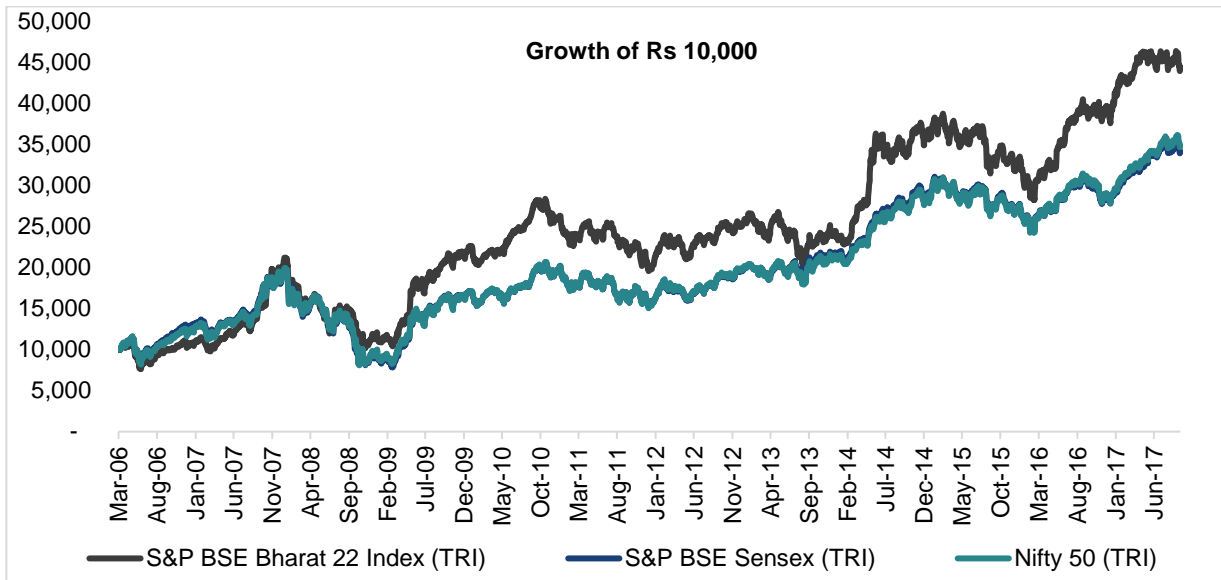
¹ Analysis considers SBI ETF Sensex as proxy for portfolio of S&P BSE SENSEX

S&P BSE Bharat 22 Index constituents as on September 29, 2017 with performance across trailing periods:

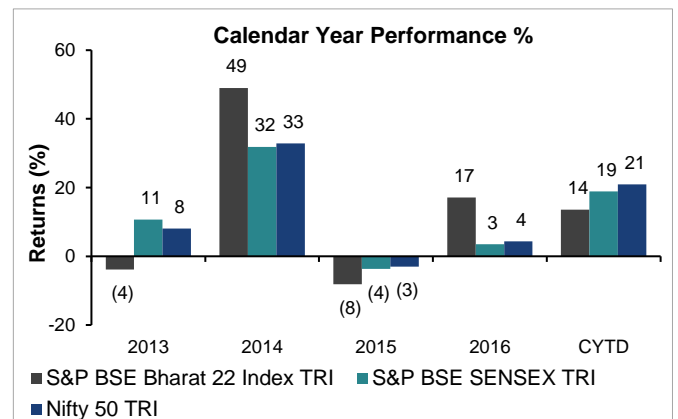
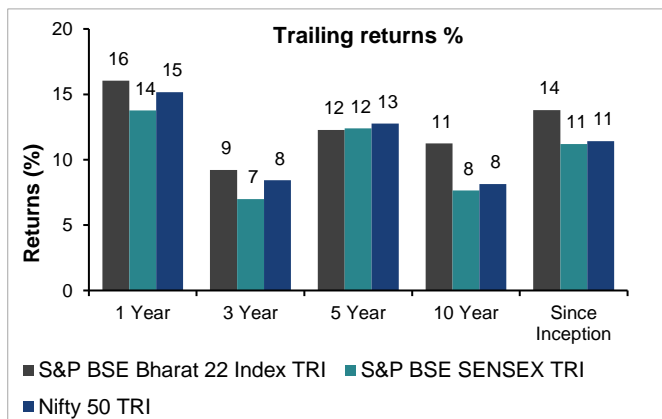
Sr. No.	Company	Sector	Weight (%)	1 year	3 years	5 years
1	Larsen & Toubro	Construction Project	16.92	19.50%	5.50%	10.00%
2	I T C	Consumer Non Durables	14.26	7.00%	1.50%	7.30%
3	Axis Bank	Banks	7.82	-5.90%	10.50%	17.50%
4	Power Grid Corp of India	Power	7.73	19.50%	16.00%	11.90%
5	State Bank of India	Banks	7.25	1.00%	1.20%	2.50%
6	N T P C	Power	7.07	13.10%	6.40%	-0.10%
7	Oil & Natural Gas Corp	Oil	5.54	-0.10%	-14.40%	-1.80%
8	National Aluminum Co	Non - Ferrous Metals	5.13	70.80%	10.70%	9.00%
9	Indian Oil Corp	Petroleum Products	5.00	37.50%	30.30%	26.20%
10	Bharat Petroleum Corp	Petroleum Products	4.54	15.40%	29.20%	32.30%
11	G A I L (India)	Gas	4.25	49.10%	7.50%	7.90%
12	Coal India	Minerals/Mining	3.72	-16.00%	-7.40%	-5.50%
13	Bharat Electronics	Industrial Capital Goods	3.48	43.90%	39.20%	34.80%
14	Engineers India	Construction Project	1.44	19.70%	6.80%	4.70%
15	Bank of Baroda	Banks	1.22	-17.80%	-8.60%	-2.90%
16	Rural Electrification Corp	Finance	1.18	27.10%	7.00%	7.00%
17	N H P C	Power	1.08	8.20%	11.60%	7.00%
18	Power Finance Corp	Finance	0.99	1.30%	1.30%	5.20%
19	N B C C (India)	Construction	0.68	26.70%	32.30%	72.70%
20	N L C India	Power	0.27	30.70%	4.40%	1.50%
21	S J V N	Power	0.23	11.60%	12.40%	10.10%
22	Indian Bank	Banks	0.21	23.80%	19.30%	6.20%
S&P BSE Bharat 22				16.05%	9.22%	12.27%
S&P BSE Sensex				13.78%	6.99%	12.39%
Nifty 50				15.17%	8.43%	12.75%

Performance

Since March 2006, the S&P BSE Bharat 22 Index TRI has outperformed both the S&P BSE Sensex TRI (11.21% p.a.) and Nifty 50 TRI (11.43%) with a wide margin by posting 13.80% p.a. returns. An investment of Rs 10,000 in S&P BSE Bharat 22 on March 17, 2006 would have grown to Rs 44,475 vis-à-vis S&P BSE Sensex's Rs 34,084 and Nifty 50's Rs 34,879.



Historically, the S&P BSE Bharat 22 Index has outperformed the S&P BSE Sensex and Nifty 50 across time periods except a slight underperformance in the past five years. A mixed trend is observed in calendar year returns, with outperformance in two out of five years. The highest outperformance was in 2014 when the S&P BSE Bharat 22 Index returned 48.9% compared to S&P SBE Sensex's 31.9% and Nifty 50's 32.9%.



^ Returns as on September 29, 2017

Risk-return measures

Since March 17, 2006, the S&P BSE Bharat 22 Index has delivered higher risk-adjusted returns than the broader market represented by the S&P BSE Sensex and Nifty 50, evident from its higher Sharpe and information ratios during the period. The index has, however, witnessed higher volatility in returns (as measured by standard deviation) than the broader market in the past three and five years.

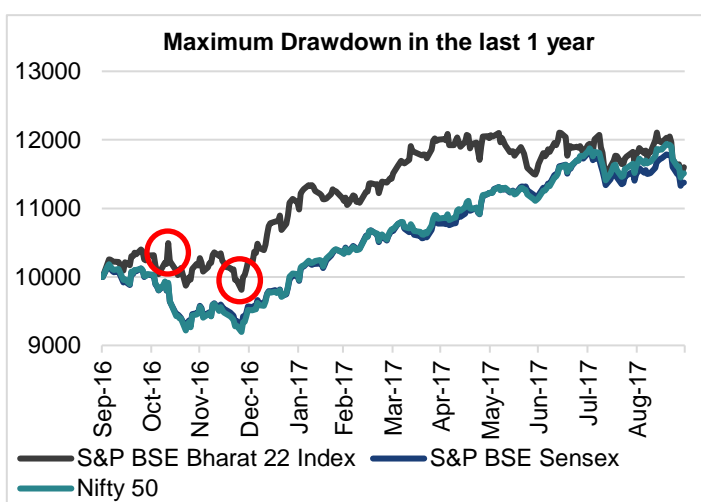
Risk measure	3 years			5 years			Since March 17, 2006		
	S&P BSE Bharat 22	S&P BSE Sensex	Nifty 50	S&P BSE Bharat 22	S&P BSE Sensex	Nifty 50	S&P BSE Bharat 22	S&P BSE Sensex	Nifty 50
Std. Deviation	16.31%	13.93%	14.07%	17.61%	14.39%	14.65%	23.30%	23.61%	23.63%
Information ratio [^]	0.34	NA	NA	0.05	NA	NA	0.23	NA	NA
Sharpe ratio	0.21	0.06	0.16	0.33	0.37	0.39	0.38	0.28	0.28
Beta [^]	1.05	1	1	1.08	1	1.01	0.9	1	0.99
R-Squared [^]	0.81	NA	NA	0.77	NA	0.99	0.83	NA	0.98
Sortino risk (wrt RFR)	12.18%	10.32%	10.53%	12.33%	10.19%	10.50%	16.89%	17.35%	17.61%
Sortino ratio	0.28	0.09	0.21	0.47	0.52	0.54	0.52	0.38	0.38
Treynor ratio [^]	0.03	0.01	0.02	0.05	0.05	0.06	0.1	0.07	0.07
Jensen's alpha [^]	2.43%	NA	1.38%	-0.01%	NA	0.31%	2.94%	NA	0.26%
Semi-standard deviation	12.17%	10.31%	10.54%	12.29%	10.17%	10.49%	16.90%	17.40%	17.67%

[^] wrt S&P BSE Sensex; returns as on September 29, 2017.

Note: in the above table, risk ratios are annualised, wherever applicable and are calculated based on daily returns for the respective periods.

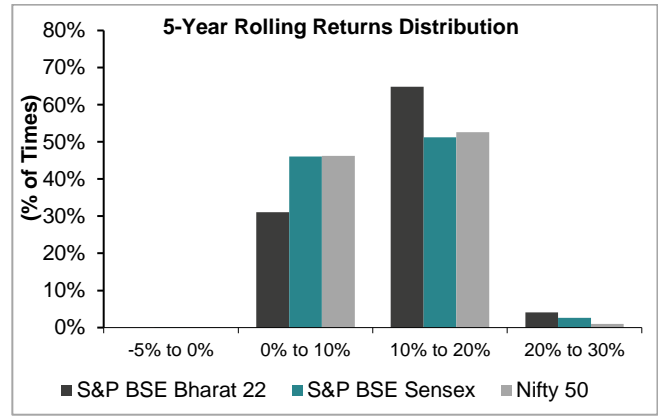
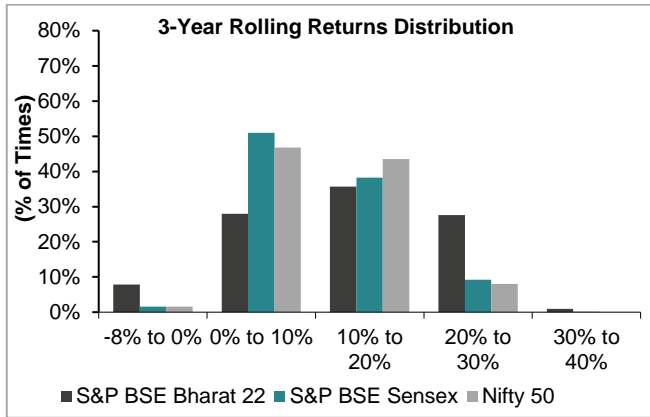
In the past one year, the S&P BSE Bharat 22 Index has been a better performer on the maximum drawdown (maximum fall from peak) front, containing its losses to 6.49% compared with the S&P BSE Sensex's -8.93% and Nifty 50's -9.69%.

Details of maximum drawdown	Last 1 years as on Sept 29, 2017		
	S&P BSE Bharat 22	S&P BSE Sensex	Nifty 50
Maximum drawdown (%)	-6.49	-8.93	-9.69
Abs. return from peak value date (%)	10.56	11.86	13.05
Investment date pertaining to maximum drawdown, i.e. peak value date	10-Nov-16	04-Oct-16	4-Oct-16
Date of recovery from maximum drawdown	26-Dec-16	21-Nov-16	26-Dec-16

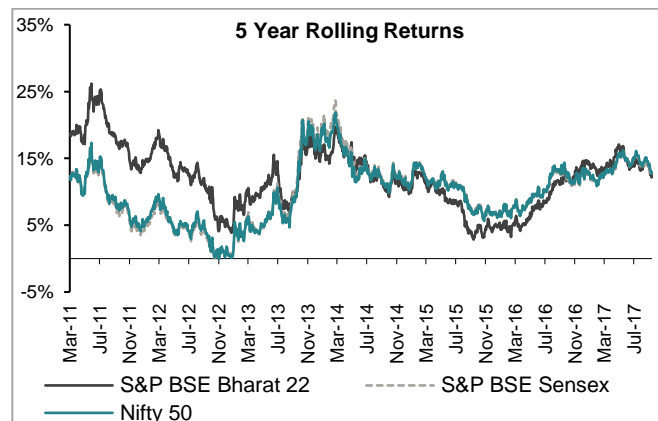
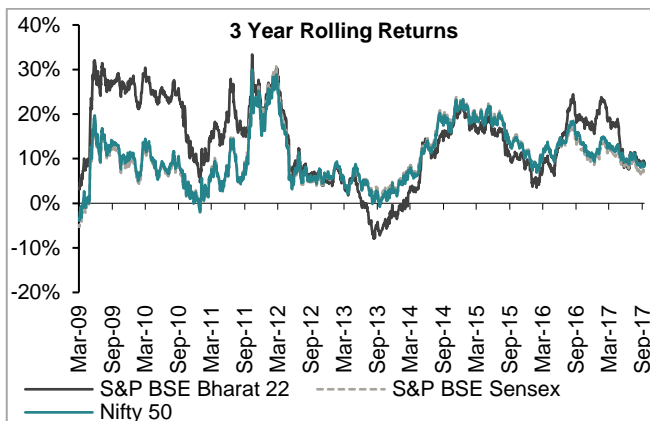


Rolling return analysis

Rolling returns indicate consistency in the performance of an index. Looking at three-year holding periods since March 2006, it can be observed that the S&P BSE Bharat 22 Index delivered more than 20% annualised returns in 28% of the times compared with the S&P BSE Sensex's 9% of times and Nifty 50's 8% of times.



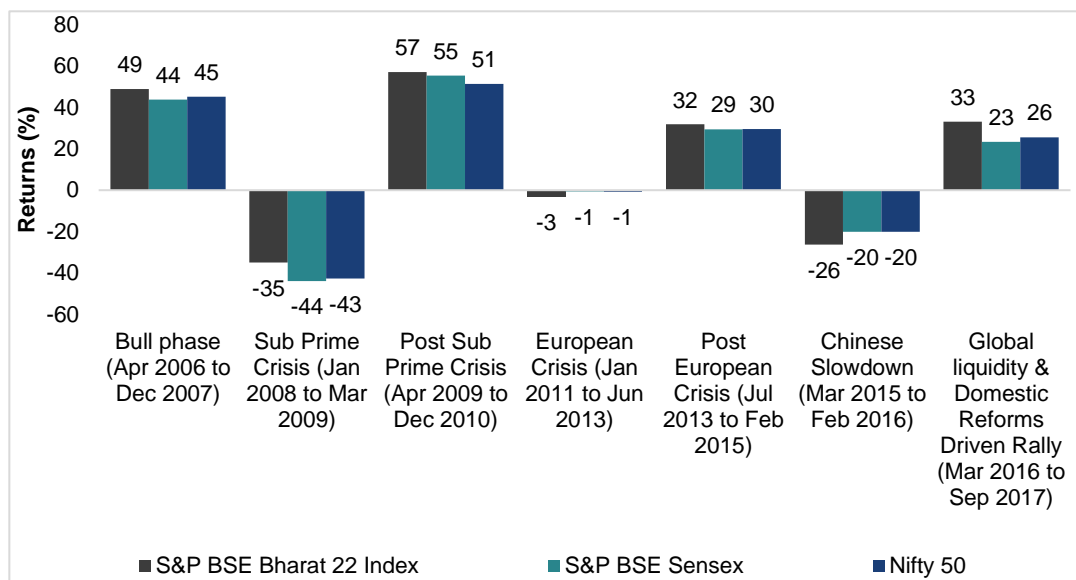
The average annualised returns delivered by the S&P BSE Bharat 22 across all three-year holding periods since March 2006 stood at 14.86%, higher than the S&P BSE Sensex's 10.96% and Nifty 50's 11.03%. A similar outperformance was observed in the five-year holding period.



The S&P BSE Bharat 22 Index has not yielded negative returns during holding periods of five years or more. Since March 2006, compared with S&P BSE Sensex, the S&P BSE Bharat 22 generated higher returns in 57.8% and 52.6% of times in three-and five year holding periods, respectively. Likewise, outperformed to Nifty 50 in 57.5% and 53% of times in three-and five year holding periods respectively.

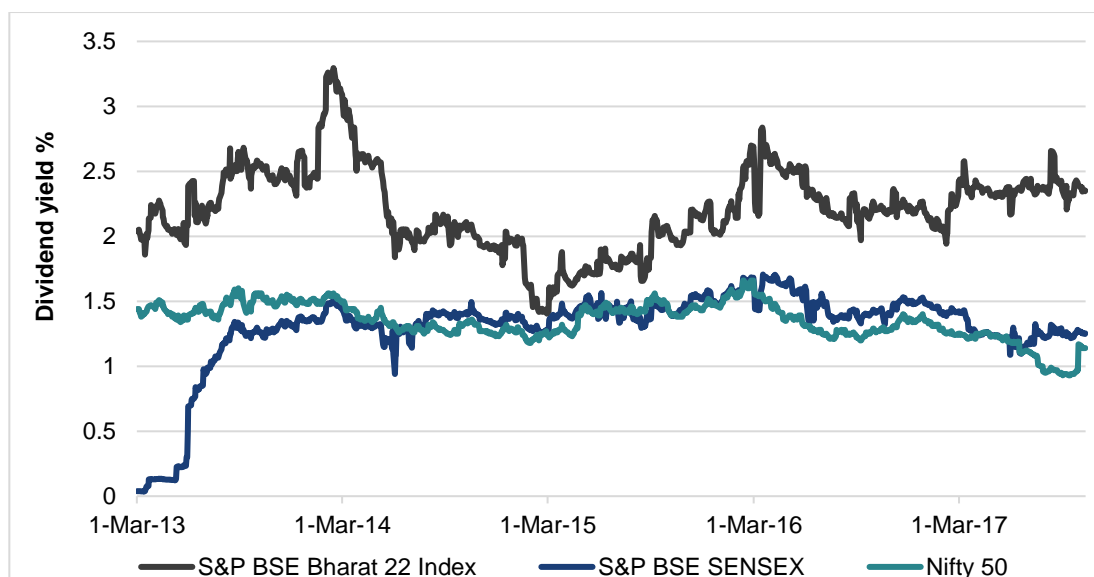
Market phase performance: Outperformer in bull phases

The S&P BSE Bharat 22 Index has outperformed during the bull phases. It outpaced S&P BSE Sensex and Nifty 50 in all four bull phases mentioned below. The performance of S&P BSE Bharat 22 was relatively weak during the European crisis and Chinese slowdown phase. It managed to return 33.2% during the global liquidity and domestic reforms driven rally (March 2016 to September 2017) when the S&P BSE Sensex and Nifty 50 yielded 23.4% and 25.6% p.a. respectively.



Dividend yield

Analysis of the one-year rolling dividend yield of the Bharat 22 compared with the S&P BSE Sensex and Nifty 50 since March 2013 shows that Bharat 22 index has consistently generated higher dividend yield, almost double than the market benchmarks.



Low Cost

The total expense ratio (TER) of Bharat 22 ETF is 1 bps against the previous CPSE ETF's 6 bps.

Expense ratio limits for Bharat 22 ETF

Daily average net assets	TER (%) of daily average assets
Up to Rs 5,000 crore	0.0095
Next Rs 10,000 crore	0.0076
Over Rs 15,000 crore	0.0057%

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Last updated: April 2016

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