



S I C O M O R O

Bharat Bond ETF

Date: 13th December, 2019

Offer Period: 12th December, 2019 to 20th December, 2019

Our View -

Conceptually we are in favour of this offering. It's a Low cost-efficient fixed income option. There are two products being offered – 3.5 years and 10.5 years maturity. The underlying portfolio is all PSU entities, thus has reduced credit risk. However, this is a first of its kind issuance and we will wait for it to demonstrate the liquidity & efficient price discovery. We are seeing Liquidity enhanced in Nifty ETFs after a long tenure of their presence and CPSE ETFs still face low liquidity.

3.5-year Bond ETF Offering - The 3.5 years bond ETF offering has a suitable positioning like 3- year FMP with option of liquidity, but the post-tax yields are lower than tax free bonds (comparable tenure and risk) if exited within 3 years. Alternatively, our recommended Banking and PSU funds & Corporate bond funds are offering better post tax returns than the 3.5-year bond ETF at the moment.

10.5 Year Bond ETF Offering - We will patiently wait to see the market develop further. we believe our recommended fund L&T Triple Ace fund offers better opportunity in the similar duration with similar risk profile

Overview

The Bharat Bond ETF is a target-maturity bond ETF, which has a defined fixed maturity, investing in bonds with similar maturity. It is a Government of India initiative to cater to the borrowing requirements of central public sector enterprises by pooling investments from retail and institutional investors.

The ETF will invest in a portfolio of **AAA-rated bonds of state-run entities** in two fixed maturity period investment options of 3.5 years and 10.5 years (i.e., 2023 series and 2030 series). It will track the Nifty Bharat Bond index rack, underlying index on a risk replication basis, matching credit quality and average maturity of the index.

Details based on tentative portfolio	2023 index	2030 index
No. of ISINs	98	49
No. of Issuers	13	12
Average Yield	6.69%	7.58%
Average Maturity (years)	2.85	9.70
Modified Duration	2.43	6.48

(Source: Edelweiss AMC)

Nifty Bharat Bond Index Methodology

The ETF will invest in public sector bonds that meet the criteria of the Nifty Bharat Bond index. The selection of the bonds in the index will be done in a transparent three-step manner as follows.

- **Selection:**
 - AAA bonds issued by public sector companies
 - Bonds maturing within 12 months to the maturity of the index
- **Weights:**



SICOMORO

- Weights will be based on the total outstanding amount of the respective bonds; higher the outstanding, higher the weight.
- The exposure to each bond would be restricted to 15% of the index as per the SEBI regulation
- **Rebalancing:**
 - Quarterly rebalancing of index constituents

In case any of the index constituents is downgraded below AAA, such an issuer will be excluded from the index.

Alternative to Fixed Deposits

- Low Cost – 0.0005% p.a.
- Transparency
- Professionally Managed
- Tax Efficiency
- Predictable Returns

Taxation – Similar to Fixed income Mutual Funds

Particulars	Traditional Investment	10 Year Bharat Bond ETF
Investment Amount	1,00,000	1,00,000
Assumed Rate of Return	7.58%	7.58%
Indexation	NA	11
Value on Maturity	2,13,488	2,13,488
Indexation Value	-	1,53,945
Taxable Amount	1,13,488	59,543
Applicable Tax	34,046	11,909
Post Tax Value	1,79,442	2,01,579
Net Post Tax Return	5.79%	6.99%

***Assumed Inflation 4%**

Tentative Portfolios -

Nifty Bharat Bond Index - April 2023 constituents

Issuer Name	Weightages
REC Ltd.	15.00%
National Bank for Agricultural and Rural Development	15.00%
Power Finance Corporation Ltd.	15.00%
Housing and Urban Development Corporation of India Ltd.	11.84%
Export Import Bank of India	8.00%
Power Grid Corporation of India Ltd.	7.24%
SIDBI	7.00%
NTPC Ltd.	6.67%
Hindustan Petroleum Corporation Ltd.	4.87%
National Highways Authority of India	3.85%
Nuclear Power Corporation of India Ltd.	2.43%
Indian Railway Finance Corporation Ltd.	1.88%
NHPC Ltd.	1.22%
Total	100.00%

Nifty Bharat Bond Index - April 2030 constituents

Issuer Name	Weightages
National Highways Authority of India	15.00%
Indian Railway Finance Corporation Ltd.	15.00%
Power Grid Corporation of India Ltd.	15.00%
REC Ltd.	12.72%
NTPC Ltd.	11.63%
Indian Oil Corporation of India Ltd.	8.00%
Nuclear Power Corporation of India Ltd.	6.61%
Power Finance Corporation Ltd.	6.51%
NLC India Ltd.	3.93%
Export Import Bank of India	2.84%
National Bank for Agricultural and Rural Development	1.48%
NHPC Ltd.	1.28%
Total	100.00%



S I C O M O R O

The information or material (including any attachment(s) hereto) (collectively, "Information") contained herein does not constitute an advice, offer, invitation, solicitation or an inducement to buy, sell or invest in any securities in any jurisdiction and Sicomoro Advisors Private Limited "Sicomoro" is not soliciting any action based upon information. Recipients of this information should not construe it to be an investment advice unless and otherwise stated herein expressly and conduct their own investigation and analysis including that of the information provided before taking any action in this regard. This information is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This information has been prepared on the basis of information obtained from publicly available, accessible resources and Sicomoro has neither independently verified all the information and under no obligation to update the information. Accordingly, no representation or warranty, express, implied or statutory, is made as to accuracy, completeness or fairness of the contents and opinion contained herein. The information can be no assurance that future results or events will be consistent with this information. Any decision or action taken by the recipient based on this information shall be solely and entirely at the risk of the recipient. The distribution of this information in some jurisdictions may be restricted and/or prohibited by law, and persons into whose possession this information comes should inform themselves about such restriction and/or prohibition, and observe any such restrictions and/or prohibition. Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. Sicomoro will not treat recipient/user as customer by virtue of their receiving/using this report. Neither Sicomoro nor its affiliates, directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the information. The person accessing this information specifically agrees to exempt Sicomoro or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold Sicomoro or any of its affiliates or employees responsible for any such misuse and further agrees to hold Sicomoro or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable and for the exclusive purpose of transactions to be carried out within the territorial jurisdiction of India and all such transactions shall be governed by the laws in India. Sicomoro may not have conducted any suitability analysis prior to dissemination of such



S I C O M O R O

information and recipient should therefore seek advice of their independent financial advisor prior to taking any investment decision based on information. Sicomoro and/or its affiliates and/or employees/ analyst may have interests/positions, financial or otherwise in securities mentioned here. Sicomoro has other business units with independent representatives separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc. and therefore may contrary views.