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S&P BSE Bharat 22 Index: A benchmark for "Bharat 22" disinvestment program of Government of India

In August 2017, Asia Index Private Limited (a joint venture between S&P Dow Jones Indices and BSE Ltd) launched the S&P BSE Bharat 22 Index to track performance of select companies disinvested by the Central Government of India via a new ETF. This paper highlights the sailent features of S&P BSE Bharat 22 Index, its objective, and its characteristics.

The S&P BSE Bharat 22 Index aims to track the performance of select companies disinvested by government of India listed on BSE Ltd.

- As Indian markets continue to evolve, investors seek new themes and strategies to diversify their portfolios.
- The S&P BSE Bharat 22 Index is designed to measure the performance of select companies disinvested by the Central Government of India through the new ETF.
- The index includes select companies from the universe of the Central Public Sector Enterprises (CPSE), stakes held under the Specified Undertaking of the Unit Trust of India (SUUTI), and Public Sector Banks (PSBs) that are listed on the BSE Ltd.
- These holdings fall across varied sectors including energy, finance, fast moving consumer goods, industrials, basic materials, and utilities with an overweight on industrials, energy, and utilities compared to S&P BSE SENSEX.
- The index outperformed the S&P BSE SENSEX on a risk-adjusted basis over a 10-year horizon and offered higher dividend yield historically.

Exhibit 1 : Top 10 Constituents by Weight

Company Name	Index Weight (%)	Company Name	Index Weight (%)
Larsen & Toubro Ltd	17.1	NTPC Ltd	6.7
ITC Ltd	15.2	Oil & Natural Gas Corp Ltd	5.3
State Bank of India	8.6	Indian Oil Corp Ltd	4.4
Power Grid Corp of India Ltd	7.9	National Aluminium Co Ltd	4.4
Axis Bank Ltd	7.7	Bharat Petroleum Corp Ltd	4.4

Source: Asia Index Pvt. Ltd. Data of as July 31, 2017. Table is provided for illustrative purposes.

ASIA INDEX Pvt. Ltd.
A BSE and S&P DJI Venture

A decision was made in 1991 to follow the path of disinvestment as the public sector overgrew and some of its shortcomings started manifesting in low capacity utilization and low efficiency.

TIMELINE OF GOVERNMENT OF INDIA DIVESTMENT PROGRAM[1]

Pre-1991

For the first four decades after Independence, India pursued a path of development in which the public sector was expected to be the engine of growth. However, the public sector overgrew and some of its shortcomings started manifesting in low capacity utilization and low efficiency. Hence, a decision was made in 1991 to follow the path of disinvestment.

1991-2000

Post-liberalization, the change process in India began in 1991-92, with 31 selected PSUs disinvested for INR 3,038 crore. The Department of Disinvestment was set up as a separate department during this period, and was later renamed the Ministry of Disinvestment. In this period, the Government of India managed to reach only half of the divestment target for a few reasons including unfavorable market conditions, unattractive offers for private sector investors, and opposition from trade unions.

The Department of Disinvestment was set up as a separate department in December 1999 and was later renamed the Ministry of Disinvestment in September 2001.

2001 - 2003

This was the period when the maximum number of disinvestments took place. During this period, against an aggregate target of INR 38,500 crore to be raised from PSU disinvestment, the government managed to raise INR 21,163.68 crore.

2004 - 2009

In the five years from 2003-04 to 2008-09, the total receipts from disinvestments were only INR 8,515.93 crore, which was lower than expected.

2010 - 2016

This period saw a slow start to the divestment activity, but a more stable divestment policy and improving stock market conditions initially led to a renewed thrust on disinvestments.

[1] http://www.bsepsu.com/historical-disinvestment.asp

Exhibit 2: Recent Disinvestment History

Source: DIPAM website. Data as of End of March 31, 2017 Figures in INR crores (1 crore = 10 million).

OBJECTIVES AND CHANNELS OF DISINVESTMENT

The main objectives of disinvestment are improving corporate governance, realizing the productive potential of CPSEs and raising budgetary resources for the government.

The Department of Investment and Public Asset Management (DIPAM) falls under the Ministry of Finance, which is responsible for a systematic policy approach to disinvestment and privatization of Public Sector Units (PSUs). Disinvestment is frequently used as a way to raise funds to meet the government's capital expenditure.

The main objectives and benefits of disinvestment include improving corporate governance, realizing the productive potential of CPSEs and raising budgetary resources for the government to augment the government's resources for higher expenditure and enable efficient management of public investment in CPSEs in order to accelerate economic development.

Typical routes employed by DIPAM to dilute the Government of India's stake[2]:

- **Initial public offering (IPO)**: Offer of shares to the public for subscription the first time an un-listed CPSE entity is available.
- **Further public offering (FPO)**: Further dilution of the holding of shares of listed CPSE companies.

[2] http://dipam.gov.in/frequently-asked-questions

Disinvestment through ETFs allows simultaneous sale of Government of India's stake in various companies across diverse sectors through a single offering.

- **Offer for sale (OFS)** of shares by promoters through stock exchange mechanism – this route allows auction of shares on the platform provided by the stock exchange; extensively used by the government since 2012.

- **Strategic sale**: Sale of a substantial portion of the government shareholding of a CPSE of up to 50% with transfer of management control.

- **Institutional placement program (IPP)**: Only institutions can participate in the offering.

- **Exchange traded fund (ETF):** Disinvestment through ETFs allows simultaneous sale of Government of India's stake in various CPSEs across diverse sectors through a single offering. It provides a mechanism for the Government of India to monetize its shareholding in those companies which form part of the ETF basket.

CLASSIFICATION OF GOVERMENT OF INDIA HOLDINGS

Government of India holdings are broadly classified into CPSEs, PSBs and SUUTI holdings.

Government of India holdings are broadly classified into CPSEs, PSBs and SUUTI holdings. Central public sector enterprises (CPSEs) are those in which the direct holding of the central government or other CPSEs is more than 51%. Public sector banks (PSBs) are banks where a majority stake (i.e., more than 50%) is held by a government.

Specified Undertaking of the Unit Trust of India (SUUTI) holdings include 51 companies, which are classified into three groups as follows:

- Group A: There are three listed companies in this group. The largest of the investments include stocks like Axis Bank Ltd., Larsen & Toubro Ltd., and ITC Ltd.
- Group B: There are eight unlisted companies in this group.
- Group C: There are 40 listed companies in this group. (not part of universe for this index)

Among the Government of India holdings mentioned above, 69 of them are listed on the Bombay Stock Exchange (BSE) which form the underlying universe of the S&P Bharat 22 Index as shown in Exhibit 3.

Exhibit 3: Underlying Universe for the S&P BSE Bharat 22 Index

#	COMPANY	#	COMPANY	#	COMPANY
1	ITC Ltd	24	National Aluminium Co Ltd	47	Hindustan Flurocarbons Ltd
2	Larsen & Toubro Ltd	25	SJVN Ltd	48	State Bank of India
3	Axis Bank Ltd	26	Engineers India Ltd	49	Bank of Baroda

4	Oil & Natural Gas Corp Ltd	27	MMTC LTD	50	Punjab National Bank
5	Indian Oil Corp Ltd	28	Hindustan Copper	51	Central Bank of India
6	Coal India Ltd	29	BEML Ltd	52	Canara Bank
7	NTPC Ltd	30	Chennai Petroleum Corp Ltd	53	IDBI Bank Ltd
8	Power Grid Corp of India Ltd	31	IFCI Ltd	54	Bank of India
9	Bharat Petroleum Corp Ltd	32	Rashtriya Chemicals & Fertilizers Ltd.	55	Indian Bank
10	Gail India Ltd	33	MOIL Ltd	56	Union Bank of India
11	Hindustan Petroleum Corp Ltd	34	National Fertilizers Ltd	57	Vijaya Bank
12	NMDC Ltd	35	India Tourism Development Corp Ltd	58	Indian Overseas Bank
13	Bharat Heavy Electricals Ltd	36	Shipping Corp of India Ltd	59	Syndicate Bank
14	Power Finance Corp Ltd	37	ITI Ltd	60	Corp Bank
15	Rural Electrification Corp Ltd	38	Balmer Lawrie & Co. Ltd.	61	UCO Bank
16	NHPC Ltd	39	Dredging Corp Of India	62	Allahabad Bank
17	Bharat Electronics Ltd	40	Mahanagar Telephone Nigam	63	Oriental Bank Of Commerce
18	Oil India Ltd	41	Andrew Yule & Co Ltd	64	Andhra Bank
19	Steel Authority of India Ltd	42	State Trading Corp of India Ltd	65	Bank Of Maharashtra
20	Container Corp Of India	43	Balmer Lawrie Investments Ltd.	66	Jammu & Kashmir Bank Ltd
21	Mangalore Refinery & Petrochemicals Ltd	44	Scooters India Ltd	67	United Bank of India
22	NLC India Ltd	45	Hindustan Organic Chemicals Ltd	68	Dena Bank
23	NBCC (India) Ltd	46	Bharat Immunologicals & Biologicals Corporation Ltd.	69	Punjab & Sind Bank

Color Legends	SUUTI	CPSE	PSU Banks

CONSTRUCTION OF THE S&P BSE BHARAT 22 INDEX

Asia Index Pvt. Ltd. was mandated to design and launch the S&P BSE Bharat 22 Index to measure the performance of select companies disinvested via the new ETF by the Central Government of India.

Asia Index Pvt. Ltd. (S&P BSE Indices) has designed and launched the S&P BSE Bharat 22 Index in August 2017. The index aims to measure the performance of select companies disinvested via the new ETF by the Central Government of India.

From the underlying universe consisting 44 CPSE companies, 3 SUUTI A Group companies, and 22 PSU Banks, the S&P BSE Bharat 22 Index includes the select companies to be disinvested through the new ETF, following the list of stocks released[3] by Government of India on August 4, 2017.

The index follows a free float adjusted market cap weighing methodology. For portfolio diversification, weighting of individual index constituent is capped at 15% while weighting of each BSE sector is capped at 20%.

[3] http://pib.nic.in/newsite/PrintRelease.aspx?relid=169636

These weight constraints are applied during the annual index rebalancing in March each year.

CHARACTERISTICS OF THE S&P BSE BHARAT 22 INDEX

Portfolio Composition

The S&P BSE Bharat 22 Index has diversified representation in six BSE sectors including Industrials, Finance, Utilities, Energy, FMCG and Basic Materials. Compared to the S&P BSE SENSEX, sector composition of S&P BSE Bharat 22 Index is slightly tilted towards industrials, energy, and utilities. See Exhibit 4.

The S&P BSE Bharat 22 Index has diversified representation in six BSE sectors including Industrials, Finance, Utilities, Energy, FMCG and Basic Materials.

Exhibit 4: BSE Sector Coverage

Stats	S&P BSE Bharat 22	Underlying Universe	S&P BSE SENSEX	S&P BSE AllCap
Industrials	22.6	18.1	9.0	10.8
Finance	20.3	27.2	37.0	30.3
Utilities	20.0	11.6	2.9	3.5
Energy	17.5	17.8	11.1	8.4
FMCG	15.2	22.9	10.5	9.3
Basic Materials	4.4	2.2	1.2	8.0
Telecom	-	0.1	1.8	1.8
Information Technology	-	-	12.0	8.6
Consumer Discretionary	-	-	9.9	13.8
Healthcare	-	-	4.5	5.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Asia Index Pvt. Ltd. Data of as July 31, 2017. Table is provided for illustrative purposes.

Nearly 90% of the S&P BSE Bharat 22 index weight is dominated by large-cap stocks and only 8% and 2% of are represented by mid-cap and small-cap stocks respectively. The size composition of the index aligned with the underlying universe but with higher weighting in large-cap stocks than the S&P BSE All Cap index. See Exhibit 5.

The S&P BSE Bharat 22 index composition is dominated by large cap stocks, with cumulative weight close to 90%

Exhibit 5 : S&P BSE Size Coverage

BSE Size	S&P BSE Bharat 22	Underlying Universe	S&P BSE SENSEX	S&P BSE AllCap
Large-Cap	89.3	88.1	100.0	69.7
Mid-Cap	8.5	8.4	0.0	12.9
Small-Cap	2.1	3.5	0.0	17.3
Outside S&P BSE AllCap	0.0	0.1	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Asia Index Pvt. Ltd. Data of as July 31, 2017. Table is provided for illustrative purposes.

The S&P BSE Bharat 22 Index covers 85.3% of the underlying universe as shown in Exhibit 6.

Exhibit 6: Free Float Market Capitalization Coverage Compared With the S&P BSE AllCap				
India Coverage	S&P BSE Bharat 22	Underlying Universe	S&P BSE SENSEX	S&P BSE AllCap
Free Float Mcap (INR million)	902,150.60	1,057,459.70	3,090,568.05	5,796,994.31
% Coverage of S&P BSE AllCap Total Mcap	15.6	18.2	53.3	100.0
% Coverage of Underlying Universe	85.3			

Source: Asia Index Pvt. Ltd.; Data As of July 31, 2017, It is not possible to invest directly in an index. Past performance is no guarantee of future results.

20 of the 22 constituents, representing 99.5% of index weighting, have derivative contracts which facilitate hedging of the index portfolio.

20 of the 22 constituents, representing 99.5% of index weighting, have derivative contracts which facilitate risk management of the index portfolio[4]. The top 10 constituents by index weight dominated 83% of the index as shown in Exhibit 7.

Exhibit 7 : Top 10 Constituents by Weight			
Company Name	Index Weight (%)	BSE Sector	Category
Larsen & Toubro Ltd	17.1	Industrials	SUUTI A Group
ITC Ltd	15.2	FMCG	SUUTI A Group
State Bank of India	8.6	Finance	PSU Bank
Power Grid Corp of India Ltd	7.9	Utilities	CPSE
Axis Bank Ltd	7.7	Finance	SUUTI A Group
NTPC Ltd	6.7	Utilities	CPSE
Oil & Natural Gas Corp Ltd	5.3	Energy	CPSE
Indian Oil Corp Ltd	4.4	Energy	CPSE
National Aluminium Co Ltd	4.4	Basic Materials	CPSE
Bharat Petroleum Corp Ltd	4.4	Energy	CPSE
Total	**81.9**		

Source: Asia Index Pvt. Ltd. Data of as July 31, 2017. Table is provided for illustrative purposes.

Risk/Return Profile

Over the history since March 2006, the S&P BSE Bharat 22 Index delivered higher absolute and risk-adjusted return than the S&P BSE Sensex index.

Over the history since March 2006, return volatility of the S&P BSE Bharat 22 Index is similar to that of the S&P BSE Sensex index, but the S&P BSE Bharat 22 Index delivered higher return in both absolute and risk-adjusted basis. Risk/return profile of S&P BSE Bharat 22 Index versus the S&P BSE Sensex index is summarized in Exhibit 8 and 9.

[4] Narasimhan, M.S., Kalra, S (2014). The Impact of Derivative Trading on the Liquidity of Stocks, Vikalpa 39 (3), Pg. 51

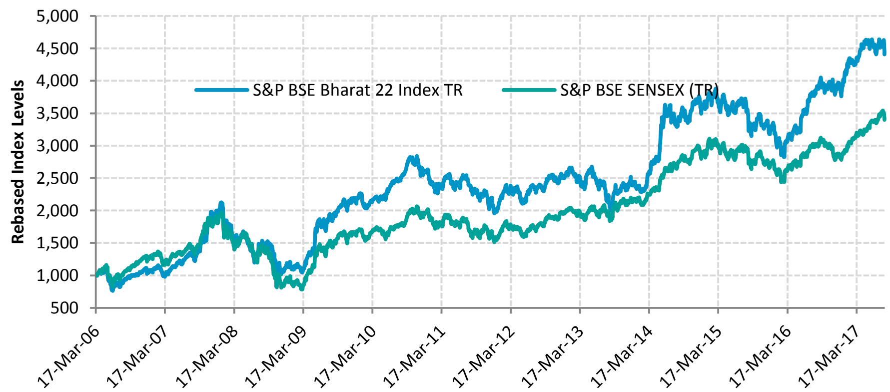
Exhibit 8: Risk/Return Characteristics			
Ratio	**Period**	**S&P BSE Bharat 22**	**S&P BSE SENSEX**
Absolute Return (%, Annualized)	1 year	20.0	17.4
	3 year	10.6	9.4
	5 year	14.4	15.2
	10 year	12.9	9.2
	Since March 17, 2006	14.3	11.7
Annualized Volatility (%, Annualized)	1 year	13.2	10.5
	3 year	16.5	14.0
	5 year	17.5	14.4
	10 year	23.1	23.5
	Since March 17, 2006	23.3	23.7
Risk-Adjusted Return	1 year	1.5	1.7
	3 year	0.6	0.7
	5 year	0.8	1.1
	10 year	0.6	0.4
	Since March 17, 2006	0.6	0.5

Source: Asia Index Private Limited; Data as of July 31, 2017, Data from March 17, 2006 up to July 31, 2017. Index performance based on total return [INR]. All data prior to launch date are back-tested. Charts are provided for illustrative purposes and may reflect hypothetical historical performance. It is not possible to invest directly in an index. Past performance is no guarantee of future results. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 9: Excess Returns, Tracking Error and Information Ratio Over S&P BSE SENSEX		
Ratio	**Period**	**S&P BSE Bharat 22**
Excess Return (%, Annualized)	1 year	2.5
	3 year	1.2
	5 year	-0.8
	10 year	3.7
	Since March 17, 2006	2.5
Tracking Error (%, Annualized)	1 year	6.9
	3 year	7.4
	5 year	8.4
	10 year	10.1
	Since March 17, 2006	9.9
Information Ratio	1 year	0.4
	3 year	0.2
	5 year	-0.1
	10 year	0.4
	Since March 17, 2006	0.3

Source: S&P Dow Jones Indices Plc; Data As of July 31, 2017, Data from March 17, 2006 up to July 31, 2017. Index performance based on total return [INR]. All data prior to launch date are back-tested. Charts are provided for illustrative purposes and may reflect hypothetical historical performance. It is not possible to invest directly in an index. Past performance is no guarantee of future results. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 10: Cumulative Total Return of S&P BSE CPSE Bharat Index and Sensex



Source: Asia Index Private Limited; Data As of July 31, 2017, Data from March 17, 2006 up to July 31, 2017. Index performance based on total return [INR]. All data prior to launch date are back-tested. Charts are provided for illustrative purposes and may reflect hypothetical historical performance. It is not possible to invest directly in an index. Past performance is no guarantee of future results. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Portfolio Valuation And Institutional Investor Holdings

Since March 2006, the S&P BSE Bharat 22 Index has consistently demonstrated higher dividend yield and recorded lower price-to-earnings ratio for majority of time compared to the the S&P BSE Sensex.

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Exhibit 11: Comparative study of P/E and Dividend Yield of S&P BSE CPSE Bharat and Sensex

Financial Year		Div Yield (%)		P/E		Absolute Returns (%)	
From	To	S&P BSE Bharat 22	S&P BSE SENSEX	S&P BSE Bharat 22	S&P BSE SENSEX	S&P BSE Bharat 22	S&P BSE SENSEX
31-03-06	30-03-07	2.3	1.5	14.9	20.5	1.6	17.8
30-03-07	31-03-08	1.7	1.3	17.8	17.5	48.2	20.8
31-03-08	31-03-09	2.4	2.2	13.0	13.0	-23.8	-37.1
31-03-09	31-03-10	1.7	1.3	18.1	18.1	84.4	82.8
31-03-10	31-03-11	1.7	1.4	17.0	20.8	13.3	12.5
31-03-11	30-03-12	2.2	1.5	14.4	17.0	-8.2	-9.2
30-03-12	28-03-13	2.4	1.6	11.0	16.2	5.0	10.1
28-03-13	31-03-14	2.8	1.7	10.9	17.6	13.7	20.7
31-03-14	31-03-15	2.0	1.4	15.6	23.2	32.7	26.8
31-03-15	31-03-16	2.7	1.7	13.0	20.4	-12.2	-7.9
31-03-16	31-03-17	2.0	1.3	24.3	21.8	39.0	18.5
31-03-17	31-07-17	2.1	1.2	26.4	25.8	3.6	10.6

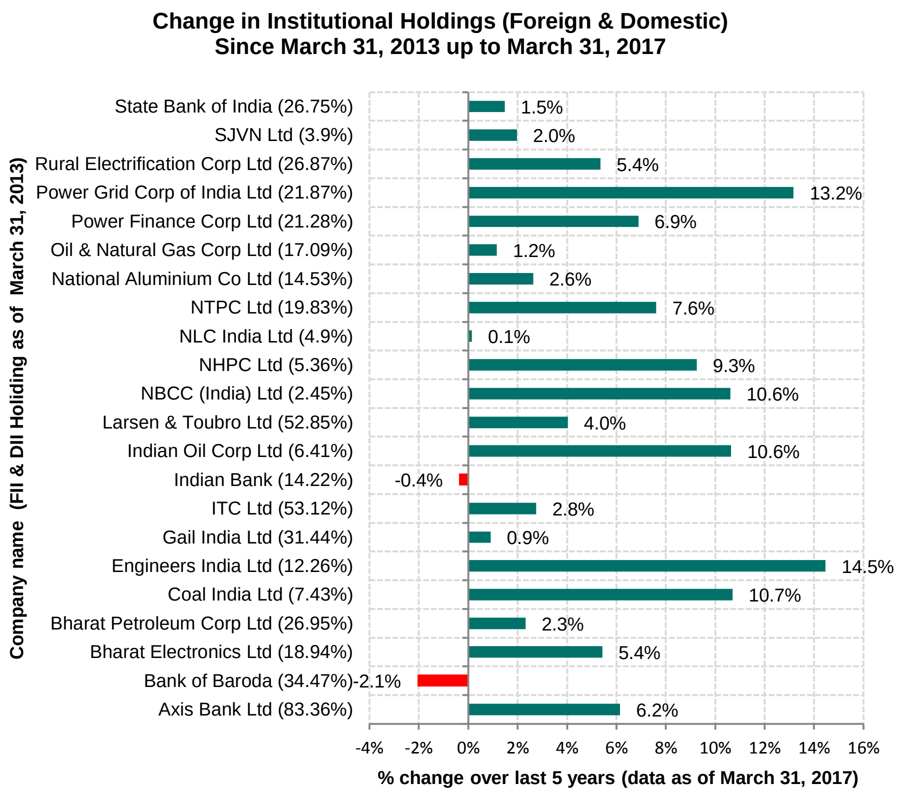
Source: Asia Index Pvt. Ltd. Data as of July 31, 2017; Data from March 31, 2006 up to July 31, 2017; Performance data is based on total return in INR. Divdiend Yield and Price to Earnings (P/E) values are based on back tested results for both indices mentioned above. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Vast majority of the S&P BSE Bharat 22 index constituents recorded increases in institutional holdings (foreign and domestic) in the past five years apart from Indian Bank and Bank of Baroda which posted marginal declines. Engineers India, Power Grid Corp of India, Coal India, Indian Oil

Corporation, and NBCC (India) experienced the highest increase in institutional holdings by more than 10% over the last five years. See Exhibit 12.

Vast majority of the S&P BSE Bharat 22 index constituents recorded increases in institutional holdings in the past five years.

Exhibit 12: Trends in Institutional Holdings (Both of Foreign and Domestic Investors) Over Last Five Years



Source: BSE Ltd. Data of as March 31, 2017. , Data since March 31, 2013 up to March 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical data.

CONCLUSION

Since 1991, the government of India has decided to follow the path of disinvestment as the public sector overgrew and some of its shortcomings started manifesting in low capacity utilization and low efficiency. The main objectives of disinvestment are improving corporate governance, realizing the productive potential of companies, and raising budgetary resources for the government.

As Indian markets are evolving, passive investing continues to garner higher investible sums as more investors realize its benfits, which offers a low-cost and transparent mean of investing provides exposure to particular themes, strategies, or sectors via ETFs. Disinvestment through ETFs allows simultaneous sale of Government of India's stake in various CPSEs across diverse sectors through a single offering.

The S&P BSE Bharat 22 Index was launched in August 2017 and is designed to measure performance of the select companies disinvested by Governement of India through a new ETF. All select companies in the index have played important role in the growth of India’s economy. Over past five years, vast majority of the S&P BSE Bharat 22 Index constituents recorded increasing investment by institutional investors.

The index offers diversified exposure to six BSE sectors including including Industrials, Finance, Utilities, Energy, FMCG and Basic Materials. Large-cap stocks represented over 89% of index weight and majority of the index constituents have derivative contracts which facilite heding of the index portfolio.

The S&P Bharat 22 Index delivered higher absolute and risk-adjusted reutrn than the S&P BSE Sensex historically since March 2006. The Index demonstrated higher dividend yield in all previous years and recorded lower price-to-earnings ratio for majority of time compared to the S&P BSE Sensex.

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PERFORMANCE DISCLOSURE

The S&P BSE Bharat 22 Index, S&P BSE SENSEX and S&P BSE AllCap indices were launched as of August 10, 2017, Jan 2, 1986 and April 15, 2015 respectively. First value date of total returns version of S&P BSE Bharat 22 Index, S&P BSE SENSEX and S&P BSE AllCap indices are March 17, 2006, August 16, 1996 and September 16, 2005 respecitvely. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. Complete index methodology details are available at www.asiaindex.co.in.

AIPL defines various dates to assist our clients in providing transparency on their products. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. AIPL defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.asiaindex.co.in for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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