Debt ETF an opportunity for retail investors to invest in quality PSU bonds: Experts

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NEW DELHI: The government's decision to launch an umbrella debt exchange-traded fund will provide a better opportunity to retail investors for participation in quality public sector bonds at an affordable cost, experts said on Wednesday.

They further said the move would also help in deepening and widening the participation in the Indian corporate bond market.

The Union Cabinet has approved the launch of exchange traded fund (ETF) for bonds to create an additional source of funding for Central Public Sector Enterprises (CPSEs) and state-owned financial institutions.

The New Fund Offer (NFO) of this ETF is expected be to launched during December itself.

Bharat Bond ETF would be the first corporate bond ETF in the country.

"It's a historic occasion for retail investors as also for the Indian corporate bond market, for retail investors as they would now be able to invest in an altogether new liquid avenue in quality Public sector Bonds, through the very low-cost ETF structure," N S Venkatesh, Chief Executive at AMFI said on the Cabinet approval to bond ETFs.

"And for the economy, as the country's first exchange-traded bonds belonging to quality public sector enterprises bundled in a liquid low-cost ETF structure, would help in deepening and widening the participation in the Indian corporate bond market," he added.

ETF will be a basket of bonds issued by state firms or any government organisation, and will be tradable on exchange. The unit size will be of Rs 1,000, which will allow small investors to invest.

Edelweiss Asset Management Company (AMC), which will manage the government's debt ETF, said Bharat Bond ETF will be a diversified basket of public sector company bonds aimed at providing easy access for retail investors to invest in these bonds and bringing liquidity in the corporate bond market.

"It will also help these companies with new source of funding. Initially, the ETF will have two maturities -- 3 years and 10 years -- and will invest in bonds of similar maturities," Edelweiss AMC CEO Radhika Gupta said.

Rating agency Icra VP and Sector Head- Financial Sector Ratings Anil Gupta said lower ticket size of bond ETF is likely to provide better opportunity to retail investors for participation in corporate debt market with lowest credit risk as the underlying investments are proposed to be in 'AAA' rated PSU debt securities.

"As these securities are proposed to be listed on stock exchanges with involvement of market markers, this will also provide liquidity to the investors. A three-year debt ETF is comparable with a three-year fixed maturity plans (FMPs), however unlike FMPs, which have limited secondary market liquidity, ETFs are expected to have secondary market liquidity," he added.

Gupta further said investors may, however, be mindful of the risk which these ETFs will have because of interest rate movements, as during an increasing interest rate cycle, the market price of the ETF units will decline.

Interest rate risk will, however, be lower in shorter tenure ETFs, and if held till maturity, the interest rate risk will also be mitigated as the ETFs will be redeemed at face value on maturity.

"Bharat Bond ETF from Edelweiss AMC offers greater opportunities to invest in debt investments at an affordable cost. This is a positive development as far as Indian debt market is concerned," said Tarun Birani, founder and CEO of TBNG Capital Advisors.

Moreover, of the total mutual fund assets under management of Rs 25 lakh crore, share of MF debt is about Rs 11 lakh crore and this shows the potential for this opportunity, he added.

Bal Krishna Piparaiya, senior director - Ratings at Brickwork Ratings said the announcement of first corporate ETF, Bharat Bond ETF by government is a 'three in one' step. Firstly, it will help the healthy PSUs including banks in raising cheaper funds, secondly, it will give an opportunity to investors to invest in safer instruments with tax advantage and thirdly, it will help the hitherto lagging bond market to develop and deepen.

"The ETF may also help the financial institutions, banks and PSU-NBFCs to raise long term funds earmarked for specific long-term purpose such as Infrastructure with ease at reasonable cost as many HNIs will also be the target group," he added.

Geojit Financial Services head of investment advisory services Jeevan Kumar said that retail investors are sceptical about bond investments after the recent credit fiasco in the market.

However, a PSU oriented debt ETF will surely help the asset class to gain acceptance among retail investors. This offer is expected to help debt market to spread wings further as well as impart trust in the minds of retail investors.