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Safe long term tax efficient option...

The second tranche of the Bharat Bond exchange traded fund (ETF) with two more new ETFs maturing in 2025 and 2031 referred to as Bharat Bond ETF April 2025 and Bharat Bond ETF 2031 is will be up for subscription from July 14, 2020.

The indicative yield of the five-year Bharat Bond ETF April 2025 is 5.6% and that of the 11-Year April 2031 version is 6.7%. The bond ETF will enjoy tax advantage in the form of indexation benefit similar to debt mutual funds (20% with indexation). While the actual tax implication depends on future inflation index, tentative after tax yield could be ~5.0% for five-year ETF and 6.2% for 11-Year ETF.

Bharat Bond ETFs provide a higher degree of certainty of returns (if held-to-maturity) with a higher safety of capital as it invests in government owned AAA rated public sector bonds. With the current prevailing low interest rate regime that is likely to continue, a small allocation could be considered by investors looking to lock in safe and predictable returns. In the current environment, the 11-year ETF is better placed as it offers higher and safe return for longer period. The yield on five-year ETF is lower and investors may instead prefer open end good quality debt mutual funds.

Edelweiss AMC is managing this ETF. The Bharat Bond ETF is India's first corporate debt ETF. The ETF will invest in a portfolio of AAA-rated bonds of state-run entities in two fixed maturity period investment options. The Bharat Bond ETF is a target-maturity bond ETF, which has a defined fixed maturity, investing in bonds with similar maturity. It will track the newly introduced Nifty Bharat Bond index. Edelweiss has also launched a 'fund of fund' (FoF) for this ETF to facilitate retail investors to buy/sell like a normal mutual fund. For retail investors, this Bharat Bond FoF is better suited in terms of convenience and liquidity.

The Government of India intends to raise up to ₹ 14000 crore through this ETF. In its first tranche, it raised around ₹ 12400 crore.

Investment rationale

- **Stability and predictability:** A bond like structure with fixed maturity provides predictable and stable returns at maturity
- **High safety:** Investment in public sector bonds
- **Transparency:** Daily disclosure of portfolio constituents and live NAV
- **Liquidity:** Buy/sell on exchange any time or through AMC in specific basket size. Edelweiss has also come out with a Bharat Bond FoF. It enables retail investors to enter and exit just like mutual funds
- **Tax efficient:** Tax efficient compared to traditional investment avenues. Taxed at only 20% post indexation, excluding surcharge
- **Low cost:** The expense ratio of the ETF is only 0.0005%



The Bharat Bond ETF offers a reliable and tax efficient debt investment option for long term investors.

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Fund feature of Bharat Bond ETF

Indicative return expectation illustration		
Series	BHARAT Bond FOF –April 2025	BHARAT Bond ETF–April 2031
Investment Objective	The investment objective of the scheme is to track the Nifty BHARAT Bond Index – April 2025 by investing in bonds of AAA-rated CPSEs/CPSUs/CPFIs and other Government organizations, subject to tracking errors	The investment objective of the scheme is to track the Nifty BHARAT Bond Index – April 2031 by investing in bonds of AAA-rated CPSEs/CPSUs/CPFIs and other Government organizations, subject to tracking errors
NFO Period	14th July to 17th July 2020	
Benchmark	Nifty BHARAT Bond Index –April 2025	Nifty BHARAT Bond Index –April 2031
Fund Manager	Mr.Dhawal Dalal, Mr. Gautam Kaul	
Minimum Investment (Retail)	₹1,001 and in multiples of ₹1 thereafter	
Exit Load	NIL	

Index will be reviewed at the end of each calendar quarter. During the review, existing issuers and their bonds in the index would be continued if they continue to meet the eligibility and selection criteria. Similarly, new issuances during previous calendar quarter shall be included in the index if they meet the eligibility and selection criteria

Source: Scheme Information Document, Bharat Bond ETF

Exhibit 1: Nifty Bharat Bond Index –April 2025 constituents

NIFTY Bharat Bond Index -April 2025 constituents as on 1st July 2020				
Sr. no.	Issuer	Credit Rating	Weight(%)	
1	POWER FINANCE CORP. LTD.	AAA	15.00	
2	REC Ltd.	AAA	15.00	
3	POWER GRID CORP. OF INDIA LTD.	AAA	15.00	
4	NATIONAL HOUSING BANK	AAA	10.51	
5	INDIAN OIL CORP.LTD	AAA	8.58	
6	NATIONAL BANK FOR AGRICULTURE & RURAL DEVELOPMENT	AAA	8.02	
7	HINDUSTAN PETROLEUM CORP.LTD	AAA	7.16	
8	NHPC LTD.	AAA	6.00	
9	EXPORT-IMPORT BANK OF INDIA	AAA	5.06	
10	INDIAN RAILWAY FINANCE CORP.LTD	AAA	4.89	
11	NTPC LTD	AAA	3.63	
12	NUCLEAR POWER CORP.OF INDIA LTD	AAA	1.15	

Bharat Bond ETF is a well-diversified basket of PSUs providing effective diversification

Source: Scheme Information Document, Bharat Bond ETF

All companies on bond index are public sector undertakings and therefore credit risk is very low

Exhibit 2: Nifty Bharat Bond Index –April 2031 constituents

NIFTY Bharat Bond Index -April 2031 constituents as on 1st July 2020				
Sr. no.	Issuer	Credit Rating	Weight(%)	
1	POWER GRID CORP. OF INDIA LTD.	AAA	15.00	
2	REC LIMITED	AAA	15.00	
3	POWER GRID CORP. OF INDIA LTD.	AAA	15.00	
4	NATIONAL HIGHWAYS AUTHORITY OF INDIA	AAA	15.00	
5	NUCLEAR POWER CORP. OF INDIA LTD.	AAA	14.80	
6	INDIAN RAILWAY FINANCE CORP.LTD	AAA	13.05	
7	HOUSING & URBAN DEVELOPMENT CORP.LTD	AAA	9.62	
8	NHPC LTD.	AAA	2.53	

Source: Scheme Information Document, Bharat Bond ETF

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