

A Study on Bharat Bond ETF

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Abstract- Bond markets are one of the most well-liked alternative investment tools that the Indian financial system has turned to since the introduction of the LPG plan. Risk-free investment bonds are the finest tools for a balanced economic growth and for both individual and large investors. Bharat Bond ETF, a pioneering Bond ETF, was launched by the Indian government. This essay will assist readers in comprehending the Overview of the Bharat Bond ETF, its benefits, the Bond's portfolio structure, the plan of operations based on the Bond's maturity period, and the opportunities available to non-Demat investors to purchase Bonds, among other topics.

Indexed Terms- Bharat Bond ETF, Portfolio Pattern and Fund of Funds.

I. INTRODUCTION

India's financial market has undergone a full transformation as a result of market liberalisation. After the LPG, the bond market significantly changed how it operated and made a significant addition to the steady expansion of the nation's financial sector. Bonds are issued to fund the government's infrastructure growth during the 20th century. A system of auction to sell government securities, computerization of government securities, the introduction of novel products like list capital indexed bonds, zero coupon bonds, corporate bonds, RBI intervention, and establishment of regulatory framework for trade system are just a few examples of how the bond market has broadened over time. As a result, all financial transactions can now be settled with bonds and funds.

The Indian government has unveiled a brand-new programme called Bharat Bond ETF in an effort to increase investor influx through the bond market, which the Edelweiss Asset Management Company has only ever managed. The Bharat Bond ETF is similar to other bonds in that it purchases bonds from

government-owned businesses and corporations and builds a portfolio of those assets for methodical investment in order to purchase smaller units. Bharat Bonds focuses primarily on the debt-paper with a AAA credit rating that is issued by the government PSEs. (CPSEs).

II. LITERATURE REVIEW

K. Thomas Liaw's (2020) The success of Green Bonds and their impact on environmental growth were the subject of a study. According to a research, green bonds significantly aided in maintaining clean environments in favour of the Paris Climate Agreement. Although it has a significant impact, it is still only a tiny part of the fixed-income market..

Aggarwal R. and Schofield L. (2014)The scope of the danger involved with exchange traded funds was the subject of research. Unlike more recent products like leveraged, inverse, and synthetic ETFs, which are more complicated and have more risk dimensions, the initial ETFs were straightforward and easy to comprehend. The increased risks, increased intricacy, and decreased transparency have authorities paying closer attention.

Charupat N. and Miu P. (2013)The evolution of exchange-traded funds was the subject of research. The three strands of the literature—pricing efficiency, success, and influence of ETFs—have received the author's primary attention for this research. The outcome demonstrates that ETF has experienced significant development over time, but there has been very little focus on customer behaviour in relation to the state of the ETF market.

Khanna V. and Varottil U. (2012) A study was done to determine how effective the Indian bond market is. According to the study, the bond market is currently inefficient because contracts are not timely enforced, there is a weak corporate insolvency structure, and the main market lacks standardisation. In conclusion,

a suitable structure for bond issuance through legitimate channels and a set of standards for market regularisation are required.

Acharya A. (2011) A study was done to determine how the commercial bond market in India was progressing. According to a study, the Indian bond market is underdeveloped because of its negative dependence on call rate options, poor rate of return, and insufficient source access. A GARCH analysis reveals that the absence of monetary policy and the deficient liquidity circumstances are to blame for the development.

Objectives

- To know the conceptual overview of Bharat Bond ETF.
- To understand how the portfolio of the Bharat Bond ETF is framed on the bases of tenure or maturity.

III. WHAT IS BHARAT BOND ETF?

Bharat Bond ETF is the government of India-initiated bonds that are exclusively issued by the Edelweiss Asset management company. Bharat Bond ETF

invests in AAA credit-rated debt instruments. Bharat Bond ETF is just like other bonds which take bonds offered by Government enterprises and companies and creates a portfolio of those securities for the systematic investment to buy smaller units. Initially, funds have two investment variants based on maturity or tenures. Earlier in December 2020 Edelweiss came out with its first tranche offering 3 years and 10 years bonds which will be matured in 2023 and 2030. Edelweiss AMC by seeing the popularity of the scheme has introduced the Fund of Funds plan along with the Bharat Bond ETF. FOF investment option is for those investors who do not have a Demat account.

IV. INVESTMENT OPTIONS

Edelweiss AMC has come out with its first tranche offering two options for short-term term period Bharat Bond ETF 2023 which will mature on April 2023, long term period Bharat Bond ETF 2030 which will mature on April 2030. And in its second tranche of issues came up with two options for the short-term term period Bharat Bond ETF 2025 which will mature on April 2025 for long term period Bharat Bond ETF 2031 which will mature on April 2031.

Table – 01 Bharat Bond Scheme Details

Series	Bharat Bond ETF- April 2023	Bharat Bond ETF- April 2025	Bharat Bond ETF- April 2030	Bharat Bond ETF- April 2031
Investment Objective	To replicate Nifty BHARAT Bond Index - APRIL 2023 or Nifty BHARAT Bond Index - APRIL 2025 or Nifty BHARAT Bond Index - APRIL 2030 or Nifty BHARAT Bond Index - APRIL 2031 (as applicable) by investing in bonds of SPSEs/CPSUs/CPFIs and other Government organizations, subject to tracking error			
NSE Symbol	EBBETF0423	EBBETF0425	EBBETF0430	EBBETF0431
Underlying Index	Niy BHARAT Bond Index April 2023	Niy BHARAT Bond Index April 2025	Niy BHARAT Bond Index April 2030	Niy BHARAT Bond Index April 2031
Inception Date	1st Jan 2020	1st Jan 2020	1st Jan 2020	1st Jan 2020
Minimum Investment	1 unit & in multiples of 1 unit thereof Unit creation size through Mutual Fund Authorized Participants: Rs. 1 cr & above Other Investors: Rs.25 cr & above			

Source: www.edelweissmf.com

V. ADVANTAGES OF BHARAT BOND ETF

Liquidity- Purchase or trade at any moment on the market or through AMC for a particular basket amount. A Bharat Bond FoF is also available from Edelweiss. Retail investors can join and leave the market in a manner similar to that of mutual funds.

Safety- As it makes investments in publicly traded AAA-rated government bonds, it provides a greater level of capital protection. It offers stable, predictable profits with little financial risk.

Low Costs- Compared to other high-cost debt products, the investors benefit from lower fund administration costs by realising greater post-expense returns. The Bharat Bond ETF's expense structure is actually the lowest in the globe as of this writing.

Tax Benefit- The Bharat Bond ETF has the same tax structure as other debt securities, meaning that the tax rate is 20% after indexation benefits for units kept for more than 3 years and the previous income tax slab for those held for less than 3 years.

Indexation- By adjusting it for inflation, indexation is a useful method for reducing an investor's fee on profits. An investor can adjust the buying price of their property to account for inflation through indexation. Long-term profits on assets are affected by it. greater buy prices result from greater inflation, which reduces taxes.

Particulars	Traditional Investment	BHARAT Bond ETF April 2030 (11 Indexation)
Investment Amount	Rs. 1Lakh	Rs. 1Lakh
Assumed Rate of Return	7.58%	7.58%
Indexation	NA	11
Value on Maturity	Rs. 2.13 Lakh	Rs. 2.13 Lakh
Indexation Value	-	Rs. 1.54 Lakh
Taxable Amount	Rs. 1,13,488	Rs. 59,543

Applicable Tax	Rs. 34,046	Rs. 11,909
Post Tax Value	Rs. 1,79,442	Rs. 2,01,579
Net Post Tax Return	5.79%	6.99%

Source: www.edelweissmf.com

Portfolio Constituents of Bharat Bond ETF

Table – 02 Short-term period Portfolio Constituents

Nifty Bharat Bond Index- 2023			
S.N.	Issuer Name	Rating	Weightage %
1	REC Ltd	AAA	15.00%
2	NABARD	AAA	15.00%
3	Power Finance Corporation Ltd	AAA	15.00%
4	Housing & Urban Development Corporation Ltd	AAA	11.84%
5	Exim Bank	AAA	8.00%
6	Power Grid Corporation of India	AAA	7.24%
7	SIDBI	AAA	7.00%
8	NTPC Ltd	AAA	6.67%
9	HPCL	AAA	4.87%
10	NHAI	AAA	3.85%
11	NPCIL	AAA	2.43%
12	IRFCL	AAA	1.88%
13	NHPC Ltd	AAA	1.21%
Grand Total			100%

Source: www.edelweissmf.com

Nifty Bharat Bond Index- 2025			
S.N.	Issuer Name	Rating	Weightages
1	Power Finance Corporation Ltd	AAA	15.00%
2	REC Ltd	AAA	15.00%
3	Power Grid Corporation of India	AAA	15.00%
4	NHB	AAA	10.51%
5	IOCL	AAA	8.58%

6	NABARD	AAA	8.02%
7	HPCL	AAA	7.16%
8	NHPC Ltd.	AAA	6.00%
9	Exim Bank	AAA	5.06%
10	Indian Railway Finance Corporation Ltd.	AAA	4.89%
11	NTPC Ltd.	AAA	3.63%
12	NPCIL	AAA	1.15%
Grand total			100%

Source: www.edelweissmf.com

The short-term allocation structure of the Bharat Bond ETF is displayed in Table-02 above. The asset management firm split the short-term plan into two choices, the Bharat Bond ETF 2023 and the Bharat Bond ETF 2025, both of which will mature in April 2023 and 2025, respectively. All of the debt securities in Bharat Bond 2023 are issued by central government companies, with the majority of the funding in Bharat Bond going to REC, NABARD, PFCL, and HUDCL. As opposed to Bharat Bond 2025 Bharat Bond, which focused more on PFCL, PGCI, and NHB and received more than 50% of the funding.

Table – 03 Long term period Portfolio Constituents

Nifty Bharat Bond Index- 2030			
S.N.	Issuer Name	Rating	Weightage
1	NHAI	AAA	15.00%
2	IRFCL	AAA	15.00%
3	PGCI Ltd	AAA	15.00%
4	REC Ltd	AAA	12.72%
5	NTPC Ltd	AAA	11.63%
6	IOCL	AAA	08.00%
7	NPCIL	AAA	06.61%
8	PFCL	AAA	06.51%
9	NLC India Ltd	AAA	03.93%
10	EXIM Bank	AAA	02.84%
11	NABARD	AAA	01.48%
12	NHPC Ltd	AAA	01.27%
Grand Total			100%

Source: www.edelweissmf.com

Nifty Bharat Bond Index- 2031			
S.N.	Issuer Name	Rating	Weightage
1	PFCL	AAA	15.00%
2	REC Ltd	AAA	15.00%
3	PGCIL	AAA	15.00%
4	NHAI	AAA	15.00%
5	NPCIL	AAA	14.80%
6	IRFCL	AAA	13.05%
7	Housing & Urban Development Corporation Ltd.	AAA	09.92%
8	NHPC Ltd.	AAA	02.50%
Grand Total			100%

Source: www.edelweissmf.com

The stock structure of the Bharat Bond ETF is displayed in Table-03 above for the long run. The asset management firm split the long-term plan into two choices, the Bharat Bond ETF 2030 and the Bharat Bond ETF 2031, both of which will mature in April 2030 and 2031, respectively. Bharat Bond 2030 has focused more on NHAI, IRFCL, PGCILTD, and REC Ltd and invested more than 50% of the total amount. In contrast to Bharat Bond 2031 Bharat Bond, which has a greater focus on PFCL, more than half of the expenditure was made by REC Ltd, PGCIL, AND NHAI.

CONCLUSION

The bond market is one of the more well-known instruments in the Indian financial market, which has expanded its activities into a number of sectors. Bonds are issued to support infrastructure development in the 20th century, but during that time the bond market expanded its operations to other areas, such as the issue of corporate bonds, etc. For the economy to develop in a balanced way and for individual and institutional investors looking for risk-free investment options, bonds are the best options.

In response to this situation, the Indian government unveiled the first Bond ETF of its kind, known as the Bharat Bond ETF. According to a study, the Bharat Bond ETF offers two short-term options with maturities of three and five years. A 10-year choice that will ripen in 2030 and 2031 is also a possibility. The Bharat Bond ETF offers a Fund of Funds

alternative, allowing holders of non-Demat accounts to participate in the Bonds as well. Bharat Bond deals in financial securities with a AAA credit rating that are listed on the National Stock Exchange. The Central Government businesses that made up the bulk of the portfolio are those that have achieved Maharatn Status through their commercial activities. In conclusion, the Bharat Bond ETF has grown in prominence over the past few years, but more marketing efforts are still required to target the non-Demat account users for whom the Edelweiss AMC has launched the Fund of Funds (FOF) Scheme.

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