

BHARAT Bond ETF

Name of the Scheme	BHARAT Bond ETF
AMC managing	Edelweiss AMC Limited
Fund Manager	Mr. Dhawal Dalal and Mr Gautam Kaul
NFO Period	12 th Dec 2019 - Anchor Investors 13 th Dec 2019 to 20 th Dec 2019 - Other Investors
Type of Fund	Open ended Target Maturity Exchange Traded Bond Fund that seeks to track the returns provided by Nifty BHARAT Bond Index
Investment Objective	To replicate Nifty BHARAT Bond Index by investing in bonds of CPSEs/CPSUs/CPFIs and other Government organizations, subject to tracking errors
Investment Option	Short Term (3 years+) BHARAT Bond ETF – April 2023 Long Term (10years+) BHARAT Bond ETF – April 2030
Benchmarks	Nifty BHARAT Bond Index - April 2023 & Nifty BHARAT Bond Index - April 2030
Minimum Application	*Retail Individual Investors: Rs. 1,000/- and in multiples of Rs. 1,000/- thereafter, subject to maximum investment amount of Rs. 2,00,000 Anchor Investors: Rs. 10crs and in multiples of Rs. 1,000 thereafter Retirement Funds, QIBs, Non-Institutional Investor: Rs. 2,01,000 and in Multiples of Rs. 1,000 thereafter
Face Value	Rs. 1000
Expense Ratio	Maximum 0.0005% p.a. of daily net assets
Exit Load for ETF	Nil
Listing	Units will be listed on NSE & BSE within 5 Business Days from the date of allotment (not later than Jan 01, 2020)
Trading lot	1 unit and in multiples thereof in demat form
Investors who don't have demat account can go for respective Fund of Fund (FOF)	They can invest BHARAT Bond FOF – April 2023 & BHARAT Bond FOF – April 2030, which would have an exit load of 0.10% for redemption within 30 days from the date of allotment
Riskometer	Moderate
Plans	Growth
Maximum amount to be raised	April 2023: Rs.5,000cr (Initial Amount of Rs.3,000cr + Additional Amount of Rs.2,000cr) April 2030: Rs.10,000cr (Initial Amount of Rs.4,000cr + Additional Amount of Rs.6,000cr)
Suitable for investors	Seeking Income over the Target Maturity period

* Retail Individual Investors - Individual Investors (including NRIs, HUFs applying through their Karta and sole proprietorship concern) applied for FFO 5 units for an amount not exceeding Rs. 2 lakhs.

Background

- The Government of India (GoI) through Department of Investment and Public Asset Management (DIPAM), approved the creation and launch of Debt ETF umbrella program - 'Bharat Bond ETF'. The Debt ETF shall comprise of Fixed Income Securities such as Bonds, Credit Linked Note, Debentures, Promissory Notes, Government of India Bonds ("GoI Bonds") etc. as underlying instruments issued by participating CPSEs, CPSUs, CPFIs and other Government Organisations and other entities to help them meet their CAPEX & business needs.
- The Union Cabinet cleared the launch of the Bharat Bond ETF to enhance liquidity, enhance investor base and transparency and smoothening of borrowing plans of the participating issuers and will benefit both, the investors and the Contributors.
- An Exchange Traded Mutual Fund which will invest in bonds issued by Public Sector companies with AAA rating. One can buy or sell units of this fund on exchange anytime during the tenure of the fund.
- The fund will have a defined maturity date and at maturity investor will get back their investment proceeds along with returns.

Who can Invest:

- Resident adult individuals, either singly or jointly (not exceeding three) or on anyone or survivor basis.
- Non-Resident Indians (NRIs) / Persons of Indian origin residing abroad (POI) on repatriation or non-repatriation basis
- Minors through parents / lawful guardian.
- Karta of Hindu Undivided Family (HUF in the name of Karta);
- Partnership firms.
- Companies, bodies corporate, societies, association of persons, body of individuals, clubs and public sector undertakings registered in India if authorized and permitted to invest under applicable Laws and regulations.

- Banks, including Scheduled Bank, Regional Rural Bank, Co-Operative Bank etc. & Financial Institutions.
- Mutual Funds registered with SEBI. Trustee, the AMC, their Shareholders or Sponsor, their associates, affiliates, group companies may subscribe to Units under the Scheme. Special Purpose Vehicles (SPV) approved by appropriate authority
- Religious and Charitable Trusts, Wakfs or endowments of private trusts and Private trusts (subject to receipt of necessary approvals as required & who are authorised to invest in Mutual Fund schemes under their trust deeds);
- Foreign Portfolio Investors (FPIs) subject to the applicable Regulations;
- Provident / Pension / Gratuity / superannuation, such other retirement and employee benefit and such other funds to the extent they are permitted to invest;
- Army, Air Force, Navy and other para-military units and bodies created by such institutions;
- Scientific and Industrial Research Organisations;
- Multilateral Funding Agencies / Bodies Corporate incorporated outside India with the permission of Government of India / Reserve Bank of India;
- Overseas financial organizations which have entered into an arrangement for investment in India, inter-alia with a mutual fund registered with SEBI and which arrangement is approved by Government of India.
- Insurers, insurance companies / corporations registered with the Insurance Regulatory Development Authority (subject to IRDA Circulars)
- Any other category of individuals / institutions / body corporate etc., so long as wherever applicable they are in conformity with SEBI Regulations/other applicable Regulations/ the constituent documents of the applicants.

Who cannot Invest:

- Overseas Corporate Bodies pursuant to RBI A.P. (DIR Series) Circular No. 14 dated September 16, 2003.
- Non-Resident Indians residing in the Financial Action Task Force (FATF) declared Non-Compliant Countries or Territories (NCCTs)
- United States Person (US Person) as defined under the extant laws of the United States of America, except where such US Person is an NRI/PIO, he/she shall be permitted to make an investment in the Scheme.
- Persons residing in Canada
- Any other categories as deemed fit by the fund

Nifty Bharat Bond Index:

Nifty Bharat Bond Index is constructed in order to facilitate Government of India's initiative to cater to the borrowing requirements of CPSEs by pooling investments from retail, HNI and institutional investors. The Nifty BHARAT Bond Index series measures the performance of portfolio of AAA rated bonds issued by government owned entities maturing in a specific year. Index follows a unique structure with defined maturity date. To cater to the two variants of Bharat Bond ETF, two separate indices are constituted. Each index holds underlying bonds issued by AAA rated government owned entities maturing in a specific year, at which point the index terminates.

Indices	NSE Symbol	Maturity Date	No. of issuer	No. of constituents	Yield	Residual Maturity	Macaulay's Duration
Nifty BHARAT Bond Index - April 2023	EBBETF0423	April 15, 2023	13	99	6.69%	2.83	2.56
Nifty BHARAT Bond Index - April 2030	EBBETF0430	April 15, 2030	12	50	7.58%	9.69	6.93

Note: Data as on 5th Dec, 2019

Selection Criteria:

- Issuers: Central Public Sector Enterprises (CPSEs)/Maharatna/Navratna/Miniratna/ PFIs/Statutory body.
- Bond eligibility: Plain vanilla rated taxable bonds with fixed coupon and fixed maturity listed on NSE/BSE. Bonds backed or serviced by GOI or having call/put options or convertible options or coupon linked to a contingent event or having staggered redemption are not considered in the universe.
- Only AAA rated bonds at the time of creation/review are considered.
- Issuers having individual total outstanding of more than Rs. 100 crores in eligible bonds maturing within 12 months prior to the maturity date of the corresponding index are selected for the index.
- Weights: Weights of bonds in the index are based on total outstanding amount of each bond i.e higher the outstanding - higher the weightage. Exposure to single company capped at 15% at the time of creation/review. Any coupon or redemption amount received is assumed to be reinvested in the portfolio on the same date, in the proportion of the existing weights. In India, debt ETFs must have at least eight issuers and no single issuer can account for a weight greater than 15%.
- Quarterly review of index which will take into account rating downgrade and CPSE/CPFI/GOI Statutory Body losing its current status.

Nifty BHARAT Bond Index - April 2023 - Constituents

Issuer Name	Outstanding Bond Issuance (Rs in cr)	Weights	Yield	Residual Maturity
REC LIMITED	19,715	15.00%	7.08%	2.96
NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT	18,530	15.00%	6.70%	2.85
POWER FINANCE CORPORATION LIMITED	17,384	15.00%	7.01%	2.81
HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED	7,295	11.84%	6.71%	2.72
EXPORT-IMPORT BANK OF INDIA	4,927	8.00%	6.35%	2.78
POWER GRID CORPORATION OF INDIA LIMITED	4,463	7.24%	6.42%	3.00
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA	4,315	7.00%	6.50%	2.61
NTPC LIMITED	4,109	6.67%	6.37%	2.58
HINDUSTAN PETROLEUM CORPORATION LIMITED	3,000	4.87%	6.55%	3.03
NATIONAL HIGHWAYS AUTHORITY OF INDIA	2,375	3.85%	6.35%	2.65
NUCLEAR POWER CORPORATION OF INDIA LIMITED	1,500	2.43%	6.57%	3.28
INDIAN RAILWAY FINANCE CORPORATION LIMITED	1,160	1.88%	6.50%	3.25
NHPC LIMITED	748	1.21%	6.47%	2.91

Note: Data as on 5th Dec, 2019

Nifty BHARAT Bond Index - April 2030 - Constituents

Issuer Name	Outstanding Bond Issuance (Rs in cr)	Weights	Yield	Residual Maturity
NATIONAL HIGHWAYS AUTHORITY OF INDIA	21,026	15.00%	7.65%	9.60
INDIAN RAILWAY FINANCE CORPORATION LIMITED	11,138	15.00%	7.55%	9.73
POWER GRID CORPORATION OF INDIA LIMITED	6,737	15.00%	7.35%	9.80
REC LIMITED	4,769	12.72%	8.08%	9.47
NTPC LIMITED	4,362	11.63%	7.38%	9.62
INDIAN OIL CORPORATION LIMITED	3,000	8.00%	7.40%	9.88
NUCLEAR POWER CORPORATION OF INDIA LIMITED	2,480	6.61%	7.37%	10.02
POWER FINANCE CORPORATION LIMITED	2,442	6.51%	8.05%	9.52
NLC INDIA LIMITED	1,475	3.93%	7.37%	9.48
EXPORT-IMPORT BANK OF INDIA	1,065	2.84%	7.50%	10.01
NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT	555	1.48%	7.55%	9.62
NHPC LIMITED	478	1.27%	7.39%	9.80

Note: Data as on 5th Dec, 2019



- Bond ETFs are passive funds which will invest in constituents of underlying index. Just like Nifty 50 ETF invests in Nifty 50 stocks, bond ETF will follow a particular index which constitute the bonds instead of stocks.
- Bond ETFs closely track the index which makes the portfolio transparent
- Unlike traditional open-ended debt oriented schemes, these funds are traded on the exchange through-out the day.
- Expense ratio is also lower compared to actively managed debt funds

Benefit of Investing in ETF:

- ETF adopts a passive investment style and is constructed to tracks broad range of stocks/securities. It is an ETF with a much lower cost (expense ratio) and fees, and lower portfolio turnover.

- Investors can buy and sell units real-time on the stock exchanges (NSE & BSE). Like any stock ETF offers intra-day trading flexibility with real time price and put limit orders.
- Minimum trading lot is affordable at 1 unit
- Delivery of units is credited to the investors demat account.
- Liquidity is enhanced by market makers who provide both buy and sell quotes.
- Underlying portfolio is available at any time to investors thereby offering high level of transparency
- Likely to provide investors with average market returns with a much lower cost

Bharat Bond ETF is an open ended Target Maturity Exchange Traded Bond Fund that seeks to track the returns provided by Nifty BHARAT Bond Index. A target maturity fund has a maturity date just like Fixed maturity plan. In these ETF's the underlying securities are held until they maturity of the Scheme.

Investment Objective:

The investment objective of the Scheme is to to replicate Nifty BHARAT Bond Index – April 2023 and Nifty BHARAT Bond Index – April 2030, subject to tracking errors. It will track the Nifty Bharat Bond index, underlying securities on a risk replication basis, matching credit quality and average maturity of the index.

How it Works:


*Please note that the Scheme (s) is neither Capital Protected nor Guaranteed Return Product.

Asset Allocation:

Instruments	Indicative allocations (% of total assets)		Risk Profile
	Minimum	Maximum	High/ Medium/ Low
Securities issued by eligible CPSEs/CPSUs/CPFIs and other Government organizations which are either part of or eligible to be part of Nifty BHARAT Bond Index – April 2023 & April 2030	95	100	Low to Medium
Government Securities maturing on or before maturity date of the Scheme, TREPS and REPO in government bonds	0	5	Low

Rationale behind Investing in Bharat Bond ETF:

- **Stability & Predictability:** A bond like structure with fixed maturity provides predictable and stable returns at maturity. The fund has fixed maturity. It will invest in bonds maturing along with the fund, thus offering predictable returns.
- **High Safety:** Investment in Public Sector Bonds of high quality with AAA rating, credit risk is relatively low.
- **Transparency:** Daily disclosure of portfolio constituents and live NAV periodically through the day

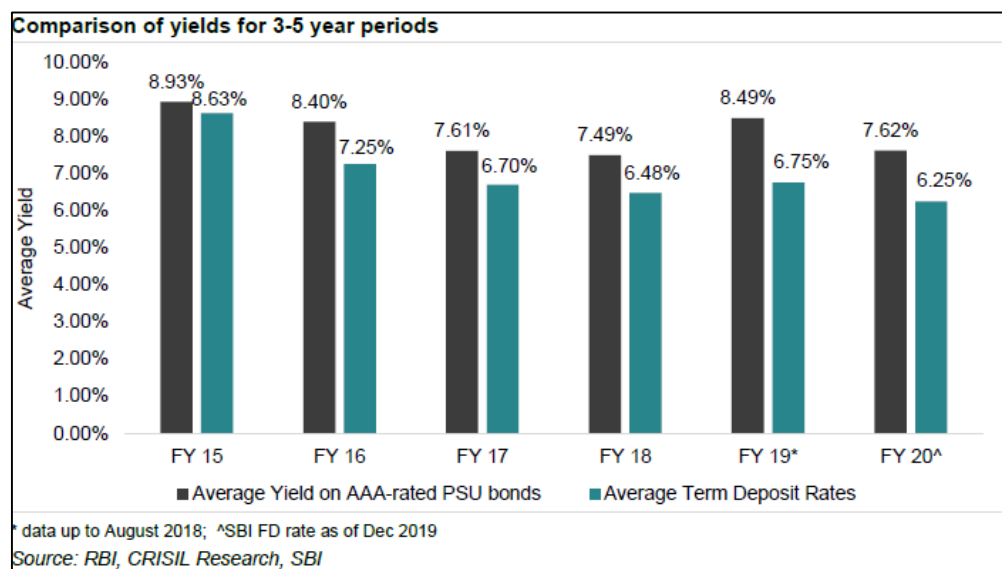
- **Liquidity:** These bonds are listed on NSE & BSE and can be bought and sold in multiples of 1 unit. Market Makers are appointed who will provide quotes and liquidity in the absence of any other market participants. Large investor with Rs 25cr or more can approach AMC for units creation/redemption. Investors can also use these units to borrow from repo market.
- **Low Cost:** very low cost of 0.0005% p.a. (upto 10,000 crore-0.0005% p.a.; Next 10,000 crore to 20,000 crore-0.0004% p.a; Over 20,000 crore-0.0001%)
- **No Lock-in:** Buy/Sell on exchange any time or through AMC in specific basket size
- **Tax Efficiency:** The fund provides tax benefits in the form of indexation for a holding period of more than three years, thus reducing the tax incidence on the investor.

Allocation of not more than 25% each in the issue will be made to Retail Individual Investors (subscribing not more than Rs.2 lakhs), 25% to Retirement funds, 25% to QIBs/Non institutional investors and 25% to Anchor investors.

Comparison of AAA rated PSU bonds vs Fixed Deposits:

Fixed-income instruments have traditionally been a favorite among Indians, with bank fixed deposits forming a major pie of financial savings in the country. As per latest data from the RBI, deposits account for 68% of the gross financial savings of households in the country.

This Bonds ETF which predominantly invests in PSU companies offer a declared rate of return (predictability), fixed investment horizon (maturity date) and safety of capital (less risky) like FD.



Yields on AAA-rated bonds for 3-5 year tenures have been higher than those on term deposits of similar tenures. These bonds delivered 30-170 basis points higher yields than term deposits. During this period, the average yield on the AAA segment was 8.09% whereas the average yield on term deposits was 7.01%.

Comparison of Bharat Bond ETFs vs other debt products:

Particulars	Bharat Bond ETF	Fixed Maturity Plans	Open-Ended Debt MFs	Individual Bonds (listed)	Bank FDs	Small saving schemes
Returns	6.69% - 7.58%	6.75% - 7.50%	7.00% - 8.25%	7.5% - 8.20%	6.25% - 7.00%	7.4% - 7.90%
Tenure	3 year & 10 year	3 to 5 years generally	No Minimum Tenure, subject to Exit Load	Usually 3-15 years	Fixed (Varying Maturities)	Higher Lock-in period
Liquidity	High	Very Low	Very High	Moderate	Low	Very Low
Returns Predictability	Yes, as it matches the duration of securities with the fund and holds till maturity	Yes, as it matches the duration of securities with the fund and holds till maturity	No	Yes	Yes	Yes
Fixed Distribution at Maturity	Yes	Yes	No	Yes	Yes	Yes

Taxation	STCG – 30% LTCG Tax - 20% with Indexation after 3 years	STCG – 30% LTCG Tax - 20% with Indexation after 3 years	STCG – 30% LTCG Tax - 20% with Indexation after 3 years	Interest: as per slab rates STCG (1 year) – slab rates LTCG - 10% (without indexation)	As per slab rates	Taxfree
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No Assured Returns, unless it is held to maturity:

There are 'NO' assured returns. During the investment period, value of investments can go up or down depending on market conditions, and are dependent on interest rates movements in the economy. However, if investors stay invested till maturity of the ETF then return can be in-line with the yield of the portfolio at the time of investments.

BHARAT Bond - Fund of Funds (FoF):

BHARAT Bond – FoF is an **alternative option of investment** for investors who do not have demat account and hence cannot invest in BHARAT Bond ETF. This FoF will invest in the underlying BHARAT Bond – ETF. BHARAT Bond FoF – April 2023 will invest in BHARAT Bond ETF – April 2023 and BHARAT Bond FoF – April 2030 will invest in BHARAT Bond ETF – April 2030. Minimum investment amount for the FOF will be Rs.1000 and in multiples of Re1 thereafter. Exit load of 0.10% will be levied on FoF investors if units are redeemed within 30 days from the date of allotment.

Taxation:

Debt Taxation will be applicable to investors. Short Term capital Gain (STCG) is taxed at slab rates and Long Term Capital Gain (LTCG) after 3 years is taxed 20% post Indexation Benefit.

Way forward:

Edelweiss Asset Management will roll out the two tranches of Bharat Bond ETFs every year giving investors access to different tenors. Meanwhile, the older tranches of Bharat Bond ETFs, the three-year and 10-year tranches, will continue to be available for those who wish to buy shorter duration schemes. Thus for example, the maturity of the first two Bharat Bond ETFs will fall from 10 years and three years to nine years and two years after a year's time. However, a fresh ETF launched by the AMC next year will have maturities of 10 and three years.

The fund house would also ensure that the underlying companies continue to channelize their borrowing requirements – even for the reducing periods – through the Bharat Bond ETF. In simple words, the older tranches would also see re-issuances, even as new three-year and 10-year issuances come along. This should ensure liquidity in older tranches also.

Comments:

Quality of the issuers, sizeable volumes for retail participation and liquidity of the underlying securities would be the main factors for its successful implementation. Liquidity in ETF can be ensured by market participation while liquidity of underlying though planned to hold on till maturity is necessary to reflect the true market value. A CRISIL report on Bharat Bond ETF, states that almost all the issuers were classified as liquid in the past five years.

A Bharat Bond ETF will be managed in a manner similar to a fixed maturity plan (FMP) but with the liquidity of an open-ended fund. The NAV of the ETF will fluctuate on a daily basis due to interest rate movements as debt papers are marked-to-market. To avoid this interest rate movement risk, investors can hold the ETF till maturity thus locking their yields, which would be possible only if such target maturity fund. Risk of future loss in the value of bonds from interest rate hikes comes down for investors who may enter the scheme at any point provided they hold the units to maturity.

The 3years+ variant allows the investors to take Indexation Benefit for 4 years thereby reducing the capital gains tax, making BHARAT Bond ETF – April 2023 a good investment option to debt investors. Predictability of returns and low credit risk debt funds are the carrots that this ETF offers and is a good way to diversify one's portfolio. Also easing phase of interest rate cycle seems to nearing its end and the spreads of good quality AAA rated bonds having already squeezed, investing in the 3year+ option would be a good bet as interest yield curve is likely to remain at this levels for short to medium term. Also this bring a targeted maturity fund, maturity of papers will go down gradually thereby reducing the interest rate risk.

Interest rates in India are close to a multi-year bottom, locking at these levels may not be very rewarding especially for the long term 10year-variant, which is more volatile due to high duration risk. Should PSU borrowing rates spike up in future, investors in this ETF would forego an opportunity to earn better rates.

Liquidity can only be known once the ETF actually starts trading. The government's disinvestment needs mean that some of these companies may not remain PSUs in the future. The consequent rebalancing could raise costs and affect returns in the ETF.

Investors seeking low risk, predictable return and reasonable level of liquidity can invest in BHARAT Bond ETF (especially 3 year variant) which will provide reasonable diversification to one's portfolio.

Standard Risk Factors:

- Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.
- Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved.
- As the price / value / interest rates of the securities in which the Scheme invests fluctuates, the value of your investment in the Scheme may go up or down depending on various factors and forces affecting the capital markets.
- Past performance of the Sponsor/AMC/Mutual Fund does not guarantee future performance of the Scheme.
- The Scheme is not a guaranteed or assured return Scheme.

Scheme-specific Risk Factors:

Risk associated with Fixed income Instruments

- **Interest rate risk:** Price of a fixed income instrument falls when the interest rates move up and vice-versa, which will affect the NAV accordingly
- **Spread risk:** Investments in corporate bonds are exposed to the risk of widening of the spread between corporate bonds and gilts. Prices of corporate bonds tend to fall if this spread widens which will affect the NAV of the Scheme accordingly.
- **Credit risk or default risk:** Credit risk is the risk that the issuer of a debenture/ bond or a money market instrument may default on interest &/or principal payment obligations.
- **Liquidity:** The Risk of non-execution of sale/purchase order due to low volumes is liquidity risk.
- **Reinvestment risk:** Interest rates may vary from time to time. The rate at which intermediate cash flows are reinvested may differ from the original interest rates on the security, which can affect the total earnings from the security.
- **Performance Risk:** Performance of the Scheme may be impacted with changes in factors, which affect the capital market and in particular the debt market.
- **Market risk:** Lower rated or unrated securities are more likely to react to developments affecting the market as they tend to be more sensitive to changes in economic conditions than higher rated securities.

Risk associated with ETF investing in Bonds

- **Lack of Vibrant Secondary Market for Units of the Scheme:** Although the Units of the Scheme will be listed on the Stock Exchanges such as NSE, there can be no assurance that a vibrant secondary market for units of the Scheme will be developed or maintained by the Authorised Participants.
- **Lack of secondary market depth:** In case of unit creation and unit redemption, the Scheme will have to either buy a basket of securities or sell a basket of securities in proportion of the underlying index. This requires an active secondary market for underlying securities at all points of time. A lack of depth in secondary market for underlying securities could hamper the efficient transaction in unit creation and unit redemption.
- **Units of the scheme may trade at prices other than NAV:** Depending on the demand-supply dynamic, the units of the Scheme may either trade on the Stock Exchange above or below the NAV of the Scheme. This may give rise to arbitrage opportunities. However, the in-built mechanisms of unit creation and unit redemption in the form of Cash or in-kind is designed to reduce the arbitrage opportunity for market participants.
- **Risk of Investment Strategy:** As the Scheme would be primarily investing in the Bonds of CPSE or any other eligible entities, any government policy which will have an impact on central public sector enterprises, including any change in the disinvestment policy of the government, could impact the price of the underlying assets. This may have negative impact on the performance of the Scheme
- **Risk of Credit Rating changes:** It is understood that most of the CPSE securities have higher credit rating essentially due to government ownership and implied government support. Any potential change in government control, shareholding pattern, market perception, corporate action etc., could result in potential downgrade of credit rating of the Issuers. This may have negative impact on the performance of the Scheme.
- **Risk of Investment in eligible securities:** The Scheme's objective is to invest in eligible CPSEs securities as defined in the Index. The Scheme will invest in the securities predominantly through private placement route. These securities are generally auctioned on Electronic Bidding Platforms (EBP) in anonymous manner through competitive bidding. It is quite possible that the Scheme may not be able to subscribe to these securities in sufficient quantities. This may result in sub-optimal asset allocation until the next bidding takes place.

- **Lack of supply of eligible securities with desired maturity:** The target maturity bond ETF structure has a pre-defined maturity date. This necessitate investment in eligible securities maturing within 3 months before the maturity date of the Scheme. Any decline in potential supply of eligible securities maturing within 3 months before the maturity date of the Scheme may expose the Scheme to the reinvestment risk or investing in lower yielding TREPS in the maturing year of the Scheme. This may be detrimental to the investor interest

(Source: SID, PPT)

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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