

Nifty SDL Plus AAA PSU Bond Apr 2028 75:25 Index

Introduction

Nifty SDL Plus AAA PSU Bond Apr 2028 75:25 Index seeks to measure the performance of portfolio of State Development Loans (SDLs) and of AAA rated bonds issued by PSUs maturing during the twelve month period ending April 28, 2028.

The index is computed using the total return methodology including price return and coupon return

The index has a base date of MMM DD, YYYY and a base value of 1000

Methodology

The methodology is in compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022

Index Structure

The index contains 2 components as on the base date of index

- 1) SDL component: Constituting 75% of the index
- 2) AAA PSU Bond component: Constituting 25% of the index

1) Methodology for SDL component – Constituting 75% of the index

Eligibility norms

- SDL should not be a special security

Issuer Selection

- 7 states/UTs are selected based on the highest outstanding amount as on January 31, 2023, maturing during the twelve month period ended April 28, 2028

Security Selection

- As on January 31, 2023, for every selected state/UT, SDL with longest maturity maturing during the twelve month period ending April 28, 2028 is selected to be part of the index. These selected 7 securities will continue to remain in the index till they mature
- Only one SDL per state/UT to be part of the index

Weight Assignment

- Each state that is part of the SDL component (constituting 75% of index) is given equal weight as of the base date of the index
- Subsequently, the security level weights may drift due to price movement and accordingly, the total 75% weight of the SDL component may also drift
- Any coupon amount received is assumed to be reinvested in the portfolio on the same date, in the proportion of the existing weights

2) Methodology for AAA PSU Bond component – Constituting 25% of the index

Eligibility Norms

Issuer eligibility

- Issuing entity should be domiciled in India and should satisfy either of the following:
PSUs including:
 1. Central Public Sector Enterprises (CPSEs) as listed on DPE & DIPAM website
 2. Maharatna, Navratna and Miniratna as listed on DPE website, if not included in CPSEs list as mentioned in point 1
 3. Public Financial Institutions (PFIs) owned and managed by GOI and not included in points 1 and 2 above

4. Statutory body set-up by Act of Parliament and included in the list of public enterprises sourced from <https://www.indiabudget.gov.in/> having outstanding bonds of more than Rs. 100 crores

- **Bond eligibility**

- Bond should be
 1. Plain vanilla with fixed coupon and fixed maturity
 2. Denominated in INR
 3. Be listed and traded on NSE and/or BSE and should be rated
- Bond should not be
 1. Tax Free
 2. Floating Rate Bond
 3. Partially Paid up
 4. Perpetual
 5. Having Single Option (Call/Put)
 6. Having step up/step down coupon which is linked to any contingent event
 7. Convertible bonds
 8. Having staggered redemption

Selection Criteria

- **Issuer Selection**

- Eligible issuers having credit rating of “AAA” (Triple A) and having eligible bonds maturing during the twelve month period ending April 28, 2028 at the time of index creation/review are shortlisted. In case an entity is rated by multiple rating agencies, the lowest rating assigned to the Non-Convertible Debenture/Long Term Debt of the entity is considered for the index selection purpose
- Further, 3 issuers are selected based on the highest total outstanding amount as on January 31, 2023 maturing during the twelve month period ending April 28, 2028

- **Bond Selection**

- As on January 31, 2023, for every selected issuer, eligible bond with longest maturity maturing during the twelve month period ending April 28, 2028 is selected to be part of the index

Weight Assignment

- Each issuer that is part of the AAA PSU Bond component (constituting 25% of index) is given equal weight as of the base date of the index
- Single issuer/group/sector weight is to be capped in compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022. Subsequently, the security level weights may drift due to price movement and accordingly, the total 25% weight of the AAA PSU Bond component may also drift
- Any coupon amount received is assumed to be reinvested in the portfolio on the same date, in the proportion of the existing weights

Index Rebalancing/Reconstitution

- On a semi-annual basis, index will be screened for compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022. In case of non-compliance, suitable corrective measures will be taken to ensure compliance with the norms
- During the calendar half-year review, the total weights to the SDL and AAA PSU Bond components will be reset to the original 75:25 and the underlying security level weights within each component will be also reset to equal weight
- Based on the governments ‘in principle approval’ to disinvest its stake in some of the PSUs, such entities are not included to be part of the index at launch/inception of the index. On account of disinvestment in an existing constituent, such issuer shall be excluded from the index effective next rebalancing/reconstitution only if the disinvestment process has been completed
- In case a new eligible issuer gets downgraded before the portfolio disclosure date (T-3), such issuer shall not be included in the index

- Apart from scheduled review, in case an existing issuer gets downgraded below AAA, bonds of such issuer to be excluded from the index within 5 working days of such downgrade, in compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022
- Due to the above stated reasons, if the index is rebalanced and issuer/s move out of the index,
 - If the total number of AAA PSU issuers in the index is 2 and above, then the total weight of the AAA PSU securities being excluded will be redistributed among the remaining AAA PSU securities proportionally. This will be subject to issuer limit in compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022
 - If the total number of AAA PSU issuers in the index fall below 2, then new AAA PSU issuers will be included in the index based on the issuer selection and bond selection criteria mentioned in the AAA PSU Bond component index methodology section above, to take the AAA PSU issuer count to minimum 2 and the total existing weightage of AAA PSU Bond component will be divided equally amongst all the AAA PSU issuers in the index
- Except for the above stated reasons, there will be no inclusion and exclusion in the index during the semi-annual review
- As the index includes securities that shall mature during the twelve month period ending on the final maturity date of the index, any proceeds from the security redemption prior to the final maturity date of the index shall be re-invested using the following waterfall approach:
 - The proceeds from security redemption will be reinvested in the longest maturity outstanding security issued by the same issuer (SDL in case of state/UT and Bond/money market instrument in case of corporate bond) and maturing on or just before the index maturity date with the same weightage. This will be subject to single issuer limit in compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022
 - In case a replacement in the form of outstanding security of the same issuer cannot be found for reinvestment then the proceeds from such redemption shall be reinvested in the remaining portfolio on the same date in the proportion of the existing weights. This will be subject to single issuer limit in compliance with the Norms for Debt Exchange Traded Funds (ETFs)/Index Funds announced by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 on May 23, 2022
 - In case due to any reason, it is not possible to meet any norms as prescribed by SEBI vide circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022, then the proceeds from such redemption shall be reinvested in a T-Bill maturing on or just before the index maturity date
 - If the last outstanding security (including T-Bill) in the index matures before the final index maturity date, all redemption proceeds shall be re-invested in The Clearing Corporation of India Ltd.'s (CCIL) TREPS overnight rate tracked by Nifty 1D Rate Index for any subsequent days till the maturity of the index

Index Termination

The index shall mature on April 28, 2028. If the index matures on a holiday, the index value will be computed till the prior working day.

Tentative portfolio:

The below tentative portfolio consisting of 7 SDLs issued by states/UTs and 3 bonds issued by AAA rated PSUs is prepared using the data cut-off date of 31/01/2023:

Sr. No.	ISIN	Issuer	Maturity Date	Coupon	Outstanding Amount (Rs. Crs.)	Weights	YTM* (as on 06/02/2023)	Category
1	IN3120180028	TAMIL NADU GOVERNMENT	25-Apr-28	8.24%	53,635	10.71%	7.63%	SDL
2	IN1520180036	GUJARAT GOVERNMENT	25-Apr-28	8.25%	31,700	10.71%	7.62%	SDL
3	IN3320180018	UTTAR PRADESH GOVERNMENT	11-Apr-28	7.98%	40,400	10.71%	7.63%	SDL
4	IN2920180014	RAJASTHAN GOVERNMENT	11-Apr-28	7.98%	27,914	10.71%	7.64%	SDL
5	IN3420170216	WEST BENGAL GOVERNMENT	27-Mar-28	8.09%	25,411	10.71%	7.62%	SDL
6	IN1920200681	KARNATAKA GOVERNMENT	17-Mar-28	6.99%	29,598	10.71%	7.60%	SDL
7	IN2220190135	MAHARASHTRA GOVERNMENT	26-Feb-28	6.98%	35,796	10.71%	7.60%	SDL
8	INE134E08JP5	POWER FINANCE CORPORATION LIMITED	03-Apr-28	7.85%	22,658	8.33%	7.65%	AAA PSU
9	INE020B08EA5	REC Limited	31-Mar-28	7.55%	9,235	8.33%	7.57%	AAA PSU
10	INE261F08AE6	NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT	16-Mar-28	8.20%	9,085	8.33%	7.62%	AAA PSU
					2,85,432	100.00%	7.62%	

**YTM for SDLs is annualised*