



NSE Indices Limited

(Formerly known as India Index Services & Products Limited-IISL)

NIFTY200 Quality 30 Index

Methodology Document

January 2019

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Introduction

NSE Indices Limited (formerly known as India Index Services & Products Limited-IISL), a NSE group company provides a variety of indices and index related services and products for the Indian capital markets.

The NIFTY200 Quality 30 index includes top 30 companies from its parent NIFTY 200 index, selected based on their 'quality' scores. The quality score for each company is determined based on return on equity (ROE), financial leverage (Debt/Equity Ratio) and earning (EPS) growth variability analysed during the previous 5 years

Highlights

- The index series has a base date of April 01, 2005 and a base value of 1000.
- Stocks from NIFTY 200 index at the time of review are eligible for inclusion in the index.
- 30 companies with higher profitability, lower leverage and more stable earnings are selected to be part of the index.
- The weight of each stock in the index is based on the combination of stock's quality score and its free float market capitalization.
- Index is rebalanced semi-annually.

Methodology

Eligibility criteria

To form part of NIFTY200 Quality 30 Index, stocks should qualify the following eligibility criteria(s).

Universe:

- Stocks should form part of NIFTY 200 index at the time of review
- Constituents should have a minimum listing history of 1 year
- Stock should be available for trading in derivative segment (F&O)

Stock selection criteria:

Stock's shortlisted based on above mentioned criteria's are further analysed as

- For each eligible stock, Z score is calculated on the basis of return on equity (ROE), debt-to-equity (D/E) ratio and EPS growth variability in the previous 5 years. Debt-to-equity ratio is not considered for companies belonging to financial services sector.
- Latest fiscal year data is considered for the calculation of return on equity (ROE) and debt-to-equity (D/E) ratio. EPS growth variability in previous 5 financial years is calculated using adjusted EPS of previous 6 years. Consolidated financial data is used wherever available else standalone financial data is taken into consideration.
- Z score of each parameter for each security is calculated as per following formula

$$(x - \mu) / \sigma$$

Where;

x is parameter value of the stock

μ is mean value of the parameter in the eligible universe

σ is std. deviation of parameter in the eligible universe

- EPS growth variability is not calculated for stocks with negative EPS in any of the previous 6 fiscal years. Such stocks are not considered for selection.
- In case of an IPO, company will be considered for selection, if adjusted EPS data is available to at least calculate EPS growth variability in previous 3 financial years.

- Weighted average Z score is calculated for all securities as per the following formula

For Non-Financial Service sector company:

Weighted Z score= $0.33 * Z \text{ score of ROE} + 0.33 * - (Z \text{ score of D/E}) + 0.33 * - (Z \text{ score of EPS growth variability})$

For financial services sector:

Weighted Z score= $0.5 * Z \text{ score of ROE} + 0.5 * - (Z \text{ score of EPS growth variability})$

- Quality score is calculated for all eligible securities from the weighted average Z score as

$$\text{Quality Score} = (1 + \text{Average Z score}) \text{ if Avg. Z score} > 0$$

$$(1 - \text{Average Z score})^{-1} \text{ if Avg. Z score} < 0$$

- Top 30 stocks are selected based on quality-score.

Weights and Capping:

- Weight of the stock in the index is derived by multiplying the square root of the free float market cap with the quality score of that stock.
- Each stock in the index is capped at the lower of 5% or 5 times the weight of the stock in the index based only on free float Mcap.
- Capping will be done semi-annually at the time of rebalancing.

Reconstitution

- Index rebalancing will be done on a semi-annual basis.
- Stocks that moved out of the NIFTY 200 at the time of review shall also move out of the index
- Top 10 ranked stocks on the basis of quality score are compulsorily included in the index, whereas existing stocks in the index whose rank goes beyond 50 are compulsorily excluded from the index.
- Apart from the scheduled semi-annual review, additional ad-hoc reconstitution and rebalancing of the index shall be initiated in case any of the index constituents undergoes suspension or delisting or scheme of arrangement.

Calculation Frequency:

The index is calculated online on all days that the National Stock Exchange of India is open for trading in equity shares and disseminated through trading terminals and website.

Index Governance:

NSE Indices Limited Board has constituted the Index Policy Committee (IPC) to formulate policies governing NSE Indices Limited indices. In addition to IPC, two committees viz. Index Maintenance Sub Committee (IMSC) and Debt Index Management Committee (DIMC) have been constituted. The IMSC is responsible for periodic review of equity indices based on the policies/ guidelines formulated by the IPC. DIMC takes decisions on the debt indices at NSE Indices Limited.

Each of these committees is represented by the industry experts. None of the member in the above committee except the exchange representative(s) (who coordinates between IPC and IMSC) represent more than one committee and thereby the independence of each of the committees is maintained. The Committees comprises representatives from financial market such as Asset Management Company, insurance company, academicians, rating agency etc. In order to maintain transparency, the names of the committee member are publicly displayed on the website.

About Us

About National Stock Exchange of India Limited (NSE):

The National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India and the third largest in the world by nos. of trades in equity shares in 2017, according to World Federation of Exchanges (WFE) report. NSE was the first exchange in India to implement electronic or screen based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high quality data and services to market participants and clients.

For more information, please visit: www.nseindia.com

About NSE Indices Limited:

(Formerly known as India Index Services & Products Limited-IISL)

NSE Indices Limited, a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. The company focuses on the index as a core product. The company owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. NIFTY equity indices comprises broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. NSE Indices Limited also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on NIFTY indices have been developed within India and abroad. These include index based derivatives traded on NSE, Singapore Exchange Ltd. (SGX) and Taiwan Futures Exchange (TAIFEX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

For more information, please visit: www.niftyindices.com

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