



India Index Services & Products Ltd.

# NIFTY100 Quality 30 Index Methodology Document

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## Introduction

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

The NIFTY100 Quality 30 index includes top 30 companies from its parent NIFTY 100 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

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- The index series has a base date of October 01, 2009 and a base value of 1000
- Stocks from NIFTY 100 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

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### Eligibility criteria

To form part of NIFTY100 Quality 30 Index, stocks should qualify the following eligibility criteria(s)

#### Universe:

- Stocks should form part of NIFTY 100 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

$\mu$  is mean value of the parameter in the eligible universe

$\sigma$  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 100 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 on an end of day basis for all days National Stock Exchange of India is open for trading in equity shares.

## Corporate Actions:

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Maintaining the index include monitoring and completing the adjustments for company additions and deletions, stock splits, stock dividends etc. Some corporate actions, such as stock splits and stock dividends, require changes only in the stock prices and shares of the companies in the index. Other corporate actions, such as special dividend and rights issue of shares require a divisor adjustment to prevent the value of the index from changing.

Adjusting the divisor for a change in market value leaves the value of the index unaffected by the corporate action. This helps keep the value of the index accurate as a barometer of stock market performance, and ensures that the movement of the index does not reflect the corporate actions of the companies in it. Divisor adjustments are made after the close of trading and after the calculation of the closing value of the index.

## Index Governance:

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A professional team at IISL manages the NIFTY indices. There is a three-tier governance structure comprising the board of directors of IISL, the Index Policy Committee, and the Index Maintenance Sub-committee. IISL has constituted the Index Policy Committee, which is involved in devising policy and guidelines for managing the NIFTY indices. The Index Maintenance Sub-committee decides on index rebalancing based on the index methodology. The NIFTY indices have fully articulated rules governing index revisions, corporate actions, etc.

## Index Policy

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### **Announcements:**

All index-related announcements are posted on the websites of IISL and NSE. Changes impacting the constituent list are also posted on the Web site. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Holiday Schedule:**

For the calculation of indices, the IISL follows the official holiday schedule. A complete holiday schedule for the year is available on the IISL and NSE website. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Index Recalculations**

All NIFTY family of indices are recalculated whenever errors occur. Users of the NIFTY indices are notified through appropriate channel of communication.

### **Market Feedback & Index Methodology Review**

IISL is committed to ensure that all NIFTY indices are relevant for the market participants. In order to ensure this, IISL on an on-going basis interacts with the stakeholders inviting the feedback through various channels of communication. The feedback received from the market participants forms a key input for all index related aspects.

Review of methodology of NIFTY indices is carried out on an annual basis. Additionally, IISL also considers any feedback that it may receive with regards to index methodology as part of on-going market interactions. Any changes to the index methodology is approved by the Committee and the same is announced through a press release.

### **Other**

In case of a market stress or disruption, IISL will review and deal with the situation on consultative basis with the National Stock Exchange of India Ltd. (NSE) as NSE is source for price data for computation of equity indices.

All indices are expected to reflect the performance of a basket of stocks selected based on the defined guidelines and theme. Every index user is advised to evaluate the benefits of index and take an informed decision before using the index for self or creation of index-linked products. IISL does not accept any liability for any losses, claims, expenses etc. that may be incurred by any person as a result of usage of NIFTY family of indices as a result of reliance of the ground rules, any errors or inaccuracies.

## About Us

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### **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](http://www.nseindia.com)

### **About India Index Services & Products Ltd. (IISL):**

India Index Services & Products Ltd. (IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. IISL focuses on the index as a core product. IISL owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. IISL equity Indices comprises broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. IISL also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on IISL indices have been developed within India and abroad. These include index based derivatives traded on NSE, Singapore Exchange Ltd. (SGX), Chicago Mercantile Exchange Inc. (CME), Osaka Exchange Inc. (OSE), 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](http://www.niftyindices.com)



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