



NSE Indices Limited

# Nifty BHARAT Bond Index Series Methodology Document

July 2020

## Table of Contents

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Introduction.....	2
Highlights .....	2
Methodology.....	3
Index Policy.....	6
About Us.....	8

## Introduction

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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 Nifty BHARAT Bond Index series measures the performance of portfolio of AAA rated bonds issued by government owned entities maturing in a specific year.

Each index in the series holds underlying bonds issued by AAA rated government owned entities maturing in a specific year, at which point each index in the series matures.

## Highlights

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1. Indices follow a unique Target Maturity structure with each index in the series having a defined maturity date
2. Each index in the series includes portfolio of AAA rated bonds issued by government owned entities
3. All indices are reconstituted and rebalanced at the end of every calendar quarter

## Methodology

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### Eligibility norms for each BHARAT Bond Index

#### ▪ Issuer eligibility

- Issuers should be domiciled in India and should satisfy either of the following:
  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 having outstanding bonds of more than Rs. 100 crores
  5. Any other issuer as and when advised by Department of Investment and Public Asset Management (DIPAM)

#### ▪ 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. Backed or serviced by GOI
  3. Floating Rate Bond
  4. Partially Paid up
  5. Perpetual
  6. Having Single Option (Call/Put)
  7. Having step up/step down coupon which is linked to any contingent event
  8. Convertible bonds
  9. Having Staggered redemption

### Selection criteria for each BHARAT Bond Index

#### ▪ Issuer Selection

- Eligible issuers having credit rating of “AAA” (Triple A) 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, issuers from the above step which have individual total outstanding of more than Rs. 100 crores in eligible bonds maturing during the twelve months period prior to the maturity date of the corresponding index are selected for the index

#### ▪ **Bond Selection**

- All eligible bonds of the issuers selected in the above step are to be considered as part of the index provided the term sheet (with requisite details for pricing) is available in public domain as of the cut-off date (NSE/BSE)

#### **Weights Assignment for each BHARAT Bond Index**

Weights of bonds in each index in the series are based on total outstanding amount of each bond, subject to

- Single issuer weight capped at 15% at the time of index creation/review. Excess weight to be redistributed amongst rest of the issuers proportional to their original weights
- 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**

- Each index in the series is reviewed at the end of each calendar quarter with data cut-off date being 15 working days (T-15) before last working day of calendar quarter (T). Changes shall be effective from last working day of calendar quarters (T) with a prior notice of 3 working days (T-3 being the portfolio disclosure date)
- During the quarterly index review, existing issuers and their bonds in each index in the series to be continued if they continue to meet the eligibility and selection criteria. Similarly, new issuances during previous calendar quarter shall be included in the index if they meet the eligibility and selection criteria
- In case any of the index constituent undergoes a scheme of arrangement for corporate events such as merger, spin-off, compulsory delisting or suspension etc., additional index reconstitution may be undertaken. The equity shareholders' approval to a scheme of arrangement is considered as a trigger to reset the combined issuer weight to single issuer limit on the next rebalance date
- Based on the governments 'in principle approval' to disinvest its stake in some of the government owned entities, such entities are not included to be part of the index at launch/inception of each index in the series. 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 an eligible issuer gets downgraded post the data cut-off date but before the portfolio disclosure date (T-3), such issuer shall be excluded from being a part of each index in the series
- In the last year of maturity of each index in the series (i.e. during the twelve months period prior to the maturity date of the corresponding index), any proceeds from bond redemption prior to the maturity date of such index shall be re-invested in the T-Bill maturing on or just before the index maturity date as identified on the redemption date of the first bond. In case the T-Bill, in which the proceeds from bond redemption have been reinvested, matures before the index maturity date, the redemption proceeds of

such T-Bill shall be re-invested in The Clearing Corporation of India Ltd.'s (CCIL) TREPS overnight rate for subsequent days till the maturity of the index

- Apart from scheduled review, an ad-hoc rebalancing may be undertaken in case:
  1. Bonds of existing issuers to be excluded from an index in the series as per the following exclusion schedule:

Scenario	Bonds to be excluded	
	On next rebalance date	Within 5 days
Issuer rating is downgraded below AAA and is investment grade	✓	-
Issuer rating is downgraded below investment grade	-	✓
CPSE/CPFI/GOI Statutory Body loses its current status and issuer rating is investment grade	✓	-
CPSE/CPFI/GOI Statutory Body loses its current status and issuer rating falls below investment grade	-	✓

*\*Investment grade as defined by SEBI*

2. Bonds of new issuer to be included in an index in the series as and when advised by Department of Investment and Public Asset Management (DIPAM)

### Indices launched under the BHARAT Bond Index series

NSE Indices has so far launched the below Nifty BHARAT Bond indices with the corresponding index maturity dates:

BHARAT Bond Index Name	Index Maturity Date	Index Launch Date
Nifty BHARAT Bond Index – April 2023	April 15, 2023	December 05, 2019
Nifty BHARAT Bond Index – April 2025	April 15, 2025	July 02, 2020
Nifty BHARAT Bond Index – April 2030	April 15, 2030	December 05, 2019
Nifty BHARAT Bond Index – April 2031	April 15, 2031	July 02, 2020

NSE Indices will continue to launch more such indices under the Nifty BHARAT Bond Index series.

## Index Policy

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The Nifty family of indices uses transparent, researched and publicly documented rules for index maintenance. These rules are applied regularly to manage changes to the index. Index reviews are carried out semi-annually to ensure that each security in the index fulfils eligibility criteria.

### **Announcements:**

All index-related announcements are posted on the websites of NSE Indices Limited 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 NSE Indices Limited follows the official holiday schedule. A complete holiday schedule for the year is available on the NSE Indices Limited and NSE website. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Index Precision**

Index values are disseminated up to two decimal places.

### **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**

NSE Indices Limited is committed to ensure that all Nifty indices are relevant for the market participants. In order to ensure this, NSE Indices Limited 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, NSE Indices Limited 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, NSE Indices Limited 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. NSE Indices Limited 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.

**Web site:**

Daily Index Values, Methodology, Factsheet and press releases are available on [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).



## About Us

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### **About National Stock Exchange of India Limited (NSE):**

National Stock Exchange of India Ltd. (NSE) is the world's largest derivatives exchange by trading volume as per the statistics published by Futures Industry Association (FIA) for 2019 and ranked 3rd in the world in the cash equities segment by number of trades as per the statistics published by the World Federation of Exchanges (WFE). 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 NSE Indices Limited:**

NSE Indices Limited (formerly known as India Index Services & Products Ltd. - IISL), 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 of 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, NSE IFSC and Singapore Exchange Ltd. (SGX) 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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