

## **The Journey of Nifty-Fifty**

**Serah Sudhin**

Assistant Professor, New Horizon College, Marathalli, Bangalore, Karnataka, India

### **Abstract**

The CNX Nifty is a well diversified 50 (actually 51) stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds. CNX Nifty is owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL. IISL is India's first specialised company focused upon the index as a core product. The CNX Nifty Index represents about 65.87% of the free float market capitalization of the stocks listed on NSE as on December 31, 2012. The total traded value for the last six months ending December 2012 of all index constituents is approximately 50.23% of the traded value of all stocks on the NSE. Impact cost of the CNX Nifty for a portfolio size of Rs.50 lakh is 0.06% for the month December 2012. CNX Nifty is professionally maintained and is ideal for derivatives trading. From June 26, 2009, CNX Nifty is computed based on free float methodology. The purpose of this paper is to take the reader through the highs and highs of the growth story of Nifty from 1000 to 10000.

**Keywords:** NSE, NIFTY, index, Indian stocks, exchanges, technical charts

### **1. Introduction**

The NIFTY 50 index is National Stock Exchange of India's benchmark stock market index for Indian equity market, launched on 21st April 1996. Nifty is owned and managed by India Index Services and Products (IISL), which is a wholly owned subsidiary of the NSE Strategic Investment Corporation Limited. IISL had marketing and licensing agreement with Standard & Poor's for co-branding equity indices until 2013.

NIFTY 50 Index has shaped up as a largest single financial product in India, with an ecosystem comprising: exchange traded funds (onshore and offshore), exchange-traded futures and options (at NSE in India and at SGX and CME abroad), other index funds and OTC derivatives (mostly offshore). NIFTY 50 is the world's most actively traded contract. WFE, IOMA and FIA surveys endorse NSE's leadership position. The NIFTY 50 covers 13 sectors of the Indian economy and offers investment managers exposure to the Indian market in one portfolio. During 2008-12, NIFTY 50 Index share of NSE market capitalisation fell from 65% to 29%<sup>[2]</sup> due to the rise of sectoral indices like NIFTY Bank, NIFTY IT, NIFTY Pharma, NIFTY SERV SECTOR, NIFTY Next 50, etc. The NIFTY 50 Index gives 29.70% weightage to financial services, 0.73% weightage to industrial manufacturing and nil weightage to agricultural sector. The NIFTY 50 index is a free float market capitalisation weighted index. The index was initially calculated on full market capitalisation methodology. From June 26, 2009, the computation was changed to free float methodology. The base period for the CNX Nifty index is November 3, 1995, which marked the completion of one year of operations of National Stock Exchange Equity Market Segment. The base value of the index has been set at 1000, and a base capital of Rs 2.06 trillion.

### **2. Review of Literature**

The meteoric rise of the broad based index of India's biggest exchange holds a mirror to the growing economic strength of the country as well as the strides the NSE has taken to become a transparent and a responsible barometer to the investor sentiments.

### **3. Objective of the paper**

The paper strives to take the reader through the incredible journey of the index, and shows the highlights of its numerous milestones and co-relates that with markets and investor sentiments. The main objective is to celebrate the highpoint of the index as it soared to an all time high of 10000 points in July 2017.

### **4. Methodology**

The paper utilises historical data and presents the paper in a descriptive manner with no primary data needed in arriving at any findings.

All data can be readily corroborated and is easily available.

### **5. The Journey**

#### **5.1 Evolution of the NIFTY**

NSE, which was the first exchange in the country to provide a fully automated screen-based electronic trading system to the investors, was established in 1992 as a tax-paying company. It was recognised as a stock exchange by the market regulator Sebi in April 1993, when P V Narasimha Rao headed the country as Prime Minister and Manmohan Singh was the Finance Minister. The equity segment of the NSE commenced operations in 1994, and derivative segment came into being in 2000, while the internet trading also started in 2000.

BSE remained the undisputed leader among stock exchanges until the NSE emerged on the scene in 1993. Its electronic trading system and easy membership procedure changed overnight the rules of the game, and NSE soon wrested a substantial share of the market from BSE. Soon after, BSE, which had for long resisted the government's efforts to introduce computerised trading, was forced to follow suit.

### 5.3 Components of the NIFTY Index

### 5.2 Launch of the NIFTY Index

The NSE launched its flagship 50-share index on April 21, 1996 with a base value of 1000, and base year 1995. It was then called the CNX Nifty and was renamed in 2015 as Nifty50. The index comprises 50 actively traded stocks from various sectors.

**Table 1:** List of 50 companies that form part of NIFTY 50 Index as on 01 April 2017

Company Name	Symbol	Sector
ACC Limited	ACC	Cement
Adani Ports & SEZ Limited	ADANI PORTS	Infrastructure
Ambuja Cements Ltd.	AMBUJACEM	Cement
Asian Paints Ltd	ASIANPAINT	Manufacturing
Axis Bank Ltd.	AXISBANK	Banking & Financial Services
Bajaj Auto Ltd.	BAJAJ-AUTO	Automobiles
Bank of Baroda	BANKBARODA	Banking & Financial Services
Bharat Petroleum Corporation	BPCL	Oil & Gas
Bharti Airtel Ltd.	BHARTIARTL	Telecommunications
Bosch Ltd.	BOSCHLTD	Manufacturing
Aurobindo Pharma Ltd.	AUROPHARMA	Pharmaceuticals
Cipla Ltd.	CIPLA	Pharmaceuticals
Coal India Ltd.	COALINDIA	Metals & Mining
Dr. Reddy's Laboratories Ltd.	DRREDDY	Pharmaceuticals
GAIL (India) Ltd.	GAIL	Oil & Gas
Grasim Industries Ltd.	GRASIM	Manufacturing
HCL Technologies Ltd.	HCLTECH	Information Technology
HDFC Bank Ltd.	HDFCBANK	Banking & Financial Services
Hero MotoCorp Ltd.	HEROMOTOCO	Automobiles
Hindalco Industries Ltd.	HINDALCO	Metals & Mining
Hindustan Unilever Ltd.	HINDUNILVR	Consumer Goods
Housing Development Finance Corporation Ltd.	HDFC	Banking & Financial Services
ITC Limited	ITC	Consumer Goods
Indian Oil Corporation	IOC	Oil & Gas
Indiabulls Housing Finance	IBULHSGFIN	Banking & Financial Services
ICICI Bank Ltd.	ICICIBANK	Banking & Financial Services
IndusInd Bank Ltd.	INDUSINDBK	Banking & Financial Services
Infosys Ltd.	INFY	Information Technology
Kotak Mahindra Bank Ltd.	KOTAKBANK	Banking & Financial Services
Larsen & Toubro Ltd.	LT	Infrastructure
Lupin Limited	LUPIN	Pharmaceuticals
Mahindra & Mahindra Ltd.	M&M	Automobiles
Maruti Suzuki India Ltd.	MARUTI	Automobiles
NTPC Limited	NTPC	Electric Utility
Oil & Natural Gas Corporation Ltd.	ONGC	Oil & Gas
PowerGrid Corporation of India Ltd.	POWERGRID	Electric Utility
Bharti Infratel	INFRATEL	Infrastructure
Reliance Industries Ltd.	RELIANCE	Oil & Gas
State Bank of India	SBIN	Banking & Financial Services
Sun Pharmaceutical Industries Ltd.	SUNPHARMA	Pharmaceuticals
Tata Consultancy Services Ltd.	TCS	Information Technology
Tata Motors Ltd.	TATAMOTORS	Automobiles
Tata Power Co. Ltd.	TATAPOWER	Electric Utility
Tata Steel Ltd.	TATASTEEL	Metals & Mining
Tech Mahindra Ltd.	TECHM	Information Technology
UltraTech Cement Ltd.	ULTRACEMCO	Cement
Eicher Motors	EICHERMOT	Automobiles
Wipro	WIPRO	Information Technology
Yes Bank Ltd.	YESBANK	Banking & Financial Services
Zee Entertainment Enterprises Ltd.	ZEEL	Media & Entertainment
Tata Motors (DVR)	TATAMTRDVR	Automobiles

## 5.4 From 1000 to 10000 points

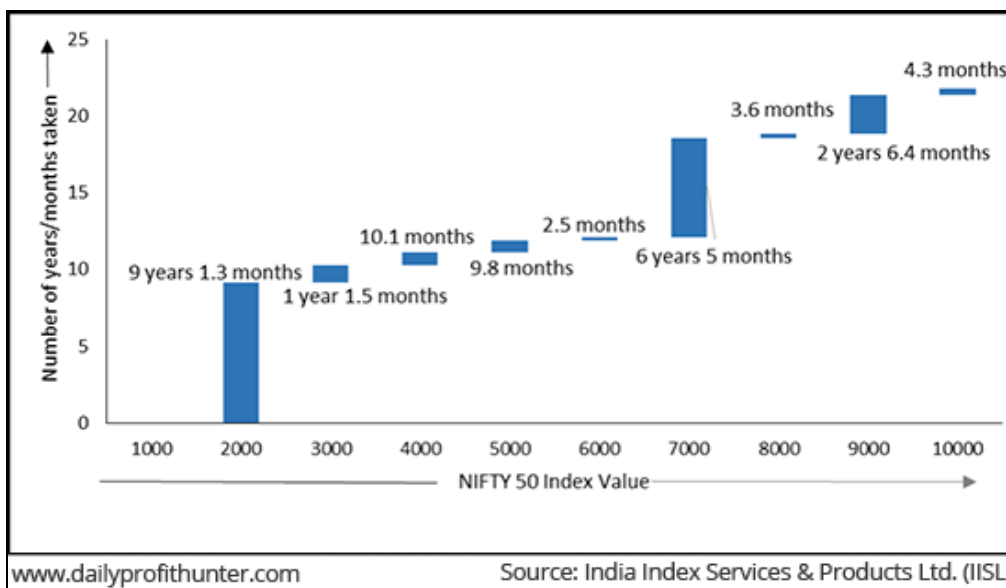


Fig 1

### Nifty's Journey from 1,000 To 10,000

**Nifty@1,000 – 1996** The Nifty index was launched in 1996 with the base value of the index set at 1,000. **Nifty@2,000 – 2004** Investors' money in Nifty doubled in nearly eight years as the index touched 2,000 mark for the first time in 2004, the year in which Nifty delivered a return of nearly 10 per cent. **Nifty@3,000-2006** Nifty touched the 3,000 level for the first time in January 2006. **Nifty@4,000 – 2006** 2006 is considered as one of the best years in the history of Indian stock markets. Nifty delivered nearly 40 per cent return that year and crossed landmarks like 3,000 and 4,000 amid a global market rally and improvement in corporate earnings growth. **Nifty@5,000 – 2007** Nifty crossed 5,000 mark for the first time in 2007 amid aggressive buying by foreign and domestic funds. A rally in the global markets also supported this move. **Nifty@6,000 – 2007** Nifty crossed the 6,000 mark as well in 2007 for the first time. In 2007, Nifty rallied nearly 55 per cent and hit multiple landmarks like 5,000 and 6,000. **Nifty@7,000 – 2014** Indian markets regained momentum in September 2013, after Narendra Modi was chosen as prime ministerial candidate of the Bharatiya Janata Party (BJP). The market rally continued after the BJP won a strong mandate in 2014 elections. After three years of subdued performance, Nifty touched the 7,000 mark for the first time in May 2014. **Nifty@8,000-2014** Nifty also crossed the 8,000 mark in September 2014 as market participants bet that Prime Minister Narendra Modi will push through more economic reforms. **Nifty@9,000 – 2015** The rally in Indian markets, which started in September 2013, extended to the first half of 2015 as well. Nifty crossed the 9,000 mark for the first time in March 2015 on continued buying by foreign investors. **Nifty@10,000 – 2017** A smooth initial rollout of GST, good monsoon and hopes of a rate cut by the Reserve Bank of India (RBI) as well as earnings recovery propelled Nifty to the 10,000 mark.

### 6. Characteristics of NIFTY

Nifty constituent stocks have an average full market

capitalization of ₹56.9 Trillion and daily average turnover of ₹82 Billion. The top 10 stocks by weight contribute 53.6% and bottom 10 stocks contribute to about 5%. Currently, constituents of Nifty capture 66% of free float market capitalization and 47.4% of turnover of the entire equity market. There are currently 6 stocks having a weight of over 5%. There are totally 32 stocks which contributes more than 1% by weight in Nifty 50 Index. As of 30.09.2015, Nifty 50 consists of stocks from 13 sectors. Financial services has the highest weightage of 31%.

### 7. Market Fundamentals

Nifty 50 as on September 30, 2015 is trading at P/E of 22.2 and P/B of 3.2 which is lower than the high of 28.5 and 6.6 respectively observed since 1999. Average P/E and P/B of Nifty is 18.6 and 3.6 respectively.

### 8. NIFTY Calculation

NIFTY 50 is computed using free float market capitalization weighted method, wherein the level of the index reflects the total market value of all the stocks in the index relative to a particular base period

Here is the mathematical formula to arrive at the value of NIFTY –  $\text{Market Capitalization} = \text{Equity Capital} \times \text{Price}$   
 $\text{Free Float Market Capitalization} = \text{Equity Capital} \times \text{Price} \times \text{IWF}$   
 $\text{Index Value} = \frac{\text{Current Market Value}}{\text{Base Market Capital} \times \text{Base Index Value (1000)}} \times \text{IWF}$   
**Investible Weight Factor** – It is a factor to determine the number of shares available for trading The index is calculated in real-time daily whenever the value of any scrip changes.

### 9. Eligibility criteria for NIFTY Stocks

**Liquidity** – The stock should have traded at an average impact cost of 0.50 % or less during the last six months, for 90% of the observations for portfolio of Rs. 2 crores.

**Float Adjustment** – Companies must have at least twice the float-adjusted market capitalization of whatever is the current

smallest index constituent.

Domicile – The company should be domiciled in India and trade on the NSE.

### 10. International Market

Futures and options on Nifty 50 is currently traded on 3 international exchanges, namely

1. Singapore Stock Exchange
2. Osaka Stock Exchange
3. Chicago Mercantile Exchange

In Singapore stock exchange, no. of contracts traded have consistently increased from 7.5 Million in FY09 to 19.9 Million in FY15. Since April 2007, 13.5 Million contracts have traded on an average in a financial year.

### 11. Economic News

**Table 2**

1991	Indian Economic Reforms leading to opening the Indian markets to FII
1997	Asian Financial Crisis
2000	Dot com bust.
2008	Sub Prime Financial Liquidity Crisis
2014	Positive investor sentiment due to Lok Sabha elections.
2015	Chinese Stock Market Meltdown
2016	Brexit vote
2017	Trump wins US elections and GST implementation and positive monsoon data

### 12. Conclusion

The inception of the NIFTY co-incided with the post Rajiv Gandhi era, where India moved away from a socialist economy to a freer market embracing the themes - Liberalisation, Privatisation & Globalisation. NIFTY as an index of the NSE soon became a worthy competitor to the SENSEX which is the index of the BSE. Isn't it wonderful that we have Asia's oldest Stock Exchange in BSE and in NSE, we find Asia's best Derivatives exchange?

On the flip side, recent down times and performance issues have brought down the standing of the NSE by a wee bit, however that has no bearings on the NIFTY.

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