

Introduction

FINNDEX is a 15-stock index of Indian Financial Sector stocks (excluding insurance companies), owned by NCDEX Limited ("NCDEX") and calculated and maintained by NSE Indices Ltd. Constituents are selected from the top 40 such stocks by free-float market capitalisation using a multi-factor Composite Score built from free-float market capitalisation, liquidity, beta and volatility.

Index at a glance

Parameter	FINNDEX
Universe	Financial Sector stocks listed on NSE, excluding insurance companies
Eligible universe	Top 40 by 6-month average FFMCAP
Minimum listing history	1 year
Number of constituents	15
Compulsory inclusion	Non-constituent ranked within top 8
Compulsory exclusion	Existing constituent ranked beyond 22
Composite Score	30% FFMCAP + 30% ADT + 20% Beta + 20% Volatility
Weighting	50% FFMCAP weight + 50% Composite Score weight
Single-stock cap	15% at each rebalancing
Review frequency	Semi-annual (March and September)

Universe

The universe comprises all equity stocks domiciled in India and traded on the National Stock Exchange (NSE), whether listed and traded or not listed but permitted to trade, that belong to the Financial Sector, excluding insurance companies.

Eligibility

From the universe, stocks are shortlisted on the basis of the following criteria:

- The stock must rank within the top 40 by 6-month average free-float market capitalisation (FFMCAP).
- The stock must have a minimum listing history of 1 year as of the cut-off date.

Only stocks that meet all the above criteria form the eligible universe and are considered for selection into the index.

Selection

Index constituents are determined by a Composite Score. All stocks in the eligible universe are ranked by this score, and the 15 highest-ranked stocks are selected to form the index.

Composite Score

Eligible stocks are ranked by a Composite Score built from the normalised z-scores of four factors:

$$\text{Composite Score} = 30\% \times Z(\text{FFMCAP}) + 30\% \times Z(\text{ADT}) + 20\% \times Z(\text{Beta}) + 20\% \times Z(\text{Volatility})$$

Factor	Estimation window	Weight
Free-Float Market Capitalisation (FFMCAP)	6-month average free-float market capitalisation	30%
Average Daily Turnover (ADT)	6-month average daily turnover	30%
Beta	1-year beta against the Top 250 index (price returns)	20%
Volatility	1-year annualised standard deviation of daily returns	20%

Z-score and normalised score

Each factor is standardised into a z-score across the eligible universe:

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

where:

- x = factor value of the stock
- μ = mean of the factor across the eligible universe
- σ = standard deviation of the factor across the eligible universe

Each z-score is then transformed into a normalised score, so that all values are positive and comparable across factors:

$$\begin{aligned} \text{Normalised score} &= (1 + Z), \text{ if } Z \geq 0 \\ \text{Normalised score} &= (1 - Z)^{-1}, \text{ if } Z < 0 \end{aligned}$$

The normalised scores of the four factors are combined using the weights above to give the Composite Score.

Selection, Inclusion & Exclusion

- **Selection of Constituents:** The top 15 stocks by Composite Score.
- **Compulsory inclusion:** A non-constituent stock that is ranked within the top 8 based on the Composite Score shall be included at the review.
- **Compulsory exclusion:** An existing constituent stock that is ranked beyond 22 based on the Composite Score shall be removed at the review.
- **New constituents:** At each rebalancing, only stocks from the Futures & Options (F&O) segment are eligible for inclusion in the index.
- Any existing constituent that no longer forms part of the eligible universe is excluded at the review. The remaining places are filled in order of Composite Score rank.

Weighting, Capping & Rebalancing

Weight calculation

$$\text{Constituent Weight} = 50\% \times \text{FFMCAP Weight} + 50\% \times \text{Composite Score Weight}$$

Capping

- The weight of any single constituent is capped at 15% at each rebalancing.
- Any excess weight resulting from the cap is redistributed proportionately among the remaining constituents.
- Constituent weights may drift between rebalancing dates due to movements in stock prices.

Scheduled review

- The index is reviewed, reconstituted and rebalanced semi-annually, in March and September.
- At each rebalancing, only stocks from the Futures & Options (F&O) segment are eligible for inclusion in the index.
- For weight calculation at rebalancing, the FFMCAP as of T-3 trading day may be used instead of the 6-month average FFMCAP.
- Each review is based on data for the preceding 6-month period ending in January and July, respectively.
- Rebalancing takes effect at the beginning of the last trading day of March and September.

Ad-hoc reconstitution

In addition to the scheduled semi-annual review, the index may be reconstituted or rebalanced on an ad-hoc basis if any constituent is subject to suspension, delisting or a scheme of arrangement.

Index Dissemination

The index is calculated and disseminated in real time during market hours and published through NCDEX's data feeds, website and periodic factsheets.

Index Governance

NSE Indices Ltd. calculates, compiles, maintains and disseminates the index values for NCDEX. This technical mandate covers the underlying securities universe, stock selection criteria, constituent counts and rebalancing frequencies.



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