FAQs

Q1. What is the NDEX?

NDEX is a rules-based equity index comprising 20 large, liquid stocks listed on the National Stock Exchange (NSE), selected through a multi-factor Composite Score. It is designed to be a transparent, representative measure of the performance of the Indian equity market.

Q2. What is the index universe?

The universe comprises all equity stocks domiciled in India and traded on NSE, whether listed and traded or not listed but permitted to trade.

Q3. What are the eligibility criteria for shortlisting stocks?

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

- The stock must rank within the top 60 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 both criteria form the eligible universe and are considered for selection into the index.

Q4. How are constituents selected?

Constituents are selected using a Composite Score, a single ranking measure that combines four factors: free-float market capitalisation (FFMCAP), average daily turnover (ADT), beta and volatility.

Each factor is first converted into a normalised score across all eligible stocks so that the factors are comparable, and the Composite Score is then calculated as:

30% × FFMCAP score + 30% × ADT score + 20% × Beta score + 20% × Volatility score

Stocks are ranked based on the Composite Score, and the top 20 ranked stocks are selected for inclusion in the Index.

Q5. What are the compulsory inclusion and exclusion rules?

At each review, a non-constituent ranked within the top 10 by Composite Score is compulsorily included, and an existing constituent ranked beyond 30 is compulsorily excluded. Existing constituents that no longer form part of the eligible universe are also excluded.

At each rebalancing, only stocks from the Futures & Options (F&O) segment are eligible for inclusion in the index.

Q6. How are constituent weights determined?

Each constituent's weight is set using an equal blend of two measures: 50% based on its free-float market capitalisation and 50% based on its Composite Score.

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Q7. What makes the index's construction distinctive?

Most equity indices select and weight stocks primarily on free-float market capitalisation. NDEX instead uses a multi-factor, Composite Score that combines size, liquidity and risk characteristics, and determines weights using an equal blend of free-float market capitalisation (FFMCAP) and the Composite Score.

Q8. Why are beta and volatility part of the selection?

Beta and volatility measure how a stock moves relative to the market and how much its price fluctuates. By including them in the Composite Score, constituents are selected based on their market sensitivity and price behaviour as well as their size and liquidity. This ensures that the selection considers a stock's risk characteristics and not size alone.

Q9. Why is there a 15% single-stock cap?

The cap prevents any one stock from dominating the index, improving diversification and reducing single-name concentration risk for anyone tracking the index.

Q10. How often is the index reviewed and rebalanced?

The index is reviewed, reconstituted and rebalanced semi-annually, in March and September, using data for the preceding 6-month period ending in January and July, respectively.

The weight of any single stock is capped at 15% at each rebalancing.

If a stock's weight exceeds this limit, the excess is redistributed proportionately among the remaining stocks so that the index remains fully invested.

For weight calculation at rebalancing, the FFMCAP as of T-3 trading day may be used instead of the 6-month average FFMCAP.

At each rebalancing, only stocks from the Futures & Options (F&O) segment are eligible for inclusion in the index.

In addition, the index may be reconstituted or rebalanced on an ad-hoc basis if a constituent is suspended, delisted or subject to a scheme of arrangement.

Q11. Is there any historical data available for the NDEX?

Yes. Historical values for the Price Return and Total Return variants are available from January 04, 2010. onwards, allowing users to study the index's performance over time.

Q12. How is the index level calculated from the constituents?

The index level is derived from the combined market value of its constituent stock's relative to the base period. The market value of each constituent is based on its price and free-float-adjusted shares, subject to the weighting scheme and the 15% cap. This total is divided by the index divisor and scaled to the base value, so that the index level reflects the movement of the constituent portfolio since the base date.

Q13. How are corporate actions such as bonus issues, stock splits, rights issues and dividends handled?

The index is adjusted for corporate actions so that it reflects only genuine price movements and not the mechanical effect of the action. For bonus issues, stock splits and rights issues, the constituent's price and shares are adjusted, and the divisor is recalculated on the ex-date to keep the index continuous. Ordinary dividends are not adjusted for in the Price Return version of the index but are assumed to be reinvested in the Total Return version.

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Q14. What does "normalised" mean in the context of the Composite Score?

Normalising means putting each factor onto a common, comparable scale before combining them. Each factor is first converted into a z-score, which removes the effect of the different units and ranges of the four factors. The z-score is then transformed into a positive normalised score:

Normalised score = $(1 + Z)$ if $Z \geq 0$; $(1 - Z)^{-1}$ if $Z < 0$

This ensures that no single factor dominates the Composite Score simply because it is measured in larger numbers.

Q15. What is a z-score?

A z-score measures how far a stock's factor value is from the average of all eligible stocks, in units of standard deviation. It is calculated as $Z = (x - \mu) / \sigma$, where x is the stock's value, μ is the mean across the eligible universe and σ is the standard deviation. A positive z-score means the stock is above average on that factor; a negative z-score means it is below average.

Q16. What is beta and how is it used?

Beta measures how sensitive a stock's returns are to overall market movements. In this index, beta is the 1-year beta of daily log returns, calculated against an index of the top 250 stocks by full market capitalisation. A beta above 1 means the stock tends to move more than the market, and a beta below 1 means it tends to move less.

Q17. When do the weights of individual securities change?

Weights are set at each semi-annual rebalancing, when the Composite Score is recomputed and the 15% cap is applied. Between rebalancing, individual weights drift continuously as constituent prices move during trading hours and are also adjusted whenever corporate actions affect a constituent. Any excess weight resulting from the cap is redistributed proportionately among the remaining constituents.

Q18. Who maintains the index, and where can I find constituent details?

NSE Indices Ltd. calculates, compiles, maintains and disseminates the index values for NCDEX, covering the underlying securities universe, stock selection criteria, constituent counts and rebalancing frequencies. The constituent weights, factsheet and methodology are published on the NCDEX website at www.ncdex.com.

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