

CNX

Nifty

Junior



India Index Services & Products Limited
A joint venture of NSE and CRISIL

CNX Nifty Junior (Junior Nifty) is an index comprised of the next rung of 50 most liquid stocks after S&P CNX Nifty. In fact S&P CNX Nifty and Junior Nifty may be regarded as a basket of 100 most liquid stocks in India.

Stocks in Junior Nifty are filtered on their liquidity characterized by their impact cost and market value represented by their market capitalization. The stocks comprising S&P CNX Nifty and Junior Nifty are mutually exclusive i.e. a stock will never appear in both indexes at the same time.

Junior Nifty may also be considered an incubator for stocks entering Nifty.

PROFESSIONALLY MANAGED

The index is professionally managed by India Index Services and Products Limited (IISL), which is India's first specialist company dedicated to providing investors in Indian equity markets with Indexes and Index services.

IISL is a joint venture between two entities who have immensely contributed to the Indian Capital Markets - the **National Stock Exchange of India Limited** (NSE), India's largest stock exchange and the **Credit Rating Information Services of India Limited** (CRISIL), India's leading credit rating agency. IISL also has a consulting and licensing agreement with **Standard & Poor's** (S&P).

Index Maintenance plays a crucial role in ensuring stability of the Index as well as in meeting its objective of being a consistent benchmark of the equity markets. IISL has constituted an **Index Policy Committee** (IPC), which is involved in formulating policies and guidelines for managing the Indexes. The committee is a blend of academics and market practitioners – comprising of eminent persons from the Mutual Fund industry, Economists, National Stock Exchange, CRISIL and S&P, to ensure that indexes are constructed on sound principles. The committee determines macro policies with respect to construction and maintenance of indexes. The selection criteria specified by the Index Policy Committee for various indexes are transparent and published by IISL.

A separate **Index Maintenance Sub-Committee** comprising of officials of NSE, CRISIL and IISL takes all decisions on addition/ deletion of companies in any Index. The Index Maintenance Sub-committee ensures that Index review and maintenance is carried out in accordance with the policies developed by IPC and includes:

- Monitoring and completing adjustments in a timely manner on account of corporate actions
- Reviewing according to laid down criteria

Index Reviews are normally carried out every quarter. At the time of review, a Replacement Pool comprising companies that meet all criteria for candidacy to the Index are analysed.

METHOD OF COMPUTATION

CNX Nifty Junior is computed using market capitalisation 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. The method also takes into account constituent changes in the index and corporate actions such as stock splits, rights, etc without affecting the index value.

BASE DATE AND VALUE

CNX Nifty Junior was introduced on January 1, 1997, with base date being November 03, 1996 and a base capitalisation of Rs.0.43 trillion, indexed to a base value of 1000.

CRITERIA FOR SELECTION OF CONSTITUENT STOCKS

Selection of stocks in Junior Nifty is based on the following two criteria:

1. Liquidity (Impact Cost)

For inclusion in the index, a stock should have high liquidity measured by its impact cost. Impact cost represents the cost of executing a transaction in a given stock, in proportion to its weightage in the portfolio under consideration (Junior Nifty in this case), at any given point of time. It is the percentage mark up suffered while buying/selling the desired quantity of a stock compared to its ideal price (best buy + best sell)/2.

For example, in the order book given below:

Buy (Qty.)	Buy (Price)	Sell (Qty.)	Sell (Price)
1000	98	1000	99
2000	97	1500	100
1000	96	1000	101

To Buy 1500 Shares:

Ideal Price = $(99 + 98)/2 = 98.5$

Actual Buy Price = $(1000 \times 99 + 500 \times 100)/1500 = 99.33$

(For 1500 shares) Impact Cost = $[(99.33 - 98.5)/98.5] \times 100 = 0.84\%$

For inclusion in Junior Nifty, the stock should have traded on 85% of the trading days during the last one year at an impact cost of 2.5% or less. The portfolio size chosen for this purpose is Rs. 25 lakhs.

2. Market Capitalization

Companies eligible for inclusion in Junior Nifty must have a six monthly average market capitalization of Rs.200 crores or more.

JUNIOR NIFTY - A COMPARATIVE STUDY WITH S&P CNX NIFTY

1. Statistics

(As on December 31, 2002)	Nifty	Junior
Market Cap (in Rs. Crores)	3,52,943	35,668
P/E Ratio	14.83	12.26
Price to Book	2.39	1.05
Dividend Yield	2.40	3.19
Volatility (of Daily Returns)	1.69%	1.97%

2. Incubator for Nifty

Nifty Junior often acts as incubator for the stocks eligible for Nifty. Most of the stock included in Nifty till date are from Junior Nifty. The table given below indicates that since October 1998, of the 22 stocks included in Nifty, 19 stocks were from Jr. Nifty.

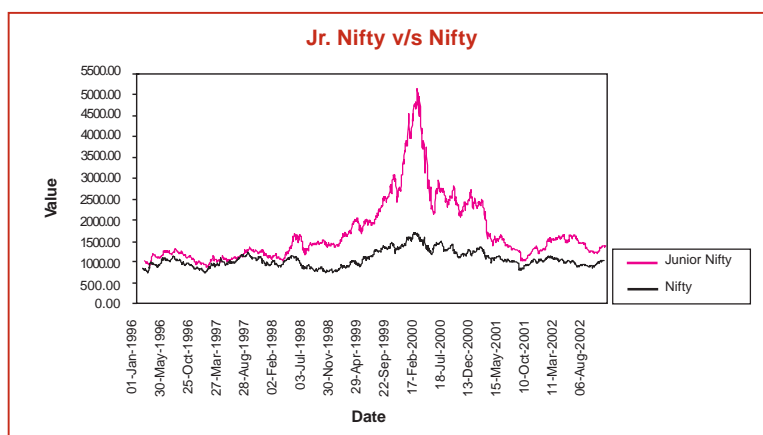
Nifty Change Analysis from Oct 1998 till date		
Total inclusions in Nifty	22	
Inclusion from Jr Nifty	19	86.36%

3. High returns and high volatility

Nifty Junior index has provided high returns. This may be attributable to the comparatively higher volatility in the component stocks. It also implies higher risk index compared to Nifty.

	Junior	Nifty
Standard deviation of daily returns (Oct 5, 1995 to Dec 31, 2002)	1.97%	1.69%
Mean of daily returns (Oct 5, 1995 to Dec 31, 2002)	0.04%	0.02%

4. Graph showing movement in Nifty and Junior Nifty since inception:



MAJOR INDUSTRY WEIGHTAGES*:

INDUSTRIES	NIFTY	JR. NIFTY
BANKS & FINANCE	11.06%	20.69%
PHARMACEUTICALS	8.76%	18.82%
COMPUTERS - SOFTWARE & HARDWARE	22.62%	13.19%
AUTOMOBILE & ALLIED	4.88%	8.14%
METALS	2.79%	5.71%
PERSONAL CARE	0.98%	3.01%
TELECOM	3.31%	2.52%
CEMENT AND CEMENT PRODUCTS	2.48%	2.24%
SHIPPING	0.65%	1.67%
PETROCHEMICALS & REFINERIES	15.37%	1.20%
DIVERSIFIED	13.80%	1.19%
MEDIA & ENTERTAINMENT	1.28%	0.60%
OTHERS	12.01%	21.01%
	100.00%	100.00%

JUNIOR NIFTY - LIST OF STOCKS AS ON 31ST DECEMBER 2002

Sr. No.	Company Name	Industry Name	Weightage %	Average Impact Cost for portfolio of Rs. 25 lakhs *	Beta*
1	Abbott India Ltd.	PHARMACEUTICALS	1.33%	0.66	0.22
2	Apollo Tyres Ltd.	TYRES	1.28%	0.26	0.96
3	Ashok Leyland Ltd.	AUTOMOBILES - 4 WHEELERS	3.30%	0.36	0.82
4	Aurobindo Pharma Ltd.	PHARMACEUTICALS	1.39%	0.34	0.55
5	Aventis Pharma Ltd.	PHARMACEUTICALS	2.29%	0.44	0.20
6	Bank of Baroda	BANKS	4.56%	0.46	1.05
7	Bank of India	BANKS	4.17%	0.44	1.01
8	Bharat Electronics Ltd.	ELECTRONICS - INDUSTRIAL	4.17%	0.27	1.61
9	Carrier Aircon Ltd.	AIRCONDITIONERS	0.67%	0.66	0.01
10	Chennai Petroleum Corporation Ltd.	REFINERIES	1.20%	0.51	1.20
11	CMC Ltd.	COMPUTERS - HARDWARE	2.11%	0.23	1.10
12	Container Corporation of India Ltd.	MISCELLANEOUS	4.80%	0.34	1.04
13	Corporation Bank	BANKS	4.53%	0.39	0.90
14	Cummins India Ltd.	DIESEL ENGINES	2.95%	0.49	0.55
15	E. Merck (India) Ltd.	PHARMACEUTICALS	1.29%	0.42	0.53
16	Escorts Ltd.	AUTOMOBILES - 4 WHEELERS	1.08%	0.37	0.86
17	Finolex Cables Ltd.	CABLES - TELECOM	1.16%	0.42	0.26
18	German Remedies Ltd.	PHARMACEUTICALS	0.65%	0.69	0.18
19	Gillette India Ltd.	PERSONAL CARE	3.01%	0.93	0.93
20	Global Trust Bank Ltd.	BANKS	0.63%	0.29	1.35
21	Great Eastern Shipping Co. Ltd.	SHIPPING	1.67%	0.30	0.78
22	GTL Ltd.	COMPUTERS - SOFTWARE	1.79%	0.12	1.67
23	Himachal Futuristic Comm. Ltd.	TELECOMMUNICATION - EQUIPMENT	1.36%	0.14	1.69
24	Hindustan Zinc Ltd.	METALS	2.38%	0.65	0.70
25	Hughes Software Systems Ltd.	COMPUTERS - SOFTWARE	1.63%	0.16	1.40
26	ICI India Ltd.	DIVERSIFIED	1.19%	0.48	0.86
27	IFCI	FINANCIAL INSTITUTION	0.93%	0.97	1.48
28	India Cements Ltd.	CEMENT AND CEMENT PRODUCTS	0.85%	0.33	0.76
29	Indo Gulf Corporation Ltd.	METALS	3.34%	0.31	0.79
30	Ingersoll Rand (India) Ltd.	COMPRESSORS / PUMPS	1.95%	0.56	0.60
31	Kotak Mahindra Finance Ltd.	FINANCE	2.65%	0.46	1.22
32	LIC Housing Finance Ltd.	FINANCE - HOUSING	1.53%	0.32	1.16
33	Madras Cements Ltd.	CEMENT AND CEMENT PRODUCTS	1.39%	1.22	0.18
34	Morepen Laboratories Ltd.	PHARMACEUTICALS	1.01%	0.22	1.05
35	Moser Baer India Ltd.	COMPUTERS - HARDWARE	1.55%	0.22	0.65
36	Nicholas Piramal India Ltd.	PHARMACEUTICALS	2.57%	0.50	0.58
37	Orchid Chem. & Pharma. Ltd.	PHARMACEUTICALS	0.57%	0.34	0.82
38	Pentamedia Graphics Ltd.	MEDIA & ENTERTAINMENT	0.60%	0.20	1.70
39	Pfizer Ltd.	PHARMACEUTICALS	2.85%	0.45	0.37
40	Polaris Software Lab Ltd.	COMPUTERS - SOFTWARE	2.90%	0.12	1.33
41	Punjab Tractors Ltd.	AUTOMOBILES - 4 WHEELERS	2.48%	0.28	0.67
42	Raymond Ltd.	TEXTILE PRODUCTS	1.87%	0.44	0.49
43	Rolta India Ltd.	COMPUTERS - SOFTWARE	1.68%	0.13	1.82
44	Siemens Ltd.	ELECTRICAL EQUIPMENT	2.78%	0.44	0.68
45	Silverline Technologies Ltd.	COMPUTERS - SOFTWARE	0.60%	0.16	1.71
46	Tata Infotech Ltd.	COMPUTERS - SOFTWARE	0.94%	0.26	1.52
47	Thomas Cook (India) Ltd.	TRAVEL AND TRANSPORT	1.01%	0.52	0.38
48	Titan Industries Ltd.	GEMS, JEWELLERY AND WATCHES	0.82%	0.33	1.35
49	Vysya Bank Ltd.	BANKS	1.69%	0.37	0.98
50	Wockhardt Ltd.	PHARMACEUTICALS	4.85%	0.44	0.20
			100.00%		

* For the period Jan to Dec 2002



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