

PRESS RELEASE

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Revision in methodology of Nifty equity indices for handling corporate actions involving demerger

NSE Indices had floated a market consultation paper on treatment of merger/demerger in Nifty equity indices on October 18, 2022. Based on the feedback received from the market participants, the Index Maintenance Sub-Committee (Equity) of NSE Indices Limited had on November 18, 2022 announced revision in methodology of Nifty equity indices for treatment of mergers.

As the approach earlier proposed in the market consultation paper for treatment of demerger in Nifty equity indices required further deliberations with market participants and stock exchanges, etc., revision in the current treatment of demerger in Nifty equity indices was kept on hold.

Based on study of global practices, feedback received from the market participants, the Index Maintenance Sub-Committee (Equity) of NSE Indices Limited has decided to make revision in methodology of Nifty equity indices for treatment of demergers as mentioned hereunder:

Existing methodology

Exclusion of demerged company:

- In case of scheme of arrangement for demerger of any of the index constituents or ‘Demerged company’ - a company which is demerging its business division(s) into a separate new entity/company:
 - Demerged company is excluded from the index and the same is replaced with another eligible stock soon after the equity shareholders’ approval to a scheme of arrangement for demerger of a company (in case of indices with fixed number of constituents)
 - Demerged company is excluded from the index soon after the equity shareholders’ approval to a scheme of arrangement for demerger of a company without making replacement in the index (in case of indices with variable number of constituents)
- In case, a demerged company is a constituent of indices on which Futures and Options are traded at NSE, changes are announced to the market participants four weeks prior to the index reconstitution date

Revised methodology

If Special Pre-Open session (SPOS)* is conducted by Exchange:

The Demerged company shall be retained in the index.

Additionally, the spun off business/ entity shall be included in the index at constant price (which is difference between the demerged company's closing price on T-1 day wherein T is Ex. Demerger date and price derived during Special Pre-Open session (SPOS) on the Ex. Demerger date).

The spun off business/ entity which is the newly listed entity shall be removed from the index after end of day (EOD) on third day of its listing.

In case, during the first 2 days of these 3 days, if the spun off business/ entity hits the price band on both days, then the exclusion date shall be deferred by another 3 days. After observing two consecutive days of the spun off business/ entity not hitting the price band, such spun off business/entity shall be removed after the third trading day of such observation.

If on such 3rd day spun off business/ entity again hits the price band, exclusion of such stock shall not be deferred anymore.

*In accordance with the NSE's Capital Market Consolidated Circular dated May 27, 2020, Exchange conducts special pre-open session (SPOS) for the purpose of price discovery of all stocks in cases involving corporate restructuring.

If Special Pre-Open session is not conducted by Exchange, the Demerged company shall be removed from the index at the beginning of T-1 day (close of Ex. – 2) where T day would be the Ex. date for demerger of stock by making a suitable replacement in case of indices with fixed number of companies. No replacement (inclusion) will be made in case of indices with variable number of companies.

The above change is expected to help in reducing churn in index constituents resulting from corporate action involving demergers.

The change shall be applicable to scheme of arrangement of all companies involving demerger which may be approved by equity shareholders of respective companies on or after April 30, 2023.

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 comprise 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

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