

## WHITE PAPER SERIES #16



## **NIFTY**Next 50

Capturing the performance of 'Next 50'  
blue-chip companies in large cap universe

**February 2019**

## Introduction

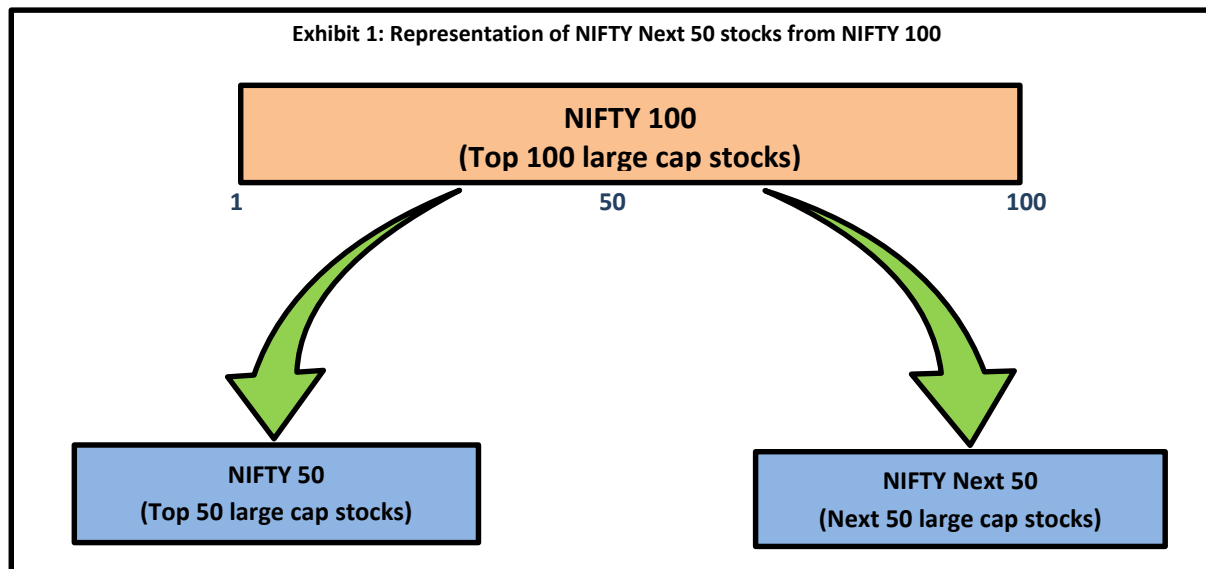
The world of sports is full of inspirational stories. Sportsmen across the globe have consistently broken records, set seemingly unattainable benchmarks and become idols for the next generation of youngsters only to see records being broken by the aspiring stars. The game of Cricket had its own set of idols: Sachin Tendulkar had father figures of Sunil Gavaskar and Sir Vivian Richards to look up to. The cricketers he idolized, tried to match and eventually outperform. As Sachin reached the twilight of his career, we had Virat Kohlis, Steve Smiths, Joe Roots who aspired to be the best batsmen of their times just like Tendulkars, Laras and Pontings. Every generation of aspiring youngsters has a benchmark set by former greats to aim for. The benchmarks are a matter of pride and prestige, a goal that keeps driving them towards achieving greater milestones.

Similar to the game of cricket, in stock market, we have the pool of NIFTY Next 50 stocks that 'aspire' to be a part of the coveted league of NIFTY 50 stocks. NIFTY Next 50 is an index that represents the performance of 50 large cap stocks which come after the top 50 (NIFTY 50) in order of free float market capitalization in NIFTY 100. NIFTY Next 50 thus represents companies which are presently below the NIFTY 50 index constituents in terms of free float market cap and may be potential candidates for inclusion in NIFTY 50 in future, subject to index criteria. Over last 18 years, in all 41 stocks have been upgraded to NIFTY 50, out of which 27 stocks presently form the part of NIFTY 50. NIFTY Next 50 Index can be used for a variety of purposes such as benchmarking fund portfolios, launching of index funds, ETFs and structured products.

## About the NIFTY Next 50 index

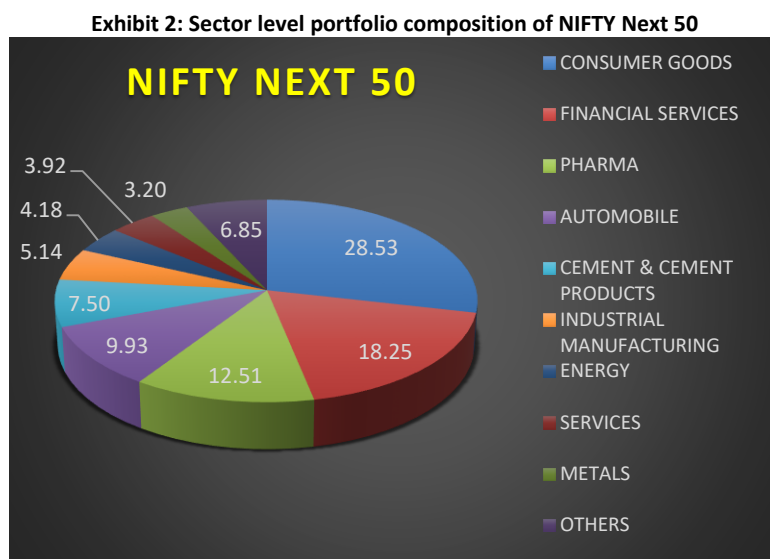
- The index has a base date of November 03, 1996 and a base value of 1000
- Index aims to measure the performance of next 50 large-cap companies which come after top 50 companies on the basis of free-float market capitalization within NIFTY 100
- The selection of securities and weights are based on free float market capitalization
- The NIFTY Next 50 Index represents about 10% of the free float market capitalization of the stocks listed on NSE as on December 31, 2018
- As on December 2018, six months average daily turnover of all index constituents is approximately 13% of six months average daily turnover of all stocks listed on NSE

## Diagrammatic representation of NIFTY NEXT 50 from NIFTY 100



Stocks of NIFTY 50 and NIFTY Next 50 together form the part of the large cap index –‘NIFTY 100’, where, subject to index criteria, the top 50 stocks based on free-float market cap is represented by NIFTY 50 stocks and ‘next 50’ stocks is represented by NIFTY Next 50 stocks.

## NIFTY Next 50 exhibits a well sector-diversified portfolio



NIFTY Next 50 has a well-diversified portfolio across sectors with top 5 sectors accounting for 76% exposure. The index in all has exposure to 14 sectors with 11 sectors having individual weight lesser than 10% each. This makes NIFTY Next 50 a well-diversified index strategy which may appeal to proponents of ‘investment diversification’.

## NIFTY Next 50 has low weight concentration among individual stocks resulting in a highly diversified portfolio

NIFTY Next 50 Portfolio – TOP 10 STOCKS	
Stocks	Weight (%)
Britannia Industries Ltd.	5.47
Godrej Consumer Products Ltd.	4.57
Dabur India Ltd.	3.63
Shree Cement Ltd.	3.13
Piramal Enterprises Ltd.	3.12
Aurobindo Pharma Ltd.	3.07
Lupin Ltd.	3.02
Motherson Sumi Systems Ltd.	2.98
Marico Ltd.	2.87
United Spirits Ltd.	2.82
<b>Total weight</b>	<b>35.4</b>

*\*Portfolio as on December 31, 2018*

On a stock level basis, NIFTY Next 50 boasts of a diversified and well distributed portfolio with top 10 stocks contributing close to 35.4% exposure with individual stock weights ranging between 5.47% to 2.85%, as can be seen in the table above

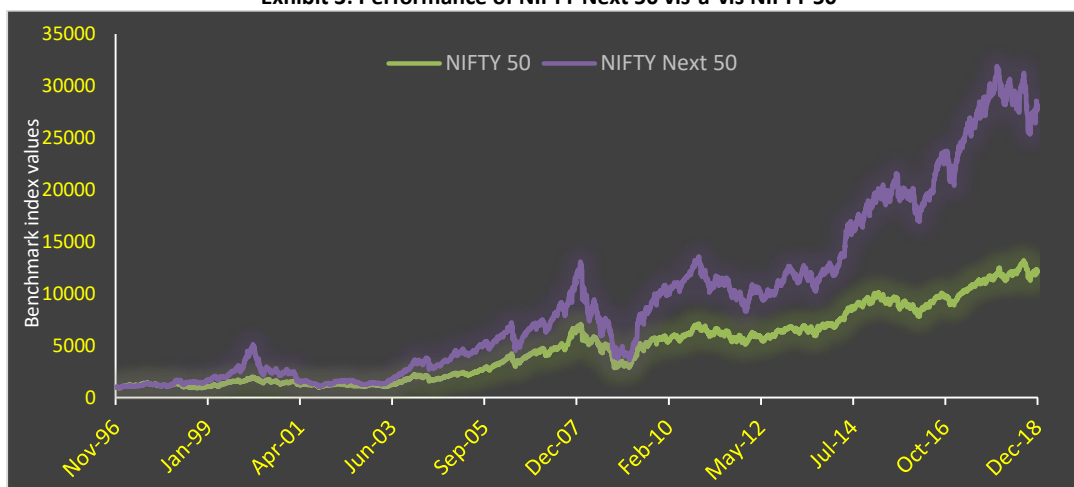
Range in market capitalization of stocks			
Parameter	Company Name	Free Float Market Cap (in INR Cr)	Full Market Cap (in INR Cr)
<b>Largest Stock</b>	Britannia Industries Ltd.	36,686	74,869
<b>Smallest Stock</b>	The New India Assurance Company Ltd.	4,443	29,623
<b>Median Stock</b>	HDFC Standard Life Insurance Company Ltd.	12,494	78,085

*As on December 31, 2018*

Based on Free Float Market capitalization, Britannia Industries Ltd. is the largest stock with INR 36,686 Cr of free float mcap (INR 74,869 Cr of full mcap) weighing 5.47% in NIFTY Next 50 portfolio. The New India Assurance Company Ltd. is the smallest stock with free float mcap of INR 4,443 Cr (full mcap of INR 29,623 Cr) weighing ~0.67% in NIFTY Next 50 portfolio as on December 31, 2018.

## NIFTY Next 50 index achieved higher risk-adjusted returns as compared to the NIFTY 50 in long term

Exhibit 3: Performance of NIFTY Next 50 vis-a-vis NIFTY 50



\*Performance as on December 31, 2018

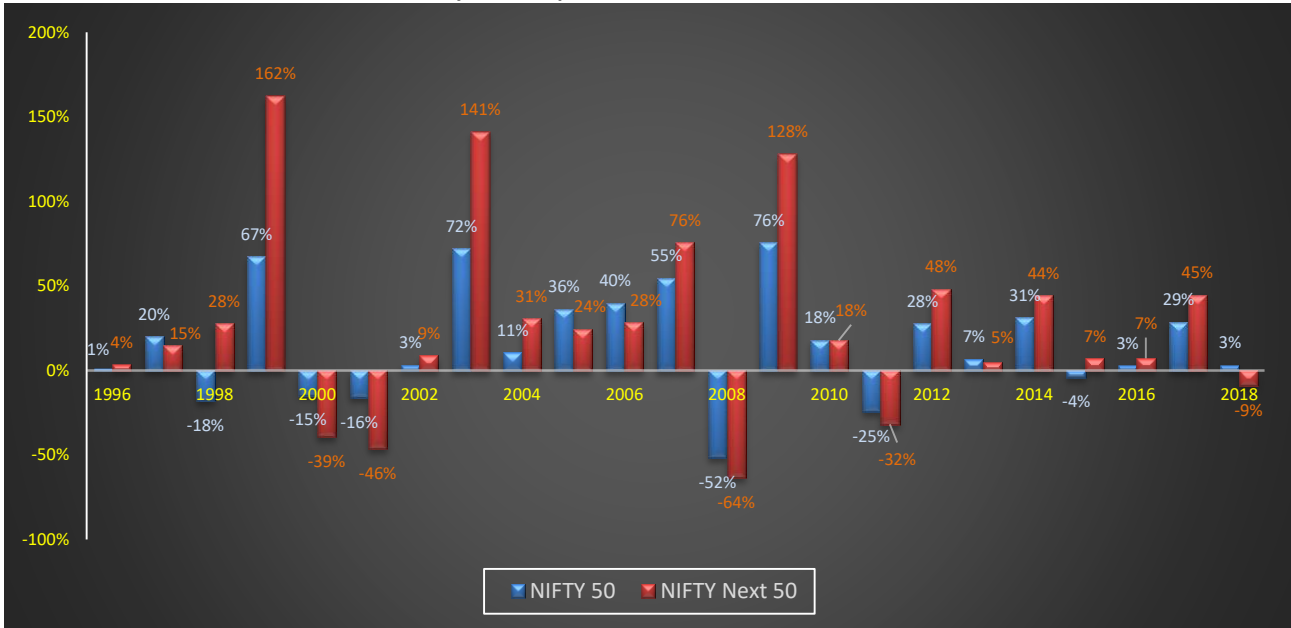
Exhibit 4: Performance of NIFTY Next 50 vis-a-vis NIFTY 50

Period	Annualized Returns (%)		Annualized Volatility (%)		Return-Risk Ratio	
	NIFTY Next 50 (PR)	NIFTY 50 (PR)	NIFTY Next 50 (PR)	NIFTY 50 (PR)	NIFTY Next 50 (PR)	NIFTY 50 (PR)
Since Inception*	16.3%	12.0%	27.2%	23.9%	0.60	0.50
10 years	20.0%	13.9%	19.9%	18.3%	1.00	0.75
7 years	19.0%	13.0%	16.9%	14.4%	1.12	0.89
5 years	16.9%	11.5%	16.8%	13.4%	1.01	0.86
3 years	12.1%	11.0%	15.9%	12.6%	0.77	0.88
1 year	-9.0%	3.2%	16.4%	12.8%	-0.56	0.25

\* Inception date: November 1996. Note: Returns for more than 1 year are CAGR returns. As on December 31, 2018

Exhibit 4 shows annualized returns (PR), volatility and return-risk ratio of NIFTY Next 50 vis-à-vis NIFTY 50. Since its inception in November 1996, the NIFTY Next 50 index has delivered an annualized return (PR) of 16.3% as compared to 12.0% of NIFTY 50, a substantial excess return of 4.3% per annum. Outperformance of NIFTY Next 50 for period 10 year, 7 year and 5 year is even better at 6.1%, 6%, 5.4% respectively. While the returns of NIFTY Next 50 have been impressive, the risk (read standard deviation) has been only marginally higher as compared to that of NIFTY 50 making the 'return to risk' ratio for the NIFTY Next 50 considerably better than that of the NIFTY 50 – at least for periods longer than 3 year.

**Exhibit 5: Calendar year-wise performance of NIFTY Next 50 vis-à-vis NIFTY 50**

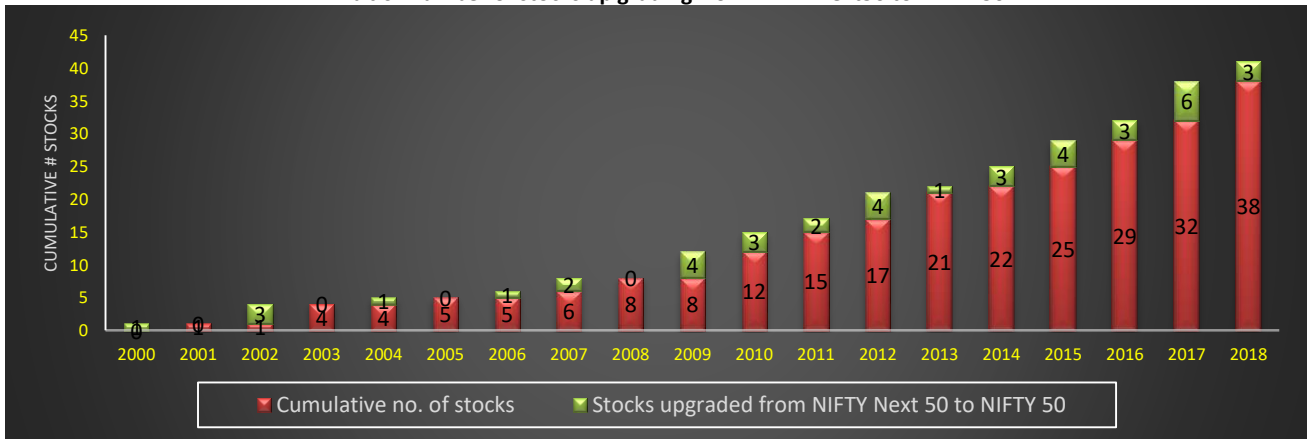


\*As on December 31, 2018

Looking at year-wise performance, NIFTY Next 50 has outperformed the NIFTY 50 in 13 out of 23 calendar years. Calendar years 1999, 2003, 2009, 2012 & 2017 specifically witnessed great outperformance by NIFTY Next 50 as can be seen in the Exhibit 5 above.

**In all, 41 stocks from NIFTY Next 50 portfolio ‘graduated’ to NIFTY 50 in last 18 years**

**Exhibit 6: Number of stocks up grading from NIFTY Next50 to NIFTY 50**



\*As on December 31, 2018

Over last 18 years, 41 stocks have moved from NIFTY Next 50 to NIFTY 50, which shows that the NIFTY NEXT 50 stocks have potential to be a part of top 50 blue-chip companies in prestigious NIFTY 50 index.

Out of these 41 stocks which upgraded to NIFTY 50, 27 stocks still form part of NIFTY 50 and weigh approximately 28% of NIFTY 50 portfolio as on December 31, 2018.

Companies that upgraded and are still part of NIFTY 50		
Sr.No.	Company Name	Weight in NIFTY 50 (%)
1	Kotak Mahindra Bank Ltd.	3.86
2	Axis Bank Ltd.	2.53
3	IndusInd Bank Ltd.	1.88
4	Bajaj Finance Ltd.	1.44
5	Asian Paints Ltd.	1.42
6	Sun Pharmaceutical Industries Ltd.	1.09
7	Tech Mahindra Ltd.	1.04
8	UltraTech Cement Ltd.	0.96
9	Bharti Airtel Ltd.	0.95
10	Coal India Ltd.	0.93
11	Bajaj Finserv Ltd.	0.90
12	Titan Company Ltd.	0.89
13	Vedanta Ltd.	0.86
14	Bajaj Auto Ltd.	0.85
15	Indian Oil Corporation Ltd.	0.77
16	Yes Bank Ltd.	0.77
17	Grasim Industries Ltd.	0.75
18	Eicher Motors Ltd.	0.74
19	Dr. Reddy's Laboratories Ltd.	0.73
20	JSW Steel Ltd.	0.72
21	Adani Ports and Special Economic Zone Ltd.	0.70
22	Bharat Petroleum Corporation Ltd.	0.67
23	Indiabulls Housing Finance Ltd.	0.65
24	UPL Ltd.	0.64
25	Zee Entertainment Enterprises Ltd.	0.61
26	Bharti Infratel Ltd.	0.51
27	Hindustan Petroleum Corporation Ltd.	0.44

\* As on December 31, 2018

## Signing off...

NIFTY Next 50 represents large cap companies which are presently constituents of NIFTY 100 and are potential candidates for inclusion in NIFTY 50. NIFTY Next 50 portfolio is well diversified across 14 sectors with top 5 sectors represents 76% of its portfolio and at stock level where total weight of top 10 stocks is about 35.4%. NIFTY Next 50 index has historically significantly outperformed NIFTY 50 index since its inception for longer investment horizon. NIFTY Next 50 has outperformed the NIFTY 50, in 13 out of 23 calendar years. These attributes of the NIFTY Next 50 index coupled with good historical outperformance both on a return and risk adjusted return basis along with a well-diversified portfolio makes NIFTY Next 50 an appealing index investment strategy.

## About NSE Indices Limited:

(Formerly known as India Index Services & Products Limited-IISL)

NSE Indices Limited, 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 comprises 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, Singapore Exchange Ltd. (SGX) and Taiwan Futures Exchange (TAIFEX) 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](http://www.niftyindices.com)

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