

NIFTYNXT50 - Derivatives on Nifty Next 50 Index

White Paper



National Stock Exchange of India

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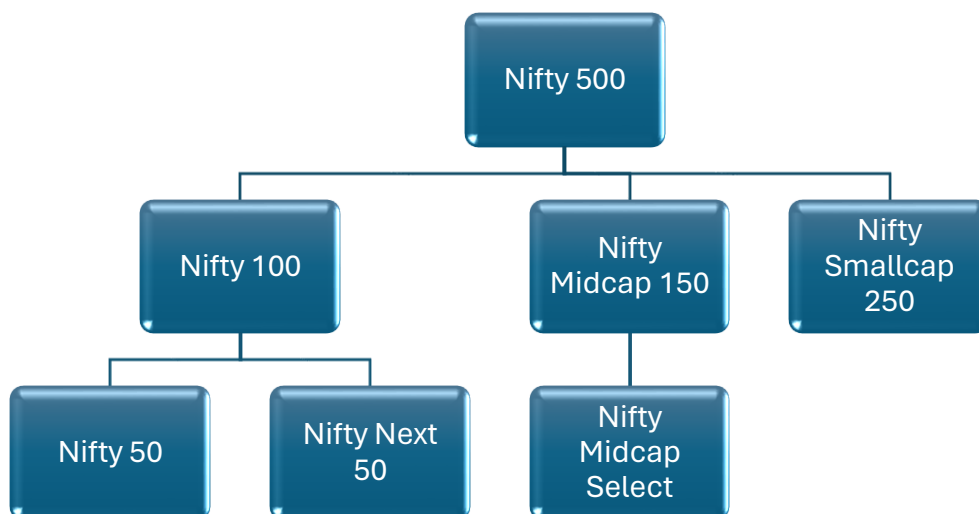
The Nifty Next 50 Index

Great Leaders and liquidity on the exchange are two sides of the same coin. While liquidity begets liquidity, great leaders inspire emerging leaders.

Identification and grooming of Emerging Leaders at an early stage, be it in corporate sector or in the field of team sports like cricket helps in building a foreseeable future and the hypothesis is no different for investments and portfolio management.

In the world of indices, the Nifty 50 index comprises of the largely capitalised and liquid stocks in the Indian Capital Market, selected from the constituents of the Nifty 100 index. The residual 50 stocks from the Nifty 100 index form the Nifty Next 50 Index. These stocks are the potential contenders for being included in the coveted Nifty 50 index in the near future, subject to meeting the criteria defined in the index methodology.

The identification of the constituents of the Nifty Next 50 follows a systematic methodology refined over two decades.

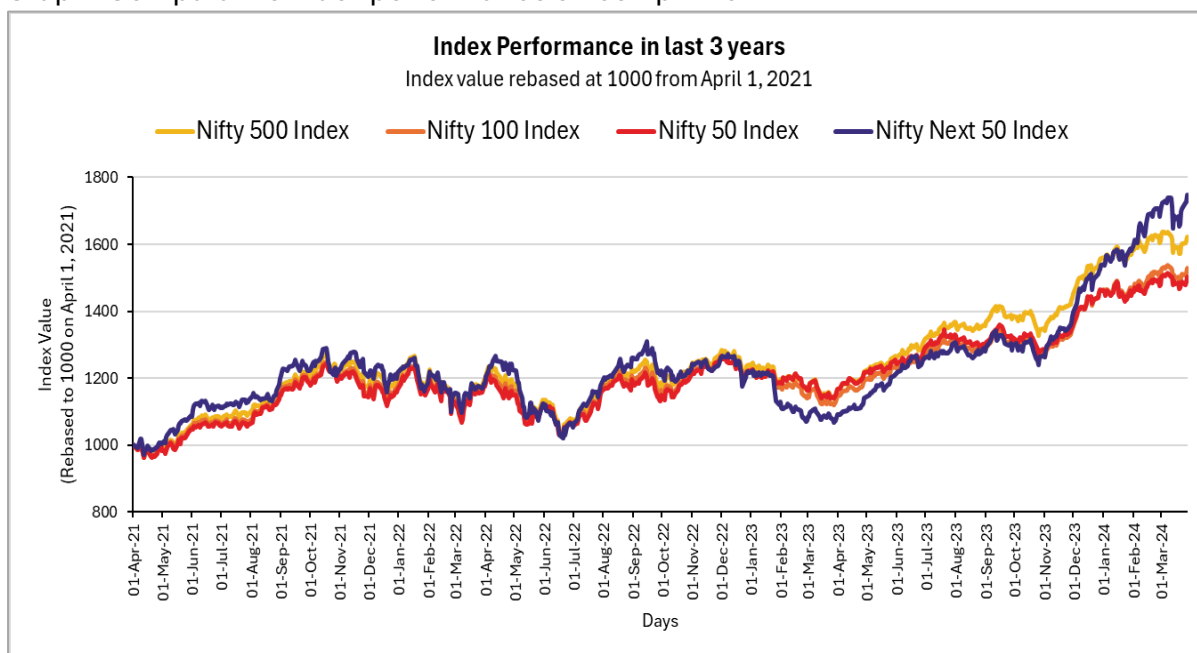


The Nifty 500 index represents the top 500 companies based on full market capitalisation from the eligible universe. Nifty 100 represents top 100 companies based on full market capitalisation from Nifty 500. This index intends to measure the performance of large market capitalisation companies. Within the Nifty 100 universe, 50 companies are selected based on various parameter such as free float market capitalisation, average impact cost, etc. These 50 companies form a part of the Nifty 50 index. The residual 50 companies from Nifty 100 index form the part of the Nifty Next 50 index.

The Nifty Next 50 index was introduced on January 1, 1997, with base date and base value being November 03, 1996, and 1000 respectively. Over the years, the index methodology has undergone revision. The index computation methodology was revised to Free Float Market Capitalisation weighted method from May 4, 2009. Subsequently in 2021, weight capping was introduced for constituent stocks on which derivatives were not available. In 2023, the index methodology was further reviewed, and weight capping thresholds were revised. The cumulative weight of non-F&O stocks is capped at 10% and non-F&O stocks in the index are individually capped at 4.5% on quarterly rebalance dates.

The Nifty Next 50 index has delivered annualised total returns of 22.06% in last 3 years and 17.51% over last 5 years as of March 2024. The index is benchmarked to 7 Exchanges traded funds (ETFs) with assets under management above Rs 9,282 crores (end of March 2023).

Graph: Comparative index performance since April 2021

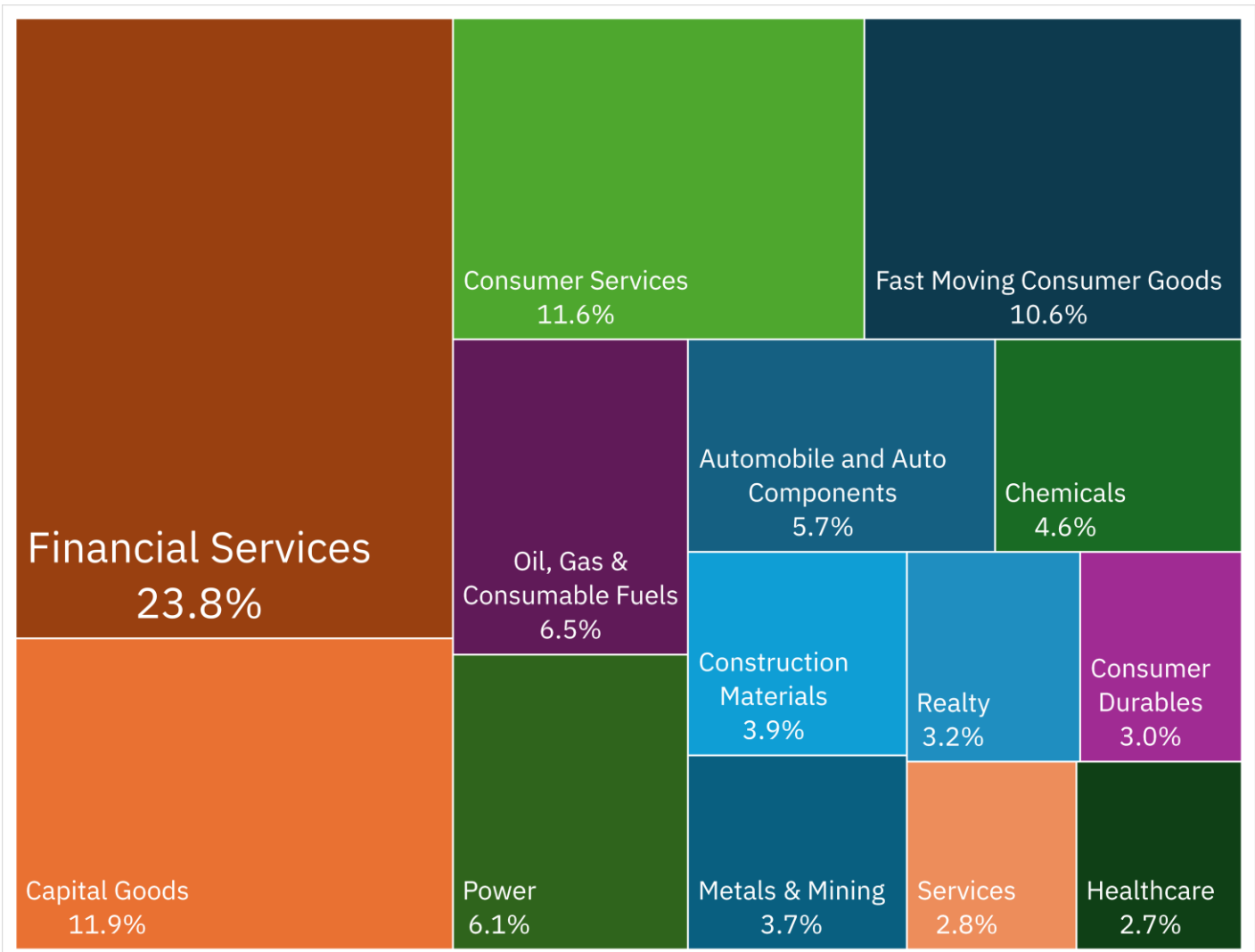


Source: historical price index values from niftyindices.com

The market capitalization (full) of index constituents stands at Rs 70 trillion representing about 18% of total market capital of the stocks listed on NSE as on end of March 2024. The free float market capital used for investible weight factors stands at about Rs 22.5 trillion.

The top sector in the Nifty Next 50 index is the financial services sector with 23.8% of weight in the index, followed by capital goods at 11.91% and consumer services at 11.57%.

Graph: Sector representation of Nifty Next 50 index



Source: niftyindices.com Weights as of March 2024

The sectoral comparison of Nifty Next 50 index with the larger index – Nifty 50 and the smaller index – Nifty Midcap Select index is as follows:

While the Financial Service sector continues to dominate in all the 3 indices, the Nifty Next 50 index has significant weightage from the Capital Goods sector and Consumer Services sector which does not have representation in the Nifty 50 index and Nifty Midcap

Select index. The Information Technology Sector (IT) has significant representation in Nifty 50 and Nifty Midcap Select but does have any presence in Nifty Next 50 index.

Table: Comparative sector weights of Nifty Next 50

Sector	Nifty Next 50	Nifty 50 Index	Nifty Midcap Select
Financial Services	23.8	33.53	17.77
Capital Goods	11.91	-	15.73
Consumer Services	11.57	-	9.48
Fast Moving Consumer Goods	10.62	8.15	-
Oil, Gas & Consumable Fuels	6.50	12.87	4.20
Power	6.07	2.90	-
Automobile and Auto Components	5.71	7.57	7.76
Chemicals	4.59	-	7.48
Construction Materials	3.90	2.00	-
Metals & Mining	3.72	3.79	-
Realty	3.18	-	3.63
Consumer Durables	2.98	2.92	3.49
Services	2.79	1.00	3.35
Healthcare	2.71	4.44	9.64
Information Technology	-	13.04	13.10
Construction	-	4.52	-
Telecommunication	-	3.25	1.43
Textiles	-	-	2.93

Source: index factsheet from niftyindices.com as of March 2024

As the methodology suggests, there is no overlap of stocks between the Nifty 50 index, Nifty Next 50 index and the Nifty Midcap Select index.

Graph: Sector wise top constituent stocks in Nifty Next 50 index



Source: niftyindices.com Weights as of March 2024

The Nifty Next 50 index uses the period capped free float methodology. The index constituents' stocks available in derivatives will have aggregate weight around 90% or more. The top 5 stocks based on the weights in the index is as follows:

Table: Top 5 Stocks in the Nifty Next 50 index

Sr	Company Name	Weightage	Available in F&O
1	Trent Ltd.	4.80	Yes
2	Bharat Electronics Ltd.	3.98	Yes
3	Tata Power Co. Ltd.	3.68	Yes
4	Hindustan Aeronautics Ltd.	3.43	Yes
5	Indian Oil Corporation Ltd.	3.39	Yes

Cumulative weight of non-F&O stocks in the index is capped at 10% on quarterly rebalance dates. Further, non-F&O stocks in the index are individually capped at 4.5% on quarterly rebalance dates. The capping factor of stocks is realigned upon replacement of scrips in the index and on a quarterly basis on the last trading day of March, June, September, and December by considering closing prices as on T-3 basis, where T Day is last trading day of March, June, September, and December.

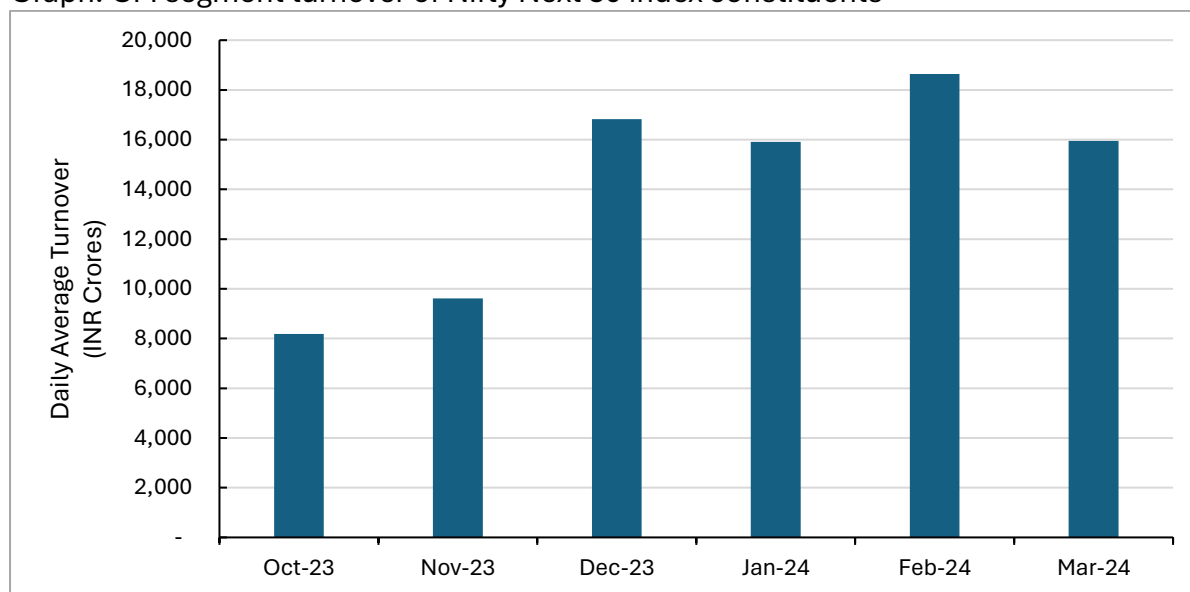
Table: **Capped Weights of Stocks not available in F&O**

End of Financial Year Quarterly Period				
Symbol	Jun-23	Sep-23	Dec-23	Mar-24
JIOFIN	-	-	-	1.86
ZOMATO	1.13	1.54	1.7	1.72
DMART	1.94	1.86	1.58	1.1
VBL	1.31	1.5	1.54	1.09
ADANIGREEN	1.15	1.22	1.51	1.09
ADANIPOWER	-	-	-	0.8
BAJAJHLDNG	1.06	1.04	0.86	0.58
ADANIENSOL	0.81	0.92	0.82	0.5
IRFC	-	-	-	0.42
ATGL	0.63	0.57	0.7	0.41
LICI	0.42	0.56	0.55	0.38
PGHH	0.47	0.57	0.42	-
AWL	0.22	0.18	0.14	-
NYKAA	0.71	-	-	-
Total	9.85	9.96	9.82	9.95

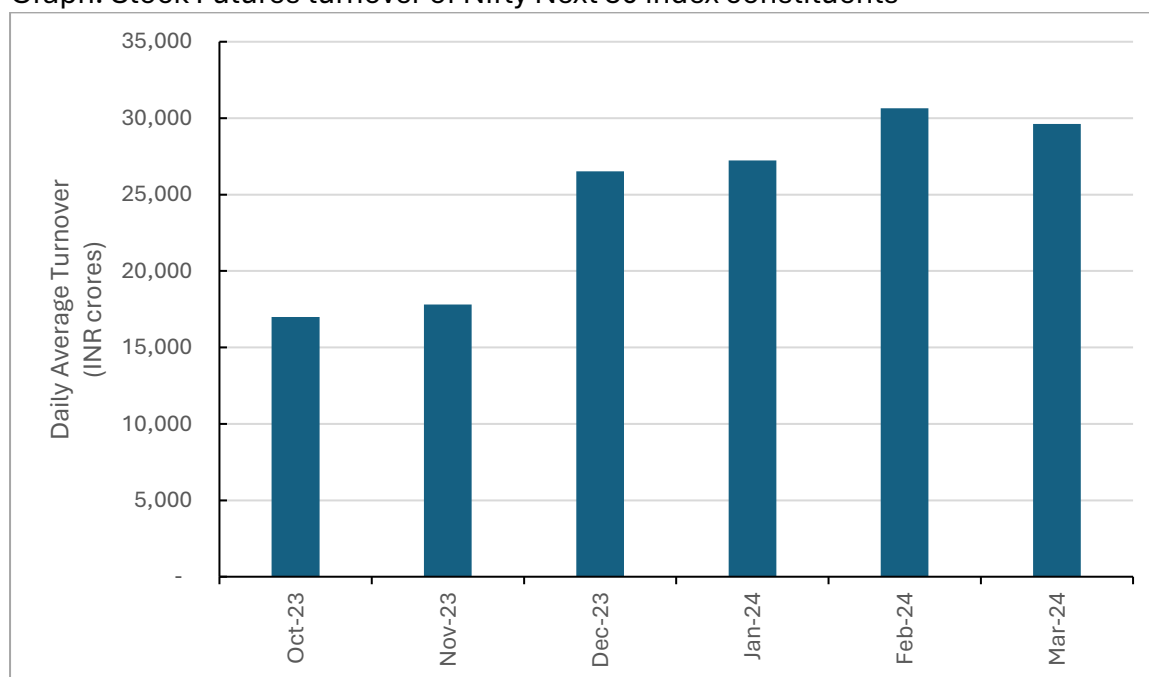
The underlying constituent 50 stocks are liquid with the aggregate daily average turnover of Rs 15,949 crores accounting for around 16.3% of Capital Market turnover in March

2024. During the same period, the daily aggregate turnover of index constituents in stock futures stood at Rs 29,626 crores accounting for 21% of total stock futures turnover while the daily aggregate premium turnover of index constituents in stock options stood at Rs 1,571 crores accounting for 24% of total stock options premium turnover.

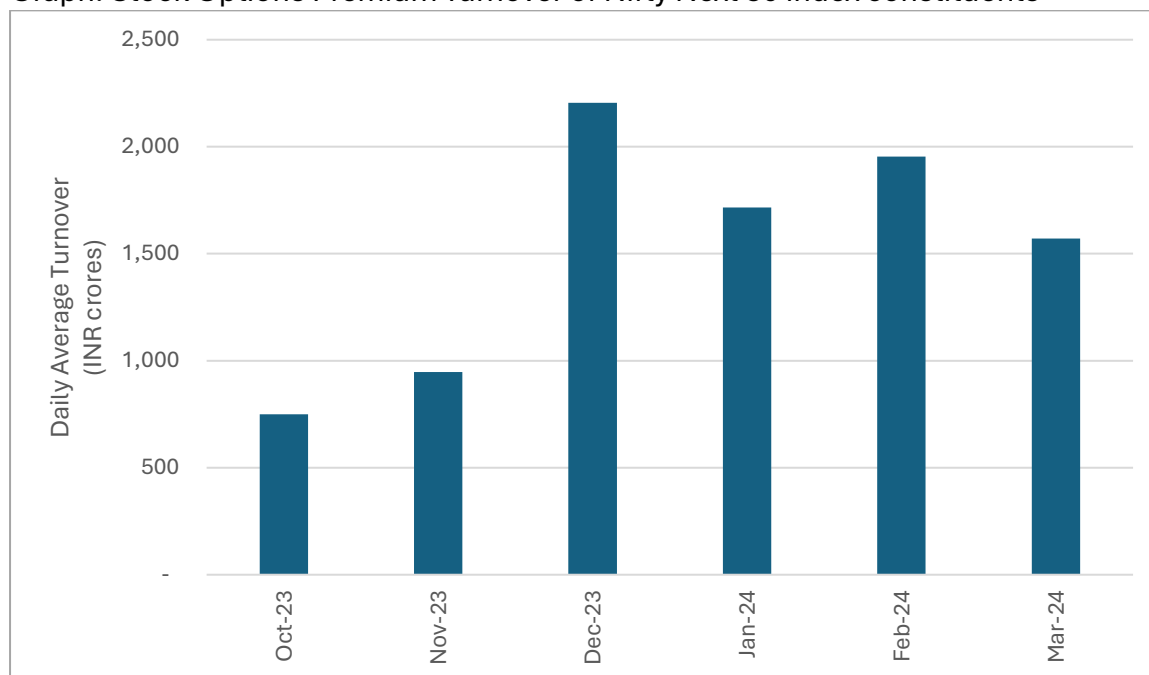
Graph: CM segment turnover of Nifty Next 50 index constituents



Graph: Stock Futures turnover of Nifty Next 50 index constituents



Graph: Stock Options Premium Turnover of Nifty Next 50 index constituents



The liquidity profile of the constituents' stocks can be further observed through some of the other indicators such as average impact cost, average daily delivery turnover in the last 6 months and Average Median Quarter Sigma Order Size. Impact cost represents the cost of executing a transaction in each stock, for a specific predefined order size, at any given point of time. A stock's quarter-sigma order size shall mean the order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation.

The Market Wide Position Limits (MWPL), which is an indicator of available float in the market calculated. The market wide position limit of open position (in terms of the number of underlying stock) on futures and option contracts on a particular underlying stock shall be 20% of the number of shares held by non-promoters in the relevant underlying security i.e. free float holding. The MWPL is covered in value terms using the number of shares and closing prices of stocks in the underlying cash market on the date of expiry of contract in the month.

The Average Median Quarter Sigma Order Size, Average Daily Deliverable Value and MWPL of securities for the period September 18, 2023, to March 15, 2024, for the Nifty Next 50 index constituents is provided in table below.

Table – Liquidity profile of index constituents of Nifty Next 50 index
(constituent stocks in order of index weight)

Symbol	Impact Cost for Rs 1 lakh order size	Average Median Quarter Sigma Order Size (Rs. lakhs)	MWPL Value (Rs. crores)	Average Daily Deliverable Value (Rs. Crores)	Available in F&O
TRENT	0.04	399	17386	113	Yes
BEL	0.03	612	14652	171	Yes
TATAPOWER	0.03	978	12625	180	Yes
HAL	0.03	745	11699	178	Yes
IOC	0.04	524	22677	162	Yes
DLF	0.03	663	11566	150	Yes
PFC	0.04	940	11638	205	Yes
RECLTD	0.04	925	11027	192	Yes
INDIGO	0.03	432	8981	191	Yes
TVSMOTOR	0.04	401	10109	91	Yes
BANKBARODA	0.03	941	9892	170	Yes
GAIL	0.04	492	11445	147	Yes
SIEMENS	0.03	283	8332	57	Yes
CHOLAFIN	0.03	478	9077	127	Yes
GODREJCP	0.03	209	9466	80	Yes
PIDILITIND	0.02	222	8394	75	Yes
NAUKRI	0.04	339	8436	67	Yes
ICICIGI	0.04	158	8779	57	Yes
CANBK	0.03	888	7591	127	Yes
HAVELLS	0.03	255	7786	59	Yes
SRF	0.03	301	7008	55	Yes
PNB	0.04	920	7206	178	Yes
AMBUJACEM	0.03	500	8852	79	Yes
VEDL	0.03	588	7219	128	Yes
COLPAL	0.03	146	6735	44	Yes
SHREECEM	0.03	172	6892	32	Yes
JIOFIN	0.04	253	20828	364	No
ABB	0.02	309	5769	59	Yes

Symbol	Impact Cost for Rs 1 lakh order size	Average Median Quarter Sigma Order Size (Rs. lakhs)	MWPL Value (Rs. crores)	Average Daily Deliverable Value (Rs. Crores)	Available in F&O
MCDOWELL-N	0.03	261	7348	54	Yes
ZOMATO	0.04	783	28347	403	No
JINDALSTEL	0.03	596	5871	56	Yes
DABUR	0.02	239	6438	64	Yes
IRCTC	0.04	557	5580	97	Yes
MOTHERSON	0.04	341	5689	107	Yes
BOSCHLTD	0.04	127	4968	31	Yes
MARICO	0.03	194	5481	48	Yes
ZYDUSLIFE	0.04	202	4771	39	Yes
TORNTPHARM	0.03	146	5189	33	Yes
ICICIPRULI	0.04	262	4101	71	Yes
SBICARD	0.03	303	4276	74	Yes
DMART	0.03	181	12931	85	No
ADANIGREEN	0.06	336	26192	122	No
VBL	0.04	267	13508	146	No
BERGEPAIN	0.03	180	3538	28	Yes
ADANIPOWER	0.12	-	-	-	No
BAJAJHLDNG	0.04	60	9885	14	No
ADANIENSOL	0.05	291	6362	93	No
IRFC	0.09	688	5230	253	No
ATGL	0.07	311	5685	115	No
LICI	0.03	238	4528	112	No

The Nifty Next 50 index performance apart from portfolio returns can be compared with other portfolios represented by different indices on multiple other parameters such as correlation, beta and annualized volatility and can be key factor in developing a prudent strategy.

The Nifty Next 50 index has a 71% correlation and a Beta value of 0.95 with the Nifty 50 Index. Comparatively it has a higher correlation with the Nifty Midcap Select index of 81% with Nifty Midcap Select index in financial year 2024.

Table: 1-Year and 3-Year Correlation between Nifty Next 50 index and index on which derivatives are available on NSE

Index	1 Year	3 Years
NIFTY	0.71	0.80
MIDCPNIFTY	0.81	0.87
BANKNIFTY	0.52	0.66
FINNIFTY	0.53	0.67

The index volatility of Nifty Next 50 is higher than Nifty 50 index, Nifty Bank Index and Nifty Financial Services Index and marginally lower when compared to Nifty Midcap Select Index.

Table: 1-Year and 3-Year annualised volatility (standard deviation) amongst the indices on which derivatives are available on NSE

Index	1 Year	3 Years
NIFTYNXT50	13.2	16.3
NIFTY	9.8	13.7
MIDCPNIFTY	13.2	18.6
BANKNIFTY	12.6	18.0
FINNIFTY	12.1	17.2

Derivatives on the Nifty Next 50 Index

NSE will introduce Futures and Options contracts on the Nifty Next 50 Index from April 24, 2024. To begin with the expiry cycle will be 3 serial monthly contracts which will expire on the last FRIDAY of the expiry month. If the last Friday is a trading holiday declared at the time of contract generation, the expiry day will be the previous trading day.

The key contract specifications are given in the below table.

Particulars	Futures	Options
Symbol	NIFTYNXT50	NIFTYNXT50
Instrument	FUTIDX	OPTIDX
Tick Size (Price Steps)	Re 0.05	Re 0.05
Contract Size (Lot Size)	10	10
Trading Cycle	3 serial monthly contracts.	3 serial monthly contracts.
Expiry Day	Last “FRIDAY” of the expiry month for the monthly, If the last “FRIDAY” is a trading holiday, then the expiry day is the previous trading day.	
Strike Scheme	-	Strike Interval of 100 with strikes 40 – 1 – 40 and Strike Interval of 500 with strikes 20 – 1 – 20 (Including 500 strikes due to strike interval of 100)
Option Type	-	Call European and Put European
Settlement	Cash Settled	Cash Settled
Daily Settlement Price	Closing price of the futures contract. If illiquid, then theoretical price will be considered	
Final Settlement Price	Index closing value on the last trading day	Index closing value on the last trading day

Particulars	Futures	Options
Price Band	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated daily
Quantity Freeze	600	600
Spread Contracts	M1-M2; M1-M3; M2-M3	-

The index options are being introduced with staggered strike scheme – narrow range of strike intervals as well as the wide range of strike intervals. At index level of 62000, the narrow range gives coverage of $\pm 6.4\%$ on either side while the wide range strike intervals provide coverage of $\pm 16.1\%$ on either side of ATM. The strike scheme is illustrated with an example below.

Illustration - Strike Scheme.

Narrow Range - Strike Interval of 100 with strikes 40 – 1 – 40 and

Wide Range Strike Interval of 500 with strikes 20 – 1 – 20 (Including 500 strikes due to strike interval of 100)

Strike Intervals	Narrow Range	Wide Range
62000	ATM	ATM
62100	1	
62200	2	
62300	3	
62400	4	
62500	5	1
62600	6	
62700	7	
62800	8	
62900	9	
63000	10	2
63100	11	
63200	12	
63300	13	
63400	14	
63500	15	3

Strike Intervals	Narrow Range	Wide Range
65700	37	
65800	38	
65900	39	
66000	40	8
66500		9
67000		10
67500		11
68000		12
68500		13
69000		14
69500		15
70000		16
70500		17
71000		18
71500		19
72000		20

The list of stocks which are constituents of the index, along with their weightages and available of constituent stock in derivatives is given in below table.

Table: List of Constituent Stocks

Sr	Company Name	Weightage	Available in F&O
1	Trent Ltd.	4.80	Yes
2	Bharat Electronics Ltd.	3.98	Yes
3	Tata Power Co. Ltd.	3.68	Yes
4	Hindustan Aeronautics Ltd.	3.43	Yes
5	Indian Oil Corporation Ltd.	3.39	Yes
6	DLF Ltd.	3.18	Yes
7	Power Finance Corporation Ltd.	3.12	Yes
8	REC Ltd.	3.08	Yes
9	InterGlobe Aviation Ltd.	2.79	Yes
10	TVS Motor Company Ltd.	2.76	Yes
11	Bank of Baroda	2.71	Yes
12	GAIL (India) Ltd.	2.69	Yes
13	Siemens Ltd.	2.64	Yes
14	Cholamandalam Investment and Finance Company Ltd.	2.62	Yes
15	Godrej Consumer Products Ltd.	2.61	Yes
16	Pidilite Industries Ltd.	2.54	Yes
17	Info Edge (India) Ltd.	2.39	Yes
18	ICICI Lombard General Insurance Company Ltd.	2.38	Yes
19	Canara Bank	2.15	Yes
20	Havells India Ltd.	2.09	Yes
21	SRF Ltd.	2.05	Yes
22	Punjab National Bank	2.04	Yes
23	Ambuja Cements Ltd.	2.01	Yes
24	Vedanta Ltd.	2.00	Yes
25	Colgate Palmolive (India) Ltd.	1.99	Yes
26	Shree Cement Ltd.	1.89	Yes
27	ABB India Ltd.	1.86	Yes

Sr	Company Name	Weightage	Available in F&O
28	Jio Financial Services Ltd.	1.86	No
29	United Spirits Ltd.	1.82	Yes
30	Jindal Steel & Power Ltd.	1.72	Yes
31	Zomato Ltd.	1.72	No
32	Dabur India Ltd.	1.69	Yes
33	Indian Railway Catering and Tourism Corporation Ltd.	1.56	Yes
34	Samvardhana Motherson International Ltd.	1.53	Yes
35	Bosch Ltd.	1.42	Yes
36	Marico Ltd.	1.42	Yes
37	Zydus Lifesciences Ltd.	1.41	Yes
38	Torrent Pharmaceuticals Ltd.	1.31	Yes
39	ICICI Prudential Life Insurance Company Ltd.	1.30	Yes
40	SBI Cards and Payment Services Ltd.	1.11	Yes
41	Avenue Supermarts Ltd.	1.10	No
42	Adani Green Energy Ltd.	1.09	No
43	Varun Beverages Ltd.	1.09	No
44	Berger Paints India Ltd.	0.88	Yes
45	Adani Power Ltd.	0.80	No
46	Bajaj Holdings & Investment Ltd.	0.58	No
47	Adani Energy Solutions Ltd.	0.50	No
48	Indian Railway Finance Corporation Ltd.	0.42	No
49	Adani Total Gas Ltd.	0.41	No
50	Life Insurance Corporation of India	0.38	No

As on March 2024

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