



NSE Indices Limited

# Nifty CPSE Bond Plus SDL Sep 2024 50:50 Index Methodology Document

October 2020

## Table of Contents

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Introduction .....	2
Highlights .....	2
Methodology .....	3
Index Policy .....	8
About Us .....	10

## Introduction

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NSE Indices Limited (formerly known as India Index Services & Products Limited- IISL), a NSE group company provides a variety of indices and index related services and products for the Indian capital markets.

Nifty CPSE Bond Plus SDL Sep 2024 50:50 Index seeks to measure the performance of portfolio of AAA rated bonds issued by government owned entities & SDLs maturing between October 01, 2023 to September 30, 2024. The index shall mature on September 30, 2024.

The index is computed using the total return methodology including price return and coupon return.

## Highlights

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1. Indices follow a unique structure with defined maturity dates
2. Index includes portfolio of AAA rated bonds issued by government owned entities & SDLs issued by states/UTs
3. The index uses buy and hold strategy wherein the portfolio selected at the time of launch is held till their maturity date unless they are ineligible
4. The proportion of investment into AAA rated bonds issued by government owned entities and SDLs is equally divided i.e. 50% in each category

## Methodology

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### Index Structure

The index contains 2 equal weighted components at the time of index launch

- 1) CPSE Bonds component : 10 most liquid bonds issued by top 10 AAA rated government owned entities ranked basis a composite liquidity score maturing between October 01, 2023 to September 30, 2024
- 2) SDL component : 5 SDLs issued by top 5 states/UTs selected based on their outstanding amount maturing between October 01, 2023 to September 30, 2024.

### 1) Methodology for CPSE Bonds component – Constituting 50% of the Index

#### Eligibility Norms

##### ▪ Issuer eligibility

- Issuing entity should be domiciled in India and should satisfy any one of the following:
  1. Central Public Sector Enterprises (CPSEs) as listed on DPE & DIPAM website
  2. Maharatna, Navratna and Miniratna as listed on DPE website, if not included in CPSEs list as mentioned in point 1
  3. Public Financial Institutions (PFIs) owned and managed by GOI and not included in points 1 and 2 above
  4. Statutory body set-up by Act of Parliament and having outstanding bonds of more than Rs. 100 crores in the eligible maturity bucket

##### • Bond eligibility

Bond should be

1. Plain vanilla with fixed coupon and fixed maturity
2. Denominated in INR
3. Be listed and traded on NSE and/or BSE and should be rated

Bond should not be

1. Tax Free
2. Floating Rate Bond
3. Partially Paid up
4. Perpetual
5. Having Single Option (Call/Put)
6. Having step up/step down coupon which is linked to any contingent event
7. Convertible bonds

8. Having staggered redemption
9. Backed or serviced by GOI

## Selection Criteria

### • Issuer Selection

- As of September 30, 2020, eligible issuers having credit rating of “AAA” (Triple A) at the time of index creation/review are shortlisted. In case an entity is rated by multiple rating agencies, the lowest rating assigned to the Non-Convertible Debenture/Long Term Debt of the entity is considered for the index selection purpose
- Top 10 Issuers of bonds maturing between October 01, 2023 to September 30, 2024 are ranked on the basis of composite liquidity score
- The composite liquidity score is calculated by allocating 80% weights to aggregate trading value, 10% weights to number of days traded and 10% to number of trades of all the eligible bonds of issuers between October 01, 2019 to September 30, 2020

### • Bond Selection

- As of September 30, 2020, for every selected issuer, most liquid bond based on composite liquidity score calculated based on the trades available during the latest month is part of the index. In case a shortlisted issuer has no bond traded in the latest month, the period of analysis is relaxed to last 2 months and then to last 3 months and so on till 12 months
- A single security per issuer is part of the index

## Weight Assignment

- Each issuer that is part of the CPSE Bonds portion (constituting 50% of index) is given equal weight as of the base date of the index (Oct 05, 2020). Effectively, each issuer has weight of 5% at the beginning
- Subsequently, the weights may drift due to price movement
- Any coupon amount received is assumed to be reinvested in the portfolio on the same date, in the proportion of the existing weights

## 2) Methodology for SDLs component – Constituting 50% of the Index

### Eligibility norms

SDL should not be a special bond

### **Issuer Selection**

Top 5 states/UTs are selected based on their outstanding amount maturing between October 01, 2023 to September 30, 2024. Selection of states/UTs is done with a data cut-off date of September 30, 2020.

### **Security Selection**

Most recently issued SDL of each of the selected 5 states/UTs maturing between October 01, 2023 to September 30, 2024, is included in the index at the time of the index launch.

### **Weight Assignment**

- Each state that is part of the SDL component (constituting 50% of index) is given equal weight at the beginning. Effectively, each SDL has a weight of 10% as on the base date
- Subsequently, the weights may drift due to price movement
- Any coupon amount received is assumed to be reinvested in the portfolio on the same date, in the proportion of the existing weights

### **Index Rebalancing/Reconstitution**

- Index will be reviewed at the end of each calendar quarter
- In case there is a breach of 15% in weight of any issuer, excess weight will be redistributed in rest of the portfolio proportionally
- Based on the governments 'in principle approval' to disinvest its stake in some of the government owned entities, such entities are not included to be part of the index at launch/inception of the index. On account of disinvestment in an existing constituent, such issuer shall be excluded from the index effective next rebalancing/reconstitution only if the disinvestment process has been completed
- In case an eligible issuer gets downgraded before the portfolio disclosure, such issuer shall be excluded from being a part of the index
- Apart from scheduled review, bonds of existing issuers to be excluded from the index as per the following exclusion schedule:

Scenario	Bonds to be excluded	
	On next rebalance date	Within 5 Days
Issuer rating is downgraded below AAA and is investment grade	✓	-
Issuer rating is downgraded below investment grade	-	✓
CPSE/CPFI/GOI Statutory Body loses its current status and issuer rating is investment grade	✓	-
CPSE/CPFI/GOI Statutory Body loses its current status and issuer rating falls below investment grade	-	✓

- Due to the above stated reasons, if the index is rebalanced and issuer/s move out of the index,
  - If the total number of CPSE issuers in the index is 4 and above, then the total weight of the CPSE securities being excluded will be redistributed among the remaining CPSE securities proportionally. This will be subject to 15% issuer limit.
  - If the total number of State/UT issuers in the index is 4 and above, then the total weight of the SDLs being excluded will be redistributed among the remaining SDL securities proportionally. This will be subject to 15% issuer limit.
  - If the total number of CPSE issuers in the index fall below 4, then new CPSE issuers will be included in the index based on the issuer selection and bond selection criteria mentioned in the CPSE Bonds component index methodology section above, to take the CPSE issuer count to 4 and the total running weightage of CPSE Bonds component will be divided equally amongst all the 4 CPSE issuers.
  - Due to any reason, if the total number of State/UT issuers in the index fall below 4, then new State/UTs will be included in the index based on the issuer selection and security selection criteria mentioned in the SDLs component index methodology section above, to take the State/UT count to 4 and the total running weightage of SDLs component will be divided equally amongst all the 4 state/UT
- In the last year of maturity of the index (i.e. during the twelve months period prior to the maturity date of the index), any proceeds from bond/SDL redemption prior to the maturity date of the index shall be re-invested in the T-Bill maturing on or just before the index maturity date as identified on the redemption date of the first bond/SDL. In case the T-Bill, in which the proceeds from bond/SDL redemption have been reinvested, matures before the index maturity date, the redemption proceeds of such T-

Bill shall be re-invested in The Clearing Corporation of India Ltd.'s (CCIL) TREPS overnight rate for subsequent days till the maturity of the index

### **Index Termination**

The index shall mature on September 30, 2024

### **Tentative Portfolio**

**The below portfolio consisting of 15 ISINs belonging to 10 government owned entities and 5 states/UTs, maturing between October 01, 2023 and September 30, 2024, is prepared considering data cut-off date of September 30, 2020:**

Sr. No.	ISIN	Issuer	Coupon	Issue date	Maturity Date	Weight	Category
1	IN1020200375	ANDHRA PRADESH	5.75%	30-Sep-20	30-Sep-24	10.00%	SDL
2	IN3420140078	WEST BENGAL	8.99%	24-Sep-14	24-Sep-24	10.00%	SDL
3	IN2220200173	MAHARASHTRA	5.68%	23-Sep-20	23-Sep-24	10.00%	SDL
4	IN1920140044	KARNATAKA	9.04%	10-Sep-14	10-Sep-24	10.00%	SDL
5	IN3120200107	TAMIL NADU	5.46%	03-Jun-20	03-Jun-24	10.00%	SDL
1	INE020B08CM4	REC LIMITED	6.99%	25-Feb-20	30-Sep-24	5.00%	CPSE
2	INE134E08JY7	POWER FINANCE CORPORATION LIMITED	9.25%	25-Mar-19	25-Sep-24	5.00%	CPSE
3	INE733E07JO9	NTPC LIMITED	9.17%	22-Sep-14	22-Sep-24	5.00%	CPSE
4	INE752E07LQ0	POWER GRID CORPORATION OF INDIA LIMITED	9.30%	04-Sep-14	04-Sep-24	5.00%	CPSE
5	INE094A08036	HINDUSTAN PETROLEUM CORPORATION LIMITED	7.00%	14-Aug-19	14-Aug-24	5.00%	CPSE
6	INE848E07997	NHPC LIMITED	7.52%	06-Jun-17	06-Jun-24	5.00%	CPSE
7	INE029A08057	BHARAT PETROLEUM CORPORATION LIMITED	8.02%	11-Mar-19	11-Mar-24	5.00%	CPSE
8	INE053F07BB3	INDIAN RAILWAY FINANCE CORPORATION LIMITED	8.25%	28-Feb-19	28-Feb-24	5.00%	CPSE
9	INE261F08CK9	NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT	5.14%	10-Aug-20	31-Jan-24	5.00%	CPSE
10	INE514E08DH8	EXPORT IMPORT BANK OF INDIA	9.58%	16-Dec-13	16-Dec-23	5.00%	CPSE

## Index Policy

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The Nifty family of indices uses transparent, researched and publicly documented rules for index maintenance. These rules are applied regularly to manage changes to the index. Index reviews are carried out semi-annually to ensure that each security in the index fulfils eligibility criteria.

### **Announcements:**

All index-related announcements are posted on the websites of NSE Indices Limited and NSE. Changes impacting the constituent list are also posted on the Web site.

Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Holiday Schedule:**

For the calculation of indices, the NSE Indices Limited follows the official holiday schedule. A complete holiday schedule for the year is available on the NSE Indices Limited and NSE website. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Index Precision**

Index values are disseminated up to two decimal places.

### **Index Recalculations**

All Nifty family of indices are recalculated whenever errors occur. Users of the Nifty indices are notified through appropriate channel of communication.

### **Market Feedback & Index Methodology Review**

NSE Indices Limited is committed to ensure that all Nifty indices are relevant for the market participants. In order to ensure this, NSE Indices Limited on an on-going basis interacts with the stakeholders inviting the feedback through various channels of communication. The feedback received from the market participants forms a key input for all index related aspects.

Review of methodology of Nifty indices is carried out on an annual basis. Additionally, NSE Indices Limited also considers any feedback that it may receive with regards to index methodology as part of on-going market interactions. Any changes to the index methodology is approved by the Committee and the same is announced through a press release.

### **Other**

In case of a market stress or disruption, NSE Indices Limited will review and deal with the situation on consultative basis with the National Stock Exchange of India Ltd. (NSE) as NSE is source for price data for computation of equity indices.

All indices are expected to reflect the performance of a basket of stocks selected based on the defined guidelines and theme. Every index user is advised to evaluate the benefits of index and take an informed decision before using the index for self or creation of index-

linked products. NSE Indices Limited does not accept any liability for any losses, claims, expenses etc. that may be incurred by any person as a result of usage of Nifty family of indices as a result of reliance of the ground rules, any errors or inaccuracies.

**Web site:**

Daily Index Values, Methodology, Factsheet and press releases are available on [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

## About Us

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### **About National Stock Exchange of India Limited (NSE):**

National Stock Exchange of India Ltd. (NSE) is the world's largest derivatives exchange by trading volume as per the statistics published by Futures Industry Association (FIA) for 2019 and ranked 3rd in the world in the cash equities segment by number of trades as per the statistics published by the World Federation of Exchanges (WFE). NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: [www.nseindia.com](http://www.nseindia.com)

### **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 comprises 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](http://www.niftyindices.com)

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