

ADDING WEIGHT: Post inclusion of Eicher Motors, Aurobindo Pharma, index tilting towards sectors with high growth momentum

High RoE Cos Dominate New-look Nifty 50

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ET Intelligence group: The never-ending thirst of investors for companies that report industry-beating growth is gradually tilting the composition of the benchmark Nifty 50 index towards higher return on equity (RoE) counters. While this will capture the sectors in the economy with higher growth momentum, it may prevent the index from reflecting the country's economic health. On Monday, the National Stock Exchange (NSE) announced that it

would add Eicher Motors and Aurobindo Pharma to the Nifty 50 index from April 1. This follows heightened trading volumes in these counters over the past few months as investors swarmed to buy these shares to capture the upbeat momentum in their profits amid slow economic growth. The combined weight of healthy growth and high RoE segments—such as consumer products, pharmaceuticals, automobiles—in the Nifty has nearly doubled to 27.3% compared with 14.7% five-years ago. After the inclusion of Eicher Motors, Aurobindo Pharma

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% Some say inclusion of high-growth cos will stop index from being economy's barometer and Tata Motors' DVR, this will increase to nearly 30%. Adding the IT sector weight to it, the high growth and high RoE companies will form about half of the full Nifty weight. Some experts believe inclusion

of high-growth, high-RoE segments will prevent the index from being an accurate barometer of the broader economic health. The lower weight of cyclical stocks means the index will fail to capture the uptick in these stocks when global liquidity starts chasing beaten-down value stocks. Also, the index's ability to capture the stress in certain sectors, such as banking, is diminishing. The latest inclusions are expected to improve the average RoE of the Nifty, which has been at the near-decade-low level due to the falling pricing power of companies.

