



INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH

IN SCIENCE, ENGINEERING, TECHNOLOGY AND MANAGEMENT

Volume 9, Issue 12, December 2022



INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA

Impact Factor: 7.580



+91 99405 72462



+9163819 07438



ijmrsetm@gmail.com



www.ijmrsetm.com

A Comparative Analysis of Cost of Capital of Nifty Energy and Nifty Metal Sector's Companies

Suresh Kumar Mali

Assistant Professor, Dept. of Accountancy & Business Statistics- ABST, Govt. P.G. College, Bundi, Rajasthan, India

ABSTRACT: The last traded price of Nifty Energy was 22,469.20 up by 0.19%. The top Nifty Energy gainers for today were [BPCL](#) up by 1.84%, [HINDPETRO](#) up by 1.15% and [IOC](#) up by 0.94%. The top Nifty Energy losers for today were [ADANITRANS](#) down by 4.97%, [POWERGRID](#) down by 0.37% and [TATAPOWER](#) down by 0.22%. Nifty Energy hit a 52-week high of 29,304.05 and a 52-week low of 24,392.95. Nifty Energy is down by 14.82% over the last one month. It is down by 8.06% over the last one year.

KEYWORDS: capital, nifty energy, nifty metal, sectors, companies, comparative, analysis, cost

I. INTRODUCTION

The NIFTY 50 is a benchmark Indian stock market index that represents the weighted average of 50 of the largest Indian companies listed on the National Stock Exchange. It is one of the two main stock indices used in India, the other being the BSE SENSEX. Nifty 50 is owned and managed by NSE Indices¹ (previously known as India Index Services & Products Limited), which is a wholly owned subsidiary of the NSE Strategic Investment Corporation Limited. NSE Indices had a marketing and licensing agreement with Standard & Poor's for co-branding equity indices until 2013. The Nifty 50 index was launched on 22 April 1996, and is one of the many stock indices of Nifty.² The NIFTY 50 index has shaped up to be the largest single financial product in India, with an ecosystem consisting of exchange-traded funds (onshore and offshore), and futures and options at NSE and SGX. NIFTY 50 is the world's most actively traded contract. WFE, IOM and FIA³ surveys endorse NSE's leadership position. Between 2008 & 2012, the NIFTY 50 index's share of NSE market fell from 65% to 29% due to the rise of sectoral indices like NIFTY Bank, NIFTY IT, NIFTY Pharma,⁴ and NIFTY Next 50. The NIFTY 50 index covers 13 sectors of the Indian economy and offers investment managers exposure to the Indian market in one portfolio. NIFTY 50 gives a weightage of 36.81% to financial services including banking, 14.70% to IT, 12.17% to oil and gas, 9.02% to consumer goods, and 5.84% to automobiles.⁵

The NIFTY 50 index is a free float market capitalisation weighted index. The index was initially calculated on a full market capitalisation methodology. On 26 June 2009, the computation was changed to a free-float methodology. The base period for the NIFTY 50 index is 3 November 1995, which marked the completion of one year of operations of the equity market segment on NSE. The base value of the index has been set at 1000 and a base capital of ₹ 2.06 trillion.⁶

Company Name	Symbol	Sector ^[15]
Adani Enterprises	ADANIENT	Diversified
Adani Ports & SEZ	ADANIPORTS	Infrastructure
Apollo Hospitals	APOLLOHOSP	Healthcare
Asian Paints	ASIANPAINT	Consumer Durables
Axis Bank	AXISBANK	Banking
Bajaj Auto	BAJAJ-AUTO	Automobile
Bajaj Finance	BAJFINANCE	Financial Services
Bajaj Finserv	BAJAJFINSV	Financial Services
Bharat Petroleum	BPCL	Energy - Oil & Gas



Company Name	Symbol	Sector ^[15]
Bharti Airtel	BHARTIARTL	Telecommunication
Britannia Industries	BRITANNIA	Consumer Goods
Cipla	CIPLA	Pharmaceuticals
Coal India	COALINDIA	Energy - Coal
Divi's Laboratories	DIVISLAB	Pharmaceuticals
Dr. Reddy's Laboratories	DRREDDY	Pharmaceuticals
Eicher Motors	EICHERMOT	Automobile
Grasim Industries	GRASIM	Materials
HCLTech	HCLTECH	Information Technology
HDFC	HDFC	Financial Services
HDFC Bank	HDFCBANK	Banking
HDFC Life	HDFCLIFE	Financial Services
Hero MotoCorp	HEROMOTOCO	Automobile
Hindalco Industries	HINDALCO	Metals
Hindustan Unilever	HINDUNILVR	Consumer Goods
ICICI Bank	ICICIBANK	Banking
IndusInd Bank	INDUSINDBK	Banking
Infosys	INFY	Information Technology
ITC	ITC	Consumer Goods
JSW Steel	JSWSTEEL	Metals
Kotak Mahindra Bank	KOTAKBANK	Banking
Larsen & Toubro	LT	Construction
Mahindra & Mahindra	M&M	Automobile
Maruti Suzuki	MARUTI	Automobile
Nestlé India	NESTLEIND	Consumer Goods
NTPC	NTPC	Energy - Power
Oil and Natural Gas Corporation	ONGC	Energy - Oil & Gas
Power Grid	POWERGRID	Energy - Power
Reliance Industries	RELIANCE	Diversified
SBI Life Insurance Company	SBILIFE	Financial Services
State Bank of India	SBIN	Banking
Sun Pharma	SUNPHARMA	Pharmaceuticals
Tata Motors	TATAMOTORS	Automobile
Tata Steel	TATASTEEL	Metals
Tata Consultancy Services	TCS	Information Technology
Tata Consumer Products	TATACONSUM	Consumer Goods
Tech Mahindra	TECHM	Information Technology
Titan Company	TITAN	Consumer Durables

Company Name	Symbol	Sector ^[15]
UltraTech Cement	ULTRACEMCO	Materials
UPL	UPL	Chemicals
Wipro	WIPRO	Information Technology

Changes in index constituents since Nifty 50 adopted free float criteria in 2009:

Former Constituent	Symbol	Sector	Replaced By	Symbol	Date of Replacement
ABB India	ABB	Engineering	Bajaj Auto	BAJAJ-AUTO	1 October 2010
Idea Cellular	IDEA	Telecommunication	Dr. Reddy's Laboratories	DRREDDY	
Unitech	UNITECH	Realty	Sesa Goa	VEDL	
Suzlon	SUZLON	Energy - Power	Grasim Industries	GRASIM	25 March 2011
Reliance Capital	RELCAPITAL	Financial Services	Coal India	COALINDIA	10 October 2011
Reliance Communications	RCOM	Telecommunication	Asian Paints	ASIANPAINT	27 April 2012
Reliance Power	RPOWER	Energy - Power	Bank of Baroda	BANKBARODA	
Steel Authority of India	SAIL	Metals	Lupin	LUPIN	28 September 2012
Sterlite Industries	STERLITE	Metals	UltraTech Cement	ULTRACEMCO	
Siemens	SIEMENS	Engineering	IndusInd Bank	INDUSINDBK	1 April 2013
Wipro	WIPRO	Information Technology	NMDC	NMDC	
Reliance Infrastructure	RELINFRA	Construction	Wipro	WIPRO	27 September 2013
JP Associates	JPASSOCIAT	Construction	Tech Mahindra	TECHM	28 March 2014
Ranbaxy Laboratories	RANBAXY	Pharmaceuticals	United Spirits	MCDOWELL-N	
United Spirits	MCDOWELL-N	Consumer Goods	Zee Entertainment Enterprises	ZEEL	19 September 2014
DLF	DLF	Realty	Idea Cellular	IDEA	27 March 2015
Jindal Steel & Power	JINDALSTEL	Metals	Yes Bank	YESBANK	
IDFC	IDFC	Financial Services	Bosch India	BOSCHLTD	29 May 2015
NMDC	NMDC	Metals	Adani Ports & SEZ	ADANIPORTS	28 September 2015
Cairn India	CAIRN	Energy - Oil & Gas	Aurobindo Pharma	AUROPHARMA	1 April 2016
Punjab National Bank	PNB	Banking	Bharti Infratel	INFRATEL	

Former Constituent	Symbol	Sector	Replaced By	Symbol	Date of Replacement
Vedanta	VEDL	Metals	Eicher Motors	EICHERMOT	
BHEL	BHEL	Engineering	Indiabulls Housing Finance	IBULHSGFIN	31 March 2017
Idea Cellular	IDEA	Telecommunication	Indian Oil Corporation	IOC	
Grasim Industries	GRASIM	Textiles	Vedanta	VEDL	26 May 2017
ACC	ACC	Cement	Bajaj Finance	BAJFINANCE	29 September 2017
Bank of Baroda	BANKBARODA	Banking	Hindustan Petroleum	HINDPETRO	
Tata Power	TATAPOWER	Energy - Power	UPL	UPL	
Ambuja Cements	AMBUJACEM	Cement	Bajaj Finserv	BAJAJFINSV	2 April 2018
Aurobindo Pharma	AUOPHARMA	Pharmaceuticals	Grasim Industries	GRASIM	
Bosch India	BOSCHLTD	Engineering	Titan Company	TITAN	
Lupin	LUPIN	Pharmaceuticals	JSW Steel	JSWSTEEL	28 September 2018
Hindustan Petroleum	HINDPETRO	Energy - Oil & Gas	Britannia Industries	BRITANNIA	29 March 2019
Indiabulls Housing Finance	IBULHSGFIN	Financial Services	Nestlé India	NESTLE	27 September 2019
Yes Bank	YESBANK	Banking	Shree Cement	SHREECEM	19 March 2020
Vedanta	VEDL	Metals	HDFC Life	HDFCLIFE	31 July 2020
Zee Entertainment Enterprises	ZEEL	Media	SBI Life Insurance Company	SBILIFE	25 September 2020
Bharti Infratel	INFRATEL	Telecommunication	Divi's Laboratories	DIVISLAB	
GAIL	GAIL	Energy - Oil & Gas	Tata Consumer Products	TATACONSUM	31 March 2021
Indian Oil Corp	IOC	Energy - Oil & Gas	Apollo Hospitals	APOLLOHOSP	31 March 2022
Shree Cement	SHREECEM	Cement	Adani Enterprises	ADANIENT	30 September 2022

II.DISCUSSION

The Nifty Metal Index is designed to reflect the behaviour and performance of the Metals sector (including mining). The Nifty Metal Index comprises of maximum 15 stocks that are listed on the National Stock Exchange (NSE). Nifty Metal Index is computed using free float market capitalization method, wherein the level of the index reflects the total free float market value of all the stocks in the index relative to particular base market capitalization value. Nifty Metal Index can be used for a variety of purposes such as benchmarking fund portfolios, launching of index funds, ETFs and structured products.⁷

Eligibility Criteria for Selection of Constituent Stocks: i. Companies should form part of Nifty 500 at the time of review. In case, the number of eligible stocks representing a particular sector within Nifty 500 falls below 10, then deficit number of stocks shall be selected from the universe of stocks ranked within top 800 based on both average daily turnover and average daily full market capitalisation based on previous six months period data used for index rebalancing of Nifty 500. ii. Companies should form a part of the Metals⁸ sector. iii. The company's trading frequency should be at least 90% in the last six months. iv. The company should have a listing history of 6 months. A company which comes out with an IPO will be eligible for inclusion in the index, if it fulfills the normal eligibility criteria for the index for a 3 month period instead of a 6 month period. v. Final selection of companies shall be done based on the free-float market capitalization. vi. Weightage of each stock in the index is calculated based on its free-float market capitalization such that no single stock shall be more than 33% and weightage of top 3 stocks cumulatively shall not be more than 62% at the time of rebalancing. Index Re-Balancing: Index is re-balanced on semi-annual basis.⁹ The cut-off date is January 31 and July 31 of each year, i.e. For semi-annual review of indices, average data for six months ending the cut-off date is considered. Four weeks prior notice is given to market from the date of change. Index Governance: A professional team at IISL manages NIFTY Metal Index. There is a three-tier governance structure comprising the Board of Directors of IISL, the Index Advisory Committee (Equity) and the Index Maintenance Sub-Committee.¹⁰

NIFTY is a market index introduced by the National Stock Exchange. It is a blended word – National Stock Exchange and Fifty coined by NSE on 21st April 1996. NIFTY 50 is a benchmark based index and also the flagship of NSE, which showcases the top 50 equity stocks traded in the stock exchange out of a total of 1600 stocks¹¹. These stocks span across 12 sectors of the Indian economy which include – information technology, financial services, consumer goods, entertainment and media, financial services, metals, pharmaceuticals, telecommunications, cement and its products, automobiles, pesticides and fertilizers, energy, and other services. NIFTY is one of the two national indices, the other being [SENSEX](#), a product of the [Bombay Stock Exchange](#).¹² It is owned by the India Index Services and Products (IISL), which is a fully-owned subsidiary of the National Stock Exchange Strategic Investment Corporation Limited. NIFTY 50 follows the trends and patterns of blue-chip companies, i.e. the most liquid and largest Indian securities. The NIFTY Index is reconstituted every six months and considers the performance of a stock over such period. Depending on this performance, and given that a company and its stock fulfils all the eligibility criteria mentioned above, the list might include or eliminate new/old stocks respectively. In case any new additions and eliminations are done, the companies in question are informed through a notice four weeks before reconstitution.¹³

Apart from a periodical routine, reconstitution can also be undertaken in case a company goes through a scheme of arrangements for events involving suspension, spin-off, merger and compulsory delisting³⁰. Other than these, NIFTY share market is supposed to conduct a quarterly screening of companies to check their adherence to portfolio concentration regulations for Index Funds and ETFs as per SEBI mandate as announced on 10th January 2019.¹⁴

III. RESULTS

The NIFTY share index is managed by a team of professionals at the NSE Indices Limited. It formed an Index Advisory Committee that offers its expertise and guidance on large-scale issues pertinent to equity indices²⁹. NIFTY 50 indices are computed based on a float-adjusted and market capitalisation weighted method. In this method, the level of index demonstrates the aggregate market value of stocks present in the index in a specific base period. Such a base period for a NIFTY 50 index is 3rd November 1995 where the base value of the index is considered 1000 and its base capital stands at Rs. 2.06 Trillion.¹⁵

The formula for calculating price index is listed below –

$$\text{Index value} = \text{Current MV or market value} / (\text{Base Market Capital} * 1000)^{16}$$

The methodology involved in the calculation of indices also considers changes in corporate actions, which for instance comprise of rights issuance, stock splits, etc.²⁰ The NIFTY share market index is a [benchmark](#) standard against which all equity markets in India are measured. Therefore, NSE conducts regular index maintenance to ensure that it remains stable and persists as the benchmark in the Indian stock market context. Nifty Corporation, stylized as NIFTY Corporation (ニフティ株式会社) and @nifty (ニフティ), is one of the leading [internet service providers](#) in [Japan](#), and a subsidiary of [Fujitsu](#).¹⁹ The company was the largest [online service provider](#), Nifty Serve, in Japan. With the spread



of the Internet, it started internet service in 1996. In 1999, it absorbed [Fujitsu's](#) ISP,¹⁸ InfoWeb. In 2006, the online service was closed due to a decline in users. The company went public in December 2006. The Bank Nifty is also a free float market cap weighted index with focus purely on the banking stocks. The Bank Nifty is already one of the most actively traded index future and option in the F&O market. It has assumed significance due to its high weightage in the Nifty and its high correlation with the Nifty.¹⁷

The Bank Nifty is a sectoral index with focus only on banking stocks and includes private and PSU banks. It is also one of the most actively traded indexes in the futures and options segment and it is available for F&O trading on the NSE.²⁸ Bank Nifty is calculated using the free float methodology where the stocks are weighted based on the free float market capitalization. While the Bank Nifty was launched on September 15, 2003, it uses January 01, 2000 as the base year with a base value of 1000.²¹ That means at the current Bank Nifty value of ~30,000, it indicates wealth creation to the tune of 30 times over the last 19 years. The index is rebalanced semi-annually and the Bank Nifty values are available on a real time basis during trading hours. It was the first index available for [weekly options trading](#) and currently has trading volumes higher than the Nifty. Being a sectoral index, the Bank Nifty only represents the banking sector; including the private banks and PSU banks²². Bank Nifty represents the 12 most liquid and large capitalised stocks from the banking sector which trade on the NSE. It provides investors and market intermediaries a benchmark that captures the capital market performance of Indian banking sector.²³ The private banks have an inordinately large weightage in the Bank Nifty, which is hardly surprising considering the way PSU banks have underperformed in the last few years due to NPA challenges. Clearly, HDFC Bank with the highest free float market cap has a disproportionately large weightage in the Bank Nifty.²⁴

IV.CONCLUSIONS

Geopolitical tensions and consequent correction in the stock market prompted many investors to park their money in Nifty BeEs, an exchange-traded fund (ETF) that mimics the S&P CNX Nifty Index. Introduced first in January 2002,²⁵ this instrument is available on the National Stock Exchange (NSE) only and can be bought and sold just like shares through a Demat account. This means that the ETF units that you buy and sell would be in dematerialized format. Those looking to benefit from diversification of their investments can invest in it regularly as the returns mirror the returns earned from the movement²⁶ of the stocks listed in the Nifty50 Index. Since Nifty BeEs is an ETF, you can buy and sell the units at its real-time Net Asset Value (NAV) or the price at which it is being traded.²⁷

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ijmrsetm@gmail.com

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