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In this thread I'll explain how Nifty50 is reconstituted i.e how companies are included and excluded from the index.

Let's go ■■

- Nifty50 is reconstituted 2 times every financial year (September and March)
- Data from 1st Feb to 31st July decides which companies are are to included/excluded in September.
-Data from 1st Aug to 31st Jan decides which companies are are to included/excluded in March.

Besides some trivial requirement there are two major requirements for a company to be included :-

1) Impact cost :- It is the cost of buying and selling a stock with a wide spread between bid and ask price. High impact cost simply means that the stock is illiquid.

A stock which wants to get included in Nifty50 should not have an average impact cost of more than 0.50% on a pre-determined quantity. The data to compute this is not put out for public perusal so it is better to leave the calculation to the exchange.

2) Free-Float Market Cap :- It is the market value of Non-promoter shares. Further it excludes locked-in shares, Shares in employee welfare trust category, Cross holdings, Shares held by promoters through ADRs/GDRs etc

Average Free-float mcap of an aspiring company for the six month period either starting on 1st Feb or 1st Aug should be at least 1.5x Average Free-float mcap of the smallest constituent of Nifty50 for the same six month period.

Also, a maximum of 5 stocks can be included in any given calendar year.

Note :- One inclusion means one corresponding exclusion

I have computed the average Free-float mcap (1/2/22 to 16/5/22) of all the companies having a mcap > 30,000cr and not included in Nifty50.

Also, I have computed the average Free-float mcap (1/2/22 to 16/5/22) of all the companies in Nifty50.

I picked the smallest constituent of Nifty50 and calculated the minimum mcap threshold required for a company to be included.

Threshold (average free-float mcap) as on 16/05/2022 came out to be Rs.48,138cr

In Table 1 you will find the bottom 5 companies in Nifty50 in terms of average free-float mcap.

In Table 2 you will find the top 5 companies vying for an inclusion in the index. The more the average free-float mcap beyond the threshold, the more are its chances of getting included.

If things on 31st July 2022 stand as they did yesterday then there is a high chance that companies in table 2 will replace the companies in table 1 in Nifty50 from September end.

Assumptions

1) No significant change in shareholding pattern from 1/4/2022 to 16/5/2022

2) Average Impact cost of all the companies in Table 2 is well below 0.50%

- This data is as on 16/05/2022 and it keeps changing. However, i'll keep updating it every 1/2 weeks until 31st July (which is the cut-off date)

- Notwithstanding the dynamic nature of this data, it can still be used by traders and index investors alike to spot trends.

- A lot of spadework goes into this preparation. Kindly show your support by retweeting and liking.

- Do give a follow for catching up with weekly updated tables.

Hope you will find this data useful.

EDIT : Forgot to add that inclusion in Nifty100 and derivative segment is also mandatory.