

## **NSE Indices' consultation on treatment of demerger of an index constituent of Nifty equity indices**

NSE Indices Limited seeks market feedback through public consultation on treatment of demerger of an index constituent of Nifty equity indices

### **Background**

Currently, in case of a scheme of arrangement for demerger of any of the index constituents ('Demerged company')- a company which is demerging its business division(s) into a separate new entity/company following adjustment is being made:

- a) If Special Pre-Open session (SPOC) is conducted by the Exchange, the demerged entity shall be retained in the index.
- b) If Special Pre-Open session is not conducted by Exchange, the Demerged company shall be removed from the index at the beginning of T-1 day (close of T-2 day) where T day would be the ex-date for demerger of stock by making a suitable replacement in case of indices with fixed number of companies. No replacement (inclusion) will be made in case of indices with variable number of companies.

However, recently, there have been a few cases of demerger in index constituents where the 'Demerged company' is demerging its business division(s) into two or more spun off entities. There have also been few cases where the 'Demerged company' is transferring its business division(s) to another already listed company(s).

In order to handle such situations, NSE Indices is proposing updation in the treatment of the demerger of such index constituents of Nifty equity indices as detailed below.

The purpose of this consultation is to take feedback from market participants on the below proposals.

### **A) Proposed treatment of a scheme of arrangement for demerger of an index constituent of Nifty equity indices**

#### **A.1) Current treatment of demerger in Nifty equity indices:**

In case of a scheme of arrangement for demerger of any of the index constituents ('Demerged company') - a company which is demerging its business division(s) into a separate new entity/company following adjustment is be made:

- a) If Special Pre-Open session (SPOC) is conducted by the Exchange, the demerged entity shall be retained in the index.

Additionally, the spun off business/ entity shall be included in the index at constant price (which is difference between the demerged company's closing price on T-1 day wherein T is ex-date for demerger and price derived during Special Pre-Open session (SPOS) on the ex-date for demerger.)

The spun off business/ entity which is the newly listed entity shall be removed from the index after end of day (EOD) on third day of its listing.

In case, during the first 2 days of these 3 days, if the spun off business/ entity hits the price band on both days, then the exclusion date shall be deferred by another 3 days. After observing two consecutive days of the spun off business/ entity not hitting the price band, such spun off business/entity shall be removed after the third trading day of such observation

If on such 3rd day spun off business/ entity again hits the price band, exclusion of such stock shall not be deferred anymore

- b) If Special Pre-Open session is not conducted by Exchange, the Demerged company shall be removed from the index at the beginning of T-1 day (close of T-2 day) where T day would be the ex-date for demerger of stock by making a suitable replacement in case of indices with fixed number of companies. No replacement (inclusion) will be made in case of indices with variable number of companies

This treatment is presently applicable to all the Nifty equity indices

#### **Challenges in the existing approach:**

- a) There are a few cases of demerger where the 'Demerged company' is demerging its business division(s) into two or more spun off entities. In such cases, subsequent to the demerger being effective, such spun off entities may get listed on exchange on different business days making it challenging for the index to retain them
- b) For cases of demerger where 'Demerged company' is transferring its business division(s) to another already listed company(s). In such cases, since the company is already listed including such companies in the index may not be required
- c) There have been instances where the spun-off entity post listing continues to be part of the index for a longer period due to it hitting the upper price band on a regular basis, thereby making it challenging for the index to exclude them in a timely manner
- d) The total number of cases of demergers among companies beyond Nifty 500 has been observed to be high. This leads to frequent instances of inclusions of spun off entities for such smaller stock indices leading to challenges in replicating them

## A.2) Proposed updation in the treatment of the demerger of an index constituent of Nifty equity indices

**A.2.1) For scheme of arrangement for demerger of any of the index constituents ('Demerged company') - a company which is demerging its business division(s) in two or more entities/companies or is transferring its business division(s) to another already listed company(s), following adjustment shall be made to the Nifty equity indices where such demerged company is an index constituent:**

The Demerged company shall be removed from the index at the beginning of T-1 day (close of T-2 day) where T day would be the ex-date for demerger of stock by making a suitable replacement in case of indices with fixed number of companies. No replacement (inclusion) will be made in case of indices with variable number of companies.

**A.2.2) For scheme of arrangement for demerger of any of the index constituents (Demerged company') - a company which is demerging its business division(s) into a separate new entity/company, following adjustment shall be made to the Nifty equity indices where such demerged company is an index constituent:**

Post the demerger being effective, for cases where the spun off entity is included in the index, we propose the following changes to the existing methodology related to the subsequent exclusion of such spun off business/entity from the index:

| Existing methodology  | Proposed Methodology  |
|---|---|
| <p>The spun off business/ entity which is the newly listed entity shall be removed from the index after end of day (EOD) on third day of its listing</p> <p>In case, during the first 2 days of these 3 days, if the spun off business/ entity hits the price band on both days, then the exclusion date shall be deferred by another 3 days. After observing two consecutive days of the spun off business/ entity not hitting the price band, such spun off business/entity shall be removed after the third trading day of such observation</p> <p>If on such 3rd day spun off business/ entity again hits the price band, exclusion of such stock shall not be deferred anymore</p> | <p>The spun off business/ entity which is the newly listed entity shall be removed from the index after end of day (EOD) of next business day (D Day) post observing two consecutive days of the spun off business/ entity not hitting the <b>lower price band</b></p> <p>If on such D Day, the spun off business/ entity again hits the <b>lower price band</b>, exclusion of such stock shall not be deferred</p> |

**A.2.3) In terms of applicability of treatment of retaining the Demerged entity and the Spun off entity in the index, we propose the following changes:**

| Existing Methodology   | Proposed Methodology  |
|--|---|
| This treatment is applicable to all the Nifty equity indices | This treatment of demerger shall be applicable to index constituents of Nifty 500 and will thereby apply to Nifty equity indices which include such index constituent/s.<br>For other equity indices, the demerged company shall be removed from the index at the beginning of T-1 day (close of T-2 day) where T day would be the ex-date for demerger of stock. |

**Feedback for proposed treatment of demerger of index constituents of Nifty equity indices**

| Name of the respondent | Organization name | Email ID | Phone number |
|------------------------|-------------------|----------|--------------|
|                        |                   |          |              |

| Sr. No. | Consultation Point for A.2   | Agree/ Disagree | Rationale | Suggestions (if any) |
|---------|--|-----------------|-----------|----------------------|
| 1       | For scheme of arrangement for demerger of any of the index constituents ('Demerged company') - a company which is demerging its business division(s) in two or more entities/companies or is transferring its business division(s) to another company(s) |                 |           |                      |
| 2       | For scheme of arrangement for demerger of any of the index constituents ('Demerged company') - a company which is demerging its business division(s) into a separate new entity/company  |                 |           |                      |
| 3       | Applicability of retaining the Demerged Entity in the index  |                 |           |                      |

**Feedback from market participant is invited on the proposal contained in this paper. The feedback should reach NSE Indices latest by April 10, 2025**

It may be noted that the feedback received from this consultation will be reviewed and considered by the Index Maintenance Sub-Committee (Equity) of NSE Indices Limited. In case of any revision, formal announcement shall be made through a press release. The consultation may or may not lead to the implementation of any or all of the proposed changes in Nifty equity indices

Comments as per aforesaid format may be sent to the following, latest by April 10, 2025, in any of the following manner:

- a) By email to: [index-consultation@nse.co.in](mailto:index-consultation@nse.co.in); or
- b) By participating through '[Online survey](#)'
- c) By post to the following address

**NSE Indices Limited**

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Date: March 27, 2025