BHARAT SCHOOL OF BANKING

Sensex

Share Index

After a private company **goes public,** through **Initial Public Offering (IPO),** or become a **public company,** it is important to know about how the **'public company'** is working. Would it be better to **invest** in that particular company than some other? For facilitating **investors interests,**the concept of **share market index** has aroused.

Sensex

Indian version of the **share index** is **Sensex (Sensitive Index**, coined by Indian stock market analyst, **Deepak Mohoni**). It is maintained by **Bombay Stock Exchange (BSE)** in **Mumbai**, the **business capital** of India. It takes care of **30 financially sound** and **well-established** Indian **public companies shares** or **stocks** (already discussed about **shares** in previous post **'Equity & Debt'**)

Now, let's clear about primary and secondary market.

- **Primary Market -** You buy **shares** from **company** itself
- **Secondary Market -** You buy **shares** from some other **shareholder,** rather than the **company**, meaning the **share** is already gone through the **Primary market**.

Types of Shares

Before going to how you could **calculate sensex**, it is important to know about different types of **shares** -

- **Restricted Shares -** restricted to its own **employees**, or **insiders**, cannot be issued to **public** without **special permission**
- **Float Shares - freely** bought of sold in **public (**consider as floating in public market)
- **Outstanding Shares -** represents all the **shares** the company actually **issued**, either to the **public** or to its own **employees (**meaning, **restricted shares + float shares**)
- **Authorized Shares - maximum** share that a company **can issue**. **Shareholder's Vote** is necessary to increase or decrease it.

Now clear this **types** with a suitable **example -**

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Sensex

Suppose company X has **1,000 Authorized shares**. But, it issued **300** shares to **public (Float Shares), 200** shares to own **employees**/executives (**Restricted Shares**), and retained remaining **500** shares in its **treasury**.
Therefor, **Outstanding shares** makes to **300 + 200 = 500 shares**

Sensex Calculation - **free-float capitalization** method

Step 1 - Find **Market Capitalization** (no. of **outstanding shares x price per share)**
Step 2 - Multiply with **free-float factor** (which is determined by percentage of **floated shares** to **outstanding shares**)

Now, think do a **public investor** need to know about the **shares** that are kept in the **treasury** of the **company,** while **investing**? Answer is **no**. What **shares** are in the **public market (floating share)** is important instead.

From the above **example**,
Percentage of **floating shares** to **outstanding shares** = **(floating / outstanding) x 100 %**
= (300 / 500) x 100 % = 60 %
This **percentage** makes **free-float factor = 0.6**

Now, suppose the **price** of **each share** of the company X is **Rs. 150**. Then **market capitalization** of the company is **= outstanding shares x price per share**
= 500 x Rs. 150 = Rs. 75,000

Therefore, the **free-float market capitalization** becomes = **market cap x free-float factor**
= Rs. 75,000 x 0.6 = Rs. 45,000

Note - This is a **demonstrative** example, not actual figure, just for learning purpose.

Nifty
While **Sensex** is the name of the **share index** of **30 companies** in **S&P BSE, CNX Nifty** is the name of the **share index** of **50 companies** of **S&P National Stock Exchange (NSE)**

S&P - Standard &Poors, an international financial services company
CNX - CRISIL NSE Index