

Of the 28 stocks excluded from the index in past 10 years, 17 performed better than the stocks that were included, and two performed on par with their index counterparts

# Stocks Excluded from Nifty 50 Outperform Those Included

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**ET Intelligence Group:** Next time the benchmark Nifty 50 index is reconstituted at the end of September, one is likely to gain more by investing in the stock that is being excluded instead of the one that is being included in the index. Two out of three times over the past 10 years, the outgoing stock has either outperformed or matched the performance of the incoming stock in Nifty 50 when compared from the date of the change till date.

As per data compiled by ETIG Database, the Nifty 50 index has seen 31 member stocks being replaced in the past 10 years. Comparison of the performance of 28 of the excluded stocks (three stocks got delisted/merged) with that of their counterparts shows that 17 of the outgoing stocks performed better than the stocks that were being included in the index and two of the outgoing stocks performed similarly as their counterpart stocks.

For instance, United Spirits got excluded in September 2014, replaced by Zee Enterprises. Over the last 10 years, the United Spirits stock has risen three-fold while the Zee stock has more than halved.

UPL replaced Bank of Baroda in the Nifty 50 in September 2017. The UPL stock has since risen 6.4% whereas Bank of Baroda has gained 75%.

Year	Stocks Excluded from Nifty 50	% Change till Date <sup>^</sup>	Stocks Included in Nifty 50	% Change till Date <sup>^</sup>
Mar-15	Jindal Steel & Power	478	Yes Bank	-85
Mar-15	DLF	425	Vodafone Idea	-85
Sep-17	Tata Power Company	425	Bajaj Finance	252
Apr-16	Vedanta	369	Eicher Motors	149
Jul-20	Vedanta	271	HDFC Life Insurance	9
Sep-14	United Spirits	198	Zee Entertainment	-57
Mar-17	Bharat Heavy Electricals	167	Indian Oil Corporation	27
Mar-21	GAIL (India)	151	Tata Consumer Products	87
Jul-17	Grasim Industries	136	Vedanta	51
Sep-20	Indus Towers	122	SBI Life Insurance	111

<sup>^</sup>CMP on August 13th, 2024  
Compiled by ETIG Database



Similarly, Indian Oil Corporation was replaced by Apollo Hospitals in March 2022. Since then, IOCL stock has doubled while the stock of Apollo Hospitals has increased only 45%.

**WHY DOES THIS HAPPEN?**

Often the stock unpopular with investors whose valuation has declined tends to get excluded from the index while the more popular stock, gaining valuation, is included. However, over the longer term, the cheaper stock tends to outperform the more expensive one.

Globally, research on index rebalancing effects has shown how stocks excluded from benchmark indices outperform relative to those

included. For instance, in 2013 researchers Kalok Chan, Hung Wan Kot and Gordon Tang investigated the long-term effects of S&P 500 index additions and deletions on a sample of stocks from 1962 to 2003 and found a significant long-term price increase for both added and deleted stocks, with deleted stocks outperforming added stocks. They attributed the long-term price increase for added stocks to increase in institutional ownership, liquidity and analyst coverage, while deletion of stocks had no significant effect on analyst coverage, they found a rebound in the institutional ownership and liquidity of deleted stocks.

It has been found that stocks newly included in a benchmark index

may experience a temporary price rise due to the demand from index funds and institutional investors. However, after the initial increase, they sometimes tend to underperform the broader markets. In contrast, stocks excluded may experience an immediate drop in price due to selling by index funds.

A 2005 study by researchers Honghui Chen, Vijay Singal and Gregory Noronha showed firms added to the S&P 500 experience a permanent price increase, while those removed saw only a temporary price decline. Researchers have pointed to changes in investor awareness explaining this price pattern. Investors become more aware of a stock upon its addition to the S&P 500 index, but not to an equivalent decline after a deletion.





गेल (इंडिया) ने अपने मुख्यालय समेत देशभर में स्थित सभी कार्यालयों में 78वां स्वतंत्रता दिवस धूमधाम से मनाया। इस अवसर पर गेल के अध्यक्ष एवं प्रबंध निदेशक संदीप कुमार गुप्ता ने कॉरपोरेट कार्यालय में ध्वजारोहण किया। इस दौरान संस्थान के कई अधिकारी और पदाधिकारी मौजूद रहे।