

Market Capitalization

Why consider Market Cap?

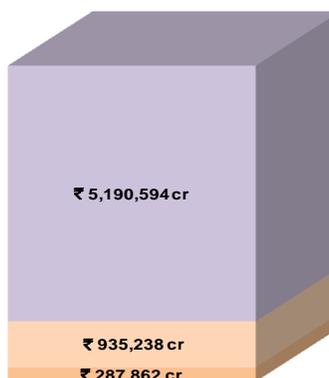


- Stock price of a company by itself doesn't reflect the actual value of a company. In other words if the stock price is high doesn't always conclude the company is growing or has high value.
- Market cap tell us what is the value of the company in the market i.e. for how much the company can be sold in the market.
- It is based on market opinion on back of the company's earnings, macro economic factors etc.
- To help investor know the growth and risk associated with the company, market cap of company can be classified into Large cap, Midcap and Small cap.

Classification of Market Cap

- BSE classifies companies into large cap, midcap and small cap using the 80-15-5 method.
- All the companies are arranged from highest to lowest according to their market cap.
- The top companies contributing to 80% of the total BSE market cap are classified as large cap companies.
- The next set of companies contributing 15% i.e. between 80-95% of the total BSE market cap are classified as mid cap companies.
- The remaining set of companies contributing 5% i.e. 95-100% of the total BSE market cap are classified as Small cap companies.
- This is known as the 80-15-5 method where large cap, midcap, small cap companies contribute 80%, 15% and 5% of the total BSE market cap.
- Chart below shows the BSE market cap classification of the top 1000 stocks listed on BSE indices using the 80-15-5 method.

■ Large Cap-Top 80%
■ Midcap -Next 15%
■ Small Cap-Bottom 5%



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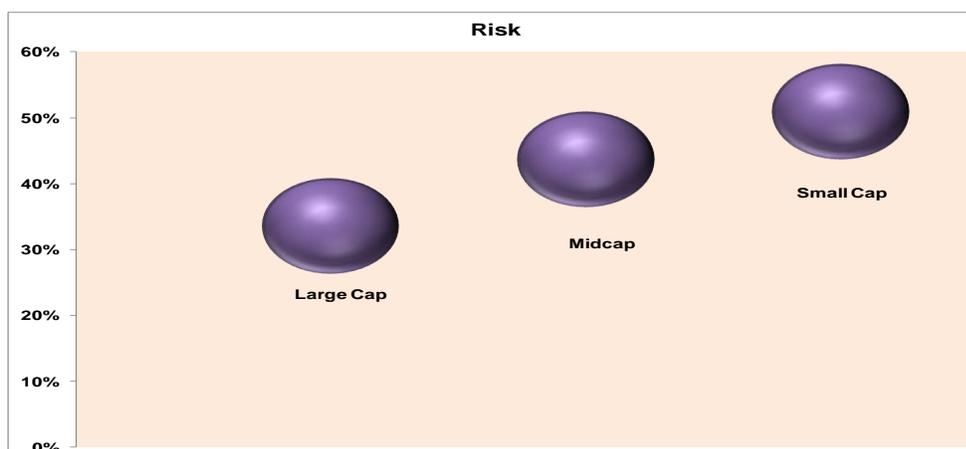
- The top 1000 stocks listed on BSE indices account for 97% of the total BSE market cap of ₹6,585,343 crore¹.
- Table below shows break up of large cap, midcap and small companies of the top 1000 stocks listed on BSE indices.

₹ crore	Large cap	Midcap	Small cap
Market Capitalization	Above 10,000	1,500 to 10,000	Below 1,500
Minimum market cap	10,059	1,505	8
Maximum market cap	301,461	9,981	1,497
Average market cap	43,618	3,756	534
No of stocks	119	249	539

- From above table, we can see that few companies contribute to 80% of the total market cap.
- Chart below shows one year rolling returns of large cap (Sensex), BSE midcap and small cap index during bear and bull run.



- Chart below shows risk² associated with large cap(sensex), BSE midcap and small cap index.



¹ Data as on 5th March 2013

² Standard deviation is used as a risk parameter and data is from Jan 2006 to 7th March 2013

- All the above classification are based on full market capitalization. However BSE for calculating index and assigning weights to stocks in the index uses the free float market capitalization.

Free Float Market Capitalization

- Free float market capitalization is calculated considering only those shares of the company which are readily available for trading in the market.
- It excludes those shares which will not come to the market for trading in the normal course like promoters' holding, government holding, strategic holding and other locked-in shares.
- A Free float market index reflects market movement more rationally as it takes into consideration only those shares that are actually available for trading in the market.
- Using free float market capitalization limits the influence of large cap companies having low free float in the index.
- To calculate free float market capitalization BSE decides a free float factor for each company based on information provided by them as prescribed by BSE.
- The free float factor is then multiplied with the full market cap which determines the free float market capitalization.
- For example a free float factor of 0.50 means that only 50% of the full market cap is considered.