

## HOW TO CALCULATE THE SENSEX



vEcoSys

**How to calculate the Sensex  
– By Prof. *Simply Simple*™**



## HOW TO CALCULATE THE SENSEX

- ❑ Till the decade of the 1980s, there was no scale to measure the ups and downs of the Indian stock market
- ❑ The Stock Exchange, Mumbai then came out with a stock index called the **Sensex** – or *Sensitive Index*
- ❑ The **Sensex** was first compiled in 1986
- ❑ It is a basket of 30 stocks comprising a sample of large, liquid and representative companies
- ❑ The **Sensex** became the barometer of the Indian stock market
- ❑ The base year of the **Sensex** is 1978-79 & the base value is 100



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Interestingly...

*The Sensex is not only scientifically designed but also based on globally accepted construction and review methodology*

The index is widely reported in both domestic and international markets through print as well as international media



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So how is it calculated?

- ❑ The oldest stock market index in the country is calculated using the 'Free-Float Market Capitalization' methodology
- ❑ Market capitalization of a company is determined by multiplying the prevailing price per share with the number of shares issued by the company
- ❑ *E.g. Company A has issued 1 lac shares having market price of Rs. 750/- per share. Therefore, market capitalization of Company A is 1,00,000 shares X Rs. 750/- per share = Rs. 75,00,00,00*
- ❑ This market capitalization is further multiplied by free float factor to determine free-float market capitalization



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What is Free-Float market capitalization?

- ❑ It is defined as that proportion of total shares issued by the company that are readily available for trading in the market
- ❑ It excludes promoters' holding, government holding, and other locked-in shares that do not come to the market for trading

*E.g. Suppose Company B has 1000 shares in total; out of which 200 are held by promoters. Now only 800 shares are available for trading, to the general public.*

These 800 shares are called 'Free-Floating' shares



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## Sensex Calculation Methodology....

- ❑ Assume that the Index consists of only 2 stocks, STOCK A and STOCK B
- ❑ COMPANY A has 800 free-floating shares while COMPANY B has only 1000 free-floating shares
- ❑ Market price of STOCK A is Rs. 120/- per share. Hence its free-float market cap is Rs. 96000/- (800 shares X Rs. 120 per share)
- ❑ Similarly, market price of STOCK B is Rs. 200/- per share & its free-float market cap is Rs. 2,00,000/- (1000 shares X Rs. 200 per share)



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Thus...

*The free-float market capitalization of the index (comprising of STOCK A & STOCK B in this case) is Rs. 2,96,000/-*

*(Rs. 96,000 + Rs. 2,00,000)*





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Now...

- ❑ The year 1978-79 is considered the base year of the index with a base value set to 100, as explained earlier
- ❑ Suppose, at that time, the market cap of the stocks in the index was Rs. 60,000
- ❑ Then, we logically presume that an index market cap of Rs. 60,000 is equal to an index value of 100
- ❑ Thus, the value of the index today is:-
- ❑  $\text{Rs. } 2,96,000 \times 100 / 60,000 = 493.33$



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Hope you have now understood  
how the **Sensex** is calculated.



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