

Free float market capitalization

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What is market capitalization of a company?

- Market capitalization is the outstanding number of shares of a company multiplied by its current market price. For example, if a company has 1 lakh outstanding shares and the stock price is Rs 20, then the market capitalization of the company is Rs 20 lakh.

What is free-float market capitalization?

- In free-float market capitalization, the value of the company is calculated by excluding shares held by the promoters. These excluded shares are the free float shares. For example, if a company has issued 10 lakh shares of face value Rs 10, but of these, four lakh shares are owned by the promoter, then the free-float market capitalization is Rs 60 lakh.

How does free-float market capitalization differ from total market capitalization?

- Free float market capitalization is lower than total market capitalization as shares held by promoters or those that are locked in are excluded. For instance, Coal India has a total market capitalization of Rs 1.8 lakh crore but the free-float market capitalization is about Rs 35,600 crore because of the government's high holding.

How does it affect shares?

- Stocks that have small free float are likely to see higher price volatility as it takes fewer trades to move the share price. On the other hand, in the case of a

larger free float, volatility is lower. In stocks with a large free float, the number of buying and selling the shares is higher and so, a small amount of trading does not affect the price significantly.

How does the free-float methodology help in index calculation?

- Both NSE and the BSE use the free-float market capitalization method to calculate their benchmark indices Nifty and Sensex respectively and assigning weight to stocks in the index. So a company with a higher free float has a higher weightage on the indices. A free float index reflects market trends better as it takes into consideration only those shares which are available for trading. It also makes the index more broad-based as it helps to reduce the concentration of the top few companies.