

# Mid and smallcaps carve out a bigger slice of portfolio pie

Flexicap, ELSS, and multicap schemes have piled on more mid and smallcap flavour since March

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The midcap and smallcap exposure of diversified equity schemes has increased over the past few months, despite concerns of overvaluation in these sectors.

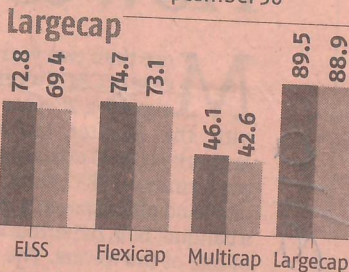
In the past six months, the largecap exposure of the equity-linked savings scheme (ELSS) has decreased from 73 per cent to 69 per cent, according to data from PRIME Database. Simultaneously, the average midcap and smallcap allocations have increased by a couple of percentage points each. A similar trend is noticeable in flexicap and multicap funds as well.

These six months have been characterised by significant outperformance in midcap and smallcap stocks compared to largecaps.

The National Stock Exchange Nifty50 Index gained over 13 per cent, while the Nifty Midcap 100 and Nifty Smallcap 100 surged by 35 per cent and

## BIG FEATHER IN SMALLCAP (in %)

■ March 31 ■ September 30



## Midcap



## Smallcap



ELSS: Equity-linked savings scheme  
Source: primedatabase.com

42 per cent, respectively.

Analysts suggest that this skewed rally may have driven up midcap and smallcap allocations.

Fund managers explain that while midcap and smallcap stocks may appear expensive at the index level, they are still uncovering pockets of opportunity within these segments.

"During stock selection, our primary focus is on the growth potential and valuation of the specific stock. Market capitalisation is a secondary factor," said Sanjay Chawla, chief investment officer (CIO)-equities, Baroda BNP Paribas Mutual Fund (MF).

While the aggregate midcap and smallcap exposure has increased, some fund managers have reduced their allocation in their schemes. They attribute the lower weights to both profit booking and a higher influx of funds into largecaps.

"After the sharp rally, the margin of safety has slightly shifted away from midcap and smallcap stocks. Consequently, we have rebalanced our existing portfolios. Currently, we see a better risk/reward balance in largecaps and midcaps to some extent," said Trideep Bhattacharya, CIO-equities, Edelweiss MF.

"In our flexicap fund, we reduced the smallcap and midcap exposure as of September 23 compared to the previous month. We have also directed most of the incremental flows into largecaps, given their better valuations," said Chirag Patel, co-head, product strategy, WhiteOak Capital.