

Flexi-cap funds wary of mid-, small-caps

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EVEN AS MID- and small-cap stocks staged a sharp recovery in April, flexi-cap fund managers remained cautious about significantly increasing exposure to the segment.

An analysis by PrimeMF Database showed that mutual fund schemes across fund houses increased their average allocation to mid-caps by only 0.9%, from 17.93% in March to 18.83% in April. Allocation to small-caps rose by 1.44%, from 16.66% in March to 18.10% in April.

This comes despite a strong rally during the month, with BSE mid-cap and small-cap benchmarks gaining 13.81% and 19.61%, respectively. The gains comfortably outpaced the large-cap benchmarks, with the BSE Sensex and NSE Nifty rising 6.9% and 7.5%, respectively.

Among flexi-cap schemes, 11 increased their large-cap exposure by between 0.36% — in the case of The Wealth Company Flexi Cap Fund — and 8.22% for LIC MF Flexi Cap Fund.

At the same time, 33 schemes reduced their large-cap allocation by between 0.46% (for Mirae Asset Flexi Cap Fund) and 9.51% (for Samco Flexi Cap Fund).

In the mid-cap segment, 28 schemes increased exposure by an average of 2.01 percentage points, ranging from 0.12% for The Wealth Company Flexi Cap Fund to 12.26% for LIC MF Flexi Cap Fund. Meanwhile, 16 schemes reduced exposure by an average of 1.06%, with cuts ranging from 0.03% for Tata Flexi

CAUTIOUS STANCE

■ Fund managers raise exposure only marginally amid valuation and inflation concerns

■ Slow recovery in many small-cap stocks following corrections one of the reasons

■ BSE mid-cap and small-cap gauges gained **13.81%** and **9.61%**, respectively, in April



■ Some fund houses are selectively raising exposure to these stocks

■ 34 schemes raised allocations by an average of 2.1% in small-caps

Cap Fund to 3.13% for Shri-ran Flexi Cap Fund.

In the small-cap segment, 34 schemes increased allocations by an average of 2.1%, ranging from 0.05% for Sundaram Flexi Cap Fund to 11.93% for Samco Flexi Cap Fund. Nine schemes reduced small-cap exposure by an average of 3.22%, with cuts ranging from 0.01% for Mirae Asset Flexi Cap Fund to 16.60% for LIC MF Flexi Cap Fund.

Alok Singh, CIO and head of investment at Bank of India Mutual Fund, said several fund managers and investors remain wary of the mid- and small-cap space due to concerns around inflation stemming from the West Asia conflict. “Historically, inflation tends to impact companies with smaller balance sheets more severely.”

Singh added that another factor behind the cautious stance was the slow recovery in many small-cap stocks following the market correction that began in September 2024.

“The market is seeing valu-

ation comfort in large-caps but that may be somewhat misplaced because lower valuations are largely due to the recent corrections in IT stocks,” he said.

Singh said his fund house expects the inflationary impact of the geopolitical conflict to be lower than anticipated, and has therefore increased exposure to mid- and small-caps in its flexi-cap schemes. The fund house remains overweight on auto and auto ancillary, metals, pharmaceuticals and power within the broader market space.

Sandeep Tandon, CIO and money manager at Quant Mutual Fund, said the fund house is selectively increasing exposure to mid- and small-cap stocks. “There are still players who are not convinced about increasing allocations to these segments yet.”

Tandon said Quant MF remains bullish on sectors such as power, data centres, pharmaceuticals, renewables and battery storage within the mid- and small-cap universe.