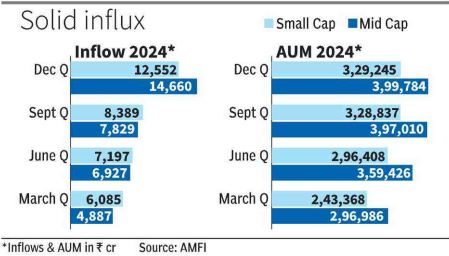


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Inflows into small, mid-cap MF schemes remain strong despite SEBI’s concerns



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Notwithstanding the concerns raised by SEBI and measures implemented by leading fund houses, inflows into small- and mid-cap funds remain strong as investors continue to bet big on the India growth story. The net inflows into small-cap funds have more than doubled in the December quarter to ₹12,552 crore against ₹6,085 crore in the January quarter.

Similarly, investments in the mid-cap funds nearly tripled last year to ₹14,660 crore (₹4,887 crore in March quarter).

The sharp inflows into these sectors can be traced to better stock performance of these companies. While the Sensex gained just 8 per cent last year to 78,139 points against 72,240 points in 2023, the BSE Small-cap index has jumped 29 per cent to 55,181 points (42,673 points) in the same period.

Nikhil Rungta, Co-Chief Investment Officer, LIC Mutual Fund said, mid- and small-cap companies will play a key role in achieving the government’s \$5-trillion economy target over the next five years and the premium valuation is justified from the fact that some of the emerging sectors are represented only in this segment.

However, he added that

there are definitely concerns among the top 50-60 companies in this sector but real ‘value-for-money’ stocks can be identified as the market in this segment is very deep.

Many leading fund houses, including ICICI MF, Kotak MF, Nippon India MF, SBI MF and Tata MF, have capped or completely stopped lumpsum investment in small-cap schemes due to difficulty in deployment of funds amid stretched valuation. Mutual funds are largely recommending investment through SIPs in small- and mid-cap funds.

Anirudh Garg, Partner and Fund Manager at Invasset PMS said investors’ confidence in small-caps stems from their significant growth potential and the strong performance of these funds in recent years.

BETTER RETURNS

Small-cap companies often operate in niche markets or emerging industries, providing opportunities for higher returns as they expand. Also, small-caps have demonstrated the ability to generate alpha through active stock selection and diversification, which has further reassured investors, he said.

It is crucial to acknowledge that small- and mid-cap stocks are trading at elevated valuations, which raises the risk of corrections, a major part of which was in the last quarter, he added.