

# Midcap Outlook

---

Why mid/small caps will likely outperform large caps?



# Why mid & small caps could outperform...

---



## **\*Growth likely to be broad based on the way up**

- \* Economic activity has bottomed out and recovery has surprised positively
- \* Government actively encouraging revival with unrelenting focus
- \* Benign monetary conditions likely to continue

## **\*FPI flows are robust, domestic flows could turn**

- \* It's a myth that FPIs don't buy into midcaps

## **\*Historical experience suggests good odds of outperformance**

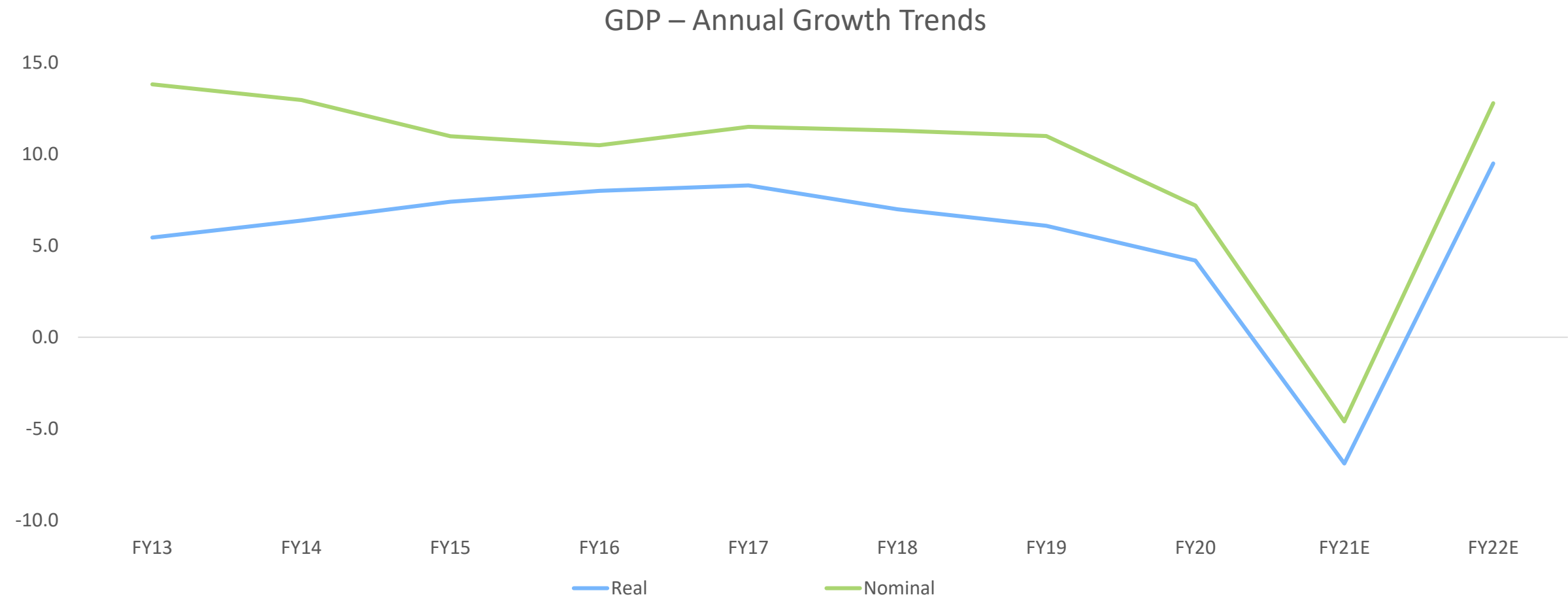
- \* After big mid/small cap underperformance over '18 & '19, good chance of a reversal- already underway?
- \* Over ideal investment horizon of 3-5 years, odds are very attractive
- \* Front ending of returns on the way up

# Growth recovery...

---



# Growth deceleration reversing....



Source: Motilal Oswal Securities Ltd.

# Growth likely to be broad based....

---



## \*Government's structural reforms...

- \* Agri laws...to boost agro-industry over medium/long term
- \* Labor laws...improving ease of doing business for small sized businesses
- \* GST/RERA...formalization of businesses across the spectrum

## \*Manufacturing & Infra push

- \* Atmanirbhar initiative to benefit host of smaller sectors...
- \* Incentivizing investments through tax cuts & PLI...reversing the hollowing out of manufacturing
- \* Roads/Railways/Ports/Urban infra/Housing....big benefit for downstream players

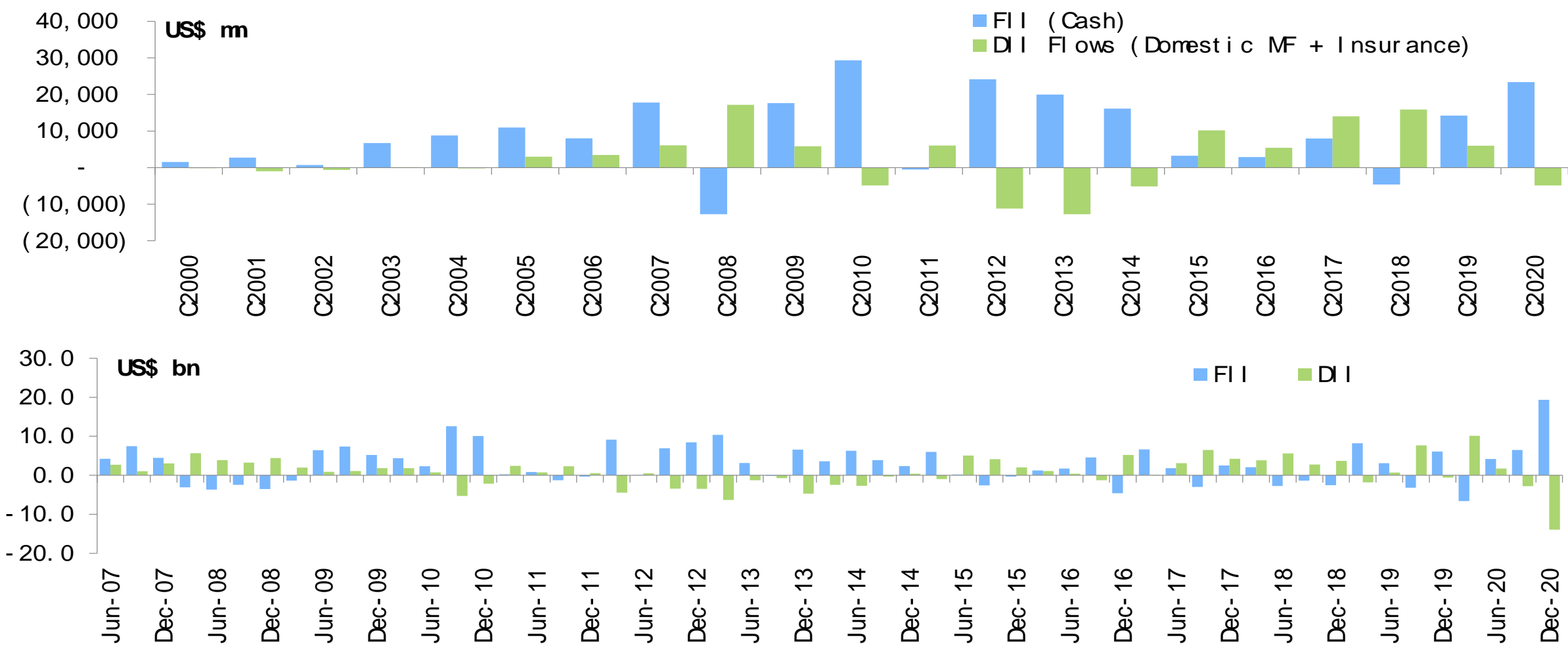
## \*Monetary policy likely to stay benign, conducive for inclusive growth

# Flows...

---



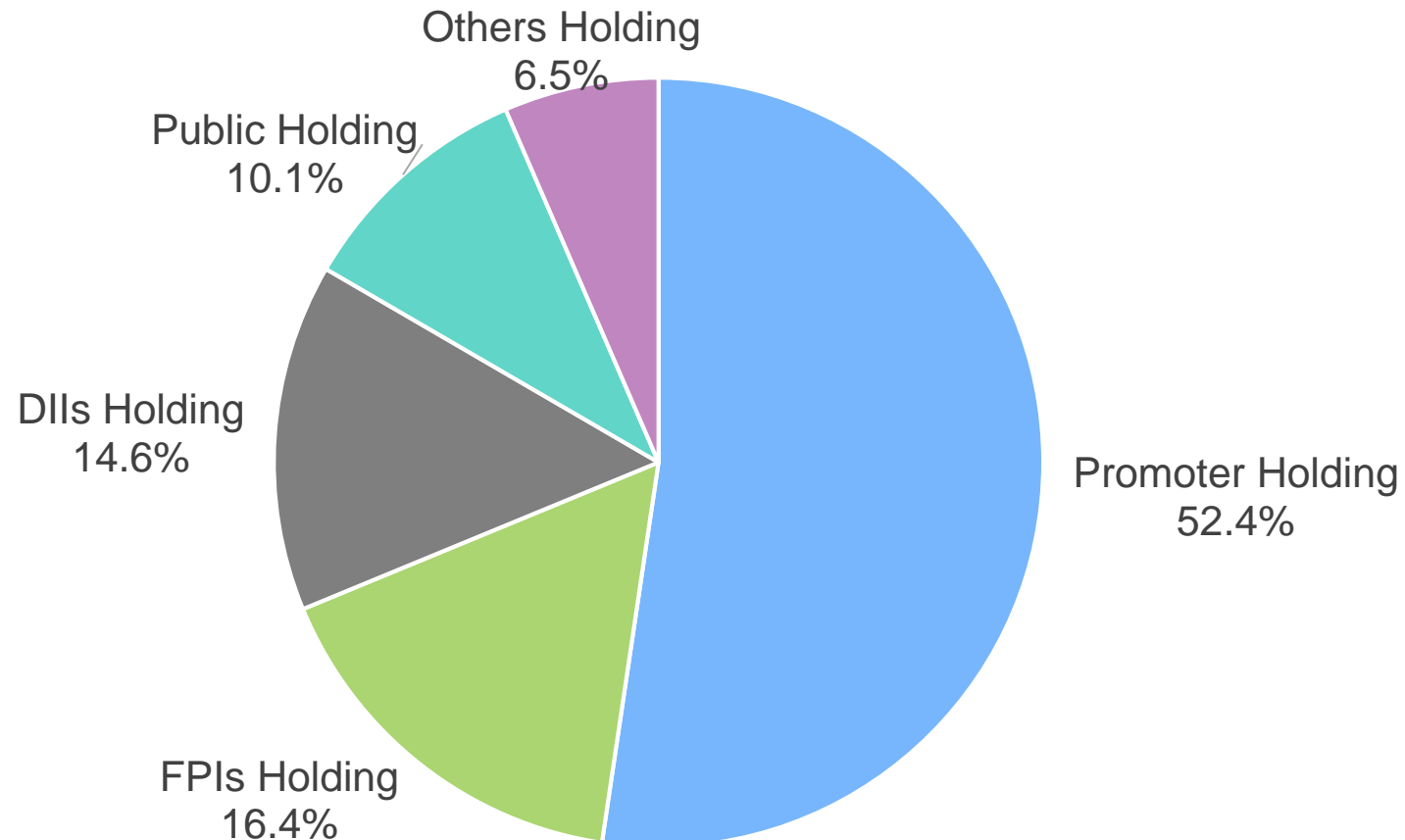
# FII Flows have been buoyant, domestic flows disappointing, but could turn



# ‘FPIs don’t invest in midcaps’ is a myth



**NSE Midcap 100 - Ownership Pattern (%)**



Source: Yes Sec, Data as of September 2020



## Historical evidence...

---



# Midcaps outperformed large caps in 12/20 years



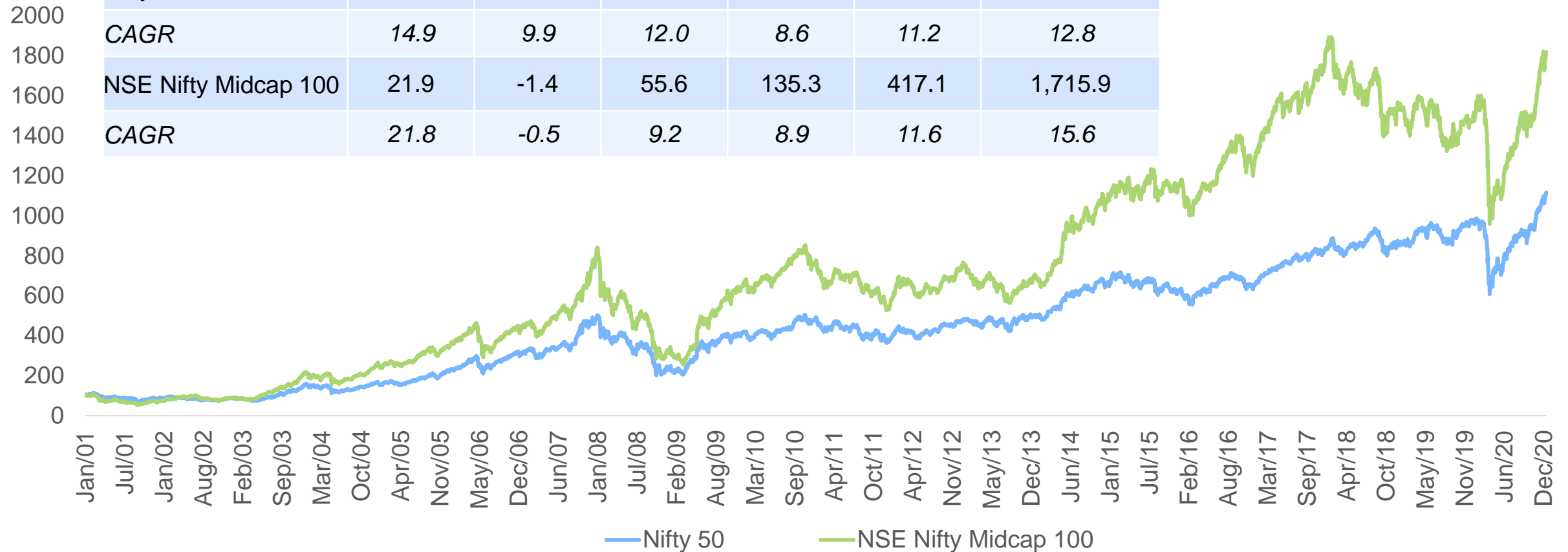
| Year | Large cap | Mid cap | Out Performance (Mid cap Vs Large cap) |
|------|-----------|---------|--|
| 2001 | -16       | -30     | -14                                    |
| 2002 | 3         | 24      | 21                                     |
| 2003 | 72        | 138     | 66                                     |
| 2004 | 11        | 25      | 14                                     |
| 2005 | 36        | 35      | -1                                     |
| 2006 | 40        | 29      | -11                                    |
| 2007 | 55        | 77      | 22                                     |
| 2008 | -52       | -59     | -8                                     |
| 2009 | 76        | 99      | 23                                     |
| 2010 | 18        | 19      | 1                                      |
| 2011 | -25       | -31     | -6                                     |
| 2012 | 28        | 39      | 11                                     |
| 2013 | 7         | -5      | -12                                    |
| 2014 | 31        | 56      | 25                                     |
| 2015 | -4        | 6       | 11                                     |
| 2016 | 3         | 7       | 4                                      |
| 2017 | 29        | 47      | 19                                     |
| 2018 | 3         | -15     | -19                                    |
| 2019 | 12        | -4      | -16                                    |
| 2020 | 15        | 22      | 7                                      |

Source: Bloomberg, Data as of 31<sup>st</sup> December 2020. Large Cap = NSE Nifty 50 Index and Midcap = NSE Midcap 100 Index

# Over long periods midcaps have outperformed large caps



| Return (%)           | 1 year | 3 years | 5 years | 10 years | 15 years | SI (01/01/2001) |
|----------------------|--------|---------|---------|----------|----------|-----------------|
| Nifty 50             | 14.9   | 32.8    | 76.0    | 127.9    | 392.9    | 1,014.7         |
| CAGR                 | 14.9   | 9.9     | 12.0    | 8.6      | 11.2     | 12.8            |
| NSE Nifty Midcap 100 | 21.9   | -1.4    | 55.6    | 135.3    | 417.1    | 1,715.9         |
| CAGR                 | 21.8   | -0.5    | 9.2     | 8.9      | 11.6     | 15.6            |



# High odds of midcaps outperforming over 3-5 years investment horizon

---

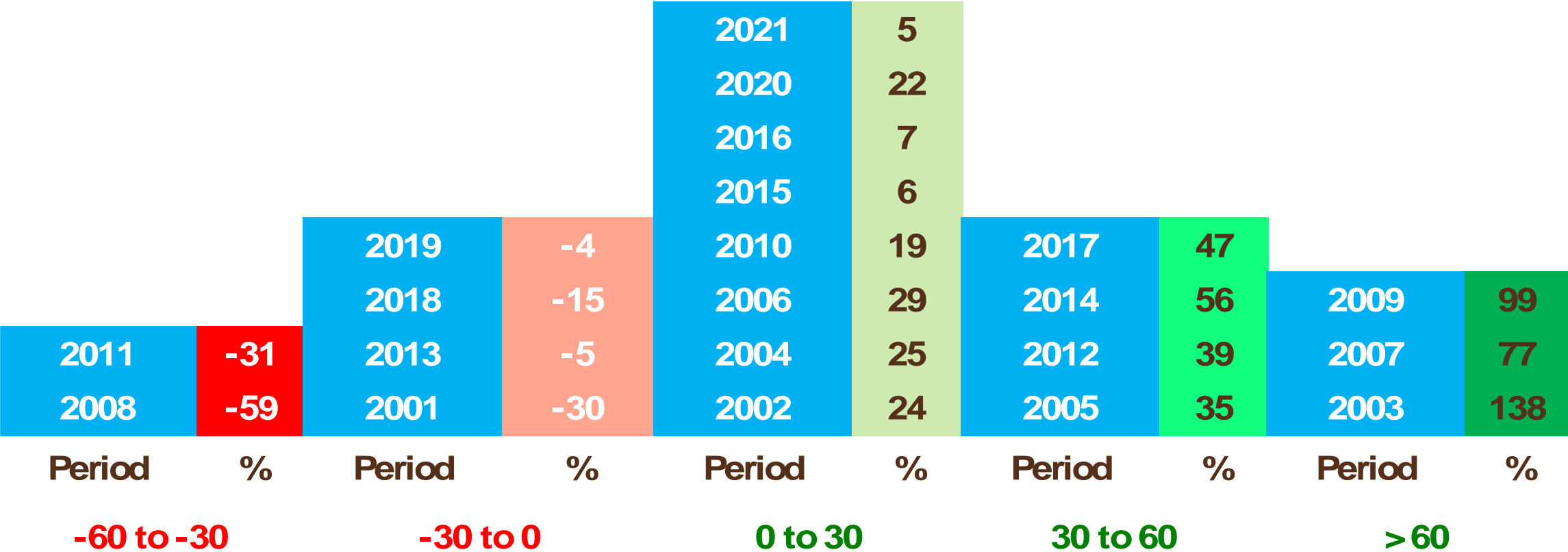


- \*On a 3 year daily rolling return basis, 65% of times midcap index has outperformed large cap index**
- \*On a 5 year daily rolling return basis, 77% of times midcap index has outperformed large cap index**

# Historically, NSE Midcap100 Index has delivered positive returns in 14/20 years, with a CAGR of ~16.5%



Percentage Return Range (Calendar year)



Source: Bloomberg

# Returns from midcaps tend to be front ended



| NSE Midcap Index  |             | Bull phases in Indian Mid-caps |                     |                     |
|---|-------------|--------------------------------|---------------------|---------------------|
|   |             | Apr 2003 - Jan 2008            | Mar 2009 - Nov 2010 | Aug 2013 - Jan 2018 |
| Index value at the start of the bull phase                  | Index value | 957                            | 3,407               | 6,590               |
| Index value at the end of the bull phase                    | Index value | 7,308                          | 8,908               | 20,785              |
| Duration of the phase                                       | months      | 58                             | 21                  | 54                  |
| <b>Returns analysis: CAGRs with &amp; without Year 1</b>    |             |                                |                     |                     |
| Total holding period return                                 | %           | 664%                           | 161%                | 215%                |
| <b>CAGR during the phase</b>                                | %           | <b>53%</b>                     | <b>78%</b>          | <b>30%</b>          |
| Returns in the Year 1 of the phase                          | %           | 142%                           | 126%                | 69%                 |
| <b>CAGR during the phase (Excl the Year 1 returns)</b>      | %           | <b>36%</b>                     | <b>24%</b>          | <b>20%</b>          |
| <b>How important are Year 1 returns in a reversal?</b>      |             |                                |                     |                     |
| Did the best month in the phase fall in Year 1?             | %           | Yes                            | Yes                 | Yes                 |
| Of the 5 best months in the phase, how many were in Year 1? | months      | 3                              | 5                   | 3                   |
| Best monthly return during the phase                        | %           | 22%                            | 39%                 | 15%                 |
| <b>Phase CAGR - excluding the best month</b>                | %           | <b>48%</b>                     | <b>49%</b>          | <b>26%</b>          |
| <b>Phase CAGR - excluding the five best months</b>          | %           | <b>33%</b>                     | <b>21%</b>          | <b>17%</b>          |

# What could go wrong?

---



# Risks & thing to remember

---



- \*Subsequent infection waves derailing economic recovery**
  - \*Global risk off events**
  - \*Global central banks reversing benign monetary policy due to inflation**
  - \*Indian government going back on key reforms**
  - \*Unknown & unknowable**
- 
- \*Remember, mid/small cap segment will likely be more volatile & corrections are part of the game**





## **Mutual fund investments are subject to markets risks, read all scheme related documents carefully**

Disclaimer: This document has been prepared by Edelweiss Asset Management Limited (Edelweiss AMC) based on internal data, publicly available information and other sources believed to be reliable. Any calculations made are approximations, meant as guidelines only, which you must confirm before relying on them. The information contained in this document is for general purposes only. The document is given in summary form and does not purport to be complete. The document does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of explanation and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s). The information/ data herein alone are not sufficient and should not be used for the development or implementation of an investment strategy. The same should not be construed as investment advice to any party. The statements contained herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Neither Edelweiss Asset Management Limited (Edelweiss AMC) and Edelweiss Mutual Fund (the Fund) nor any person connected with them, accepts any liability arising from the use of this document. Edelweiss Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. The recipient(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein. Past performance may not be sustained in the future.

Know more, [www.edelweissmf.com](http://www.edelweissmf.com)

---

