

## SIPs in Small- & Mid-cap Funds Shine, but Don't Invest Blindly

Over the last one year, many investors have been using systematic investment plans (SIP) to invest in equity mutual funds. Due to a sharp run-up in the markets, SIPs in small- and mid-cap funds have been one of the best performers giving returns as high as 50%. But financial advisors caution against investing aggressively in these fund categories on the basis of recent returns as valuations are stretched. The NSE Small Cap 250 index now trades at a price to earnings (PE) ratio of 102.84 as against 83.34, a year ago.

"Do not look at mid-and mid-caps from a one-year period, as they could be volatile in the short term," says Amol Joshi, founder, Plan Rupee Investment Services. Some believe this category is only for investors who have seen a number of equity cycles and understand the risks in such investments. "Though the returns are tempting, the risk in small- and mid-cap funds is far higher. Only investors who understand this, should look at such funds with a time frame of 3-5 years," says Gajendra Kothari, founder, Etica Wealth Management.

—Prashant Mahesh

### L&T EMERGING BUSINESSES

Fund Manger: **Karan Desai and Souendra Lahiri** Assets Under Management (AUM): **₹689 crore**

Top 3 Holdings: **Apar Industries, Ramco Cement, Avanti Feeds** 1-Year SIP Return (%): **50.23**

The fund managers follows a bottom up stock picking strategy eyeing companies that will have positive cash flows. Typically the fund managers identify stocks which are ranked between 200 and 400 by m-cap. The portfolio has as many as 60-70 stocks as the fund manager avoids taking concentrated bets in the small-cap space.

### L&T MIDCAP

Fund Manger: **Souendra Lahiri and Vihang Naik** Assets Under Management (AUM): **₹733 crore**

Top 3 Holdings: **Shree Cement, Indusind Bank, Federal Bank** 1 Year SIP Return (%): **42.75 / 25.62**

The fund managers identify companies which are beyond the top 100 by m-cap, with a eye for strong cash flows and high ROE. The fund adopts a buy-and-hold strategy, holding on to the winners. The fund typically avoids risks by not taking too many contrarian bets. It has managed to beat its benchmark over longer tenures of 5 and 10 years.



### RELIANCE SMALL CAP

Fund Manger: **Samir Rachh and Sunil Singhania** Assets Under Management (AUM): **₹3,344 crore**

Top 3 Holdings: **Navin Fluorine, VIP Inds, West Coast Paper** 1 Year SIP Return (%): **47.89 / 18.59**

The fund managers look to buy good businesses at a reasonable price, with good managements, reasonable valuations and business scalability and sustainability. With its strength of a large research team tracking 450 stocks, the investment team has been able to spot several good opportunities in the small-cap space.

### BIRLA SL SMALL AND MIDCAP

Fund Manger: **Jayesh Gandhi** Assets Under Management (AUM): **₹593 crore**

Top 3 Holdings: **DCB, Akzo Nobel, KEC International** 1 Year SIP Return (%): **42.64 / 27.61**

The fund manager adopts a bottom-up approach, and the portfolio typically has 35-40 stocks. In order to avoid concentration risk, the maximum exposure to individual stocks is capped at 3%. The fund manager typically identifies ideas which are likely to play out over a three year period, to benefit from an upswing in the cycle.

### TATA EQUITY PE

Fund Manger: **Sonam Udasi** Assets Under Management (AUM): **₹983 crore**

Top 3 Holdings: **Yes Bank, Power Grid, GAIL** 1 Year SIP Return (%): **41.3/23**

At a time when valuations have run-up on expectations of earnings catching up in the coming year, the downside risks have increased. In such a scenario, many financial planners believe this fund with a mandate to invest at least 70% of its portfolio in stocks whose trailing PE is less than that of the Sensex stocks can be a good bet.