

NEWSLETTER

DECEMBER 2022



Capital
—SPROUT—



The Chairman's Message



Greetings from Capital Sprout!

It gives me pleasure to share with you December 2022 issue of Capital Sprout's Wealth Bulletin. Where this month's bulleting is about MID-CAP & SMALL-CAP sector of the industry & the importance of this sectors in financial market.

We are in 2023 with the new aspirations, positivity & hope. In same manner, global economy is expecting some sort stability and expecting no negative turbulence further till the end of 2023. The year 2022 was dominated by inflation shocks, sharp interest rate hikes and market volatility. It has been a rollercoaster ride for the global market as well as for the Indian market, led by global macro uncertainties, including geopolitical tension, heightened inflation print, rate tightening, economic slowdown and lastly re-emergence of covid-19 fears. Against this backdrop, Indian equities have delivered a stellar and sharp outperformance for the year gone by with the Nifty 50 and Sensex clocking all-time high during early part of December. The Nifty outperformed the Dow Jones by 22%.

This bulletin will look deeply in importance of MID-CAP & SMALL-CAP in economy of the country and importance of these sectors in Capital Market.

An effort has been made to present comparative analysis of performance of MID-CAP & SMALL CAP across world's major stock market. How MID-CAP & SMALL CAP creates an opportunity for investors in long term.

I hope readers find this bulletin useful and help them understand MID-CAP & SMALL-CAP sector in Equity market & Mutual fund industry.

CA DR Rajesh Khandol

Role of Mid & Small Cap Company in Development of The Country

MID & Small Cap sector of the industry are major contributor to the socio-economic development of the country. In India, these sectors have gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and particularly in export of country. During last 5 years, Mid & Small cap industry has become the growth driver in India. These Mid & Small companies have the capability to turnaround the economy of the country. It has the potential to convert from Small to MID & from MID to Large size of the company.

Business & Commercial policy implementation is normally fast in MID & Small scale companies as compared to Large scale companies as Management hierarchy structure is simple as compared to large companies. Normally, high level of operational efficiency can be found in such organisation. Resources of the organisation are utilised at the optimum level which results into high productivity, controlled input cost, which ultimately improves sales margins and effectively improves profitability as a whole. These Mid & Small cap companies are also considered as “SME & MSME” under Government classification. These “SME & MSME” companies are not only growth finder for themselves but they also play a key role in contributing country’s various economic parameters. viz Employment generation, contributing in country’s exchequer, contributing in GDP, export etc. According to reports by “Naukri.com”, a leading networking & job recruitment platform, Jobs posted by small and midsize businesses (SMBs) witnessed a 60% growth, on a year-on-year basis.

Large cap organisations have achieved its peak level in respect of Growth parameters, it’s difficult to sustain same scale of growth as it’s achieved during their growing period, so scope of improvement & growth becomes limited in Large cap organisations, whereas MID & Small cap companies have lot to achieve & lot to grow.



Mid-Cap & Small-Cap Sector in Financial Markets

MID-CAP & SMALL-CAP have always been an interesting sector in Stock market & Mutual fund industry. Earning potential & Valuation factors have made these sectors most attractive in stock market. Sensex & NIFTY 50 are two main indexes of BSE & NSE representing 30 & 50 stocks respectively. But in stock market, more than 1,800 companies are listed in NSE & 5,310 companies are listed in BSE. These MID-CAP & SMALL-CAP company drives majority of stock exchange trading.

During last 3 years, 106 MID-CAP & SMALL-CAP companies have been listed in BSE & NSE with total issue size of more than Rs. 2.10 Lakh crore which is a clear indication that MID-CAP & SMALL- CAP companies in India are in growth path and they require more fund to expand their business or fulfil their financial commitments.



Classification of Large Cap, MID-CAP & SMALL-CAP Company in stock exchange as per SEBI guidelines:



LARGE CAP

The **top 100 companies** listed in the stock market based on market capitalization.



MID CAP

From **101 to 250 companies** in terms of market capitalization.



SMALL CAP

The companies ranked from the **251st position onwards** in terms of market capitalization

LARGE CAP

47%

Market Cap

Rs. 1,31,69,050.38 Cror

No of company : 100

MID CAP + SMALL CAP

53%

Market Cap

Rs. 1,48,88,646.09 Cror

No of company : 5,210

Total Market Capitalization of BSE Listed Company

Rs. 2,80,57,696.47 Cror | No. Of companies : 5310

Above table indicates market capitalisation of MID-CAP & SMALL-CAP companies in BSE is more than 53% of total market capitalisation of BSE stock exchange.

Potential of Indian Mid-Cap & Small-Cap Sector

MID-CAP & SMALL-CAP have the potential of generating additional return over Large cap stocks due to their higher growth potentiality as compared to large cap companies, higher scope of improvement and other factors. Decision making is always simple & easy to implement in MID-CAP & SMALL CAP companies as compared to Large cap companies which sometimes becomes a crucial factor grab the business opportunities. Indian MID-CAP & SMALL-CAP always remains favourite of investors. FIIs are also giving more weightage to fundamentally strong MID-CAP & SMALL-CAP companies in their investment allocation which makes these companies more competitive in stock market. Investors including DII & FII find wide range of stock selection in MID-CAP & SMALL CAP with respect of different industry, different sectors, variety of products & business etc.



World Vs India - Performance Of Mid-Cap & Small-Cap Sector

Returns in MID-CAP & SMALL-CAP in India have remained almost flat during last 1 & 1.50 year but if we compare return of MID-CAP SMALL CAP with world' major stock markets than Indian MID-CAP & SMALL-CAP is doing a fantastic job & they have yielded the Best returns amongst one of the largest stock markets of the world.

Mid-cap Index Of World Major Stock Market

Country	Mid Cap Index– Absolute Return		
	1 YEAR	2 YEAR	3 YEAR
USA	-12.33%	19.46%	26.80%
India	-0.32%	67.17%	39.82%
Singapore	-10.07%	-13.79%	-17.53%
Japan	-9.73%	-5.83%	-16.20%
UK	-16.99%	-9.87%	-5.88%

Small Cap Index Of World Major Stock Market

Country	Small Cap Index – Absolute Return		
	1 YEAR	2 YEAR	3 YEAR
USA	-21.05%	8.20%	14.91%
India	-3.04%	107.27%	47.14%
Singapore	-23.00%	-27.05%	-37.69%
Japan	-14.22%	1.25%	-4.22%
UK	-15.01%	6.64%	5.77%

Above statistics clearly shows that India's MID-CAP and SMALL CAP index has outperformed all other major countries in 3 years & 5 years return.

During last 1 year, MID-CAP and SMALL CAP index of other countries have given negative return in the range of 10% to 23% where as Indian MID-CAP and SMALL CAP index are almost flat which is a significant looking at the adverse global scenario.



In spite of the fact that MID CAP & SMALL CAP segments corrected in 2022, much of the **froth** has now been cleared. MID-CAP & SMALL CAP traded at nearly **85 times of their earnings in 2021** where now trading at **24 times earnings** which are near to realistic figures.

Index	Current	1 Year Ago	2021	10 Year Avg
NIFTY 50	22.67	25.25	36.5	22.29
NIFTY SMALL- CAP 100	16.27	29.75	65.67	81.51
NIFTY MID-CAP 100	23.36	26.66	84.7	29.21

Above statistics are clear indications that both MID-CAP & SMALL-CAP segments are currently trading at very attractive valuation which can be huge investment opportunity for investors for long term investment in fundamentally strong SMALL CAP & MID CAP segment companies.

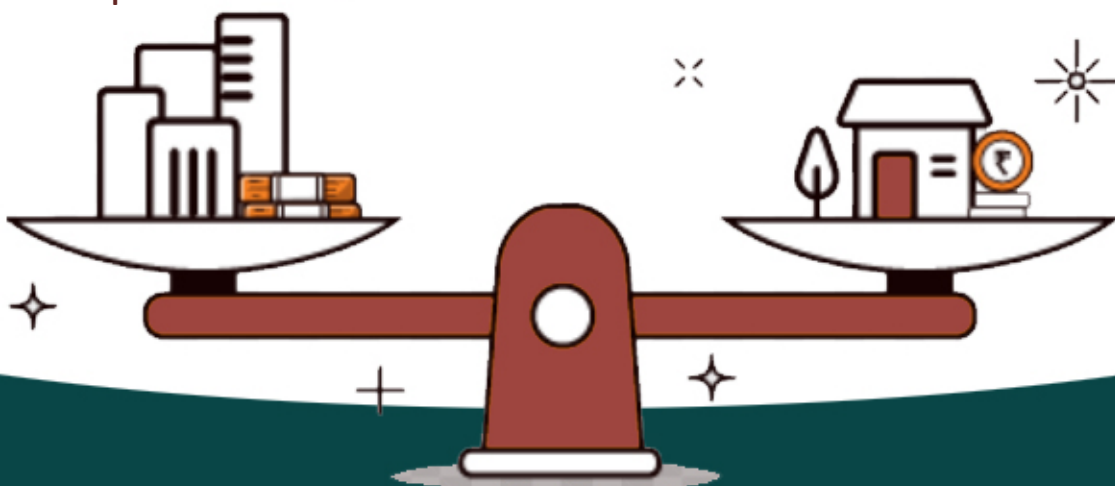


Mutual Fund – Mid-Cap & Small-Cap Funds

MID-CAP & SMALL-CAP segment in Mutual fund has remained muted segment in past. But post Covid period, Small Cap & MID-cap Funds have witnessed huge interest and huge growth in AUM of that segment. Some of MID-CAP & SMALL-CAP funds have generated better returns than direct equity investment in MID-CAP & SMALL CAP stocks during the last 2-3 years.

Sector	Sep-20	Nov-22	Increase	
	Rs. In Cror	Rs. In Cror	Amt. Rs. In Cror	%
Mid cap fund AUM	90,415.67	1,86,335.38	95,919.71	106%
Small cap fund AUM	54,056.16	1,29,947.56	75,891.40	140%
AUM of Mid-cap & Small cap fund	1,44,471.83	3,16,282.94	1,71,811.11	119%
AUM of equity mutual funds	7,64,309.00	15,30,975.00	7,66,666.00	100%
Share of mid-cap & small cap fund in Growth of equity fund AUM			22%	
<i>Note : Since Sept-20, Rs. 7.67 Lakh crore fresh AUM added in Equity Oriented Mutual funds out of which Rs. 1.72 Lakh crore of MID-CAP & SMALL-CAP funds - 22% of Equity fund AUM</i>				

Stock selection in Small-cap & MID-cap segment is a challenging task as selection universe is more than 5,000 companies. It's always difficult to pick quality stocks amongst such huge universe of basket. In contrast, picking up good MID-CAP & SMALL-CAP mutual fund is relatively an easy task. Fund Managers' role become crucial in MID-CAP & SMALL-CAP funds as they are entrusted to design their portfolio with inclusion of not more than 50-60 stocks in basket. Investors can be benefited of fund Manager's expertise in MID-CAP & SMALL-CAP mutual funds.



Mid-Cap V/s Nifty 50

Name of Fund / Index	3 Yr CAGR	5 Yr CAGR	10 Yr CAGR
PGIM India Mid Cap Opp Fund Reg (G)	34.41%	15.73%	-
Axis Midcap Fund (G)	19.32%	14.05%	16.89%
Kotak Emerging Equity (G)	23.77%	12.57%	18.31%
HDFC Mid Cap Opportunities Fund (G)	24.68%	11.21%	18.40%
Average of 4 fund	25.55%	13.39%	17.87%
NSE Nifty 50	15.96%	12.82%	12.98
NSE Nifty Midcap 100 TRI	24.30%	9.19%	14.93
S&P BSE Mid Cap TRI	21.05%	8.26%	14.59

Note : These major 4 Mid-cap funds have outperformed significantly in 3, 5 & 10 years as compared to its NIFTY 50 & its Benchmark Index NIFTY MID-CAP & BSE MID CAP

Small Cap V/s Nifty 50

Name of Fund / Index	3 Yr CAGR	5 Yr CAGR	10 Yr CAGR
Axis Small Cap Fund Reg (G)	25.78%	16.64%	-
Kotak Smallcap Fund (G)	30.42%	14.03%	18.15%
Quant Small Cap Fund (G)	54.29%	23.33%	15.65%
SBI Small Cap Fund Reg (G)	28.59%	12.04%	24.24%
Nippon India Small Cap Fund (G)	34.06%	13.97%	23.79%
Average of 5 funds	34.63%	16.00%	20.46%
NSE Nifty 50 TRI	15.96%	12.82%	12.98%
NSE NIFTY SMALLCAP 50 TRI	16.99%	-0.82%	8.58%
S&P BSE Small Cap TRI	29.53%	9.22%	15.43%
NSE NIFTY SMALLCAP 100 TRI	19.87%	1.94%	10.84%

Note : These major 5 Small cap funds have outperformed significantly in 3, 5 & 10 years as compared to its NIFTY 50 & its Benchmark Index



Vs

NIFTY 50 ¹⁰

Performances



Equity Market

Indices	01 st Dec 2022	31 th Dec, 2022	High	Low
BSE S&P SENSEX	63,357	60,840	63,583	59,754
NIFTY 50	18,871	18,105	18,778	17,806

Mutual Fund

AUM Data of Mutual Fund for the Month of December - 2022

(INR. In Lakh Crore)

Particulars	AUM As On 30-11-2022	Fresh Fund Mobilize During Dec – 22	Redemption During Dec-22	AUM As On 31-12-2022
Total AUM of all mutual funds scheme	39.55	9.14	9.10	39.58
AUM of equity oriented (growth) schemes	15.17	0.30	0.22	15.25

Source: Association of Mutual Fund of India (AMFI)

Performances

SIP Contribution

(INR. In Crore)

Year	SIP Contribution	SIP AUM
Dec-22	13,573	6,74,666

FII & DII Inflow/Outflow Position

FII's out flow has again started in the month of Dec-22., FII'S Net outflow in Cash segment **Apr-22 to Dec-22** is approx **Rs. 1.48 Lakh crore**. DII's Net Inflow in Cash segment during **Apr-22 to Dec-22** is approx **Rs.1.72 Lakh crore** which shows the positive impact in Mutual fund industry.

Inflow/Outflow position in the month of Dec - 2022

(INR. In Crore)

For The Month Of Dec 2022	Gross Purchase	Gross Sale	Net
FII	1.39 Lakh	1.53 Lakh	-0.14 Lakh
DII	1.36 Lakh	1.12 Lakh	0.24 Lakh

