



A Deep Analysis and Strategy for Total Reconstruction of Equity Schemes Portfolio

Can Multicap Funds Replace Large, Mid & Small cap Funds?

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Equity Funds portfolio - The total reconstruction

SEBI issued a circular on 6th October 2017 on Categorisation and Rationalisation of Mutual Fund Schemes.

The Schemes would be broadly classified in the following groups:

- a. Equity Schemes
- b. Debt Schemes
- c. Hybrid Schemes
- d. Solution Oriented Schemes
- e. Other Schemes

For equity schemes, SEBI has come out with 10 categories apart from Index funds, ETF, Arbitrage Funds. For classification purpose, SEBI defines Large Cap, Mid Cap and Small Cap as follows:

- a. Large Cap: 1st -100th company in terms of full market capitalization
- b. Mid Cap: 101st -250th company in terms of full market capitalization
- c. Small Cap: 251st company onwards in terms of full market capitalization

AMFI publish the list of stocks which Mutual Funds would be required to adopt. The 10 categories of schemes are:

Sr. No	Category of Scheme	Characteristics
1	Multi cap Fund	Investing across large cap, mid cap & small cap stocks without any limit
2	Large Cap Fund	Minimum 80% in large cap stocks
3	Large & Mid Cap Fund	Minimum 35% each in large and midcap stocks
4	Mid Cap Fund	Minimum 65% in mid cap companies
5	Small Cap Fund	Minimum 65% in small cap companies
6	Dividend Yield Fund	Minimum 65% in dividend yielding stocks
7	Value Fund & Contra Fund	Minimum 65% in value stocks or contra stocks
8	Focused Fund	Investment in maximum of 30 stocks
9	Sectoral/Thematic	Minimum 80% investment in a particular sector or theme
10	ELSS (Tax Saving)	Minimum 80% in equities

This restructuring of the portfolios would be applicable roughly from 3 months after the fund house observation to SEBI. So, almost 12 months is over for most of the schemes after the restructuring.

Composition of Indian Equity Market in terms of Market Cap:

The total market cap of all the listed in companies in BSE is around Rs.140,35,878.11 cr. The no of listed and traded companies in BSE is around 4060.

In Rs. Cr	S&P BSE 100 Index	S&P BSE 150 Mid Cap Index	S&P BSE 250 Small Cap Index
Constituents	Top 100 companies in terms of market cap	101-250 companies in terms of market cap	251-500 companies in terms of market cap
Mean Market cap	95,364	14646	3934
Largest company	7,77,130	42684	10322
Smallest company	4767	4029	694
Total Market Cap	96,16,766	21,47,794	9,51,590
Top 10	51.5%	17%	12.4%
As %age of Total Market cap	68.5%	15.3%	6.77%
PE Ratio	24.6	25.78	31.39

- Companies with market cap after the top 500 companies accounts for remaining 9.43%.

Volatility as measured by Standard Deviation:

Standard Deviation	3 YEARS	5 YEARS	10 YEARS
S&P BSE 100	14.18%	13.92%	19.51%
S&P BSE 150 MID CAP INDEX	17.97%	16.79%	20.99%
S&P BSE 250 SMALL CAP INDEX	21.54%	21.16%	30.04%

What is the right strategy in building the equity schemes portfolio?

With plethora of schemes, it become difficult to arrive at an ideal mix of different schemes. The narrative built around different schemes for marketing makes the job difficult to judge and decide. Liquidity constraint of mid cap and small cap companies make them very volatile. Little inflow in to small cap fund lead to disproportionate price increase and vice versa. Many times, due to sustained inflow in to such funds, the price appreciation is not supported by the fundamentals of the companies. This put the investor money at high price risk. This logic is supported by high level of volatility (as a measure of standard Deviation) of small cap funds over other two categories and mid cap funds over large cap fund.

In such a scenario, it is prudent to leave the job of allocation to the fund manager. If one is to adopt such strategy, then Multi cap funds is the ideal option. By nature, Multi cap funds can invest in any companies depending upon the fundamentals of the company. It

does not have any restriction to stick to market cap or sector or theme. When our market is not fully developed like developed economies in terms of no of investible companies with good governance and dividend policy, such Multi cap funds seems to the best investment option.

Advantages of Multi cap Funds:

1. Fund manager invest in the best companies without bothering about market cap/sector/theme.
2. Large inflow does not lead to dis proportionate price increase
3. Investor Can have an equity schemes portfolio of few schemes which is easy to monitor without compromising on performance
4. Easy to understand investment philosophy of the fund manager.
5. Easy to invest in few multi cap funds with good track record and complementing portfolios. For example, Growth portfolio and Value Portfolio can be mixed for better return.

Analysis of performance of Multi cap funds and Consolidated return of basket of Large, Mid and Small cap funds:

To understand whether investing in multi cap funds generate better return rather than in different large cap, mid cap and small cap funds, we compared two strategy of investment in multi cap funds and investment of 70%:20%10% in large, mid and small cap fund of the same fund house. The period considered is 5,3 and1 year.

*Five Years Performance in %age (CAGR) (as on 18th Feb 2019)

Sno	Fund House Name	Multicap Fund	Largecap Fund	Midcap Fund	Smallcap Fund	Consolidated Return
1	HDFC Fund House	15.65	15.09	19.32	19.32	16.36
2	ICICI Fund House	16.41	14.56	18.91	10.95	15.07
3	ADITYA BIRLA Fund House	18.31	14.61	17.48	17.87	15.51
4	UTI Fund House	15.16	14.13	18.55	NA	NA
5	KOTAK Fund House	18.70	14.00	22.57	18.67	16.18
6	FRANKLIN Fund House	16.34	12.93	20.56	20.75	15.24
7	RELIANCE Fund House	14.86	16.86	16.62	24.99	17.63
8	SBI Fund House	18.45	15.11	16.18	27.90	16.60
9	AXIS Fund House	NA	15.34	20.83	NA	NA
10	CANARA Fund House	14.41	13.68	NA	NA	NA
11	MIRAE Fund House	18.53	NA	NA	NA	NA
12	MOTILAL Fund House	NA	NA	NA	NA	NA

*Three Years Performance in % age (CAGR) (as on 18th Feb 2019)

S no	Fund House Name	Multi cap Fund	Large cap Fund	Mid Cap Fund	Small Cap Fund	Consolidated Return
1	HDFC Fund House	17.32	17.28	14.09	19.74	16.89
2	ICICI Fund House	13.91	14.96	12.45	6.71	13.63
3	ADITYA BIRLA Fund House	16.02	12.73	10.78	11.22	12.19
4	UTI Fund House	13.53	12.81	9.25	NA	NA
5	KOTAK Fund House	16.04	11.81	14.31	10.99	12.23
6	FRANKLIN Fund House	11.35	10.85	13.42	11.34	11.41
7	RELIANCE Fund House	12.76	15.92	13.57	16.17	15.48
8	SBI Fund House	14.21	10.97	7.11	16.16	10.72
9	AXIS Fund House	NA	15.90	15.98	NA	NA
10	CANARA Fund House	16.16	14.58	NA	NA	NA
11	MIRAE Fund House	18.11	NA	NA	NA	NA
12	MOTILAL Fund House	15.47	NA	7.22	NA	NA

*One Year Performance in % age (CAGR) (as on 18th Feb 2019)

Sno	Fund House Name	Multi cap Fund	Large cap Fund	Mid Cap Fund	Small Cap Fund	Consolidated Return
1	HDFC Fund House	-2.52	0.62	-11.70	-12.12	-3.12
2	ICICI Fund House	-2.13	-0.96	-13.93	-25.58	-6.02
3	ADITYA BIRLA Fund House	-4.99	-2.68	-16.88	-26.40	-7.89
4	UTI Fund House	4.55	0.56	-16.82	NA	NA
5	KOTAK Fund House	-0.25	-1.26	-11.12	-17.79	-4.89
6	FRANKLIN Fund House	-3.41	-2.79	-9.17	-18.19	-5.61
7	RELIANCE Fund House	-3.64	-0.62	-10.02	-20.46	-4.48
8	SBI Fund House	-4.34	-4.25	-16.05	-19.35	-8.12
9	AXIS Fund House	8.93	8.92	4.58	NA	NA
10	CANARA Fund House	2.75	2.97	NA	NA	NA
11	MIRAE Fund House	1.48	NA	NA	NA	NA
12	MOTILAL Fund House	-8.25	NA	-8.55	NA	NA

*Past performance may or may not be sustained in the future

Our analysis shows that under one-year performance, the multi cap funds clearly outperform the basket. Under 3-year performance, except Reliance Multi cap funds, all other multi cap funds outperform the basket. Only under 5 years performance, there is a mixed result. However, the categorisation is in effect during the last 12 months, we can reasonably conclude that investing in multi cap funds is a better option rather than arriving at allocation and investing separately in Large, Mid and small cap funds.

Profile of Various Multi Cap Funds: (as on 31st Jan 2019)

Sr no	Scheme Name	PE Ratio	Dividend Yield	Large Cap	Mid cap	Small Cap	Debt / Cash	No of PSU Stocks	PSU Stocks
1	HDFC Equity Fund	14.23	1.77	82.30	10.80	6.10		15	31.85
2	ICICI Prudential Multicap Fund	24.04	2.47	78.59	12.06	9.35		15	23.58
3	Aditya Birla Sunlife Equity Fund	18.69	1.29	68.41	27.16	4.44		8	6.07
4	UTI Equity Fund	35.59	0.87	65.00	26.00	9.00		nil	nil
5	Kotak Standard Multi Cap Fund	26.39	NA	74.05	16.72	1.79	7.44	9	13.56
6	Franklin India Equity Fund	31.05	1.07	76.00	15.00	9.00		5	6.94
7	Reliance Multi cap Fund	39.48	1.08	49.51	27.52	22.33		6	16.46
8	SBI Magnum Multicap Fund	22.47	1.10	57.85	15.57	20.34	6.24	8	12.07
9	Axis Multicap Fund	32.30	0.69	79.86	3.20	1.00	15.94	nil	nil
10	Canara Robeco Equity Diversified Fund	32.25	0.86	74.36	17.88	3.07	4.69	3	6.47
11	Mirae Asset India Equity Fund	22.07	1.21	84.28	7.90	3.61	4.21	10	11.37
12	Motilal Oswal Multicap 35 Fund	33.00	1.20	79.52	17.87	0.33	2.28	4	9.47

Details of Fund Manager and Corpus:

Sr no	Scheme	Fund Manager Name	AUM as on 31st January 2019 (Cr)
1	HDFC - Equity Fund	Mr. Prashant Jain	20855.60
2	ICICI Pru - Multicap Fund	Mr. Sankaran Naren	3101.71
3	Aditya Birla SL - Equity Fund	Mr. Anil Shah	10035.35
4	UTI - Equity Fund	Mr. Ajay Tyagi	8525.71
5	Kotak - Standard Multicap Fund	Mr. Harsha Upadhyay	21637.57
6	Franklin - India Equity Fund	Mr. Anand Radhakrishnan, R Janakiraman, & Srikes Nair	11304.13
7	Reliance - Multi Cap Fund	Mr. Sailesh Raj Bhan	9843.60
8	SBI - M Multicap Fund Reg	Mr. Anup Upadhyay	6397.67
9	Axis - Multicap Fund	Mr. Shreyash Devalkar	2931.63
10	Can Robeco - Equity Diversified Fund	Mr. Shridatta Bhandwadar & Mr. Krishna Sanghavi	922.19
11	Mirae - Asset India Equity Fund Reg	Mr. Neelesh Surana, Mr. Harshad Borawake & Mr. Gaurav Misra	10343.39
12	Motilal Oswal - Multicap 35 Fund	Mr. Gautam Sinha Roy, Ms. Snigdha Sharma	12790.24

INDUSTRY WISE ALLOCATION FOR MULTICAP SCHEME

Sno	Scheme	Banks	Finance	IT	Pharma	Cons. Non Durables	Cons. Durables	Retailing	Auto	Telecom Services	Power	Construction Project	Petroleum Products	Industrial Products	Ferrous & Non Ferr. Metals	Chemicals	Cement	Others	Total
1	HDFC - Equity Fund	31.88	5.92	14.73	3.31	3.76		0.29	0.91		9.52	8.35	9.48	3.65	4.27	1.42		1.69	99.18
2	ICICI Pru - Multicap Fund	15.55	3.33	7.52	6.97	8.22	1.40	0.07	10.68	3.46	7.25	2.70	8.51	2.10	10.72		3.02	8.50	100.00
3	Aditya Birla SL - Equity Fund	24.07	9.58	9.29	7.13	10.50	2.30	0.14	3.55	0.84	1.03	0.34	3.13	2.58	8.09	2.89	5.12	9.41	99.99
4	UTI - Equity Fund	19.33	13.22	16.90	10.68	8.81	6.69		8.56			0.71		5.22	1.19	1.13	2.48	5.37	100.29
5	Kotak - Standard Multicap Fund	25.55	10.25	8.48	2.99	5.62	1.13	0.59	7.37			5.84	14.10	2.31	0.84	0.44	5.24	9.25	100.00
6	Franklin - India Equity Fund	24.91	1.12	12.83	7.80	6.85	1.39	1.76	10.02	5.24	1.48	5.50	3.84	4.07	1.11		5.14	6.95	100.01
7	Reliance - Multi Cap Fund	25.05	10.22	2.51	6.92	2.55		7.96	3.48			3.41	4.97	16.36	2.05	2.61		11.90	99.99
8	SBI - M Multicap Fund	23.32	12.08	7.85	3.81	8.90	1.57		8.98	1.57	2.29	1.48	6.49	2.30	2.09	2.36	4.38	10.53	100.00
9	Axis - Multicap Fund	25.55	11.73	15.46	1.54	8.88	3.33	3.99	3.77			1.43	1.05	1.85		2.71		18.71	100.00
10	Can Robeco - Equity Diversified Fund	31.09	4.07	13.11	2.44	9.89	5.01	0.11	4.18		0.97	5.80	9.05	3.59	0.81	2.16	2.57	5.15	100.00
11	Mirae - Asset India Equity Fund	27.55	6.14	10.71	6.23	7.37	3.32	0.99	5.17	0.50	1.51	4.34	9.99	0.90	5.72	1.76	1.15	6.64	99.99
12	Motilal Oswal - Multicap 35 Fund	19.86	24.67	13.07	6.85	6.37	2.24		10.17			5.69	8.79					2.29	100.00

How to select the right Multi Cap Funds:

On a deeper analysis, we find different fund managers following different strategy in terms of valuation, Exposure to PSU segment, Exposure to old economy stocks and Exposure to mid and small cap. Entire PSU segment has lower valuation and higher dividend yield. We feel investing in a mix of 8-10 funds will be ideal depending upon the size of the portfolio. We strongly suggest that existing investments in various other kind of funds like Large, Mid, Small, Value, Thematic and Sector funds may be redeemed and reinvested in multi cap funds after completing one year if the existing investment is in profit or immediately if the investment is in loss.

We find the following equity funds are well positioned for generating superior return in the coming years.

Name of the scheme	Our Observations	Suggested Allocation
HDFC Equity Fund	This Fund has highest allocation in PSU & PSU Banks at 31.85%, with 15 stocks. It also carries the lowest PE of 14.23 with a dividend yield of 1.77%. Allocation for Banking, Finance, IT, Pharma & FMCG is at 59.6%. We find that due to its higher weight on PSU and low valuation, this fund has the potential to generate superior return.	20%
ICICI Prudential Mutli Cap Fund	This Fund has PSU/PSU Banks allocation of 23.58%, with 15 stocks. Its PE is at 24 with a dividend yield of 2.47%. Allocation for Banking, Finance, IT, Pharma & FMCG is at 41.59%. We find that due to its higher weight on PSU/PSU Banks and Old Economy stocks and Moderate valuation, the fund has the potential to generate superior return.	20%
Mirae Asset India Equity Fund	This fund performance is consistent and superior. Its allocation for PSU segment is at 11.37% with 10 stocks. PE is at 22 with dividend yield of 1.21%. Allocation for Banking, Finance, IT, Pharma & FMCG is at 58%.	15%
Axis - Multi Cap Fund	This fund performance is superior. Exposure to PSU segment is nil. Its PE is very high at 32.3 with dividend yield of 0.69%. This fund has generated better return by staying more in cash which is a right strategy when the market is overvalued or uncertain. The portfolio is more concentrated	15%
Kotak Standard Multi Cap	The fund performance has been consistent. Its allocation for PSU segment is at 13.56% with 9 stocks. PE is at 26.39. Allocation for Banking, Finance, IT, Pharma & FMCG is at 53%.	10%

Reliance Multi Cap Fund	This fund is aggressively positioned in terms of higher exposure to mid and small cap. Also carries the highest PE of 39.48.	7.5%
Aditya Birla SL Equity Fund	The fund performance has been consistent. Its allocation for PSU segment is at 6% with 8 stocks. PE is at 18.69 with dividend yield of 1.29%. Allocation for Banking, Finance, IT, Pharma & FMCG is at 60.57%. This fund has highest exposure to midcap at 28%.	7.5%
Canara Robeco Equity Diversified Fund	We find the performance of this fund is improving substantially. Its PE is at a high of 32.25 with low dividend yield of 0.86%.	5%



the fourth time

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