

DAILY VOICE | Stock selection matters more than blindly betting on small and midcaps: Yogesh Patil of LIC MF

Even in small and midcap stocks one can find industry leaders with good cash flows and balance sheets, so one needs to be choosy in the stock selection and bet on these leaders, says Patil.

[KSHITIJ ANAND](#)

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Yogesh Patil, Fund Manager- Equity, LIC Mutual Fund, feels that if one takes a 5-year view, low hanging fruit in small stocks seems to have gone, and one may be better placed if investors bet on large companies from here on.

Patil has about 15 years of investing experience. Prior to this, he was a research analyst with Sahara Mutual Fund and progressed his career as a Senior Fund Manager (Equity) with Canara Robeco Mutual Fund.

In an interview with Moneycontrol's Kshitij Anand, he said stock-specific ideas will keep on performing irrespective of size, so from here on, stock selection will matter more than blindly betting on small and mid-cap stocks.

Here are edited excerpts from that interview:

Q) Market hit fresh record highs amid strong retail push and abundant liquidity with domestic institutions. What is your call on market – and how long do you think the music will last?

A) On the absolute basis, the market is trading at a higher level and looks expensive. However, if we factor in the expected earnings growth, prevailing interest rates and global capital flows, the forward valuation multiple are trading at near to the average level.

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Thus, it is suggested to remain invested in the market but should reduce exposure to the riskier segment and move to a bit defensive stocks and sectors

Q) Your take on the outcome of the RBI meeting. How long the RBI will be able to maintain rates? And if rates are increased, do you think it will lead to risk-off sentiment?

A) RBI has maintained an accommodative stance since the start of the pandemic and this may continue in the near term.

Given the current inflation trend, and deviation to their forecasted inflation, we do feel the current rate cycle is at the bottom, and

given the spread increase in the various time bucket, we may see the RBI changing stance once the economic activity normalises.

Q) Small & midcaps outperformed Nifty50 so far in 2021 and hit fresh highs in August. How should investors play this theme? Time to turn cautious, or the momentum will continue?

A) After topping out in Jan'18, small & midcap indices underperformed Nifty50 quite substantially till March'20. Between Jan'18 to Mar'20, smallcap/midcap indices fell by 63% and 47% respectively, vs Nifty decline of 37%.

Since then, smallcap/midcap indices have risen by 199%/144% vs Nifty gain of 110%.

Post this rally, now 5-year returns of smallcap/ midcap/ Nifty 50 stand at 11%/13%/13% respectively.

So, on a broader basis, excessive pessimism in small stocks has now got corrected, and 5-year returns are at par with Nifty 50.

If one takes a 5-year view now, low-hanging fruit in small stocks seems to have gone, and one may be better placed if investors bet on large companies from here on.

Having said that, stock-specific ideas will keep on performing irrespective of size, so from here on, stock selection will matter more than blindly betting on small and mid-cap stocks.

Even in small and midcap stocks one can find industry leaders with good cash flows and balance sheets, so one needs to be choosy in the stock selection and bet on these leaders, rather than buying smaller companies competing with bigger peers in hope of valuation catch up.

Q) What is your take on the telecom pack especially the developments around Vodafone? What should investors do?

A) From an industry perspective, considering the size of our country, there is enough opportunity for 3-4 players to co-exist. For the long-term health of the industry, it is desirable as well to have at least 3 strong players competing with each other.

One may be better off investing in large-cap companies in this capital-intensive sector. However, eventually, it's a matter of the investor's risk appetite as well.

Q) August was awash with IPOs? Most of the IPOs got fully subscribed at least the retail portion on Day 1. Does this mean that the appetite of new age retail investors has multiplied especially in the last 12 months or so? Is it for listing gains or long-term wealth creation?

A) Looking at the volume and delivery % on the first day of listing in most IPOs implies most of the IPO allottees are selling on the first day itself. So, retail investors seem to be investing primarily for listing gains only.

Historically, also whenever markets are at all-time highs and risk appetite of investors is at highs, is the most opportune time for companies looking to raise public equity.

On the positive side, off late, we are seeing a lot of new-age companies coming to raise equity, which provides investors an opportunity to participate in India's growth story through these IPOs.

But, one must be careful not to get sucked in euphoria and evaluate IPOs carefully to make an informed decision.

Q) What is your view on MF data for July --- where is the smart money moving?

A) We are seeing the funds flowing to thematic and mid-cap funds. We have recently seen some of the industry peers have launched new Funds in flexi cap category. Also, ETFs are also seeing new inflows.

Q) What are your views on the June quarter results season so far? Do you think this time we have seen more downgrades compared to the March quarter?

A) On an aggregate level, so far earnings have been in line with expectations. In terms of sectors- IT, healthcare, cement, and metals have done well.

However, high commodity prices have impacted margins in sectors like autos, and we have seen some stress in asset quality in some NBFCs.

On an aggregate level, till now, we haven't seen any major upgrades or downgrades.

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