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Size doesn't matter in market rise

Mid-cap and small-cap indices have outperformed the Sensex's 13% year-to-date gains by a big margin

SECTORAL INDICES

	Value on Apr-26	Year-to-date gains (%)	One-year gains (%)
Oil & Gas	14,417	53.2	18.6
Realty	1,945	46.9	53.9
Energy	3,596	42.0	19.8
Infrastructure	220	40.7	18.0
Metal	11,252	39.1	11.3
Finance	5,122	37.6	25.9
Capital goods	17,864	32.6	30.7
Consumer durable	15,540	30.2	38.3
Bank	25,208	30.0	21.5
Utilities	2,030	28.8	15.2
Healthcare	15,106	-3.2	2.6
Telecom	1,290	-3.3	15.1
Information technology	9,634	-16.2	-5.3

Compiled by BS Research Bureau

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Mumbai, 26 April

The S&P BSE MidCap and SmallCap indices ended in the red on a day when their larger peer, the benchmark S&P BSE Sensex, made a record by closing above the 30,000-mark.

That apart, these two indices, representing mid-cap and small-cap companies, have delivered astonishing returns since mid-2014, outperforming the Sensex by a wide margin. In fact, say experts, there was far more money made outside of the Sensex stocks.

The BSE MidCap and BSE SmallCap indices itself have returned 22 per cent and 27 per cent gains, respectively, in 2017 (year-to-date; *see table*). Of the 85 constituents of the BSE MidCap index, only seven are in the red on a year-to-date basis. The top performers — Sun TV, Jindal Steel & Power, Adani Enterprises, Indiabulls Housing Finance, Bajaj Finserv — are up by 54 to 86 per cent during this period.

While there isn't any clear sectoral bias driving the mid-cap and small-cap stocks, many sector-representing indices are also among the outperformers. BSE Realty, BSE Consumer Durables, BSE Capital Goods and BSE Finance (which includes stocks of non-banking finance companies) have been sectoral gainers so far in 2017, up 30-55 per cent since January 1. The BSE Energy and BSE Oil and Gas are up 20-21 per cent each; BSE Telecommunications is up 15 per cent. BSE Information Technology is the only one in the red, down 5.4 per cent year-to-date). BSE Auto and BSE Metals are up 10-12 per cent, slightly lower than the Sensex's 13 per cent gain in 2017. The relative laggard is health care (up only 2.4 per cent).

While the liquidity infused by domestic institutional investors have kept the market and mid-cap and small-cap stocks in particular buoyant for most the time, experts believe that if this inflow remains stable, mid-cap and small-cap stocks might continue to do better. "Domestic liquidity has played an important part in the rally of mid-cap and small-cap stocks and this might stay for longer," says B Gopkumar, chief executive at Reliance Securities.

Pankaj Pandey, head of research at ICICI Securities, adds that the change in interest rate cycle in favour of borrowers has also helped bring in operational efficiency for mid-cap and small-cap stocks. "These tend to do well in a declining interest rate cycle, given their exposure to leverage. Profitability catches up for these stocks when interest rates fall," he explains.

However, he also warns of the shrinking universe of investible mid-cap and small-cap scrips. With most of the advantage already playing out, Pandey cautions that these are no longer low-hanging fruit. Experts urge investors to be very stock-specific, going forward.