

# True to its mandate

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In the stock market rebound of the past year, investors have been quite reluctant to re-rate mid-cap stocks as much as they did the blue-chip companies of India Inc.

A good indication of this comes from the valuation gap between the mid-cap indices and the bellwethers.

The CNX Midcap Index has seen its PE multiple edge up just from 10 to 15 times between March 2009 and now, while the Nifty has seen its PE jump from 15 to over 21. This gap makes a reasonable case for investing in mid-cap

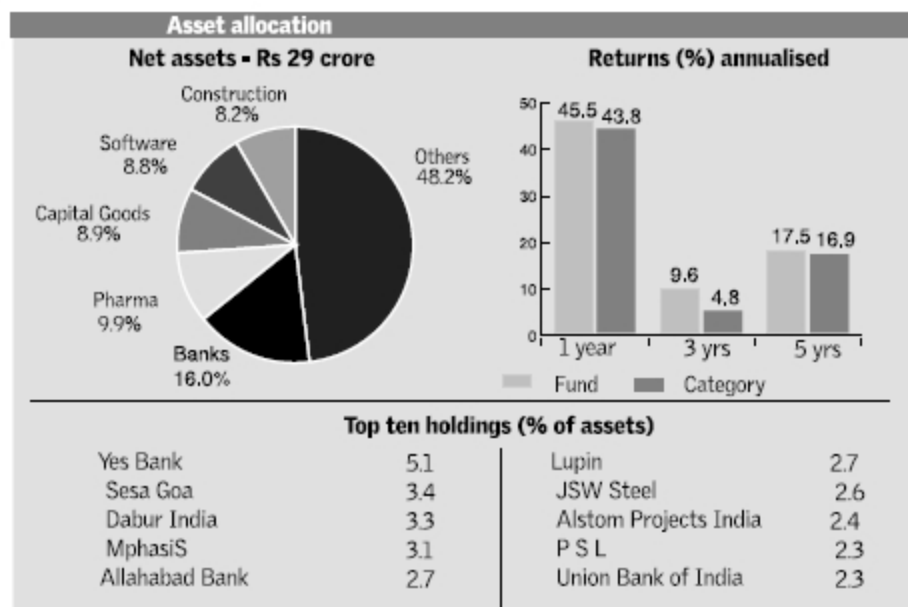
## INVEST

stocks or funds that invest in them.

The recently renamed L&T Midcap Fund (formerly DBS Chola Midcap Fund) may be a decent diversification option for investors seeking mid-cap funds.

While the fund's compounded annual return for a five-year time-frame, at about 18 per cent, barely matches the category average for mid-cap funds, the fund's recent good show has lifted its three- and one-year returns.

The returns are well ahead of its class for both periods and are only inferior to that of Birla Midcap Fund, the preferred choice in the mid-cap



category.

**Sticking to mid-caps:** While mid-cap funds in India span a wide market-capitalisation range, from those tracking emerging bluechips (such as the Junior Nifty stocks) to those that allocate significant portions of their portfolio to small-caps, the L&T Midcap Fund has so far stayed true to mandate.

The fund's portfolio has strictly focussed on stocks that fall in the market capitalisation range of the CNX Midcap Index.

The latest portfolio spanned stocks ranging from the Rs 650-crore Mastek to the Rs 29000-crore Sesa Goa; the fund's average market capitalisation was at a moderate Rs 7,500 crore.

The focus on mid-cap stocks may help the fund capitalise on the attractive valua-

tions of mid-caps even while avoiding the excessive liquidity and price risks inherent in small-cap stocks.

Given the wild swings that even mid-cap stocks are subject to during a market correction, all mid-cap funds, this one included, carry higher-than-normal risk and are suitable only for aggressive investors.

**Performance and portfolio:** Both the one year and three-year returns for the L&T Midcap Fund are well ahead of the mid-cap fund average, at 46 and 10 per cent respectively against 44 and 5 per cent for the class.

The fund's strategy in recent times has revolved around pegging up exposure to cyclical sectors such as banking and capital goods, on the one hand, while counterbalancing it with sizeable

weights to pharma and consumer durables, on the other.

Banking (sector weight up by 4 percentage points), mining/metals (up 3 percentage points) and capital goods (2 percentage points) have been the key sector additions in recent months while the fund has reduced exposure to software, retail and media stocks.

These sector calls have panned out well as the market shifted gears from a decisive uptrend to a choppy phase.

**Size a plus:** The fund's small size is a distinct advantage in the mid-cap category where manoeuvrability is key and both liquidity and investment choices may be limited. Mid-cap funds have shown a distinct tendency to underperform as they swell in size.

The fund's change in ownership from the DBS Chola mandalam group to L&T may clear any lingering uncertainties on a change in sponsor. As the fund's manager has remained the same, there has been no drastic change in the portfolio strategy post-takeover either.

The corpus, at slightly less than Rs 30 crore, has seen no major inflows in the last six months; nor has it seen outflows on account of the ownership change. The NAV per unit of the Growth option is Rs 35.58.