

**SEBI has come up with an important circular on asset allocation of Multicap schemes:** In this circular, SEBI has modified the scheme characteristics by changing the minimum investment guidelines. Now multi cap schemes have to adhere to minimum investment norms in equity & equity related instruments: 75% of total assets in the following manner:

- ✓ **Large cap companies: 25% of total assets (1-100 Stock by Market cap)**
- ✓ **Mid cap companies: 25% of total assets (101-250 stock by Market cap)**
- ✓ **Small cap companies: 25% of total asset (251 onwards by Market cap)**

*Earlier in Oct 2017, SEBI had issued a guideline for the categorization and rationalization of Mutual fund schemes in which Multi cap category had to maintain minimum investment in equity & equity related instruments- 65% of total assets (with no cap on the category like Large, Mid & Small cap)*

We believe, this is an important announcement by SEBI to increase the depth of the market which will probably help in narrowing the market polarization. This polarization had started immediately after the implementation of SEBI classification in Jan 2018, since then Mid & Small caps are underperforming the large caps, & only handful of stocks are leading the index higher. This is also visible in the allocation of smart money by mutual funds in which the allocation is skewed towards Large cap universe only. With the introduction of more and more passive products like Nifty/Sensex ETFs in the last two years has also influenced large cap universe which has further widened the gap between large and mid-caps. **We think this step taken by SEBI to reduce the polarization and will improve the overall breadth of the market.**

Currently, Multi cap is a second largest category in the Mutual fund schemes. Total 35 Multi cap schemes hold an AUM of 1.46 lac cr, with an allocation of 74%/16%/5% in Large/Mid/Small cap category. **As per our calculation this step will lead to a fresh buying of ~Rs 28,000 cr in Small caps and ~Rs 13,000 cr in Midcap universe while we see some selling of ~Rs 41,000 cr in Large caps. All the schemes have to comply with the above guidelines within one month after the release of fresh list by SEBI in the first week of Jan-2021.**

Total Multi Cap	Multicap category AUM			
	Large Cap	Mid Cap	Small Cap	Total
AUM	108287	23324	7798	146026
%	74%	16%	5%	100%
Top10, Multicap	Large Cap	Mid Cap	Small Cap	Total
AUM (82% of total)	90877	18491	5254	119161
%	76%	16%	4%	100%

**82% of the total AUM is hold by top 10 schemes only**, in which small cap allocation is 4%, which is 2% below the benchmark (6% in NSE500 Index). We believe it will be a real challenge for the large Mutual fund schemes to increase the allocation of Small cap category from 4% to 25% with same risk rewards in today's environments. This buying of Rs 28,000 cr will also lead to huge impact cost because of the thinner free float of small cap universe, further this amount is almost 55% of the total AUM of small cap category (Small cap AUM: Rs 50,935 cr).

**We believe, going forward larger mutual funds schemes** (Probably top 10) will try to convert existing schemes into other categories like large caps or into Thematic/Focus schemes in order to rationalise the risk reward and overall impact cost or try to negotiate on the minimum cap on the smallcap. We need to see how the mutual industry will behave on this circular.

**Nonetheless**, this move will bring some traction in quality mid and small caps names and encourage investors to participate in the broader market as regulator has shown its interest to rationalise the market.

**We continue to believe in our high conviction ideas in small cap universe:**

**Can fin Homes, APL Apollo tubes, Mold Tek Pack, NOCIL, CCL products, Safari, Aarti Druds, JK Lakshmi, SIS**

Other quality non covered names which also likely to gain some traction due to **ongoing theme/favourable free float are:**

**MCX, IEX, BSE, CDSL, Navi fluorine, Deepak Nitrate**

**NSE 500 Weights**
**NSE 500 Weights (Aug 2020)**

Sebi Category	Weight
Large Cap	81%
Mid Cap	13%
Small Cap	6%

**Top 10 Multicap schemes (82% of total AUM)**

Fund	AUM (Cr)
Kotak Standard Multicap Fund	29361
HDFC Equity Fund	19150
Motilal Oswal Multicap 35 Fund	11279
Aditya Birla Sun Life Equity	10737
UTI Equity Fund	10581
SBI Magnum Multi Cap Fund	8722
Franklin India Equity Fund	8419
Nippon India Multi Cap Fund	7501
DSP Equity Fund	7135
Axis Multicap Fund	6275

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**Multi cap schemes**

Fund	Multicap Schemes (AUM in Cr)				% of AUM			
	Large Cap	Mid Cap	Small Cap	Total	Large Cap	Mid Cap	Small Cap	Cash & equivalent
Kotak Standard Multicap Fund	22059	5157	306	29,361	75.10%	17.60%	1.00%	6.30%
HDFC Equity Fund	16533	1480	658	19,150	86.30%	7.70%	3.40%	2.50%
Motilal Oswal Multicap 35 Fund	10105	588	388	11,279	89.60%	5.20%	3.40%	1.80%
Aditya Birla Sun Life Equity Fund	7293	2469	563	10,737	67.90%	23.00%	5.20%	3.80%
UTI Equity Fund	6980	2836	556	10,581	66.00%	26.80%	5.30%	2.00%
SBI Magnum Multi Cap Fund	6557	1354	554	8,722	75.20%	15.50%	6.40%	3.00%
Franklin India Equity Fund	6479	1103	559	8,419	77.00%	13.10%	6.60%	3.30%
Nippon India Multi Cap Fund	4274	1660	1316	7,501	57.00%	22.10%	17.50%	3.30%
DSP Equity Fund	5077	1651	354	7,135	71.20%	23.10%	5.00%	0.70%
Axis Multicap Fund	5520	195	0	6,275	88.00%	3.10%	0.00%	8.90%
ICICI Prudential Multicap Fund	4110	705	441	5,356	76.70%	13.20%	8.20%	1.90%
IDFC Multi Cap Fund	2562	1303	585	4,722	54.30%	27.60%	12.40%	5.80%
Parag Parikh Long Term Equity Fund	1615	652	534	4,014	40.20%	16.30%	13.30%	30.20%
L&T Equity Fund	1720	330	219	2,335	73.70%	14.10%	9.40%	2.80%
Canara Robeco Equity Diversified Fund	1735	330	78	2,245	77.30%	14.70%	3.50%	4.50%
Tata Multicap Fund	1158	332	126	1,676	69.10%	19.80%	7.50%	3.60%
Invesco India Multicap Fund	317	353	186	882	35.90%	40.00%	21.10%	3.00%
Baroda Multi Cap Fund	597	143	19	802	74.40%	17.80%	2.30%	5.40%
Principal Multi Cap Growth Fund	459	122	43	642	71.40%	19.10%	6.70%	2.80%
Sundaram Equity Fund	455	58	50	581	78.40%	10.00%	8.60%	3.00%
BNP Paribas Multi Cap Fund	449	46	44	550	81.60%	8.30%	8.00%	2.00%
Edelweiss Multi-Cap Fund	411	79	47	545	75.50%	14.50%	8.60%	1.30%
Union Multi Cap Fund	265	37	32	355	74.60%	10.40%	9.00%	5.90%
Mahindra Manulife Multi Cap Badhat Yojana	225	66	22	328	68.70%	20.10%	6.80%	4.40%
HSBC Multi Cap Equity Fund	258	53	12	326	79.20%	16.30%	3.70%	0.80%
LIC MF Multicap Fund	199	61	11	287	69.30%	21.30%	3.80%	5.60%
IDBI Diversified Equity Fund	194	49	32	284	68.10%	17.10%	11.30%	3.60%
Taurus Starshare (Multi Cap) Fund	153	26	6	198	77.50%	13.00%	3.20%	6.30%
PGIM India Diversified Equity Fund	113	31	29	186	60.90%	16.90%	15.50%	6.60%
Essel Multi Cap Fund	137	24	12	182	75.40%	13.40%	6.60%	4.60%
ITI Multi Cap Fund	103	6	3	132	78.10%	4.20%	2.20%	15.50%
JM Multicap Fund	115	8	0	129	89.40%	6.00%	0.00%	4.60%
Shriram Multicap Fund	36	10	2	58	62.20%	16.60%	2.60%	18.50%
BOI AXA Multi Cap Fund	18	7	6	37	48.90%	17.70%	15.00%	18.30%
Quant Active Fund	7	3	6	16	40.20%	18.60%	39.90%	1.20%

## High conviction ideas

### Axis Securities universe

Company	Sector	Rating	Mcap(Cr)	CMP	TP	% Upside	52W high	TR 1m%	TR 3m%	TR YTD
Can fin Homes	Financials	Buy	5,212	391	430	10%	519	6%	26%	0%
APL Apollo tubes	Materials	Buy	6,034	2421	2370	-2%	2518	11%	51%	29%
Mold Tek Pack	Materials	Buy	771	278	253	-9%	322	-2%	51%	1%
NOCIL	Materials	Buy	2,092	126	170	35%	140	12%	40%	29%
CCL products	Consumer Staples	Buy	3,275	246	325	32%	294	-3%	7%	25%
Safari	Consumer Discretionary	Hold	852	381	373	-2%	733	6%	4%	-38%
Aarti Druds	Health Care	Hold	6,634	2847	3000	5%	3725	35%	192%	393%
JK Lakshmi	Materials	Buy	3,035	258	339	31%	389	-5%	7%	-7%
SIS	Industrials	Buy	5,308	362	410	13%	624	-3%	-2%	-25%

### Non covered

Company	Sector	Mcap(Cr)	FF (%)	CMP	52W Low	52W high	Avg daily turnover (Cr)	TR 1m%	TR 3m%	TR YTD
MCX	Financials	7,929	100%	1555	805	1839	72.5	-5%	30%	35%
IEX	Financials	5,701	100%	190	111	204	26.5	3%	11%	36%
BSE	Financials	2,386	100%	530	275	590	21.9	8%	40%	9%
CDSL	Financials	4,659	80%	446	180	514	101.8	23%	74%	102%
Navi fluorine	Materials	9,679	69%	1957	685	2207	30.0	-1%	25%	95%
Deepak Nitrate	Materials	10,000	54%	733	267	825	129.6	25%	52%	99%

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