



**HDFC securities**

*Click. Invest. Grow.*

**20**  
YEARS



**Smallcap and midcap space..is it time to be more selective?**

29-April-2021

# Smallcap and Midcap Space..

## Smallcap and midcap space..is it time to be more selective?

Stock prices of many small and midcap companies have risen over the last two weeks anticipating a significant improvement in their future cash flows. While some of them have good Q4FY21 results as tailwinds, some others are relying on policy changes at the local or global levels as triggers for improvement. Having said that, the prospects of most of these recent high flyers may not have changed dramatically which can justify a sharp jump in their stock prices in such a short span of time.

DATE	16-Apr-21	28-Apr-21	% change
NIFTY	14618	14865	1.7
NIFTYMIDCAP	23761	24314	2.3
NIFTY SMALLCAP	8264	8543	3.4

When we look at data of last few sessions on the exchanges, we find speculative interest is rising fast. Proportion of turnover in non-A group shares (A group has 387 stocks) on the BSE has risen from 32% to 45%. Most of these trades are not resulting into higher investments as Gross deliverables % has gone down from 43.2% to 40%.

	16-Apr-21	28-Apr-21
% Deliverables turnover to total turnover	43.2	40.2
A GROUP TURNOVER	2638	2519
TOTAL TURNOVER	3892	4542
TURNOVER OF A GROUP %	68	55
TURNOVER OF NON A GROUP STOCKS %	32	45

- Many times, markets anticipate future cash flows too early and discount them before the actual improvement on the ground. After a sharp surge, stocks prices do correct or consolidate while fundamentals catchup with higher valuations. For example, after a stupendous run in the year 2020, Nifty Pharma index was trading at the same level in March 2021 as it was in August 2020.
- The following is the list of 20 better known mid and smallcap stocks that have gained more than 20% in this period. 17 out of these 20 stocks belong to the Chemicals/Pharma space. The recent positive trigger in this space is due to China+1 strategy adopted, commodity price uprun and Covid-19 related demand upsurge. All companies may not benefit out of this equally. Traders have a tendency to buy stocks of a happening sector, assuming that the triggers present in the best performing stock may percolate to others in the same sector. Some of these companies will sustain and grow from these levels also but most stock prices have probably run up ahead of time and may correct/ consolidate for a long time before rising further.

Name	16 Apr Close	28 Apr Close	%Chg	Industry
VIVIMEDLAB	19.75	37.60	90.38	Chemicals/Pharma
ELECON	63.70	96.50	51.49	Engineering
KOPRAN	121.35	181.90	49.90	Chemicals/Pharma
HIKAL	179.55	261.50	45.64	Chemicals/Pharma
PANACEABIO	257.00	367.65	43.05	Chemicals/Pharma
MOREPENLAB	39.00	55.55	42.44	Chemicals/Pharma
LYKALABS	26.80	37.50	39.93	Chemicals/Pharma
MARKSANS	54.70	74.40	36.01	Chemicals/Pharma
SUPPETRO	516.60	688.50	33.28	Chemicals/Pharma
VIMTALABS	199.45	262.20	31.46	Chemicals/Pharma
BALAMINES	1842.95	2419.00	31.26	Chemicals/Pharma
OAL	705.50	919.90	30.39	Chemicals/Pharma
BHARATRAS	9940.90	12897.10	29.74	Chemicals/Pharma
ALKYLAMINE	5849.55	7580.00	29.58	Chemicals/Pharma
DCAL	123.70	160.00	29.35	Chemicals/Pharma
ASHAPURMIN	112.50	145.40	29.24	Minerals
TTKHLTCARE	502.40	635.00	26.39	Chemicals/Pharma
JAYBARMARU	211.25	263.70	24.83	Auto Ancillaries
APCOTEXIND	180.40	218.00	20.84	Chemicals/Pharma
SUVEN	88.30	106.30	20.39	Chemicals/Pharma

# Smallcap and Midcap Space..

- Liquidity/depth is an important parameter to keep in mind while investing in this space. Currently, existing investors are holding on to their stocks and refusing to sell them in the market in anticipation of even higher prices. Low floating stocks means as new money pours into this space, stocks zoom higher in a short span of time.
- FPIs have sold stocks worth Rs.12014 cr in the April month so far. Mutual funds have so far bought stocks worth Rs.4173 cr in this month. Hence the buzz in the small and midcap space can be attributed largely to retail/trader interest.
- Technological disruption and speed of change has accelerated in recent times and that may make many today's successful business models irrelevant in times to come.
- Many of these small companies are not widely researched and few research analysts track them. We have seen many precedents of investors burning their hands in small and unknown stocks especially in companies where corporate governance standards are not up to the mark. We recently saw midcap and small cap index losing as high as 51% and 67% from their respective top to bottom between 2018 to 2020.
- At the same time, early investment in a successful mid cap and small cap has the potential to generate significant excess returns. But for that enough study, analysis and due diligence is necessary.
- The Nifty may not have made a high and hence there may be scope in smallcap and midcap indices to rise further. However stock selection is paramount and later taking a call on full or partial exit at appropriate time is equally important. The upmove from here in small and midcaps may be led by some new sectors.
- Be careful of what kind of stocks you are entering now. One should calibrate your exposure in select midcap and small cap stocks as per your risk appetite and asset allocation plan. It is a good idea to accumulate the selected stocks via SIP mode rather than putting large amount in a stock in lumpsum at one go. Refrain from buying small and midcap stocks just based on hearsay/tips or momentum in the sector.

## Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.