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MFs raise stakes in over 20 cos, many with PE ratio above 100, in 2023

Fund Buying Drives Pricey Small- & Mid-caps Higher

High Valuations, Rising Concerns

Stock	PE*	MF Stake as on Dec '23 (%)	Change over Dec '22	1Y Stock Return (%)	FV23 PAT (₹Cr)
FSN E-Commerce	1,573.80	10.85	6.79	9.33	19.26
Mahindra Lifespace	343.75	21.48	2.91	62.29	101.41
Sobha	169.66	15.09	2.91	180.48	104.21
Medplus Health	142.97	15.40	3.46	5.44	49.76
United Breweries	131.85	14.98	2.50	16.82	303.98
Kaynes Technology	130.74	15.50	9.51	238.35	95.20
Dixon Tech	114.46	17.39	9.81	133.71	255.52
Neogen Chemicals	108.90	21.32	3.87	6.58	49.97
Aether Industries	91.31	11.07	3.47	-0.71	130.42
Lemon Tree Hotels	89.62	12.93	3.19	82.22	114.56
Amber Enterprises India	88.65	12.44	3.68	97.71	157.20
RHI Magnesita India	88.24	12.71	4.60	-8.76	-466.11
Ganesha Ecosphere	79.52	19.94	3.33	20.86	69.46
Nazara Technologies	78.79	14.12	9.31	47.83	39.40
Orchid Pharma	72.71	10.40	7.95	221.54	46.32

*trailing 12 months.

Source: Capitaline



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Mumbai: As Securities and Exchange Board of India raised concerns over froth in mid-cap and small-cap stocks amid continuous purchases from mutual funds, the market is keeping a close watch on the shares in these categories where mutual funds have increased their stakes in the past year. Among companies with market capitalisation of less than ₹20,000 crore, mutual funds have raised their stakes in over 20 firms, many of which are trading at price to earnings (PE) ratio—a popular valuation measure—above 100 times. Further, mutual funds have raised

their stakes in another 60 stocks which are currently trading at a PE ratio of between 50 and 100 times.

The Nifty is trading at a PE of 22.95 its trailing 12-month earnings, whereas the Nifty Midcap100 and Nifty Smallcap 100 indices are trading at PE of 36 and 27 times, respectively.

Simply put, when the PE ratio of a stock or index is high, it is considered richly valued. Though investors cannot judge market tops on the basis of valuation levels, such stocks are considered mostly vulnerable in the event of a sell-off.

Individual investors have been pumping money into mid-cap and small-cap mutual fund schemes in the wake of the strong returns by

these categories. Such flows have prompted mutual funds to increase holdings in companies which have strong earnings prospects. However, in this process, fund managers have ended up mopping up expensively valued stocks, said analysts.

For instance, MFs have augmented stake in the loss-making Sequent Scientific from 0.25% in December 2022 to 5.02% in December 2023. Mahindra Lifespace witnessed an increase in MFs' stake from 18.57% to 21.48% in 2023. Currently, the stock is trading at 343 times its trailing 12-month earnings. Similarly, Graphite India and Sobha, trading at PEs of 235 and 170, respectively, have seen nearly a 3% increase in MFs' stake in 2023.