

## LARGE-AND-MIDCAP SCHEMES TO BENEFIT MOST

# Five Equity Funds Primed for Alpha from FM's Tax Stimulus

The cut in corporate tax rate should boost earnings across companies resulting in improved earnings per share. This is due to three factors: One, pricing power or market share, which is related to the size of a company. Second, lower the tax outgo higher the savings, which will directly translate into earnings. Third, if such companies pass on the benefit of tax savings or increase prices of their products, their earnings would increase from present levels. The large-and-mid-cap universe has a large number of companies that are currently taxed at higher than the new effective rate of 25.17%. Hence, investing in equity mutual fund schemes with exposure to large-and-mid-sized companies can generate superior returns, riding on this wave of growth. ET recommends the five best performing schemes that are invested in large-and-mid-sized companies:

— Rajesh Naidu and Prashant Mahesh

### MIRAE ASSET EMERGING BLUECHIP

Fund Manager: Neelesh Surana, Ankit Jain

AUM: ₹7,759 crore

3 / 5 year return: 12.4%/16%

Portfolio composition: 52% large caps and 41% midcaps

A key advantage Mirae Emerging Bluechip has over its peers is its investments in quality companies across sectors. Prominent companies which will benefit from the tax rate cut are already part of the scheme's portfolio which comprise sectors such as consumer discretionary, FMCG, auto and retail-focused private sector banks. The scheme's fund managers are particular about valuation of companies which will benefit from the tax cut and fundamental strength. Only those companies which have high cash flows and pricing power and are trading relatively cheaper than historical valuation would find place in the scheme's portfolio. This would mean it would be a stock-specific approach rather than sector-or-size-specific approach.

### INVESCO INDIA GROWTH OPPORTUNITIES FUND

Fund Manager: Amit Ganatra, Taher Badshah

AUM: ₹1,659 crore

3 / 5 year return: 10.25% / 10.46%

Portfolio composition: 57% large caps, 43% midcaps

An all weather fund meant for risk takers, it scouts for a mix of growth and value stocks in the portfolio. The fund is a stickler to sector allocation, with weights to overweight sectors not exceeding double their weight in the benchmark. Similarly weights to underweight sectors do not go below half the benchmark weight. Stocks that are likely to clock a minimum 15-20% growth supported by high return on equity find their way into the portfolio.

### PRINCIPAL EMERGING BLUECHIP

Fund Manager: Dhiman Shah

AUM: ₹2,057 crore

3 / 5 year return: 8.28% / 12.76%

Portfolio composition: 57% large caps, 43% midcaps

A fund meant for investors with an appetite for higher risk, it uses a bottom-up approach to stock picking using a six-pillar framework to identify stocks. Companies with high quality growth, improving margins, differentiating itself from competition and consistent RoCE fit find a way into the portfolio. Currently the fund has about 70 stocks in the portfolio with the top 10 stocks constituting about 30% of the portfolio. Risk in the mid-cap space is contained by not allocating more than 3% to any single stock in the portfolio.

### CANARA ROBECO EMERGING EQUITES

Fund Manager: Krishna Sanghvi, Miyush Gandhi

AUM: ₹4,669 crore

3 / 5 year return: 8.64%/12.4%

Portfolio composition: 54% in large caps and 40% in midcaps

A strategy which the scheme's fund managers have clearly adopted is enhancing exposure in companies which are into business to consumer (B2C) space. The idea behind this is these companies can retain the benefit from tax cut in comparison with companies which are into business to business (B2B) space. It is likely that companies into B2C space are unlikely to pass on the benefits of tax cuts to consumers, which in turn should boost their earnings meaningfully in the coming quarters. The scheme's fund managers have enhanced exposure in companies primarily in B2C space which include FMCG, auto, and private sector retail banks.

### SUNDARAM LARGE AND MIDCAP

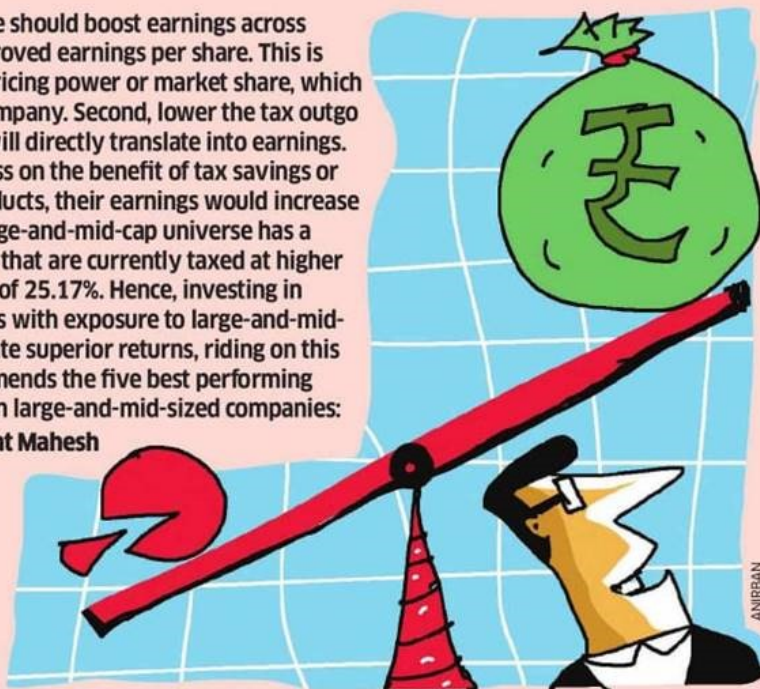
Fund Manager: S Krishnakumar

AUM: ₹721 crore

3 / 5 year return: 11.3%/11.03%

Portfolio composition: 52% in large caps and 47% in midcaps

The fund has enhanced exposure to private sector banks and large companies in consumption space which include FMCG, auto and select consumer discretionary players. Taking into account discounted cash flow method, companies in these sectors look very attractive. The savings in tax outgo can be passed on to consumers which can improve demand. This in turn can trigger earnings' growth in the next two to three years. Hence, these companies may see improved earnings with improvement in demand.



ANIRBAN