

How this Rs 8,000 crore midcap fund managed to turn a tough year into profits

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Despite Indian equities going through a time correction phase, the Rs 8,000 crore [Invesco India Midcap Fund](#) managed to deliver 3.5% return in the last one year by avoiding overheated sectors, focusing on resilient growth themes like healthcare, CDMOs, and EMS, and blending bottom-up stock picking with thematic exposure, all while maintaining disciplined risk management and diversified allocations.

Edited excerpts from a chat with the fund manager Aditya Khemani:

The last one year period has been particularly bad for Indian equities, but your midcap fund still managed to generate positive return even though the benchmark fell down. What clicked in your favour?

The last one year has been a challenging phase for the market after 4-5 years of dream run. And because of this dream run, what we were seeing last year was that the markets had not differentiated much between different business models and as a result most sectors, irrespective of their management quality, business models, and longer-term growth prospects were trading at valuations which were not very different from each other. Hence, what became important was, firstly, to identify what to avoid rather than what to buy. I would say this is probably one of the reasons that helped the fund's

performance as we reduced exposure to overheated sectors like industrials, which were trading at elevated valuations.

Also, we were seeing a cyclical slowdown in the economy, hence it became important to be positioned in areas where the downgrade in earnings could be the least. So, we tried to be overweight on themes like hospitals, Contract Development and Manufacturing Organisation (CDMO), [Financialization](#), [Quick Commerce](#), Electronic Manufacturing Services (EMS), etc.

Each of these are themes which were going through their own life cycle having multiple growth drivers hence some slowdown in the economy did not have much impact on their short-term growth. This also helped the portfolio weather the cyclical slowdown we witnessed.

Finally, the approach of creating a balanced portfolio which is well diversified across sectors, across different market caps and across valuations with a sound risk management framework of capping the top weight around 5% helped us weather the storm. And, we cannot ignore the luck factor when we are seeing short term performances of a year.

The fund has also outperformed across longer timeframes with the five-year CAGR at an impressive 29%. Was it stock-picking, sector tailwinds, or a mix of both?

Invesco India Midcap Fund is a high-quality, high-earnings growth portfolio managed with a blended style of investing. The fund is managed with a combination of identifying top-down themes along with bottoms-up stock picking. Within this, stock selection has contributed to the bulk of the outperformance, especially over the last couple of years. Invesco as a house is focused much more on bottoms up stock picking rather than taking big tactical sector calls. Our view has been that the economic cycles are becoming shorter and shorter due to various disruptions so it is very difficult to take big sector calls as one cannot be that agile to change the positioning of the portfolio in line with the shorter economic cycles and sector performance. There will be minor sector calls, but we don't want those calls to make or break our performance. Hence as a fund house, we like to focus our energies on identifying the right set of companies which will be winners in the long term.

With valuations running at over 36x FY26 earnings for the fund portfolio, do you worry about stretched multiples, or is earnings visibility strong enough to justify them?

As I mentioned before, Invesco India Midcap Fund is a high-quality high earnings growth portfolio. And over the last 12 months, it is becoming slightly more challenging to create a high earnings growth portfolio while keeping the quality and valuations in check. This is because one has seen cyclical slowdown in the economy last 5-6 quarters due to which earnings growth is coming down sector after sector and secondly one has seen slight reset downwards in inflation last 4-5 quarters which is also leading to slight reset in

earnings growth. So, creating a very high growth portfolio is become more challenging than before. But then there are areas which are still growing at a fast rate due to some megatrend helping the company grow faster and we try to participate in that megatrend thereby leading to strong earnings visibility. Only thing one needs to be careful is not to overpay by a large percentage when participating in these companies. Also, there are some sectors where the earnings have been challenged last one year like the [NBFC](#) sector which over the next 2-3 quarters should see some recovery. So, I would say on an aggregate we would have a combination of companies where earnings are growing at a good rate combined with companies where earnings should see acceleration in the next 3-4 quarters and on a combined basis, we have been able to construct a portfolio where the earnings visibility is good. With respect to valuations, we follow a balanced approach to portfolio construction. Yes, there will be companies benefiting from megatrends that are not cheap, but we also have a large allocation to companies that we believe offer value to long-term investors.

Many brokerages feel that midcaps have been delivering the best numbers in the last 2 quarters. What is the overall outlook in terms of earnings of midcap companies for the rest of FY26? Do you think earnings growth will remain intact?

Midcap space is a very heterogenous bucket, where the earning performance has not been uniform and in fact we have seen downgrades over the last 4 quarters. But then due to the measures taken by the Central Bank and the Government, aided by a base effect we should see gradual uptick over the next 3-4 quarters. So, we expect an uptick in earnings performance of sectors which are much more domestic focused like consumption, financials, etc. And hence we have increased allocation to these spaces.

If an investor is entering midcaps now after the run-up, how should they stagger their allocation—sip in slowly, or is there still room for lump-sum conviction?

Timing is purely a function of various factors like the time horizon of the investor, cash flow profile, mental strength to see 10-20% drawdown in the portfolio, etc. So, in case his horizon is 5 years plus then in my view it won't make quite a difference if he puts all of it today or staggers over the next 6 months. Only thing is his anxiety level will be much lower in the case of staggered purchase. History tells us that investors who have been in the markets for a long term, it would have not mattered much had they staggered their purchase or put in at one go when they were putting at that point of time. Only thing is one should not come into midcaps seeing the 2020-2024 returns and his expectations should be 13-14% annual return over the long term. And within this long-term period there will be periods where he doesn't make any return, just like it has happened over last 12 months. As long as he keeps his expectation here it should be fine.

What is your view on new-age platform companies? Do you see them as winners of the [GST](#) as well as income tax rate cut?

Most of the new-age platform companies are there in the foodtech/fintech/insurtech space and hence benefit from higher disposable income in the hands of consumer. So, with that logic one should see some benefit to these companies as disposable income increases. But having said that, bigger driver of the growth of these companies have been disrupting

and taking market share from the traditional channels of consumption. And till the time these companies deliver the value proposition of price and convenience to the customer they should continue taking market share. So, on an overall basis, I would say their execution will decide their success rather than the recent GST and income tax rate cut.

As on August-end, your fund had over 7% exposure to capital market's theme. Given the noise and negative news flow around regulatory tightening and slowdown in the equity market, do you see some near-term pressure in the sector?

Financialization is a megatrend we are very bullish on the longer term looking at the examples of developed market. Hence, we have plays within the exchanges and asset management space in our portfolio as we believe it offers long runway of high earnings growth. But yes, due to the recent regulatory tightening some part of our capital market theme is seeing some near-term pressure. But then we would like to wait and watch to see how the regulations evolve and are sure whatever the regulators decide will be in the best interests of the economy.