

‘Price correction in small caps is over’



The market turmoil in the last eight months or so has seen many mid and small caps getting battered. Many small caps have crashed by over 50 per cent in this period, thus reversing their accumulated returns in the last two-three years. What has caused this and when is this massacre going to end? How to approach small-cap investing? **Samir Rachh**, who manages the largest small-cap fund, Reliance Small Cap, answers these and other small-cap-related questions.

Small caps have been badly hit in the last one year? Reliance Small Cap Fund is also down by 15 per cent? What has caused this mayhem?

The sharp correction can be attributed to multiple reasons. Since the beginning of 2018, the small-cap space had become extremely overheated and markets were looking at excuses to correct. Therefore, when the market corrected on the back of various reasons like global volatility, sharp

increase in crude-oil prices, rupee weakening, liquidity tightening, lower-than-estimated corporate earnings growth and introduction of long-term capital-gains tax, small-cap stocks were also impacted.

When do you see the recovery happening?

By and large, we are done with the price correction in small-cap stocks. However, after such sharp fall, it's natural for markets to have some time correction. We feel markets are currently in that time-correction zone, wherein they are likely to move in range-bound manner and ultimately stocks will have to shift from weaker hands to stronger hands for full-fledged recovery.

With elections scheduled for the next year and the BJP losing key state elections recently, how do you see the volatility scenario for small caps?

Elections and their results have a psychological impact. Historically, over the longer run, markets take cues from fundamental and macro factors, irrespective of governments. Elections and their results are least important of our concerns.

What are your selection criteria for small caps?

We like to own businesses which are strong, run by good management and importantly available at reasonable price. Ideally, we want to hold them for a long period of time. We avoid any large short-term shifts or churning. Therefore, it's also very important to evaluate whether business models are scalable and adequate systems and processes are