smallcase rationale

F2 **Primeinvestor Finance Superior**
Focuses on long-term growth in excess of the finance sector. Recommended min yrs: 3 yrs
Risk Level: High Volatility | Inception Date: 25-Mar-2020 | Data: February 1 2022

Finance is the only sector guaranteed to capitalize on all the major engines of economic growth: Fed liquidity, consumption, capex, government spending or non-discretionary spending.

plays on 4 trends.

- Reviving credit growth. Credit demand has picked up and has also broad-based. Credit growth is a function of both demand and supply. Banks are companies raising capex plans. This should lead to a revival in both income & profit growth for mainstream banks.
- NBFCs are well poised to deliver superior growth with improved spreads. With the tailwinds to the economy returning, mainstream NBFCs engaged in retail credit, durables and vehicle loans, truck and logistics financing and MSME credit are on firm ground.
- Lower discount on the 100 bps been drawing strict boundary lines around non-bank and Fintech players. It might less disruption to banks and NBFCs from Fintech players encroaching on their turf
- The shift to financialisation of savings by the Indian saver is here to stay. With equity markets providing decent returns and fixed income returns being at 50-year lows, investors, they are unlikely to return to physical assets or FDs in a big way. The Jan Dhan Yojana has made great strides, helping create a huge addressable market at the bottom of the pyramid for microfinance firms, gold companies & retail financiers. It also creates a pool of customers for savings products.

To reflect weights close to the model portfolio, we recommend investing at least Rs 1 lakh in this portfolio.

Created by	IER Reg. Number	Subscription Type
Primeinvestor	INH000000653	Paid

Invest in this smallcase here

Methodology

Defining the universe

The universe comprises NSE listed financial stocks from banks, small finance banks, NBFCs, micro finance institutions, insurance companies, AMCs, depositories, exchanges, insurance players and securities with market capitalization above Rs. 5,000 crores. The universe is split into two baskets – the lending basket and the non-lending basket.

Research

Stocks are filtered on detailed bottom up analysis to identify the ones that fit our investment thesis. We look at quantitative and qualitative factors. We also do a deep dive of operational aspects to build the watchlist and portfolio.

Qualitative aspects include composition of loan book, domain expertise, size, yield, ratios and characteristics of the credit cycle, risk in the different lending segments, and so on.

Outside the lenders, companies operating in the broader financial services segment that tap into emerging trends form part of the shortlist. These include rating agencies, AMCs, depositories, exchanges, insurance players and other enablers. Here, we look at the growth as well as cyclicality.

Constituent Screening

Key parameters are used to screen stocks in the universe to assess their prospects to make it to the shortlist and from there into the portfolio. These include, but are not limited to:

- Net worth/ net worth growth
- Yield on advances/NIM profile
- Return on Assets
- Return on Equity
- Asset Quality
- Capital Adequacy Ratio
- Free cash flow (where applicable)
- Return on Capital employed (where applicable)

These parameters assess fundamental strength. Qualitative assessments on growth from here, profitability and asset quality trends are evaluated for each of the stocks in the final watchlist.

Weighting

Growth, business fundamentals and financial tractabend are the key factors considered while fixing the individual stock allocation.

Rebalance

This smallcase has a quarterly rebalance schedule. Once every quarter, we will comprehensively review this smallcase to add or drop stocks/ETFs, if applicable.

Ratios

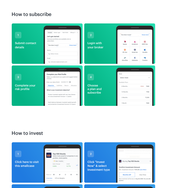
Ratio	smallcase	Equity Multi Cap
PE Ratio	21.87	26.20
PB Ratio	2.78	4.38
Large Cap	1.74	1.96
Dividend Yield (%)	1.18	1.06

Important Fields

Inception Date	Launch Date	Mastercap Category
January 2 2022	February 1 2022	Equity Multi Cap
Review Frequency	Last Rebalanced	Next Review Date
Quarterly	April 10, 2024	July 10, 2024

Market Cap Distribution

Live Performance vs Equity Multi Cap



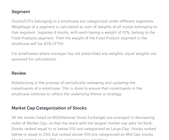
Note: Live performance includes rebalances. It is a tool to communicate factual return information and should not be seen as advertisement or promotion.

Returns over various periods

1M Returns	3M Returns	6M Returns	1Y Returns
smallcase	smallcase	smallcase	smallcase
3.16%	1.96%	12.32%	29.35%
Equity Multi...	Equity Multi...	Equity Multi...	Equity Multi...
3.53%	3.65%	20.34%	36.76%

How to subscribe

How to invest



Definitions and Disclosures

CAGR

CAGR (Compounded annual growth rate) is a useful measure of growth in various aspects of business such as revenue, profits, assets, subscribers and different. Let's say if a portfolio has for 3 years and having returned 10%, 20% and 30%, 5%, 8%, 1%, respectively in the first, second and third year. Then we calculate CAGR as a return number that would give the same return. The investment value at the end of three years, as we get when the portfolio gains 10% in the first year, 20% in the second year and 30% in the third year, is the same as we would be 5.8%. This means that you will always end up with the same investment value at the end of the third year, if your portfolio gains 10.64% every year or 5%, 5.8% or 6%, respectively in the first, second and third year.

In simple words, it indicates the annual return generated by the smallcase from inception. It is a useful measure to see how the smallcase has performed over applicable time periods and vs others. Only that does not consider risk and volatility. Returns and CAGR numbers don't include transaction costs.

E.g., CAGR calculation methodology just updated from 365 days to 252 on all smallcase Platforms. Please read this post to understand the changes in detail.

Volatility Label

Changes in stock/ETF prices on a daily basis result in fluctuations to the investment value of your portfolio. In order to help investors understand the extent of fluctuation they might observe, the smallcase assigns a volatility label. Volatility is categorized into one of three volatility buckets - High, Medium and Low volatility. The label is calculated by using the smallcase's volatility number and the 1Y NIFTY 50 Index.

If the daily change in the investment value of a portfolio is too drastic, it means prices of stocks in the portfolio are changing very rapidly. Such portfolios have high Volatility. Investing in High Volatility smallcases means that changes in your investment value will be rapid and you should be prepared for ups and downs in the investment value of Low Volatility smallcases are expected to be lower in comparison.

For more information about how volatility is calculated, please check here

Segment

Stocks/ETFs belonging to a smallcase are categorized under different segments, Megacap or Large cap smallcases are made up of weights of stocks belonging to that segment. Suppose 4 stocks, with each having a weight of 10%, belong to the Small Enclosure segment. The weight of the Fixed Portion of this smallcase will be 40% (4*10)

For smallcases where manager has not prescribed any weights, equal weights are assumed for calculations.

Review

Rebalancing is the process of periodically reviewing and updating the constituents of a smallcase. This is done to ensure that constituents in the smallcase continue to reflect the underlying theme or strategy

Market Cap Categorization of Stocks

All the stocks listed on NSE(National Stock Exchange) are arranged in decreasing order of Market Cap, so that the stock with the highest market cap is placed first. Stocks ranked equal to or below 100 are categorized as Large Cap. Stocks ranked below equal to 250, but below rank 100 are categorized as Mid Cap. Stocks ranked above 250 are categorized as Small Cap

Market Cap Categorization of smallcases

- If the sum of weights of constituent large cap stocks is greater than 50%, then smallcase is categorized as Largecap
- If the sum of weights of constituent mid cap stocks is greater than 50%, then smallcase is categorized as Midcap
- If the sum of weights of constituent small cap stocks is greater than 50%, then smallcase is categorized as Smallcap
- If none of the above conditions are met, then smallcase is categorized as Multicap

For smallcases where manager has not prescribed any weights, equal weights are assumed for calculations.

Comparison of live performance

To help investors make informed decisions, smallcase platform provide many tools. One of the tools provided on the platform is the comparison of the live performance of the smallcase. This comparison is a tool to communicate factual return information and should not be seen as advertisement or promotion. Following methodology is used to provide users different options to compare the performance of the smallcase.

- All smallcases have an option to compare the live performance against returns generated by Bank Fixed Deposits and Equity asset classes.
  - FD returns are calculated using the data available from RBI. The annual data for 1.5 year depositor rate is considered. This data is used to compute a daily index series, where the annual returns of the series corresponds to the annual depositor rate published by RBI. For an instance, if the annual deposit rates for year 1 is 6% and year 2 is 7%, the total return of the series after 1 year is calculated as 1.06*1=1.06 and after 2 years is calculated as 1.06*1.07=1.1342 and so on.
  - Equity returns represent the returns generated by Nifty 50 Index
- All smallcases have an option to compare live performance against the returns generated by Equity Largecap section of the market - represented by Nifty50 Index.
- Each smallcase is categorized into one of the market cap categories using methodology described in the section above. Following options are made available as per the market cap classification of the smallcase.

Market Cap Category	Comparison Option
Largecap	Nifty 100
Midcap	Nifty Midcap 150
Smallcap	Nifty Smallcap 100
Large & Midcap	Nifty Largemidcap 250
Mid & Smallcap	Nifty Midsmallcap 400
Multicap	Nifty 500

General Investment Disclosure

Charts and performance numbers on the platform do not include any backtests. Live performance of all smallcases is shown by default. Backtests are only provided on the platform. Every backtest calculation of historical or live value and other information is provided by exchange approved third party data vendors and not from the smallcaseteam. Backtests are based on the current composition and weights are not provided by the creator. Equal weights are used to calculate all backtests unless the creator has provided weights.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Investors should consider consulting their financial advisor while considering any investment decisions.

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