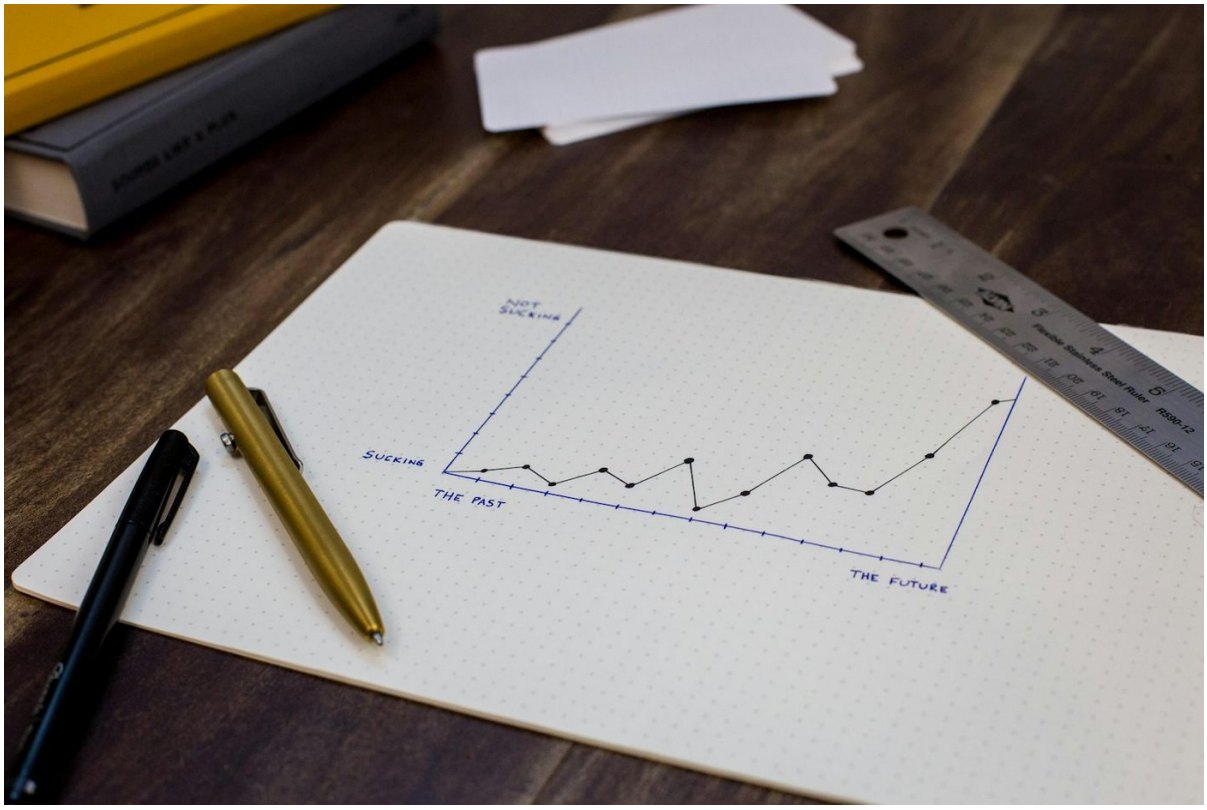
MARKETS

Mutual funds publish small and midcap stress tests after SEBI flags 'froth'

After the markets regulator warned of pockets of froth, fund houses disclosed how long it would take them to sell their small and midcap holdings in a crunch.

By Economic.Express Desk · 15 March 2024 · 2 min read



Midcap index hits a record, but analysts warn valuations look stretched

In 60 seconds

1. SEBI chairperson Madhabi Puri Buch flagged 'pockets of froth' in the market on 11 March 2024.
2. Funds must now disclose stress tests every 15 days, starting 15 March.
3. The tests show how many days a fund would need to sell 25% and 50% of its portfolio.
4. Some small-cap funds said they would need around a month to sell half their holdings.

India's mutual funds published stress test results for their small and midcap schemes for the first time on Friday, days after the markets regulator warned that parts of the market looked overheated.

The warning

On 11 March, SEBI chairperson Madhabi Puri Buch said there were 'pockets of froth' in the market, particularly among smaller companies whose share prices had risen sharply. SEBI had earlier asked fund houses to put in place a framework to protect investors in their small and midcap schemes.

What the stress tests show

The industry body AMFI asked funds to run the tests every 15 days and publish the results from 15 March. The tests estimate how many days a fund would need to sell 25% and 50% of its small and midcap holdings without distorting prices, a measure of how easily investors could be paid out if many redeemed at once.

Results varied widely between funds. Some of the largest small-cap funds said they would need roughly a month to sell half their portfolio.

> *The message to investors: smaller stocks can be much harder to sell in a hurry.*

What it means for you

Small and midcap funds had attracted record inflows on the back of strong returns. The stress tests are meant to give investors a clearer picture of the risks, especially liquidity, before they invest more.

Financial planners said investors should keep such funds to a portion of their portfolio that matches their risk appetite, and stay invested for the long term rather than chase recent returns.