

# Webinar summary

Market summary and portfolio positioning

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## HEADLINE

Since October 2023, two events reshaped Indian markets: the market priced a Fed pivot that never fully arrived, and BJP's three-state wins turned a perceived 0% probability of continued policy continuity into ~100% in the street's view. The rally that followed was disproportionately a small-cap, retail-driven, PE-expansion-led rally — **365 companies** more than doubled in ten months. Rate-cut expectations have since been walked back, and small-cap froth is starting to wobble. The portfolio has dialled risk down to **beta 0.56** with standard deviation below 10%.

STANCE	FUND SIZE	TRACK RECORD	BENCHMARK
<b>DEFENSIVE</b> Dialling risk down; beta at 0.56	<b>~INR 3,500 Cr</b> Single-strategy, PMS + Cat-3 AIF	<b>~21% CAGR</b> Post-fees since inception, ~620 bps 3Y alpha	<b>BSE 500</b> Outperformed 81% of 5Y rolling windows at >12.5% CAGR

## KEY THEMES

### The Fed pivot the market mis-priced

In November 2023 consensus expected ~200 bps of Fed cuts through 2024. By March, data had reversed that: implied rates across tenors are *above* November levels. Unless the Fed cuts materially, RBI won't either — the US-India differential is already at a 23-year low of ~100 bps.

### The small-cap rally is increasingly a float phenomenon

Average returns are **inverse to free float**. Companies with <10% free float are up ~200% on average; returns fall steadily as float rises. Small-cap fund folios have **4x'd** since COVID and now exceed both large-cap and mid-cap folios. Retail owns ~49% of small-cap free float directly.

### Micro-caps: from INR 5 L Cr to INR 31 L Cr

Micro-cap market-cap (all companies ranked 501 and below) fell from ~10 L Cr (2017) to ~5 L Cr pre-COVID. It is now **~31 L Cr** — and, on a small- and mid-cap basis, **17.8% of total market cap**, a new high. Earnings growth explains only a tiny fraction: in micro-caps, ~90% of share-price growth comes from PE expansion, not EPS.

### Earnings yield tells the same story

On a relative-earnings-yield basis, small and mid caps have tipped into the **unattractive** zone — last seen in 2006-07 and 2016-17. Historically, every time the 3Y rolling return hits the 35-50% range the next two years are negative (2008, fragile-five, 2017). The flip side: when the range hits minus 25% to minus 10%, the next two years are strongly positive.

### Self-organised criticality

Markets that are running far ahead of fundamentals don't need a macro trigger to correct. 2018 is the reference: LTCG was grandfathered and mutual-fund realignment was a flow issue, not a fundamental one — and yet 48 companies fell more than 80% and 202 fell 60–80% in the year that followed. Unsustainable states find ways to unwind.

## PORTFOLIO STANCE & POSITIONING

Buoyant has systematically reduced small- and mid-cap exposure over the past two quarters and increased large-cap weight; the **core** allocation has risen while satellite remains controlled. Portfolio beta is now **0.56** and standard deviation is below **10%** — a statistically low-risk construction against a benchmark whose small- and mid-cap segments have materially re-rated on flows rather than on earnings.

*“Good businesses are not always great investments — the assumptions you pay for matter more than the business quality itself.”*

## EXECUTION FRAMEWORK

LEVER	WHAT	STATUS
De-risk the book	Cut small/mid-cap weight further; push the core allocation higher.	Active
Sector rotation	Favour private banks (valuation + credit-growth cycle aligned), housing finance, telecom, pharma.	Active
Avoid the crowd	Underweight FMCG defensives, PSU utilities / oil & gas where valuations already price in the upside.	In place

## PERFORMANCE — ALIGNED WITH THE PHILOSOPHY

- **1Y:** ~900 bps alpha post-fees vs BSE 500.
- **3Y:** ~620 bps compounded alpha.
- **Risk:** portfolio beta **0.56**, standard deviation <10% — statistically low-risk for the returns delivered.
- **Consistency:** 81% of 5Y rolling observations above 12.5% CAGR, vs 28% for BSE 500.

## RECENT PORTFOLIO ACTIONS

- **Reduced:** small- and mid-cap exposure into the rally; trimmed areas where PE expansion drove most of the gain.
- **Added:** large-cap private banks (HDFC, ICICI), housing-finance, pharma.
- **Holding back:** not chasing PSU utilities, oil & gas, defence at current prices — waiting for valuation resets.

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## Q&A HIGHLIGHTS

**Private banks — still constructive.** Yes. Credit-growth, credit-cost, margin and valuation cycles all line up. GFCF-to-GDP composition is shifting back to capex-oriented from consumption, which favours corporate-facing banks.

**Lump sum or staggered.** If you must stagger, split into at most two tranches — Buoyant already runs a non-model portfolio and will pace deployment internally.

**PSU banks.** Structurally they cannot match private-bank ROEs (cost-to-income, fee income differ). A few are cheap and growing fast — fine as a position, but don't project private-bank multiples onto them.

**Gold.** Possible hedge against dollar weakness; not an expertise Buoyant claims.

**Will AUM size dilute returns.** Liquidity rules preserved: no more than 10% of any company's free float; broad portfolio remains fluid.

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## OUTLOOK

The long India story remains firmly intact — labour-force expansion, productivity gains, a secular rise in household savings into equities. None of that changes.

What has changed is **pricing**. Small- and mid-cap valuations are discounting too much; PE expansion has done most of the heavy lifting where EPS has not. The portfolio has been positioned for the mean reversion, not against it.

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