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NIFTY LargeMidcap 250

A Blend of Large and Mid-Cap stocks



Introduction

We have been always told that balance is key to life. Balance is nothing but an even distribution of weight enabling someone or something to remain upright and steady. The domain of financial market is no exception to the above principle. In this second edition of whitepaper on Nifty LargeMidcap 250, we shall see how the index continues to hold and maintain such balance between Nifty 100 (the large cap index) and Nifty Midcap 150 (the mid-cap index). Nifty 100 and Nifty Midcap 150 are two popular broad-market indices that individually represent performance of Large-cap and Mid-cap segments respectively. Nifty 100 represents the top 100 Large-cap stocks based on full market capitalization. Nifty Midcap 150 represent the next pool of 150 stocks based on full market capitalization which are classified as mid-caps stocks.

Nifty LargeMidcap 250 Index reflects the performance of a portfolio of Large-cap and Mid-cap companies listed on NSE with 50% weight to each of the two capitalization segments. The Index consists of 250 companies which are part of the underlying Nifty 100 and Nifty Midcap 150 indices. Combining Large-cap and Mid-cap stocks provides a well-diversified portfolio to investors who intend to track both large and midcap stocks.

Exhibit 1: Nifty LargeMidcap 250 index - a balanced combination of large and midcap stocks



Of the top 250 stocks, based on full Market Capitalisation, large cap stocks (top 100) typically claim ~83% of total market capitalization and midcap stocks claim the remaining ~17% as on October 31, 2019. The Index provides equal weight allocation to largecap and midcap stocks. By giving equal weight, the index seeks to balance between growth (mid-cap) and stability (large-cap) which cannot be achieved if weighed on the basis of market capitalization due to skewness towards largecap.

NIFTY LARGEMIDCAP 250 INDEX - A BALANCED FIT BETWEEN NIFTY 100 AND NIFTY MIDCAP 150

The below graph and table show the performance of Nifty 100 (read large-caps), Nifty Midcap 150 (read mid-caps) and Nifty LargeMidcap 250 (read large & mid-caps) from April 2005 till October 2019.

Exhibit 2: Performance of Nifty 100 (PR), Nifty Midcap 150 (PR) and Nifty LargeMidcap 250 (PR) indices during various phases.

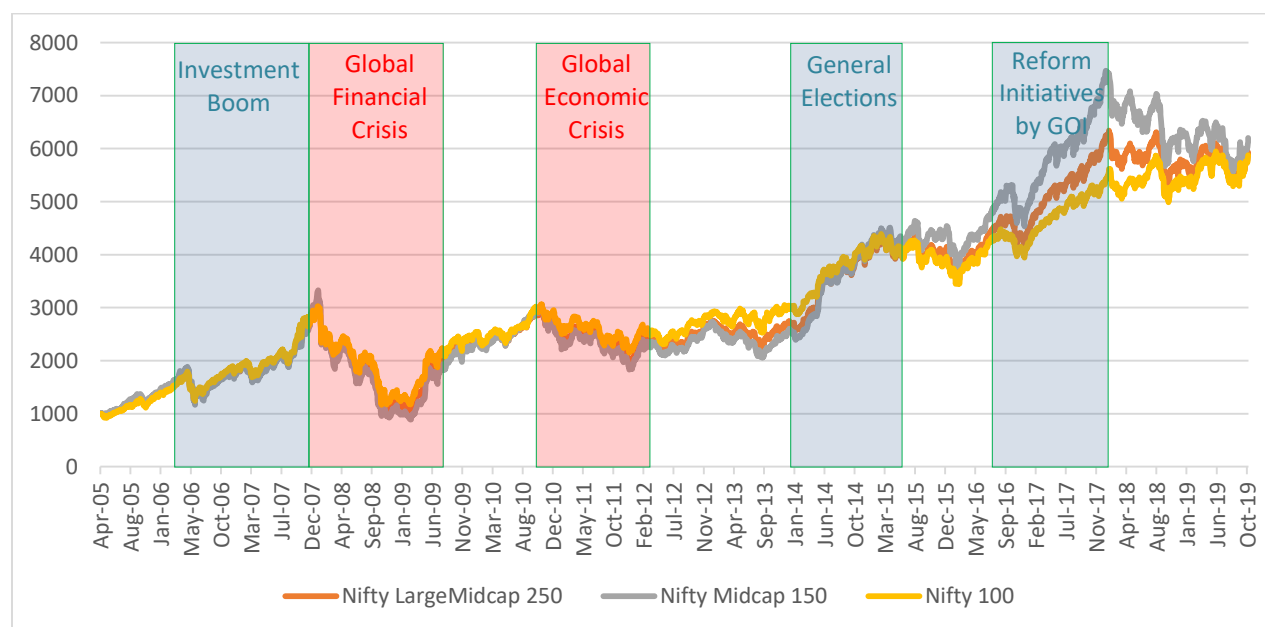


Exhibit 3: Return & risk profile of Nifty LargeMidcap 250 (PR), Nifty100 (PR) and Nifty Midcap 150 (PR)

Period	Calendar year returns (%)			Annualized volatility (%)			Return to Risk ratio		
	NIFTY LargeMidcap 250	NIFTY 100	NIFTY Midcap 150	NIFTY LargeMidcap 250	NIFTY 100	NIFTY Midcap 150	NIFTY LargeMidcap 250	NIFTY 100	NIFTY Midcap 150
2005	38.2	35.8	41.4	15.6	16.7	16.4	2.5	2.1	2.5
2006	31.3	38.0	26.9	25.7	26.3	26.8	1.2	1.4	1.0
2007	69.4	57.5	76.1	23.0	25.1	22.5	3.0	2.3	3.4
2008	-60.4	-53.7	-65.5	42.4	44.6	42.0	NA*	NA*	NA*
2009	97.3	82.7	110.6	31.5	34.3	31.5	3.1	2.4	3.5
2010	15.7	17.9	18.5	15.5	16.0	16.7	1.0	1.1	1.1
2011	-29.0	-25.8	-32.1	19.0	20.3	18.9	NA*	NA*	NA*
2012	36.8	30.6	44.3	14.9	15.0	15.7	2.5	2.0	2.8
2013	1.7	6.5	-3.0	15.9	17.7	15.2	0.1	0.4	NA
2014	46.2	33.2	60.3	14.1	13.0	16.8	3.3	2.6	3.6
2015	2.8	-2.4	8.4	16.1	16.1	17.0	0.2	NA*	0.5
2016	4.7	3.6	5.4	15.8	15.2	17.3	0.3	0.2	0.3
2017	42.43	31.05	54.34	10.17	9.30	12.06	4.17	3.39	4.50
2018	-6.21	1.14	-13.33	14.11	12.96	16.45	NA*	0.09	NA*
2019 YTD	2.87	8.34	-2.17	14.66	14.56	15.57	0.2	0.57	NA*
2005 to 2019 (YTD)	12.98	12.91	13.33	21.07	21.96	21.72	0.61	0.59	0.61

*Data as on October 31, 2019

Large caps which are usually characterized by stable returns and lower volatility in long term tend to tide over phases of economic downturn relatively better than mid-caps. However, during phase of economic recoveries and mega bull runs largecaps generally underperform their mid-cap counterparts. Stability in performance of large cap stocks (represented through the Nifty 100), as shown by Exhibit 3, can be observed during global financial crisis of 2008 followed by global economic slowdown in 2011 and the recent 2 year period of 2017-2019, where large caps (represented through Nifty100) have delivered better returns as compared to the midcaps (represented through Nifty Midcap 150). The Nifty LargeMidcap 250, being blend of large and mid-cap stocks, witnessed returns that are in-between the large and mid-caps. For instance, during the falling market phase of 2011, Nifty LargeMidcap 250 gave a return of -29%, better than that of Nifty Midcap 150, which gave a return of -32%, thereby shielding investors from losses. Likewise, during rising market phase of 2007, Nifty LargeMidcap 250 gave a return of 69.4%, higher than that of Nifty 100, which gave a return of 57.5%.

Since January 2018 mid-caps have delivered annualized returns of about -9%, whereas returns of Nifty LargeMidcap 250 have been relatively better at -2% due to 50% allocation to large cap segment.

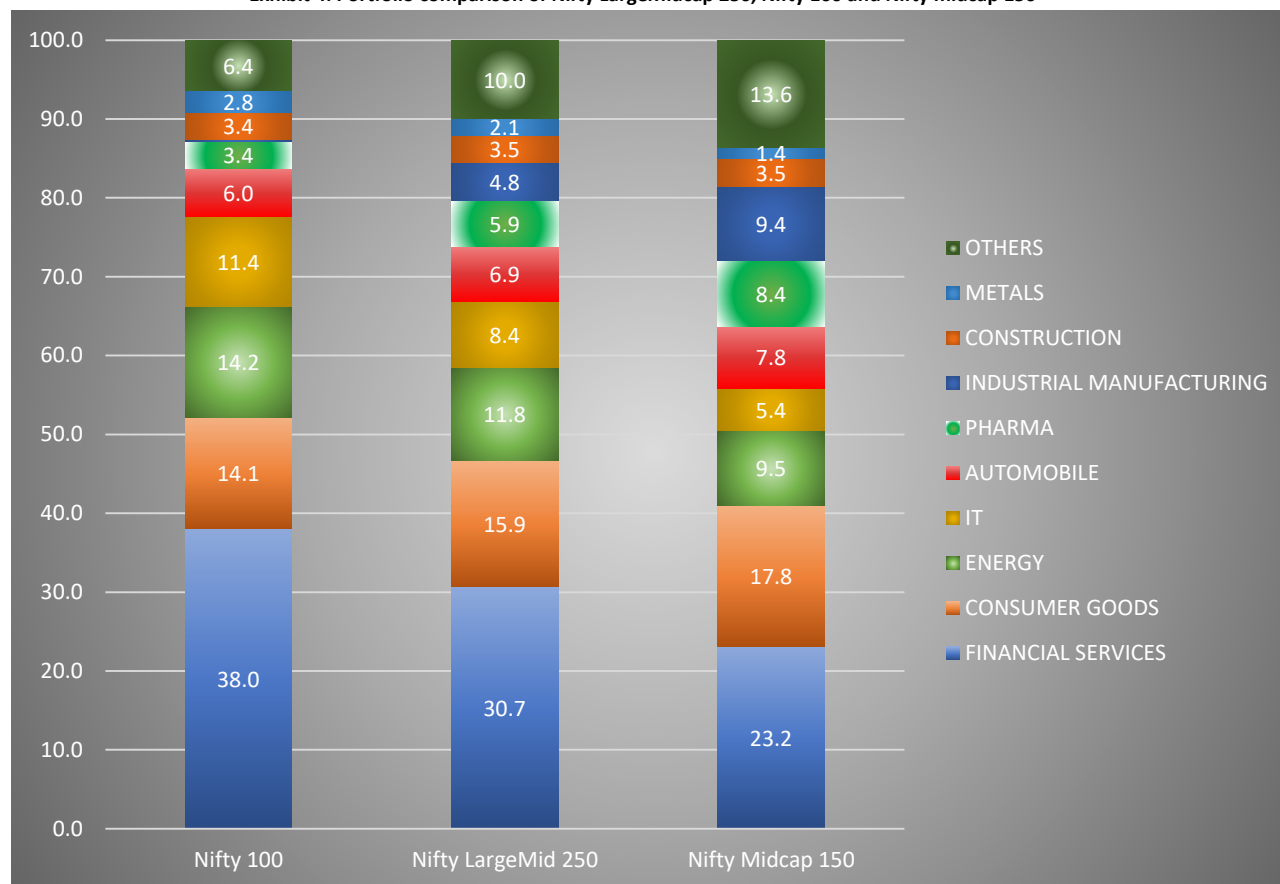
The table also provides an interesting insight, with reference to the annualized volatility of the index. The blending of large and midcap indices in the NIFTY LargeMidcap 250 has helped the index in achieving volatility lower than the simple average of volatilities of NIFTY 100 and NIFTY Midcap 150. In some cases, the volatility of the LargeMidcap 250 index is lower than volatilities of both the indices (year 2005, 2006, 2010, 2012).

The since inception return of Nifty LargeMidcap 250 stood at 12.98% per annum. For Nifty 100 and Nifty Midcap 150, the returns for similar periods have been 12.91% and 13.33% respectively.

**Please not that Risk Return Ratio for years with Negative ratio is marked as NA in this edition, since the negative risk return ratios are not comparable*

SECTOR LEVEL DIVERSIFICATION OF NIFTY LARGEMIDCAP 250

Exhibit 4: Portfolio comparison of Nifty LargeMidcap 250, Nifty 100 and Nifty midcap 150



*Data as on October 31, 2019

Nifty 100 is exposed to 16 sectors whereas Nifty Midcap 150 is exposed to 17 sectors (one additional sector being Healthcare services). Nifty LargeMidcap 250, being a union of the two indices is exposed to all 17 sectors. Also, the aggregate weight of top 5 sectors in Nifty LargeMidcap 250 is 73.8%, represented by Financial Services (30.7%), Consumer Goods (15.9%), Energy (11.8%), IT (8.4%) and automobile (6.9%) as highlighted in Exhibit 4. The exposure to top 5 sectors for Nifty 100 and Nifty Midcap 150 stands at 83.7% and 68.2% respectively.

r: The weight of top 5 sectors in Nifty LargeMidcap 250 for November 2017 were 69.5%, represented by Financial Services (30.7%), Consumer Goods (12.0%), Energy (11.3%), Automobile (8.5%) and IT (7.0%).

STOCK LEVEL DIVERSIFICATION OF NIFTY LARGEMIDCAP 250

Exhibit 5: Weightage of top 10 stocks

Nifty 100		Nifty LargeMid 250		Nifty Midcap 150	
Company Name	Weight	Company Name	Weight	Company Name	Weight
HDFC Bank Ltd.	9.40	HDFC Bank Ltd.	4.77	Info Edge (India) Ltd.	2.03
Reliance Industries Ltd.	8.86	Reliance Industries Ltd.	4.43	Federal Bank Ltd.	1.89
Housing Development Finance Corporation Ltd.	6.50	Housing Development Finance Corporation Ltd.	3.28	Voltas Ltd.	1.86
ICICI Bank Ltd.	5.29	ICICI Bank Ltd.	2.67	City Union Bank Ltd.	1.76
Infosys Ltd.	4.44	Infosys Ltd.	2.25	Indraprastha Gas Ltd.	1.55
Tata Consultancy Services Ltd.	4.22	Tata Consultancy Services Ltd.	2.10	MRF Ltd.	1.54
ITC Ltd.	3.92	ITC Ltd.	2.00	Apollo Hospitals Enterprise Ltd.	1.54
Kotak Mahindra Bank Ltd.	3.72	Kotak Mahindra Bank Ltd.	1.90	Tata Global Beverages Ltd.	1.49
Larsen & Toubro Ltd.	3.22	Larsen & Toubro Ltd.	1.62	REC Ltd.	1.47
Axis Bank Ltd.	2.90	Axis Bank Ltd.	1.44	RBL Bank Ltd.	1.46
Weight of top 10 stocks	52.45	Weight of top 10 stocks	26.45	Weight of top 10 stocks	16.6
Herfindahl - Hirschman Index (HHI) value	366	Herfindahl - Hirschman Index (HHI) value	116	Herfindahl - Hirschman Index (HHI) value	95

*As on October 31, 2019

As on October 31, 2019, top 10 stocks in Nifty LargeMidcap 250 contributed ~27% to Index weight (with individual weights ranging between 4.77% to 1.44%). This contribution is significantly diversified than contribution of top 10 stocks in Nifty100, which constitute 52.5% of Index weight. The contribution of top 10 stocks in Nifty Midcap 150 is 16.6%.

The Herfindahl - Hirschman Index (HHI)¹ value explains the degree of diversification in a portfolio, where a lower value signifies a more diversified portfolio. Exhibit 5 provides that the HHI value of Nifty LargeMidcap 250 at 116 is significantly better than that of Nifty 100, which has an HHI of 366. NIFTY Midcap 150 has an HHI of 95. Though, the composition of top 10 Stocks in both Nifty 100 and Nifty LargeMidcap 250 is same, the level of diversification achieved is far greater in Nifty LargeMidcap 250 as indicated by lower HHI value.

Exhibit 6: Largest, Smallest and Median stock within Nifty100, Nifty Midcap150 and Nifty LargeMid 250 by Full Market Capitalisation

Range in Full Market Capitalization of stocks (Rs. Cr)			
Parameter	Nifty 100	Nifty LargeMidcap 250	Nifty Midcap 150
Largest Stock	Reliance Industries Ltd.	Reliance Industries Ltd.	Info Edge (India) Ltd.
Smallest Stock	Tata Motors Ltd DVR	H.E.G. Ltd.	H.E.G. Ltd.
Median Stock	InterGlobe Aviation Ltd.	Bharat Forge Ltd.	Relaxo Footwears Ltd.

*As on October 31, 2019

Exhibit 6 displays the largest, smallest and median stock ranked in descending order of full market capitalization for various indices. NIFTY LargeMidcap 250 Index covers the entire spectrum of large and midcap stocks. The largest stock in NIFTY LargeMidcap 250 is Reliance Industries Ltd., which is also largest stock of Nifty 100, and the smallest stock is H.E.G. Ltd., which is the smallest stock of Nifty Midcap 150.

1 : Herfindahl Hirschman Index (HHI) is calculated as sum of squares of percentage weight of each stock in the portfolio.

ROLLING RETURNS OF NIFTY LARGEMIDCAP 250

Exhibit 7: Rolling returns of Nifty LargeMidcap 250 (TR)

Investment Horizon	Absolute returns (>15%)	Absolute returns (>10% & <15%)	Absolute returns (>5% & <10%)	Absolute returns (>0% & <5%)	Absolute returns (negative)
10 years	23%	71%	6%	0%	0%
7 years	23%	54%	23%	0%	0%
5 years	45%	27%	16%	11%	1%
3 years	42%	22%	18%	10%	8%
2 years	46%	13%	11%	13%	17%
1 year	48%	7%	10%	12%	23%

*As on October 31, 2019

It is noteworthy to analyze how Nifty LargeMidcap 250 has performed on Rolling Return basis. Exhibit 7 provides that for 10 Year and 7 year periods, the Index has never delivered negative returns. For the same 10 year and 7 year period, the Index has given returns between 10% and 15% per annum for 71% and 54% of total instances respectively. Another distinguishing feature of Nifty LargeMidcap 250 is that whenever the Index has given negative returns, though for the shorter periods of 5, 3, 2 or 1 years, the Index has also shown high positive returns of the magnitude greater than 15% for remarkable 45%, 42%, 46% and 48% of the times respectively.

Signing off...

Nifty LargeMidcap 250 consists of 250 companies which are part of the underlying Nifty 100 and Nifty Midcap 150 indices. With equal aggregate weight to large and midcap stocks, it addresses the weight skew towards large cap and has a more balanced allocation to both the segments. The index represents the returns of an aggregate portfolio of large and mid cap segments with equal weight to the two. Top 5 sectors constitute 73.8% of Nifty Large Midcap 250. Despite sharing the same top 10 stocks as in Nifty100, Nifty LargeMidcap 250 has a significant lower HHI value than Nifty 100, showing the diversification benefit that one can achieve with Nifty LargeMidcap 250 (though by having exposure to mid-cap stocks). On rolling return basis, Nifty LargeMidcap 250 for longer horizons (10 Year and 7 year) has never delivered negative returns. Nifty LargeMidcap 250 is a fair representation of the investable universe of stocks for funds that invest in both large and mid-cap categories and is expected to strongly appeal to the investment community as an ideal benchmark for such funds and for creating passive products in the form of ETFs or index funds.

For information on Index methodology and factsheet, please visit us at www.niftyindices.com

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