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# Devina Mehra warns against chasing smallcaps, calls them a stock-specific game

**Synopsis**
Indian stock markets have shown resilience over the past year. Largecap stocks have performed better than smallcaps. Experts caution that smallcap performance is company-specific. Investor sentiment can be a contrarian indicator. Sectors like autos, pharma, and FMCG are favored. Caution is advised for the banking sector due to inherent risks.


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Indian equity markets may not have delivered outsized gains over the past year, but benchmark indices have shown resilience despite a challenging global and domestic backdrop. The Nifty has returned close to 10% on a total return basis over the last one year, a performance that appears reasonable given the volatility investors have had to navigate. Beneath the surface, however, market leadership has been uneven.

Largecaps have clearly outperformed, while the smallcap index has declined around 7%, resulting in a wide gap in relative returns. This divergence has once again sparked debate on whether smallcaps are positioned for a comeback or whether the recent underperformance is simply part of their natural cycle. Devina Mehra, Chairperson and Managing Director of First Global, cautions against viewing smallcaps as a broad, homogenous opportunity. “The smallcaps are always a company specific call. It is never a category call,” she says in an interview to ET Now.

She notes that sharp drawdowns are intrinsic to the smallcap space and are not exceptions. “The smallcap index in 2008-09 fell nearly 78%. To cross that high, it took eight years,” Mehra points out, adding that a year of decline should not be seen as a guaranteed trigger for a rebound. “It is not an aberration that the smallcap index has fallen for a year and should therefore bounce back," she explains.

On the broader market outlook, Mehra reiterates her long-standing view that investor sentiment often works as a contrarian signal. "Sentiment is a contra indicator," she says, suggesting that periods of anxiety and pessimism are often when staying invested matters most, while phases of comfort call for greater caution.

From a portfolio positioning standpoint, Mehra emphasizes consistency between what investors hold and what they would be willing to buy afresh. At First Global's PMS, the firm has remained overweight on autos and auto components for nearly two years, while continuing to stay positive on pharma and healthcare despite a pause in performance this year. FMCG has also emerged as an area of increasing exposure, supported by lower inflation, improving consumption trends and some margin relief from softer petrochemical prices.

Beyond these segments, exposure to sectors such as chemicals and capital goods has largely been driven by individual stock selection rather than sector-wide themes. Banking, however, remains a space where Mehra prefers caution. While exposure has increased compared with historical levels, the portfolio is not overweight the sector. "I am a nervous investor in banks and lenders," she says, pointing to the industry's leveraged nature and the higher likelihood of negative surprises.

She adds that predicting such risks from the outside is particularly difficult. "It is a highly leveraged industry… sitting outside you cannot make a call on where the next negative surprise will come from," Mehra explains. Drawing on the sector's history, she notes that while success stories like HDFC Bank and Kotak Mahindra Bank are often cited, several other banks licensed around the same time ran into serious trouble. "That is the nature of banking," she says, where investors are ultimately betting on management decisions that do not always play out as expected.