Is Nifty Next 50 Better Than Nifty 50 for Large Cap Allocation?

As broader markets rally, and business cycles turn favorable, it's time to invest in the 'next 50' emerging blue chip companies

iFAST Research

Globally, passive Investing is a multi-trillion dollar industry. Domestically, the trend of passive investing is still gaining momentum, especially in the large cap segment. While earlier arguments have largely focused on 'active v/s passive' funds in terms of opportunities for alpha generation, slowly, but surely, Indian investors are beginning to appreciate the advantages of complementing both strategies in their portfolios.

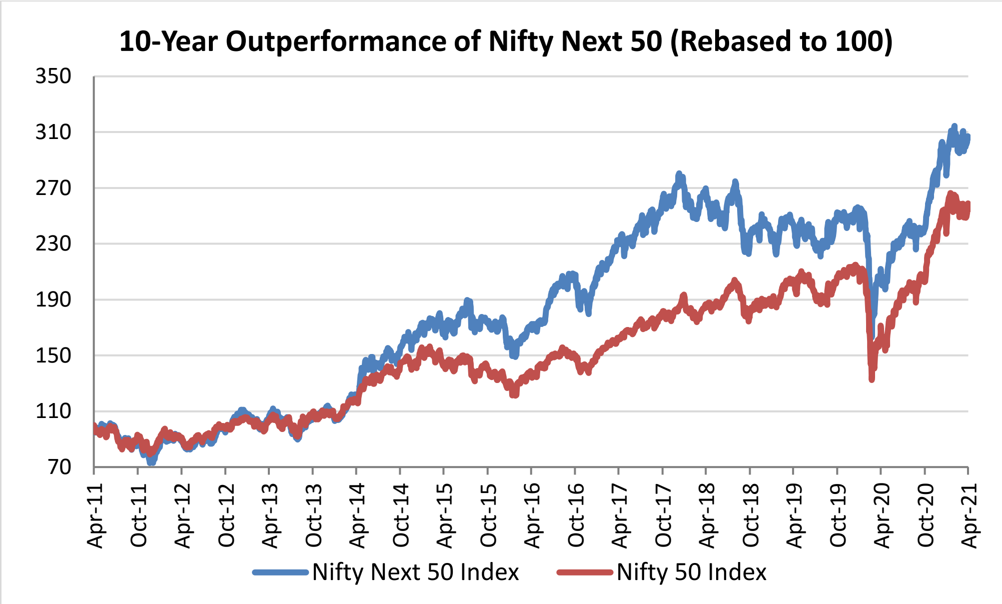
This increased appetite amongst investors has led many fund houses to come up with passive funds across themes and categories. And since passive funds, by definition, track the selected benchmark, this spurt has led to an increased focus on the quality and composition of the underlying benchmark indices.

Over the course of our study of comparative benchmarks in the large cap space, the Nifty Next 50 index has emerged as an interesting and convincing bet in terms of its characteristics and performance. Nifty Next 50 index comprises of 50 companies from Nifty 100, representing the next rung of the largest listed companies in India after the Nifty 50 index.

Being a large cap index, it offers the benefit of steady compounding over long terms and lower beta over mid-small cap indices. However, its true strength lies in its greater diversification and better valuation opportunities than Nifty 50. We look at the four key considerations that convince us of Nifty Next 50's relative merits at this time.

Long term potential to outperform Nifty 50

The Nifty Next 50 index has performed consistently better than the Nifty 50 index. Over the last 10-year period, the Nifty Next 50 index has delivered a return of 11.8 percent (CAGR) while the Nifty 50 Index has given a return of 9.8 percent (CAGR), an outperformance of around 200 bps over a 10 year period.



Data as on April 30, 2021
Source: Bloomberg, iFAST Research

Better Sector Diversification & Lower Stock Concentration

Nifty Next 50 is more diversified with relatively lower exposure to financials as compared to Nifty 50. It also has lower stock concentration; the top ten holdings of Nifty 50 represent 59 percent of the index, which, in the case of Nifty Next 50, is only 32 percent. In some cases, top holdings of Nifty 50 may cross 10 percent individually, whereas the top holding in Nifty Next 50 doesn't even cross 5 percent.

These characteristics become important when the broader markets participate, as being seen currently. At such times, an index like Nifty Next 50 has a better scope to generate alpha returns.

Nifty 50 - Top 10 Stocks	
Company Name	**Weight (%)**
Reliance Industries	10.19
HDFC Bank	9.72
Infosys	7.93
HDFC	6.89
ICICI Bank	6.56
TCS	4.97
Kotak Bank	4.05
HUL	3.32
Axis Bank	2.84
ITC	2.80

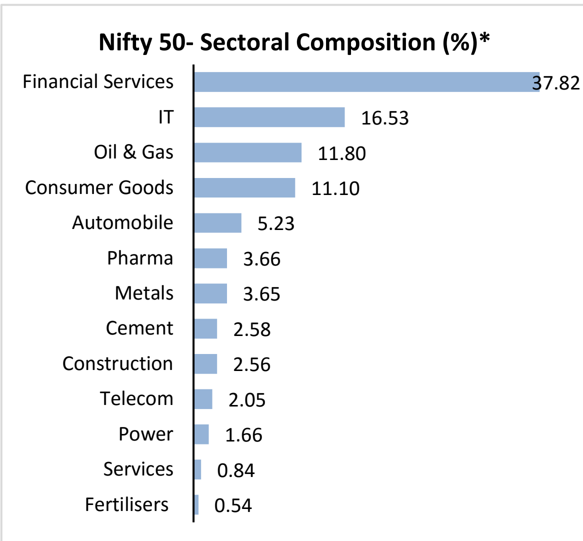
Nifty Next 50 - Top 10 Stocks	
Company Name	**Weight (%)**
Vedanta	4.22
Info Edge (India)	3.72
Avenue Supermarkets	3.40
Adani Green	3.19
Apollo Hospitals	3.16
Adani Enterprises	3.12
ICICI Lombard	3.03
Dabur India	2.98
Pidilite	2.71
Aurobindo Pharma	2.71

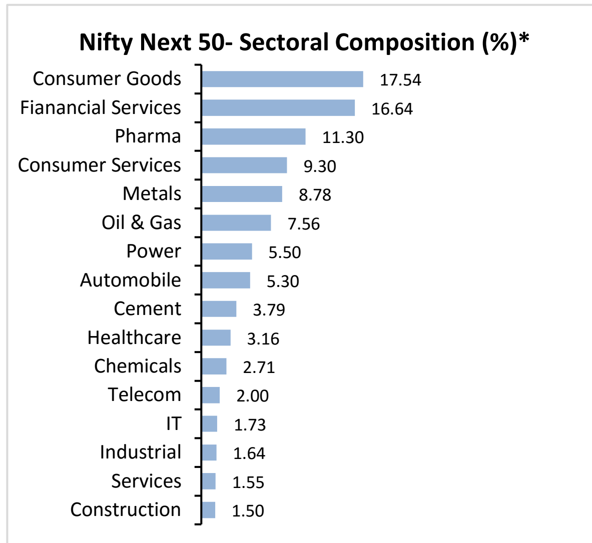
As on April 30, 2021 |Source: iFAST Research

Exposure to new age sectors

Unlike the headline indices, Sensex and Nifty 50, which are bank and IT-heavy in nature, the Nifty Next 50 index includes exposure to emerging sectors such as insurance, consumption (retail, discretionary, staples), IT and pharma, among others.

Thus, Nifty Next 50 not only offers a well-diversified portfolio across sectors, but is well positioned to ensure that investors gain from emerging trends as well.



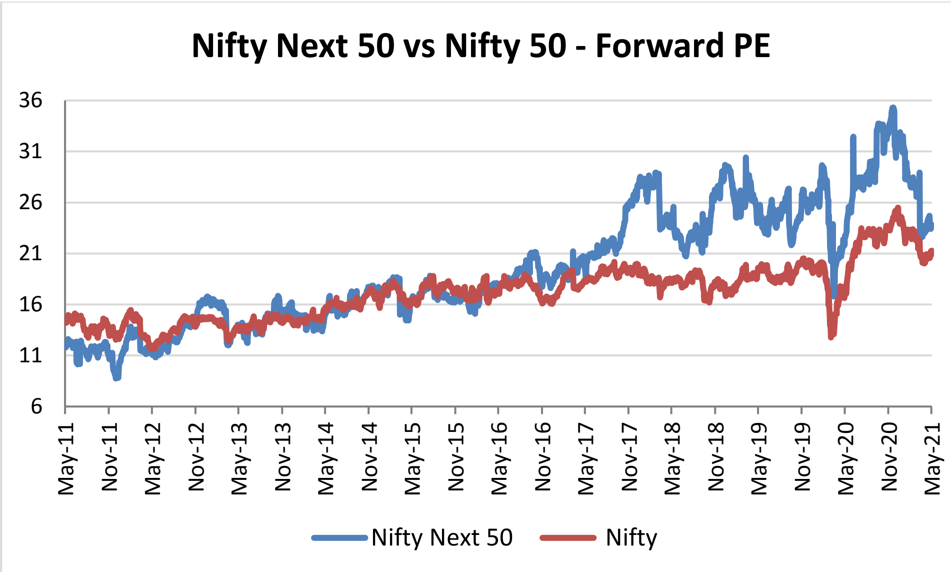


As on April 30, 2021 |Source: iFAST Research

Attractive PE multiples

Currently, Nifty Next 50 trades at 23.8x on forward metrics, while Nifty 50 trades at 21.3x. While it may seem more expensive than Nifty 50 currently, Nifty Next 50 has better scope for re-rating because of its exposure to new age sectors.

New age sectors are becoming increasingly relevant in the headline indices, and the role of traditional sectors in driving the index performance may reduce gradually. Being driven by currently emerging trends of digitalisation and consumption, new age sectors are likely to see secular growth, attracting higher valuations and investor premiums. The steep market multiples of Nifty Next 50, therefore, can be fairly sustainable in the long run.



Data as on May 21, 2021

Source: Bloomberg, iFAST Research

Risks

In periods of polarization in equity markets, where the markets are led by only few Nifty stocks, Nifty Next 50 may underperform the market due to its lower concentration in single stocks or sectors.

Strong strategy for large cap allocation

In our view, Nifty Next 50 should be considered as an integral part of large cap allocation, as it gives access to potential market leaders with lower standard deviation as compared to Nifty 50. Investing in Nifty Next 50 via passive strategies can protect investors from divergent performances seen in large caps. Also, the unsystematic risks are eliminated and returns are close to benchmark as well.

Investors can invest in Nifty Next 50 Index through ETFs and Index Funds. The ideal investment horizon should be minimum 1 year. Those who wish to invest through the SIP route at predetermined time intervals can look at index funds. Demat account holders, who wish to invest on the basis of real-time NAVs on the exchanges as per their discretion, can look at ETFs.

Recommended Index Funds for exposure to Nifty Next 50 Index

CAGR %	TER (Apr 21)	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
DSP Nifty Next 50 Index Fund	0.59	52.97	16.68	-	-	-
ICICI Pru Nifty Next 50 Index Fund	0.85	52.81	16.62	6.88	13.07	12.30

**Returns as on May 15, 2021.*

Please note growth options are considered

Recommended ETFs for exposure to Nifty Next 50 Index

CAGR %	TER (Apr 21)	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Nippon India ETF Junior Bees	0.15	53.88	17.85	7.90	13.78	12.93
ICICI Pru Nifty Next 50 ETF	0.15	54.77	17.79	-	-	-

**Returns as on May 15, 2021.*