

Business Standard

Devina Mehra urges caution on small-cap stocks, IPO frenzy at BFSI Summit

At the Business Standard BFSI Summit, Devina Mehra discusses market volatility, IPO risks, and the importance of data-driven investing



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At the BS BFSI Summit, Devina Mehra, chairperson, managing director, and founder of First Global, offered an incisive perspective on the current state of the Indian equity market. Speaking with Business Standard's editorial director Ashok K Bhattacharya, Mehra emphasised the need for a data-driven approach to investing while warning against market euphoria in segments like initial public offerings (IPOs) and small-cap stocks.

"My stance has not changed significantly over the past few quarters and months," Mehra said, noting that some fund managers have recently highlighted weaknesses in the Indian macroeconomy despite consistent data. "The data has not changed; it has remained the same, and I have been pointing out these weaknesses for some time," she added.

On market volatility and returns

Mehra highlighted the inherent volatility in equity markets, which is often overlooked in practice despite being well understood in theory. She observed that while the Indian market is perceived to deliver an average equity return of 15-15.5 per cent over the long term, the reality is more nuanced.

"From 2010 to 2020, we compounded at just over 8.5 per cent annually—comparable to fixed deposit rates. Yet, this below-par performance laid the groundwork for the post-Covid bull run," she explained. She added that large-cap indices remain below their long-term trend lines, reducing the likelihood of a sustained crash. "Corrections, though often unsettling, are simply the nature of equity markets," she noted.

Mehra also advised investors against the urge to exit markets entirely during uncertain periods. “While the risk of staying invested is that you might lose some money, there is also the risk of missing out on potential gains by not being invested,” she said.

Risks in small-cap stocks and IPOs

Mehra discussed the pitfalls of small-cap stocks, pointing to historical patterns of steep declines following bull runs. Referring to the 2016-2018 small-cap rally, she noted that the segment fell by two-thirds afterward, underscoring the risks these stocks pose even during growth periods. Regarding IPOs, Mehra took a cautious approach, criticising the frenzy that often surrounds them. “During an IPO frenzy, making rational decisions becomes challenging. Many people treat the process like a lottery, without even evaluating the business,” she said, citing Securities and Exchange Board of India (Sebi) data indicating that most retail investors sell their shares within a week of allotment.

“The demand for an IPO is not a reliable indicator of the company’s future performance,” she added.

Despite the risks, Mehra remains cautiously optimistic about the market outlook, particularly for large-cap and mainstream stocks. “On a 1-2 year basis, I’m still positive,” she said, while cautioning that some high-performing stocks in bull markets never recover once they decline.