

Mid-Cap Stocks Rally: Why Inflows Are Surging in 2025

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Mid-Cap Stock Inflows Latest News

- Mid-cap stocks continue to attract strong inflows as investors chase the high double-digit returns these stocks have generated in recent years.
- The Nifty midcap indices recently hit record highs, supported by steady retail SIP inflows and robust earnings growth. Over the last two-and-a-half months, mid-caps have significantly outperformed the Nifty 50.
- However, analysts are cautioning investors against excessive optimism, warning that stretched valuations and herd behaviour could lead to risks if the momentum reverses.

Mid-Cap Stocks

- Mid-cap stocks, as defined by SEBI, are companies ranked **101 to 250** by market capitalisation, typically valued between ₹5,000 crore and ₹20,000 crore.
- They offer higher return potential than large-cap stocks but come with greater risk.
- Investor interest in mid-caps remains strong, with Nifty Midcap 50, 100, and 150 hitting record highs in November 2025.

- Since the beginning of 2025, mid-cap indices have delivered 8–11% returns, outpacing the 6.5% return of the Nifty 50.
- Retail investors pumped ₹8,892 crore into mid-cap funds between September–October 2025, driving mid-cap AUM (assets under management) to ₹4.55 lakh crore, surpassing large-cap AUM at ₹4.1 lakh crore.
- This indicates a clear shift in preference toward mid-cap equities.

Factors Driving Mid-Cap Stock Inflows

- Mid-cap inflows are being fuelled by **strong domestic institutional buying**, especially through mutual funds and SIPs, alongside robust quarterly earnings from many mid-cap companies.
- Analysts note that overall market sentiment remains bullish, pushing investors to seek value outside large-caps, particularly as the Nifty trades near record highs.
- Several mid-cap stocks — including BSE, Federal Bank, Muthoot Finance, Biocon, NALCO, BHEL and Vodafone Idea — have attracted heavy buying due to positive news and improved financial performance.
- With mid-caps being more sensitive to earnings cycles, recent upgrades have triggered sharp price movements.
- A shift in investor behaviour is also driving inflows: after years of strong returns (2020–2024), retail investors expect the momentum to continue, leading to higher allocations towards mid-cap equities.
- Additionally, fund managers are **rotating from large-caps to mid-caps** in search of better growth opportunities.

Investor Sentiment: Bullish but Cautious

- Investor confidence in mid-cap stocks remains strong.
- As long as broader indices like the Nifty and Sensex trend positively, stock-specific buying in the mid-cap segment is expected to continue.
- Robust liquidity from domestic institutions is also sustaining long-term value buying.

Elevated Valuations Raise Red Flags

- Mid-cap valuations have become stretched.
- The **P/E ratio** for mid- and small-caps is around 33, compared to 22 for large-caps, which traditionally command higher valuations due to safety and stability.
 - The P/E ratio, or price-to-earnings ratio, is a stock valuation metric that indicates how much investors are willing to pay for each dollar of a company's earnings.
 - This ratio shows how a company's stock price compares to its earnings, helping investors determine if it is overvalued or undervalued.
- Analysts warn of structural misallocation toward mid- and small-caps driven more by sentiment than fundamentals.
- They call the current inflows “irrational exuberance”.

Retail Investors Must Exercise Caution

- Experts advise that retail investors should:
 - Be selective in stock picking
 - Enter positions gradually
 - Limit position sizes
 - Prefer high-quality stocks or professional active management
- For most retail investors, especially beginners, the mutual fund route is considered safer for diversified exposure to mid-cap companies.

Source: IE | LM

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