



EQUITY MARKET

Value and contra investing

Two styles that buy what the market prices low or has turned away from,
and SEBI's two fund categories

Index figures as on 31 August 2026

For training and education only. Not investment advice.

Value and contra investors both look at shares the market is not favouring. They differ in what they check first.

A value investor starts from price against earnings or assets. A contra investor starts from opinion: a company or sector most investors have turned away from.

Four terms to know first



Value investing

Buying shares whose price is low against the company's earnings, net worth, sales or dividends.



Contra investing

Buying companies or sectors that are out of favour, on the view that the general opinion is too gloomy.



Intrinsic value

An investor's own estimate of what a business is worth. It is an estimate; two analysts can differ widely.



Value trap

A share that looks low-priced on ratios and stays low, because its profits keep shrinking.

Growth investing is the usual contrast: a higher price against today's profit for faster expected growth.

What a value screen sees

TWO COMPANIES

Company A: price ₹200, earnings per share ₹20, book value per share ₹160.

Company B: price ₹600, earnings per share ₹20, book value per share ₹100.

- 1 P/E of A = $200 \div 20 = 10$. P/E of B = $600 \div 20 = 30$.
- 2 P/B of A = $200 \div 160 = 1.25$. P/B of B = $600 \div 100 = 6$.
- 3 On both ratios A is priced lower against what it earns and owns. A value screen would pick up A and pass over B.
- 4 The screen does not say why. A's profit may be about to fall, or B's may be growing fast. That is the manager's work after the screen.

A low ratio is where a value investor starts looking. It is not the conclusion.

Illustration with two invented companies and assumed figures. Not a view on any company.

How one index measures value

The Nifty500 Value 50 picks 50 companies from the Nifty 500 by a 'value' score built on four measures.

E/P



Earnings to price

Earnings per share ÷ share price. It is the P/E turned upside down.

B/P



Book to price

Book value per share ÷ share price. It is the P/B turned upside down.

S/P



Sales to price

Sales per share ÷ share price.

DY



Dividend yield

Dividend per share ÷ share price.

Source: NSE Indices, Nifty500 Value 50 factsheet (measures and index description).

What a fall does and does not tell you

ONE FALLEN SHARE

A share traded at ₹500 two years ago.

After two years of weak results it trades at ₹300.

A contra investor is studying it.

- 1 The fall so far: $(500 - 300) \div 500 = 40\%$.
- 2 Back to ₹500 from ₹300 needs a rise of $(500 - 300) \div 300 = 66.67\%$.
- 3 If it falls to ₹240, a buyer at ₹300 loses $(300 - 240) \div 300 = 20\%$.
- 4 The fall says the share is out of favour. It does not say whether the reasons are temporary or lasting.

A fallen price is a reason to study a company. It is not evidence that the price will recover.

Illustration with an invented share and assumed prices. Not a forecast.

What SEBI's categories require

The label and the 80% minimum are fixed by SEBI. The method is left to the fund manager.

	Value Fund	Contra Fund
Strategy the scheme follows	A value investment strategy	A contrarian investment strategy
Minimum in equity and equity-related instruments	80% of total assets	80% of total assets
Can one fund house offer both?	Yes, if the portfolios of the two schemes overlap by no more than 50%	Yes, on the same condition

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraph 3.8.1 (drawing on SEBI's circular of 26 February 2026).

How portfolio overlap is worked out

TWO INVENTED SCHEMES

Weights in Scheme V and Scheme C:

Share 1: 12% and 8%. Share 2: 10% and 15%. Share 3: 6% and 6%.

No other share is held by both.

- 1 Take only the shares that both schemes hold. A share held by one scheme alone counts as zero.
- 2 For each common share take the smaller of its two weights: 8% for Share 1, 10% for Share 2, 6% for Share 3.
- 3 Add them up: $8 + 10 + 6 = 24\%$. That is the portfolio overlap.
- 4 24% is within SEBI's ceiling of 50% for a value fund and a contra fund of one fund house.

Overlap = the sum, over shares held by both schemes, of the smaller of the two weights.

Method: SEBI Master Circular for Mutual Funds, 20 March 2026, Annexure 1A. Schemes and weights are invented.

Where things stand

Industry figures as on 31 August 2026 (AMFI) and index ratios on the same date (NSE Indices).

VALUE FUNDS

23

Schemes. Net assets
₹1,43,761 crore in
49.40 lakh folios.

CONTRA FUNDS

5

Schemes. Net assets
₹75,812 crore in 41.57
lakh folios.

P/E, VALUE 50 INDEX

10.42

Nifty500 Value 50 on
31 Aug 2026. P/B 1.34,
dividend yield 1.98%.

P/E, NIFTY 500

22.73

Its parent index on 31
Aug 2026. P/B 3.27,
dividend yield 0.95%.

Sources: AMFI Monthly Report, August 2026; NSE Indices daily index file for 31 August 2026.

If you learnt this from older material

SEBI's October 2017 rules for these two categories were changed in February 2026.

What older decks say

- Both categories began in October 2017.
- The equity floor was 65% of assets.
- After 2017: a fund house may offer value or contra, not both.

What holds now

- SEBI's circular of 26 February 2026 sets the rules.
- At least 80% in equity; the 2017 floor was 65%.
- Both may be offered if portfolio overlap is 50% or less.

Sources: SEBI circular of 6 October 2017; SEBI Master Circular for Mutual Funds, 20 March 2026, paragraph 3.8.1.

Four things people get wrong



'A low P/E makes it a value share.'

A ratio can be low because profit is expected to fall. Value investors try to tell a low price from a shrinking business.



'Contra means buying the fallers.'

A fall is only the starting point. The manager still has to judge whether the bad news is temporary, and can be wrong.



'These styles pay off in time.'

Either may lag the broad market for a long time. Past results of a style assure nothing about the future.



'The label tells me the portfolio.'

SEBI fixes the category and the 80% floor. What counts as value or contrarian is set out in each scheme's document.

Check yourself

Q1

A share trades at ₹150 with earnings per share of ₹15 and book value per share of ₹120. What are its P/E and P/B, and what can a value screen not tell you about it?

Q2

Two schemes of one fund house both hold Share X (10% and 4%) and Share Y (5% and 9%), and nothing else in common. What is their portfolio overlap?

Q3

A client says: 'This sector has crashed, so a contra fund must do well now.' What would you explain?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Value Fund and Contra Fund characteristics, 80% minimum, both permitted with overlap up to 50%: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraph 3.8.1.
- Method for portfolio overlap: the same Master Circular, Annexure 1A.
- Categories created, 65% minimum, 'either Value fund or Contra fund': SEBI circular SEBI/HO/IMD/DF3/CIR/P/2017/114, 6 October 2017.
- Schemes, folios and net assets of value and contra funds as on 31 August 2026: AMFI Monthly Report, August 2026.
- Nifty 500 and Nifty500 Value 50 P/E, P/B and dividend yield on 31 August 2026: NSE Indices daily index file. Value score measures: NSE Indices factsheet for the index.
- Companies A and B, the fallen share, Schemes V and C and Shares 1, 2, 3, X and Y are invented for illustration. They do not refer to any real company or scheme.

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