

Pravia Investment Advisors Private Limited

Nifty Small cap 250 Index

17th March, 2026

Summary and Allocation Strategy

We continue to believe Small cap is the Index of this decade. There are numerous changes that have happened in this index, which make us believe this index represents the India opportunity widely.

Investment case

- **Favourable sectoral representation** (in line with our ICM framework); high exposure to asset heavy companies
- **Improvement in the quality of the universe** – index now comprises of companies with a market cap of over 7,000 crores – these companies are leaders or established players in the sectors. E.g. MCX, CDSL, IEX, Angel One, KIMS, Narayana, etc.
- **Significant improvement in fundamentals** – ROEs of the universe has improved significantly, as capacity utilisation is picking up. Moreover, the debt to equity ratio has improved significantly from 1x to 0.1x (ex-financials) from 2019 to 2025.
- **Higher representation in markets** – proportion in Nifty 500 has grown from 5.9% (2020) to 10.4% (2026)
- **High Valuations** – Valuations at TTM PE ~30.5x appear elevated vs COVID-era lows but are reasonable in context of quality improvement; PE/G framework preferred over simple PE. Higher P/B is explained by rising ROEs, not speculation.

Key Risks –

- High Cyclical Sector Representation
- Valuation Risk
- Earnings Volatility
- Liquidity Risk
- Macro & Global Risk

Investment Strategy

The Nifty Smallcap 250 index has meaningfully evolved – quality has improved, fundamentals are stronger, and the current correction represents an attractive entry point for long-term investors. Sector leaders with established moats are comprised in the index.

While risks remain – valuations at TTM PE ~30.5x, liquidity constraints, and macro headwinds – we would recommend a staggered but resolute allocation to the index over the next 3 months (depending on risk profile) with a 3-5-year investment horizon.

We are investing through Index as well as select actively managed mutual funds

Portfolio Attributes

Small cap Index Favourable Sectoral Composition – ICM Oriented

Sector	Weight	Primary Sub-themes in Index
Financial Services	23.4%	Exchanges, depositories, wealth mgmt, NBFCs, banks
Industrials	19.0%	Capital goods, logistics, defence, engineering, EPC
Healthcare	14.8%	CDMO, hospitals, diagnostics, healthcare IT
Basic Materials	11.6%	Speciality chemicals, metals, cement, agri-inputs
Consumer Cyclical	10.9%	Auto ancillaries, EV components, consumer durables
Technology	7.8%	EMS, networking, new-age IT, SaaS, fintech infra
Consumer Defensive	4.0%	Alcobev, food, FMCG adjacencies
Utilities	2.4%	Power generation and transmission
Communication Services	2.4%	Media, digital content, telecom adjacencies
Real Estate	2.0%	Real estate platforms and mid-market developers
Energy	1.8%	Speciality oil & gas, energy transition plays

Sector Type	Nifty 50	Next 50	Midcap 150	Smallcap 250
Asset Light	54.50%	34.10%	41.30%	36.80%
Asset Heavy	44.70%	65.80%	58.90%	63.30%

- The Nifty Small cap 250 index has ~63% weight in asset-heavy sectors compared to only ~45% for Nifty 50.
- We believe small-cap Index today houses leaders of many sub segments e.g., MCX, Hind Copper, CDSL, Delhivery Etc
- The sectoral exposure compliments our positivity on the Infrastructure, Consumption, and Manufacturing segments (ICM)

Change in index over 5 years – Sectorally Favourable

Theme and Sector	28-Feb-26	31-Dec-20
Manufacturing	31.91	34.05
Capital Goods	9.08	11.64
Automobile and Auto Components	6.69	1.97
Chemicals	6.52	9.81
Consumer Durables	3.38	5.09
EMS	2.20	2.59
Metals & Mining	1.99	1.26
Defence	1.23	0.30
Railways	0.82	0.36
Textiles		1.04
Financials	24.19	12.23
Financialisation of savings	9.31	4.87
NBFC	8.43	2.81
Financial Services	5.22	4.55
Insurance	1.23	
Healthcare	14.98	12.73
CDMO	5.41	3.38
Hospital & Healthcare Services	4.57	1.56
Pharmaceuticals & Drugs	4.22	7.07
Medical Equipment/Supplies/Accessories	0.57	0.44
Biotech	0.21	0.27
Infrastructure	10.46	13.84
Logistics	3.49	3.95
Construction	2.95	4.46
Realty	1.95	2.17
Construction Materials	1.20	2.34
Capital Goods	0.47	0.10
Railways	0.39	0.56
Defence		0.26

Theme and Sector	28-Feb-26	31-Dec-20
Consumption	8.51	14.20
Discretionary	3.45	3.46
FMCG - Trad	2.71	5.12
Travel and Tourism	0.88	1.68
Textiles	0.72	2.20
Luxury	0.32	0.35
Consumer Services	0.26	1.40
Services	0.18	
Digitalisation	6.19	11.02
IT - Digital	3.55	5.16
IT - Trad	1.68	4.84
Telecommunication	0.81	1.01
Railways	0.14	
Energy Transition	3.35	0.73
Power	2.10	0.43
Oil Gas & Consumable Fuels	1.25	0.30

Source – Morningstar, Pravia Research

- The sectoral allocation is favouring the Infrastructure, Consumption, and Manufacturing (ICM) Framework
- There has been a meaningful change over the last 5 years making it much more lucrative

Manufacturing Orientation

Sector Type	Weight %
Manufacturing	31.91
Capital Goods	9.08
Automobile and Auto Components	6.69
Chemicals	6.52
Consumer Durables	3.38
EMS	2.20
Metals & Mining	1.99
Defence	1.23
Railways	0.82

- Higher exposure to **asset heavy businesses**
- Lower exposure to asset light businesses
- In-line with our positivity

Lending financials → financialisation of savings*

Sector Type	Weight %
Financials	24.19
Financialisation of savings	9.31
NBFC	8.43
Financial Services	5.22
Insurance	1.23

Key Distinction –

- Lower exposure to traditional lending financials
- Higher exposure to financial ecosystem players such as - exchanges, depositories, wealth & asset managers.
- Greater allocation to insurance platforms, fin-techs, and financial infrastructure companies.

Pharma → Hospitals & CDMO

Sector Type	Weight %
Healthcare	14.98
CDMO	5.41
Hospital & Healthcare Services	4.57
Pharmaceuticals & Drugs	4.22
Medical Equipment/Supplies/Accessories	0.57
Biotech	0.21

Key Distinction –

- Healthcare mix shifting from low-margin generic exports to high-margin - CDMO businesses.
- Hospital chains offer a direct play on India's under-penetrated healthcare infrastructure and long capex cycle.
- Diagnostics and healthcare IT provide scalable, high-quality platforms with recurring revenue.

IT Services (7%) → New Age, EMS, Software

Sector Type	Weight %
Digitalisation	6.19
IT - Digital	3.55
IT - Trad	1.68
Telecommunication	0.81
Railways	0.14

Key Distinction –

- Technology sector weight 7.8% - lower than broader market
- Significantly lower exposure to Traditional IT sector
- Higher exposure to Digital and software companies

'The Quality Upgrade' — Small cap 250 is Now a Leaders' Index

Company	Weight	Leadership Position	Why It Matters
MCX (Multi Commodity Exchange)	3.4	Commodity Derivatives Exchange	~93% market share in India's commodity futures market
CDSL (Central Depository)	1.2	Securities Depository	Dominant depository; ~60%+ market share of demat accounts
CAMS / KFin Technologies	0.9	Mutual Fund Registrars	Together handle ~95% of India's MF transactions
Angel One	0.9	Digital Broking	Among the top 3 discount brokers by active clients
KIMS Hospitals	0.8	Multi-specialty Hospitals	Dominant position in Andhra Pradesh & Telangana
Narayana Hrudayalaya	0.6	Affordable Cardiac Care	World's largest cardiac surgery centre by volume
Neuland Laboratories	0.6	Complex API / CDMO	Preferred supplier for niche regulated-market APIs
PTC Industries	0.6	Investment Castings	Leader in titanium aerospace castings; defence critical
Kaynes Technology	0.6	Aerospace/Defence EMS	Among the few approved aerospace EMS providers in India
IEX (Indian Energy Exchange)	0.5	Power Trading Platform	Dominant power exchange with ~95% market share
Netweb Technologies	0.3	HPC Infrastructure	India's leading indigenous HPC/server maker
MapMyIndia (CE Info Systems)	0.1	Geospatial & Mapping	India's only indigenous digital mapping company

Source - Morningstar

- Perhaps the most significant development over the last 5 years is the **qualitative improvement** in the Nifty Small cap 250 index constituents.
- What was once perceived as a high-risk, speculative basket has evolved into an index populated by category leaders, niche monopolies, and structurally dominant franchises across sectors.
- Hence it commands a relatively higher PE(x) – as it has become a basket of sector leaders at small m-cap scale.

'The Quality Upgrade' — Some names weeded out in last 5 years

Row Labels	31-Dec-20
Deepak Nitrite Ltd	1.34
Vakrangee Ltd	0.81
Rallis India Ltd	0.53
Delta Corp Ltd	0.49
Indiabulls Real Estate Ltd	0.44
Sunteck Realty Ltd	0.32
Kaveri Seed Co Ltd	0.27
CARE Ratings Ltd	0.27
ICRA Ltd	0.26
Phillips Carbon Black Ltd	0.26
IFB Industries Ltd	0.23
Greaves Cotton Ltd	0.17
Ujjivan Small Finance Bank Ltd	0.16
Huhtamaki India Ltd	0.15
T.V. Today Network Ltd	0.11
National Fertilizers Ltd	0.09
Jai Corp Ltd	0.09
D B Corp Ltd	0.08
Omaxe Ltd	0.08
PSP Projects Ltd	0.07
Hathway Cable & Datacom Ltd	0.07

→ Vakrangee faced allegations of **stock price manipulation and fraudulent trading** in its shares. SEBI found that several connected entities conducted synchronized trades to create a misleading appearance of market activity, which distorted the stock price and misled investors.

→ Indiabulls group companies have faced corporate governance concerns and allegations related to financial dealings and loan transactions, including being examined in some high-profile banking fraud investigations.

→ DB Realty has been involved in multiple controversies, including links to the 2G spectrum case earlier and regulatory issues regarding misrepresentation of financial statements and non-disclosure of guarantees.

→ SEBI barred Omaxe and its top management from the securities market for two years after finding irregularities such as manipulated financial statements to inflate share prices

Top 10 holdings (15%) – well diversified

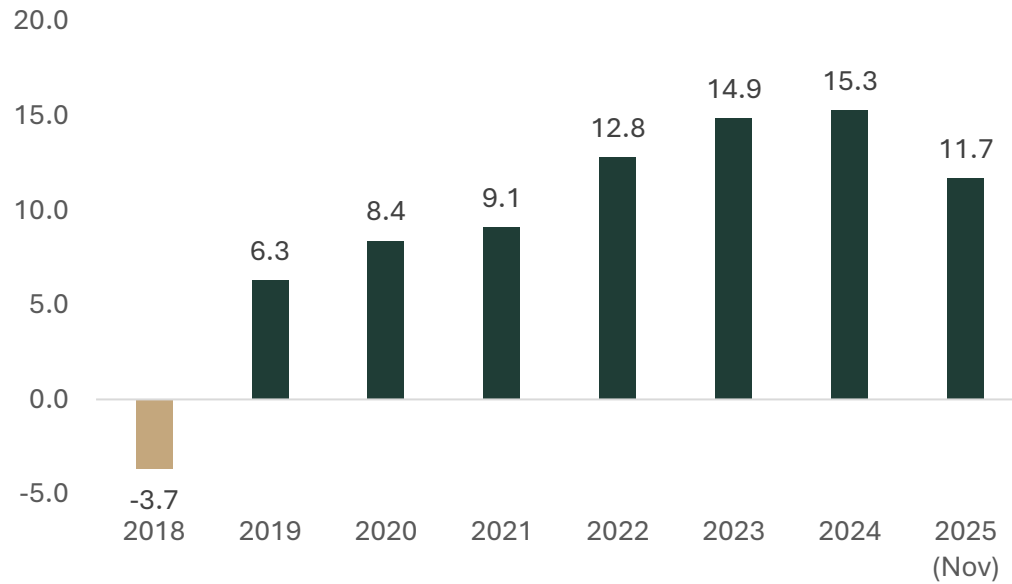
Company	Weight	Sector	Thesis
Multi Commodity Exchange of India	3.40%	Financialisation of savings	Commodity exchange monopoly
Laurus Labs	1.98%	CDMO	CDMO / API / Formulations leader
Karur Vysya Bank	1.50%	Financial Services	Differentiated private sector bank
Central Depository Services (CDSL)	1.24%	Financialisation of savings	Depository infrastructure duopoly
Delhivery	1.21%	Logistics	India's leading tech-enabled logistics platform
Hindustan Copper	1.19%	Metals & Mining	Strategic metal; EV and green energy beneficiary
Navin Fluorine International	1.18%	Chemicals	Fluorine chemistry; CDMO adjacency
Radico Khaitan	1.17%	Consumer Discretionary	Premium alcobev; premiumisation play
City Union Bank	1.15%	Financial Services	Niche south India SME-focused bank
RBL Bank	0.95%	Financial Services	Turnaround private sector bank

Source – Morningstar, Pravia Research

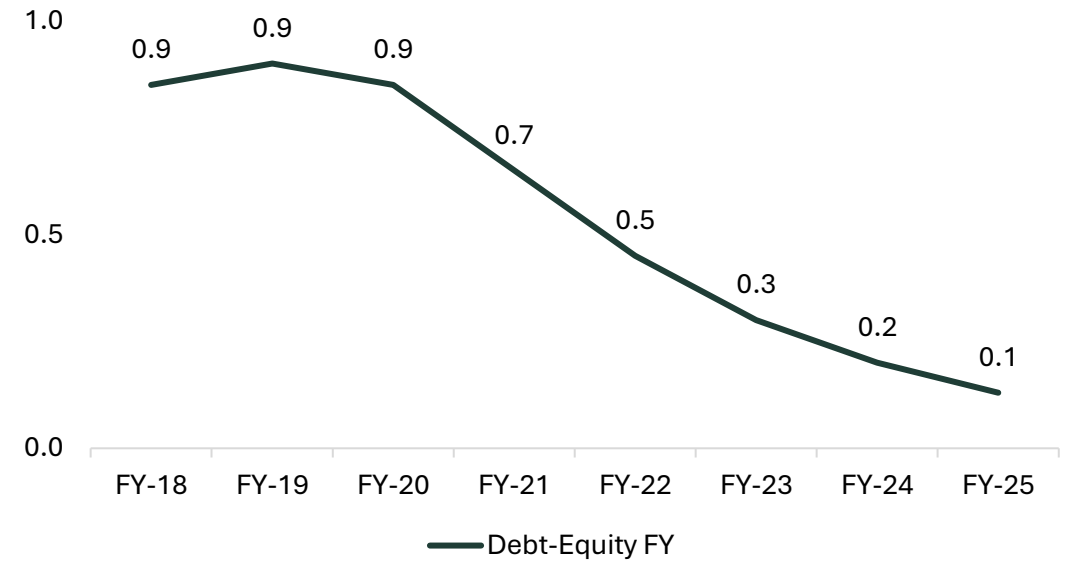
The top 10 stocks represent 15% of the index, they are all leaders in their respective sectors and have a reasonable market share.

Fundamentals and Valuations

ROE Trend Improving (%)



Debt-Equity Non-Financials



Small cap Universe – broadened in the last 5 years

Particulars	2020	2022	2026
Minimum	33	2,143	7,072
Average	16,021	17,452	18,186
Median	10,008	11,720	16,509

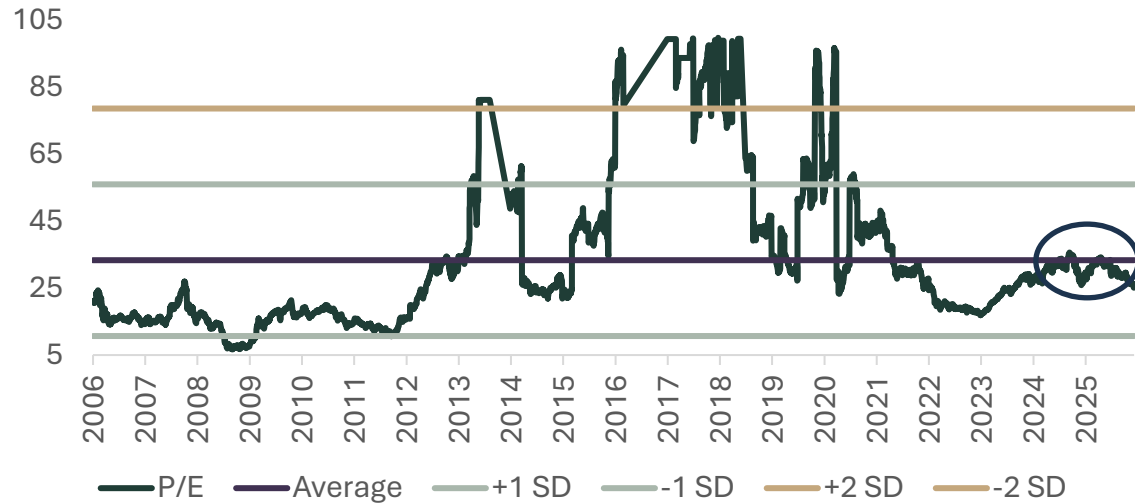
Proportion in Nifty 500	2020	2022	2026
Small cap 250	5.90%	7.50%	10.40%

All nos. are market cap in crores; Source – Morningstar Direct

- The small cap universe has evolved over the last 5 years, in terms of quality and representation in the broader markets.
- The smallest small cap in 2020 was just 33 crores, whereas the smallest small cap is 7,072 crores in market capitalisation in 2026 – indicating the tremendous evolution of the small cap universe.

Valuations – reasonable vis-à-vis historical averages

Nifty Smallcap 250 TTM PE(x)



Source – Trendlyne, Pravia Research

Nifty Smallcap 250 PB(x) TTM



Source – Trendlyne, Pravia Research

- The valuations of the index are in a comfortable zone vis-à-vis historical averages. The price-book seems higher due to **improvement in ROE of the universe**
- We believe that the index construct has changed significantly, over the last couple of years, hence the valuations of the index seem a little elevated.
- However, given the current construct of the index, we would evaluate it in terms of PE/G rather than a PE multiple approach

Smallcaps at opportune levels



- Nifty Smallcap is trading at support levels:
 - Although Valuations aren't as cheap as Covid bottom or the fall in 2023 (*as indicated*), small caps are at an opportune level

1. Cyclical Sector Concentration

~64% weight in asset-heavy sectors exposes to policy reversals, capex cycle slowdowns, or commodity cost inflation - all of which could dent returns.

2. Valuation Risk

Current TTM PE of ~30.5x is well above COVID-era lows (17.8x). Elevated multiples leave limited margin of safety; any earnings disappointment could trigger multiple compression.

3. Earnings Volatility

Small-cap earnings are cyclically sensitive. EPS estimates are prone to downgrades in slowdowns, amplifying price corrections beyond what fundamentals would warrant.

4. Liquidity Risk

Small-caps have significantly lower daily trading volumes. During market stress, bid-ask spreads widen sharply, amplifying drawdown risk for investors with large positions.

5. Macro & Global Risk

Global slowdowns, elevated interest rates, and adverse INR/USD moves hurt small-caps with limited pricing power and higher domestic leverage. FII outflows further exacerbate selling pressure.

6. Passive Flow Distortion

Rising AUM in small-cap passive/index funds creates momentum-driven mispricing. Large redemption waves can trigger forced selling across illiquid names, compounding downside volatility for all holders.

- The **construct of the universe has changed significantly** over the last 5 years, from having concerns over quality to having a better universe with sector leaders and companies with established moats in their respective sectors.
- Overweight exposure to asset-heavy sectors (~64%) aligns with current geopolitical tailwinds favoring capital-intensive businesses.
- The valuations of the index are in a **comfortable zone vis-à-vis historical averages**. The price-book seems higher due to improvement in ROE of the universe.
- The fundamentals of the small-cap universe have improved significantly – with **improvement in ROEs** and a **substantial decrease in debt of these companies**.
- *With the universe undergoing correction recently, we believe that it is an opportune time to start allocating to this index in a staggered manner over the next 3 months with 3 to 5 years view.*
- *We prefer allocation through Index and select active mutual funds given our love for liquidity. We may also use select fund managers (PMS route) if they pass through our selection criteria's.*



**Thank
you!**

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