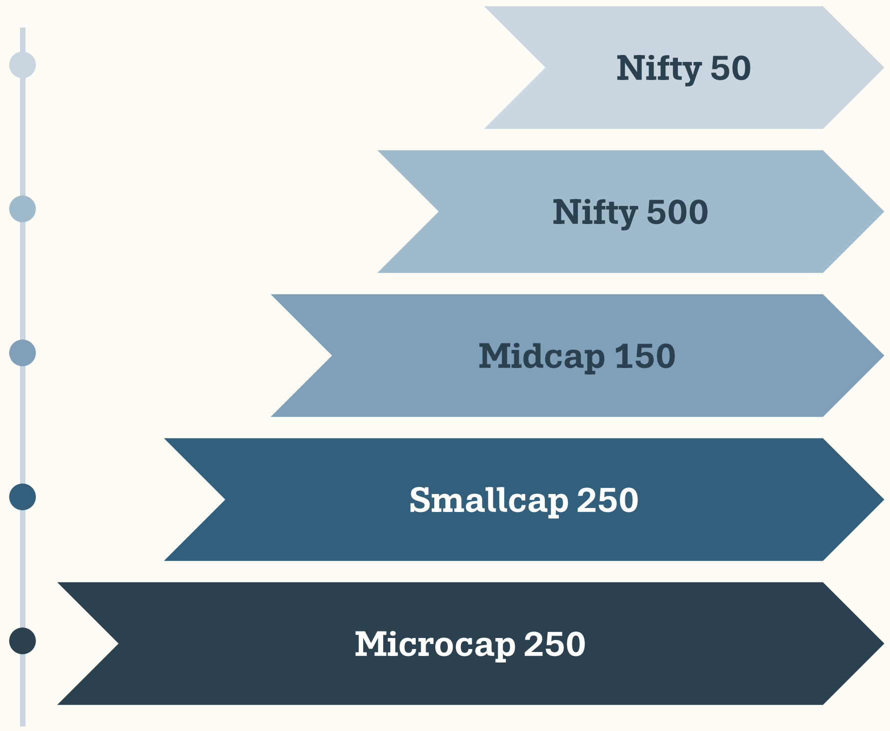
SKG
INVESTMENTS & ADVISORY

EQUITY RESEARCH NOTE | INDIA | JULY 2026

Indian Small-Cap Equities

Growth, Traction, and Concentration Risk



Widening universe, widening dispersion

521
companies screened

36%
positive over 1 year

23.3x
median P/E

521-company screened, market cap under ₹20,000 cr, Results announced before 29 July 2026

Growth, Traction, and Concentration Risk

The universe: Nifty Smallcap 250 covers ranks 251-500 of the Nifty 500; Nifty Microcap 250 covers the top 250 names beyond it. Both are free-float weighted, rebalanced semi-annually (cut-offs 31 Jan / 31 Jul). Screen below: 521 listed small- and micro-cap companies.

521
Companies screened

₹17.1 L cr
Total market cap

₹836 cr
Median market cap

123
Distinct industries

36%
Positive over 1 year

-10.3%
Median 1-year return

23.3x
Median P/E (profitable)

9.7%
Median ROE

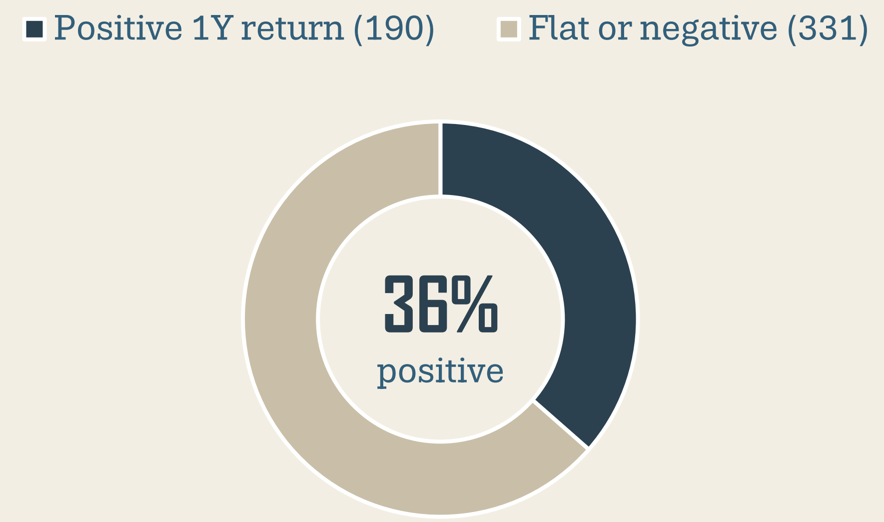
Index-level small-cap returns look attractive, but the median stock in the wider universe is down double digits. The slides that follow separate index performance from stock-level breadth, valuation, liquidity and manager skill.

Universe note: *521-company screen covers only companies with market cap under ₹20,000 cr that reported June-quarter 2026 results before 29 July 2026.*

BREADTH | 521-STOCK SCREEN VS THE INDEX

Index Gains Mask Negative Breadth

Only 190 of 521 stocks are up over 1 year



1-year price performance, 521 screened stocks

+3.81% index vs -10.3% median stock

Nifty Smallcap 250 rose over the year while the median screened stock fell double digits.

101 stocks >40% below 52w high

That is 19% of the universe, with a median drawdown of 24.1% within the group.

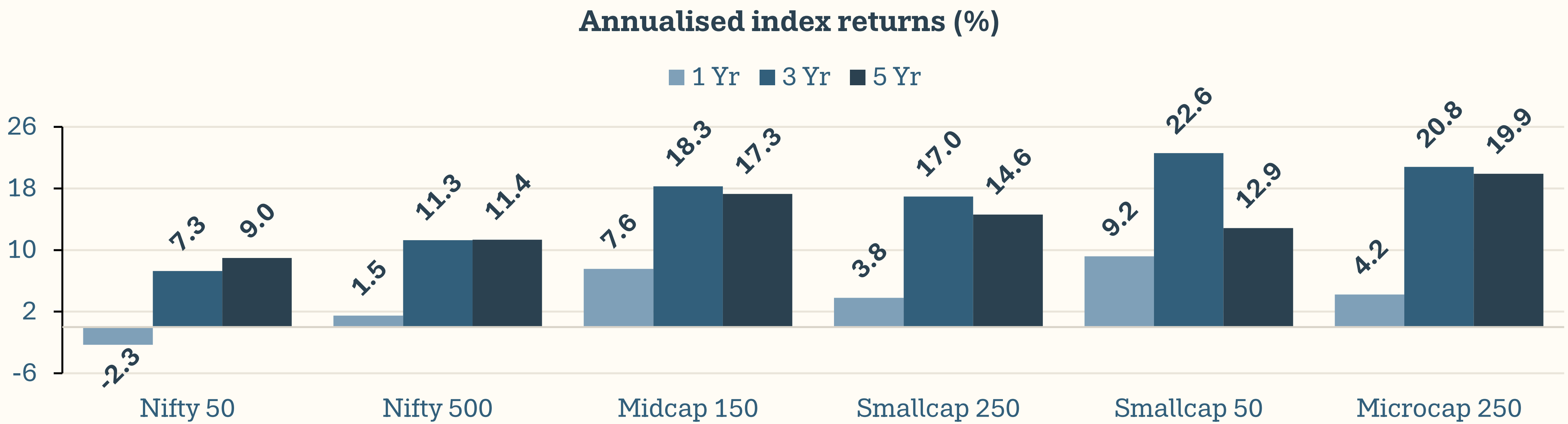
86 loss-making last full year

17% of the screen; quality is mixed against a median P/B of 2.39x and ROE of 9.7%.

The point is the divergence: Index performance is being carried by a narrower set of larger, better-performing constituents, while the median stock in the wider universe is down double digits. For a portfolio built on individual small-cap names rather than the index, this breadth data matters more than the headline index return - and valuation is not obviously cheap for that weak breadth.

RETURN PROFILE | ACROSS THE CAP SPECTRUM

Returns Step Up Down the Cap Curve



3Yr / 5Yr steps up

Nifty 50 7.27% / 8.98% vs Smallcap 250 16.95% / 14.62% and Microcap 250 20.81% / 19.90%.

1Yr inverts it

Nifty 50 is negative at -2.30% while every small- and micro-cap index stays positive - a reversal worth flagging.

Concentration signal

Smallcap 50 leads at every horizon except 5Yr and 10Yr - gains sit in the largest names.

A 1-year reversal of the usual risk-return relationship, with the strongest recent gains concentrated in the largest-cap slice of the small-cap band rather than broad-based.

SKG INVESTMENTS & ADVISORY

Microcap 250 Trades Cheaper on Every Metric

NIFTY SMALLCAP 250		NIFTY MICROCAP 250	
Price / Earnings	34.4x	Price / Earnings	27.8x
Price / Book	3.58x	Price / Book	3.52x
Dividend yield	0.62%	Dividend yield	0.59%

23.3x **median P/E of profitable constituents in the 521-stock universe**

Meaningfully cheaper than either index multiple - index-level P/Es are pulled up by a narrower set of larger, richly-valued names.

Microcap 250 is both the cheaper index and the stronger 3-5 year performer - a combination that does not hold for Smallcap 250 against Nifty 50, where the higher-returning index is also the more expensive one. For a bottom-up small-cap portfolio rather than an index allocation, 23.3x is the more relevant reference multiple than 34.4x.

SKG INVESTMENTS & ADVISORY

LIQUIDITY, MANAGER SKILL

Liquidity Limits, Demonstrated Active Alpha

DAYS TO LIQUIDATE 50% OF PORTFOLIO

Sep 2024	**28 days**
Mar 2025	**37 days**
High-risk	**57 days**

SEBI-mandated stress tests; 10 largest schemes averaged 37 days

5-YR ANNUALISED: FUNDS VS PASSIVE INDEX

Small-cap funds vs Nifty Smallcap 250 at 14.62%	17.8 - 20.2%
Mid-cap funds vs Nifty Midcap 150 at 17.30%	18.2 - 23.2%
Dispersion best vs weakest fund, 3-yr annualised	7 - 8 ppt

Every small-cap fund in the nine-fund set beat the passive index

Neither bearish nor bullish. Attractive index returns, negative median breadth, regulator-confirmed liquidity constraints and real active outperformance point to one conclusion for a 12-month allocation.

Selective active management
Manager selection carries more weight down the cap curve.

Direct stock-picking
Reference the 23.3x median multiple, not 34.4x at index level.

Not passive index exposure
Index return is carried by a narrower set of names than 36% breadth implies.

20 *years of financial excellence*

THE SKG GROUP

SKG India Small & Midcap Fund
SKG Assets & Holding Pvt Ltd
SKG Asset Management Pvt Ltd
Equity first LLP
Madhuri Holding Ltd

www.skgah.com

Disclaimer

The above material is neither investment research, nor investment advice. SKG - Investments & Advisory ("SKG") does not seek payment for or business from this material/email in any shape or form. No content of this publication including the performance related information is verified by SEBI. If any recipient or reader of this material is based outside India, please note that SKG may not be regulated in such jurisdiction and this material is not a solicitation to use SKG's services. The recipient of this material is urged to consult their own legal and tax consultants/advisors before making any investments. The recipient, if not the addressee, should not use this material if erroneously received, and access and use of this material in any manner by anyone other than the addressee is unauthorized. If you are not the intended recipient, please notify the sender by return email and immediately destroy all copies of this message and any attachments and delete it from your computer system, permanently. No liability whatsoever is assumed by SKG as a result of the recipient or any other person relying upon the opinion unless otherwise agreed in writing. The recipient acknowledges that SKG may be unable to exercise control or ensure or guarantee the integrity of the text of the material/email message and the text is not warranted as to its completeness and accuracy. The material, names and branding of the investment style do not provide any impression or a claim that these products/strategies achieve the respective objectives. Further, past performance is not indicative of future results. SKG and/or its associates, the authors of this material (including their relatives) may have financial interest by way of investments in the companies covered in this material. SKG does not receive compensation from the companies for their coverage in this material. SKG does not provide any market making service to any company covered in this material. Authors of this material have never served the companies in a capacity of a director, officer or an employee. All recipients of this material must before dealing and or transacting in any of the products referred to in this material must make their own investigation, seek appropriate professional advice and carefully read the Private Placement Memorandum/Disclosure Document, Form ADV, Form CRS and any other documents or disclosures provided to them by SKG, as applicable.