CARE
Portfolio Managers

Small-Cap: Fact vs Fiction

Do Small-Cap Companies Always Outperform Large-Cap Companies?

The Belief

Small-cap companies always outperform large-cap companies because smaller companies have more room to grow.

Why Investors Believe It

Small-cap companies can grow faster from a lower base. When earnings improve, liquidity is strong and investor sentiment is favourable, smaller companies can see sharp re-rating.

Small-Cap Cycle Reality

Favourable Cycle	Risk-Off Cycle
Strong liquidity	Tight liquidity
Broad earnings growth	Earnings disappointment
High risk appetite	Weak market sentiment
Re-rating potential	Sharp corrections
Faster growth visibility	Higher volatility

The Reality

Small-cap companies can create wealth, but the segment is highly selective. Some businesses are scalable and well-managed. Others may carry weaker balance sheets, limited operating history or higher dependence on a few variables.

Care PMS Investment Lens

At Care PMS, a small-cap company is evaluated across:

Growth Potential
Revenue growth, margin expansion, scalability and resilience across cycles.

Management Capabilities
Corporate governance, execution track record and capital allocation discipline.

Strong Financials
Balance sheet quality, cash flows, leverage, working capital and return ratios.

Compelling Valuation
Valuation comfort compared with fundamentals, peers and future growth potential.

Portfolio Discipline
Risk-reward, diversification across growth ideas, turnarounds and value buys, and continuous monitoring.

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