CARE
Portfolio Managers

Small-Cap: Fact vs Fiction

Does a Sharp Fall Automatically Make a Stock Cheap?

The Belief

A stock that has fallen sharply from its previous high must now be cheap.

Why Investors Believe It

Investors often anchor to the previous price.

If a stock falls from ₹1,000 to ₹600, the 40% correction can make ₹600 look attractive. But the previous high says nothing about what the business is worth today.

Why Did the Price Fall?

Valuation Compression		Thesis Deterioration
• Market-wide correction		• Structural earnings slowdown
• Sentiment weakness		• Margin deterioration
• Multiple de-rating	Vs	• Rising leverage
• Temporary earnings pressure		• Weakening cash flows
• Long-term opportunity intact		• Competitive position weakening
• Execution remains credible		• Governance or capital allocation concerns

The Reality

A falling share price only tells us that the market is willing to pay less for the stock today. It does not tell us whether the stock has become cheap.

The value of the underlying business may also have changed because of weaker earnings, lower margins, rising debt, poorer cash-flow generation or deterioration in the company's competitive position.

A correction can create an opportunity when the fall in price is greater than the deterioration, if any, in the underlying business.

Care PMS Investment Lens

When a stock corrects sharply, we reassess the thesis rather than compare it with its previous high.

Earnings Power
Has the long-term earnings potential changed?

Balance Sheet & Cash Flows
Has financial strength deteriorated?

Competitive Position
Is the business still capable of sustaining growth?

Management
Has execution or capital allocation changed?

Valuation
What are we paying today for the future earnings we can reasonably underwrite?

Closing Thought

A stock can be down 50% and still be expensive. The relevant question is not how far it has fallen, but whether the current price offers value relative to the business as it stands today.

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