

Quote by Shravan Shetty, Managing Director, Primus Partners

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Smallcap index snaps 5-day losses but analysts say it will continue to underperform: Here are four reasons why | Report



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Several smallcap stocks rose on November 25, pushing the **Nifty Smallcap 100** index into the green to snap a five-session losing streak. Analysts have however advised caution, listing out reasons why these stocks will possibly continue to underperform in the near future.

The Nifty Smallcap 100 index was in the green with marginal gains at 17,712.65, as seen at 1.15 pm. HSCL, **Anant Raj**, Aditya Birla Real Estate and **Hindustan Copper** were among the top gainers on the index, rising up to 5 percent.

Analysts have listed out 4 reasons why they feel smallcap stocks can see some more correction ahead:

Weak earnings:

Smallcaps have underperformed because valuations are high while earnings growth has slowed, said Abhinav Tiwari, Research Analyst at Bonanza.

Citing data from the recent Q2 FY26 earnings season, Charmi Shah, Business Head at Wealth1, said that nearly 32 percent of smallcap companies missed earnings expectations. This is notably higher when compared to midcap misses at 27 percent and largecap misses at 26 percent. "This higher rate of earnings disappointment has contributed to weaker investor sentiment in small-caps. While small-caps showed some profit growth, their earnings trajectory is less robust than larger companies," the analyst said.

Abhinav Tiwari from Bonanza noted that the sharp fall in smallcap companies also came as investors are shifting towards largecaps, which are safer bets amid global uncertainty. "FIIs have also cut exposure, adding pressure," he said.

The recent fall in smallcap stocks was also driven by lack of liquidity, according to analysts. Shah from Wealth1 explained that the boom in the primary markets and a large number of new IPOs have constrained investor funds and increased selling pressure on existing smallcap stocks.

Tiwari from Bonanza said that liquidity has weakened due to heavy IPO activity and lock-ins ending. He added that retail interest in these stocks is also falling

"There has been a net outflow of FIIs as the movement away from riskier emerging markets has picked up. This has especially impacted small caps which carry higher risk. In addition, with money being directed towards IPOs, the net pool available to help balance out FII outflows is also limited," said Shravan Shetty from Primus Partners.

External shocks:

Shravan Shetty from Primus Partners noted that smallcap companies on an average have faced higher margin pressure compared to mid and largecaps due to external shocks like US tariffs and falling rupee.

The Indian rupee sank to a record low of Rs 89.49 against the dollar on Friday, as the domestic demand for the dollar spiked. The Indian currency, however, made some recovery, opening at 89.0650 against the US dollar on likely support provided by the Reserve Bank of India (RBI).

What lies ahead?

Analysts have collectively concluded that volatility is still expected in the near term for the smallcap space. They suggested what long-term investors should do. "In the near term, smallcaps may remain volatile and lack clear bottoming signals, as earnings are still weak. However, selective strong companies can do well once liquidity improves and

earnings stabilize. Until then, small caps may continue to lag, making stock specific selection more important," said Abhinav Tiwari from Bonanza.

Siddharth Maurya from Vibhavangal Anukulakara said that while there may be further near-term pain, the correction could clear the way for more sustainable quality-driven small-cap investing. "Long-term investors should look at stabilization of earnings, FII sentiment, and liquidity flows before aggressively re-entering," the analyst said.

Charmi Shah advised investors to take a selective approach with quality stock picking and diversification, focusing on companies with healthy balance sheets and consistent growth. "Broadly, the smallcap segment is expected to stabilize and potentially recover as liquidity conditions ease, and economic growth indicators improve going into FY26, aided by supportive policies and expected rate cuts. Nevertheless, volatility and risk remain elevated, so investors should remain patient and prudent in exposure to this segment," the analyst said

Shravan Shetty, meanwhile, expects smallcaps to underperform the broader markets unless the upcoming Union Budget set to be announced by Finance Minister Nirmala Sitharaman in February 2026 is able to help counter the trend.