

# Insights Unwrapped

*Outlook 2025: Comparing Small, Mid, and Large-Cap Earnings*

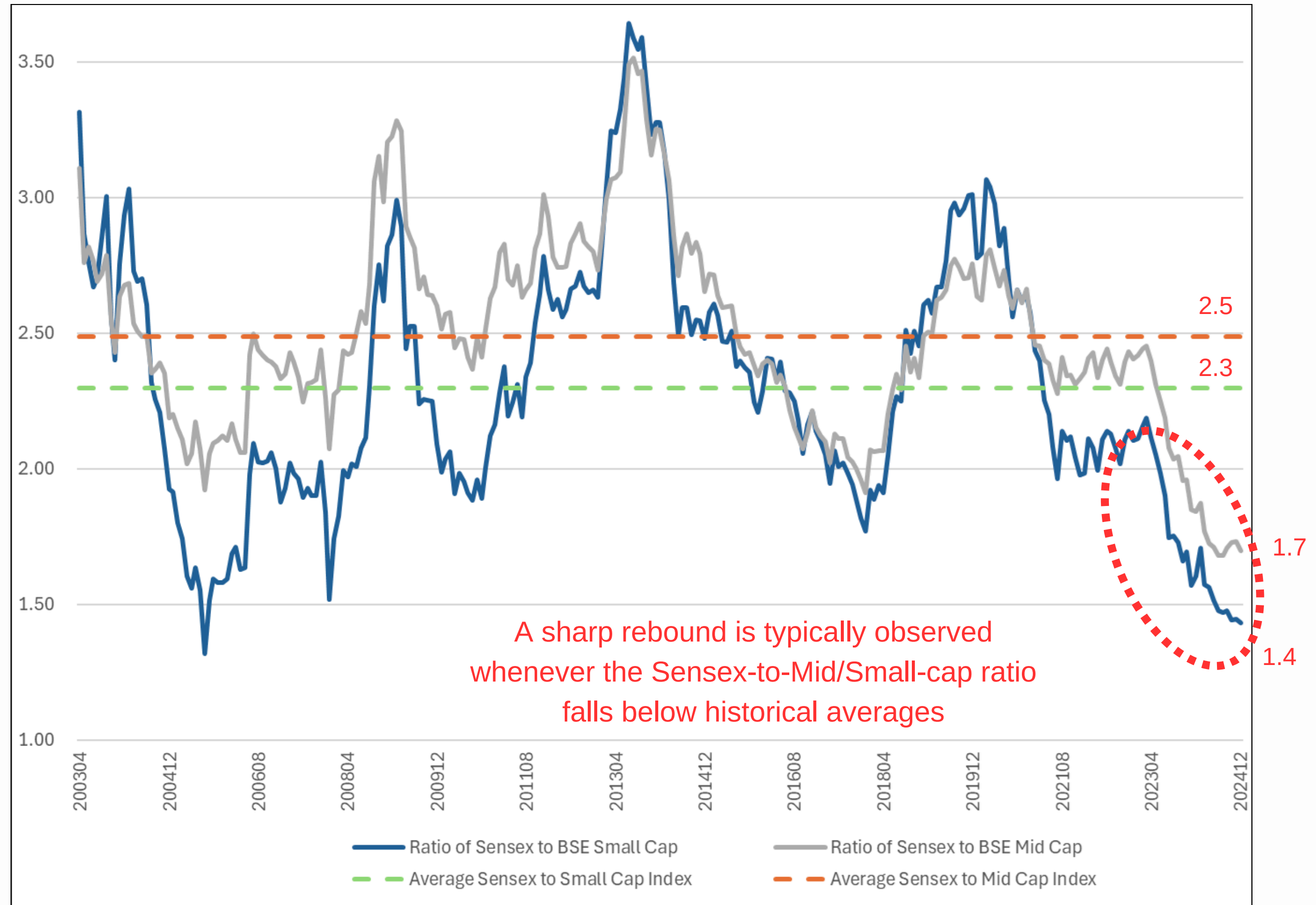


28th December 2024

# BSE Sensex to Midcap/ Small Cap Indices

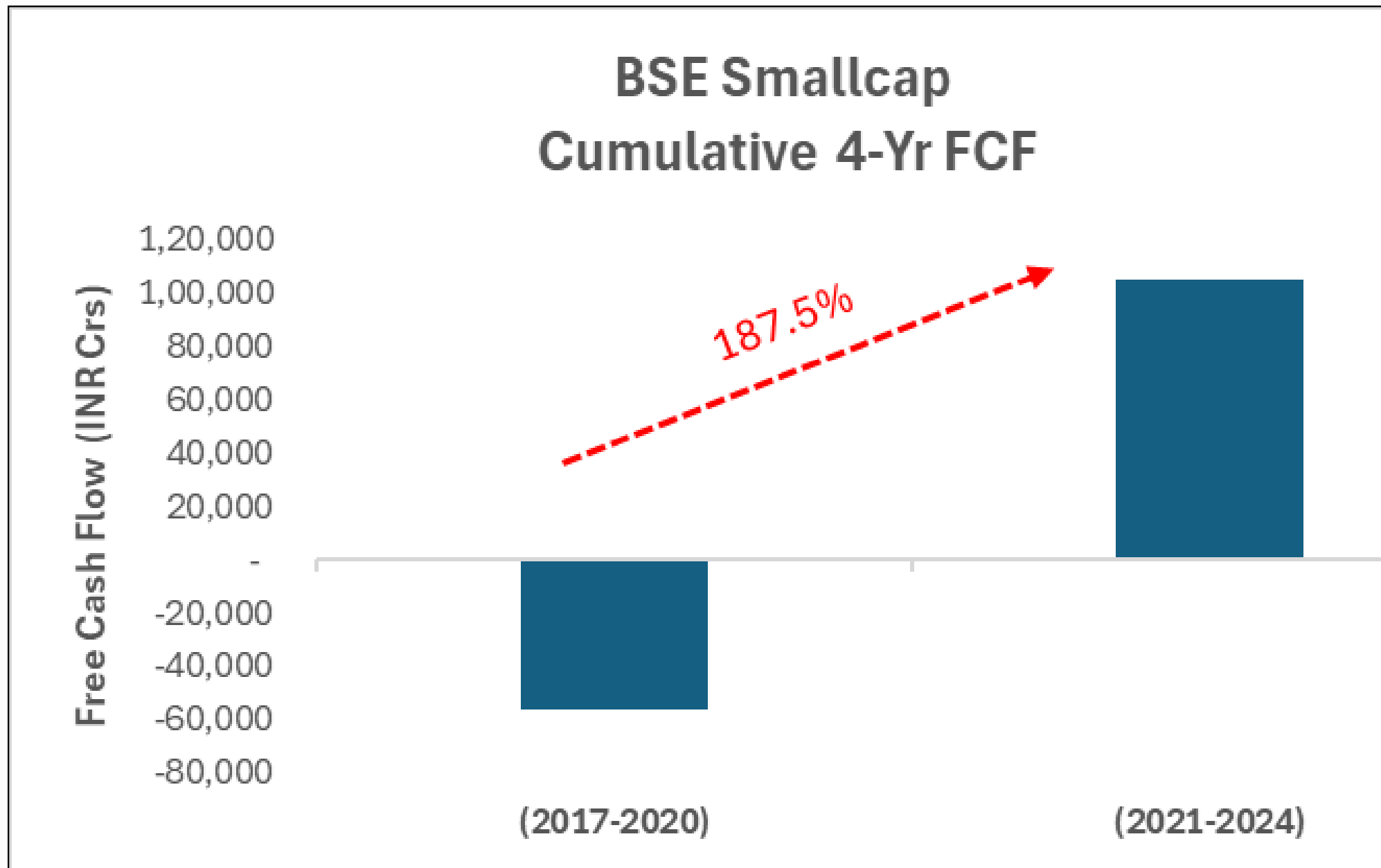
Historically, from 2003 to 2024, the Sensex-to-Midcap Index ratio has averaged 2.5, while the Sensex-to-Smallcap Index ratio has averaged 2.3. On several occasions, when these ratios fell below their historical averages, a strong mean reversion took place.

Given the challenging macroeconomic outlook for 2025- both globally and domestically- a slowdown in small and midcap performance is likely, with a potential catch-up of the large-cap stocks.



Source: BSE, Ace Equity, Data as of 26th Dec'24

# BSE Smallcap Index - Historical Free Cash Flows (FCF)



The cumulative 4-year FCF shifted significantly, rising from a negative INR 56,080 crores during 2017–2020 to INR 105,131 crores in 2021–2024, marking an absolute growth of 187%.

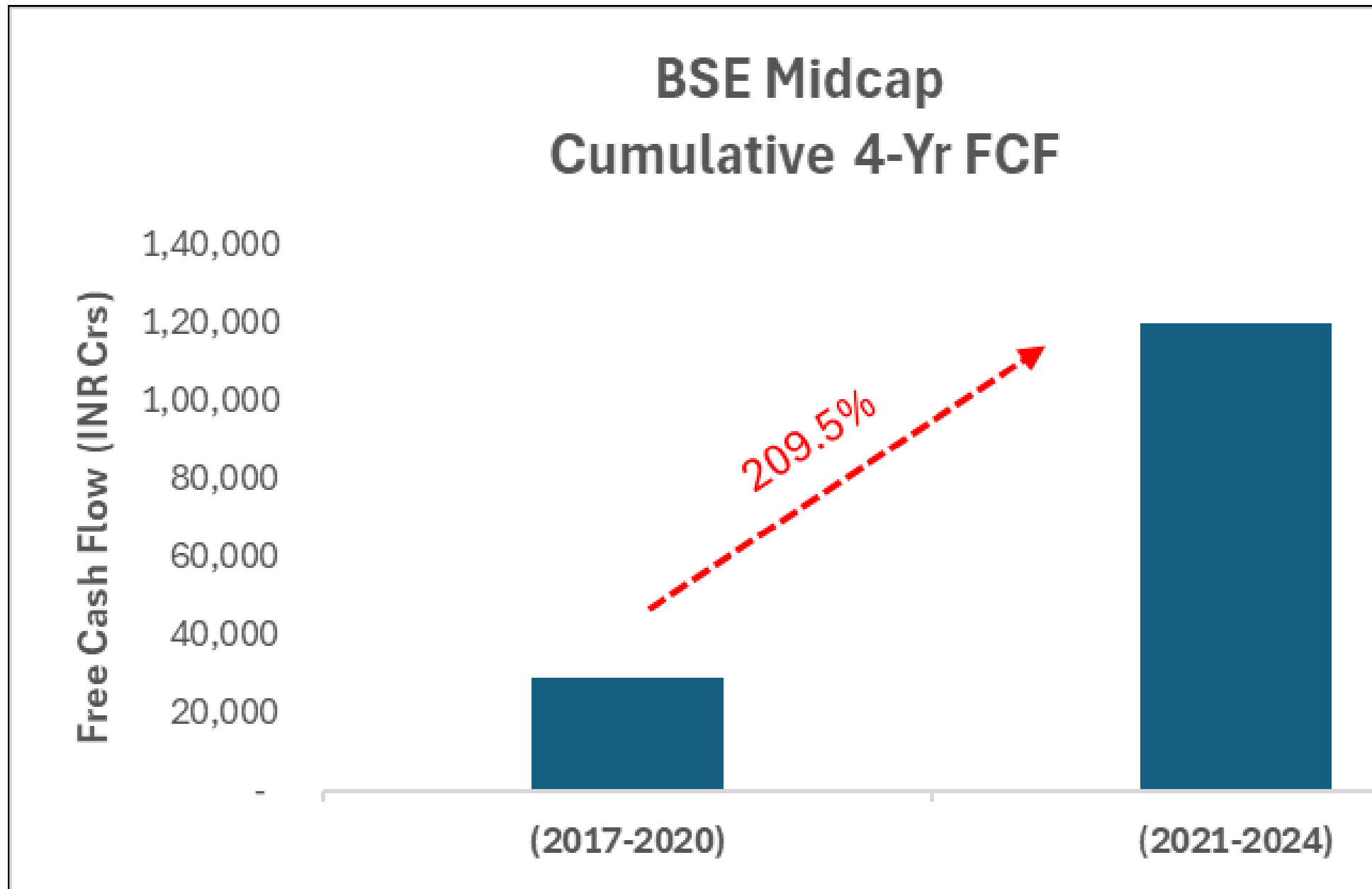
This strong FCF generation has facilitated notable improvement in margin profile for small-cap companies over the FY21–24 period.

Many companies have undertaken large capital expenditures over the past four years (2021–2024), amounting to a cumulative INR 4.9 lakh crore (approximately USD 60 Bn). However, concerns remain about the potential impact of a prolonged economic slowdown or delays in government spending, which could make this capex a significant burden for many smaller companies.

Source: BSE, ACE Equity

Assumptions: a) The analysis considers the recent constituents of the BSE Smallcap as of the period ending 2017–2020, accounting for changes in index composition. b) Banks, NBFCs, and insurance companies have been excluded from the analysis c). Total of 917 companies in Smallcap index d). Constituents as of 26th Dec'24

# BSE Midcap Index - Historical Free Cash Flows (FCF)



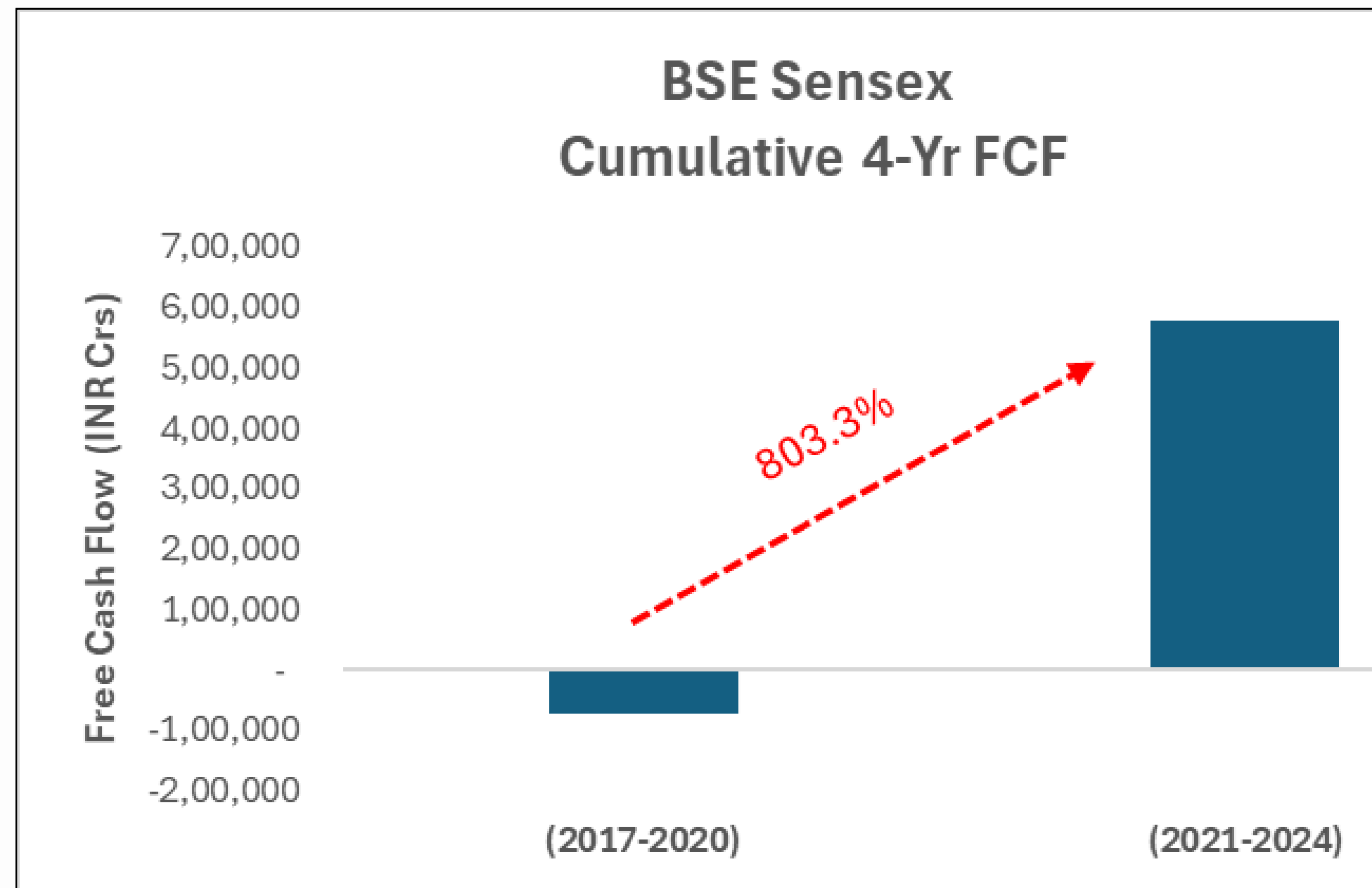
Source: BSE, ACE Equity

*The cumulative 4-year FCF experienced a remarkable surge, increasing from INR 29,244 crores during 2017–2020 to an impressive INR 119,743 crores in 2021–2024, reflecting absolute growth of 209%.*

*This robust FCF generation was driven significantly by notable PSU companies such as NMDC, SAIL, and RVNL, which played a major role in enhancing cash flows within the midcap index.*

- Assumptions:
- a) The analysis considers the recent constituents of the BSE Midcap as of the period ending 2017–2020, accounting for changes in index composition.
  - b) Banks, NBFCs, and insurance companies have been excluded from the analysis
  - c). Total of 132 companies in Midcap index
  - d). Constituents as of 26th Dec'24

# BSE Sensex - Historical Free Cash Flows (FCF)



Source: BSE, ACE Equity

Assumptions: a) The analysis considers the recent constituents of the BSE Sensex as of the period ending 2017–2020, accounting for changes in index composition.  
 b) Banks, NBFCs, and insurance companies have been excluded from the analysis  
 c). Total of 30 companies in Sensex d). Constituents as of 26th Dec'24

The BSE Sensex companies have demonstrated remarkable absolute growth of 803% in cumulative 4-year FCF, rising from a negative INR 71,819 crore during 2017–2020 to INR 576,936 crore in 2021–2024.

Key drivers of this impressive FCF growth include Tata Group companies, Bharti Airtel, L&T, and PSUs such as NTPC and Power Grid Corporation.

This exceptional 803% FCF growth from large-cap companies is significantly outpacing the 187% and 209% growth seen in small and mid-cap companies, respectively. This contrasts sharply with index performance, where mid and small-cap stocks have notably outperformed large caps.

# Capex-to-Revenue Ratio

Indices (Time Frame: 2021-24)	Cumulative Capex (USD Bn)	Cumulative Revenues (USD Bn)	Cumulative Free Cash Flow (USD Bn)	Ratio of Capex/Revenue (x)
Small Cap Index	57.8	1,178.7	12.4	0.05
Mid Cap Index	43.3	696.0	14.1	0.06
Sensex	126.4	1,311.6	67.9	0.10

*Small cap includes 917 companies, Mid cap-132, Sensex-30. Banks, NBFC, and Insurance companies are excluded. Time frame: Cumulative 2021-24 (all constituents as of 26th Dec' 2024)*

Source: ACE Equity

## Key observations-

- Mid and small caps (1,000+ companies) with 4-year revenues of ~USD 1,875 Bn generated a cumulative FCF of USD 26 Bn, while large caps (30 companies) with revenues of ~USD 1,300 Bn generated USD 68 Bn—2.5x more.
- **Mid and small caps undertook aggressive Capex of USD 40–60 Bn over 4 years**, but lower FCF reflects poor earnings quality, low margins, and higher reliance on external funding, making them vulnerable to economic slowdowns.
- **Large caps, with a 10% Capex-to-Revenue ratio (vs. 5–6% for smaller caps) and strong FCFs, offer better return ratios and resilience, providing a more favorable risk-reward profile.**

“Wishing you financial success and prosperity in  
2025. Stay inspired, stay invested!”



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