

Insights Unwrapped

Outlook 2026: Comparing Small, Mid, and Large-Cap Cash Flows

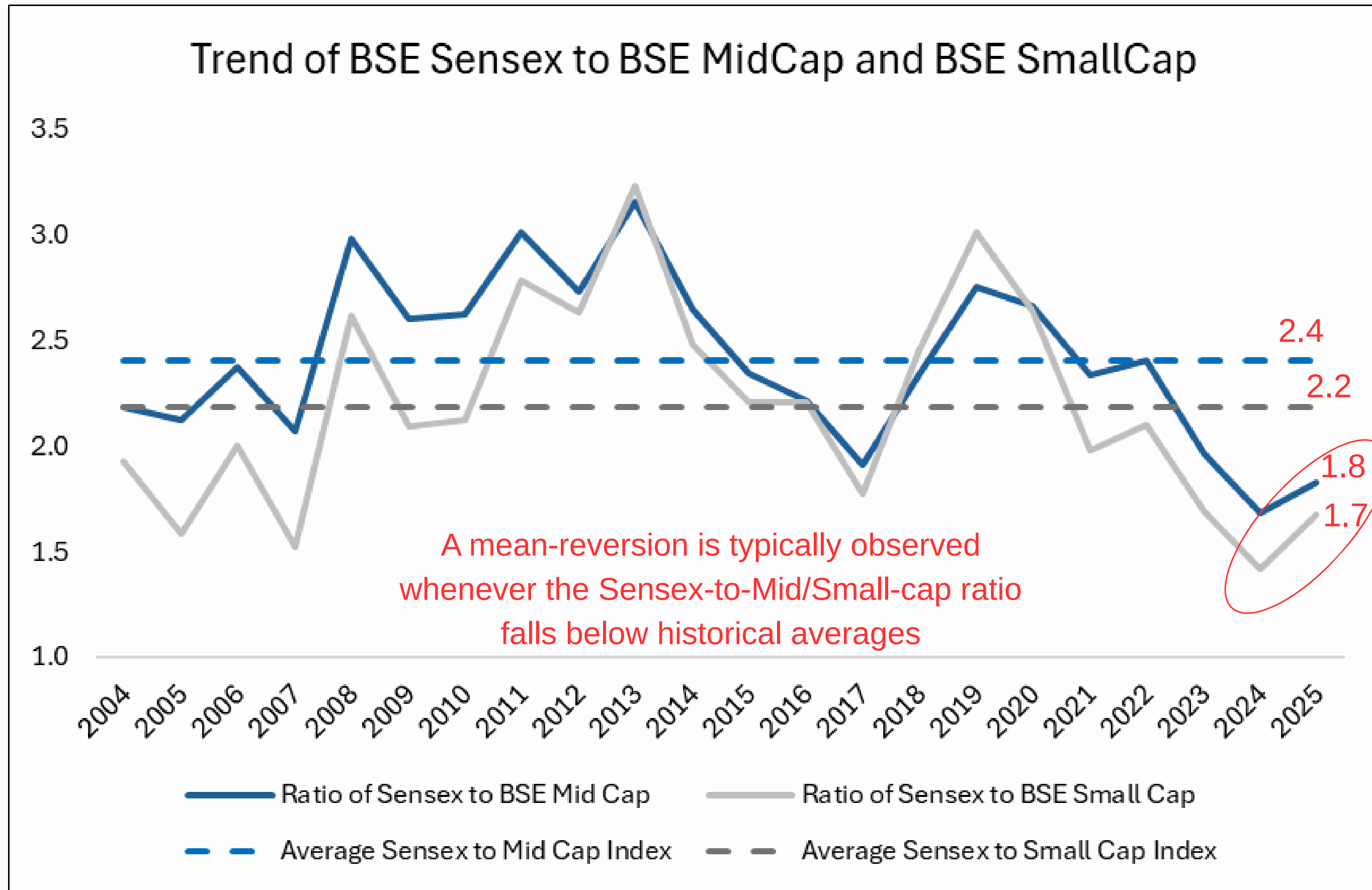


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BSE Sensex to Midcap/ Small Cap Indices

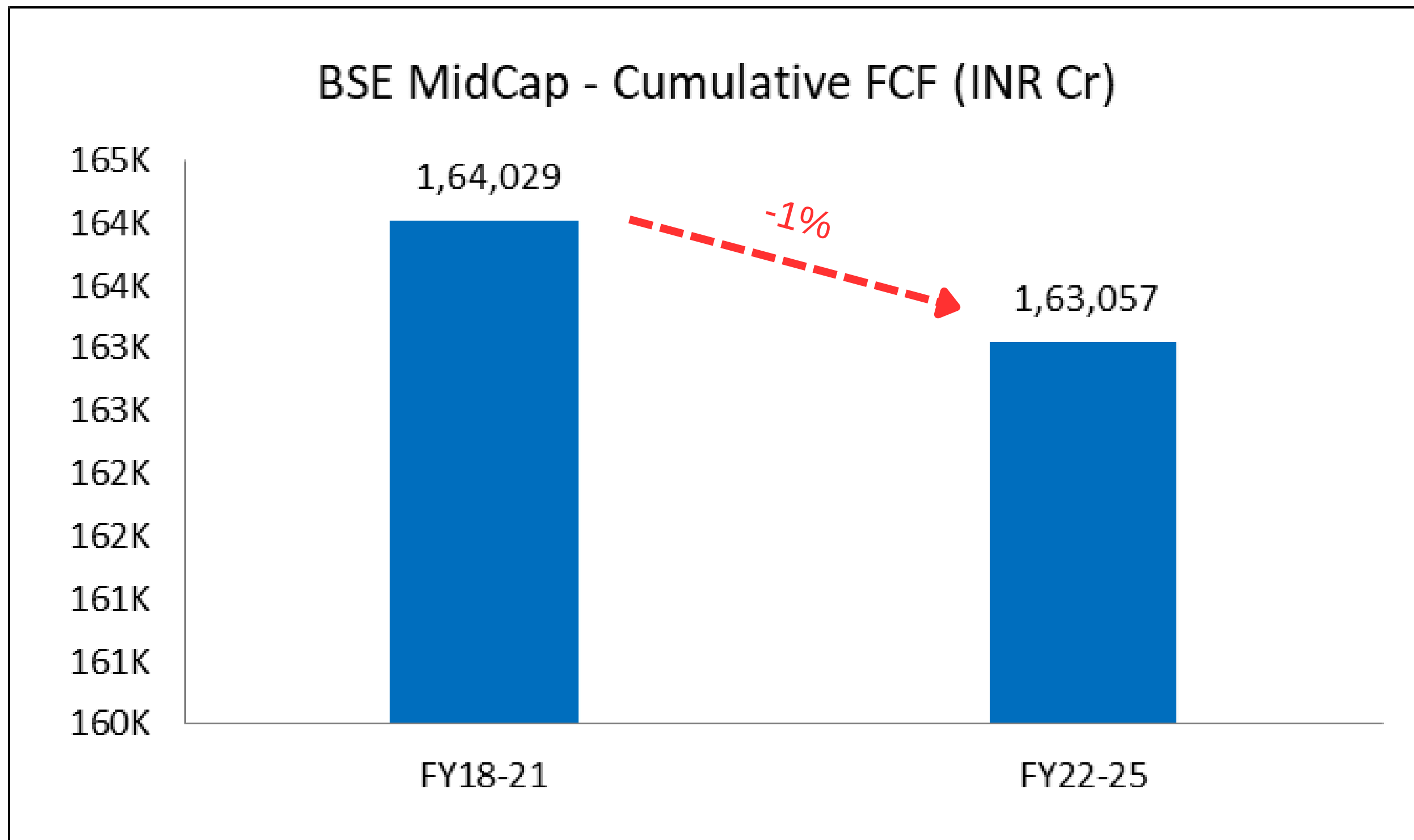
Historically, between 2004-25, the Sensex-to-Midcap Index ratio has averaged 2.4, while the Sensex-to-Smallcap Index ratio has averaged 2.2. On multiple occasions, whenever these ratios fell below their long-term averages, a strong mean reversion subsequently occurred.

Given current trends, **the relative slowdown in small- and mid-cap performance is likely to persist, while large-cap stocks may continue to experience a catch-up phase in the near term.**



Source: BSE (Considering the average of year-end ratios)

BSE Midcap Index - Historical Free Cash Flows (FCF)



The cumulative four-year FCF declined marginally, easing from INR 1.64 lakh crore for FY18–21 to INR 1.63 lakh crore for FY22–25, representing an absolute decline of 1%.

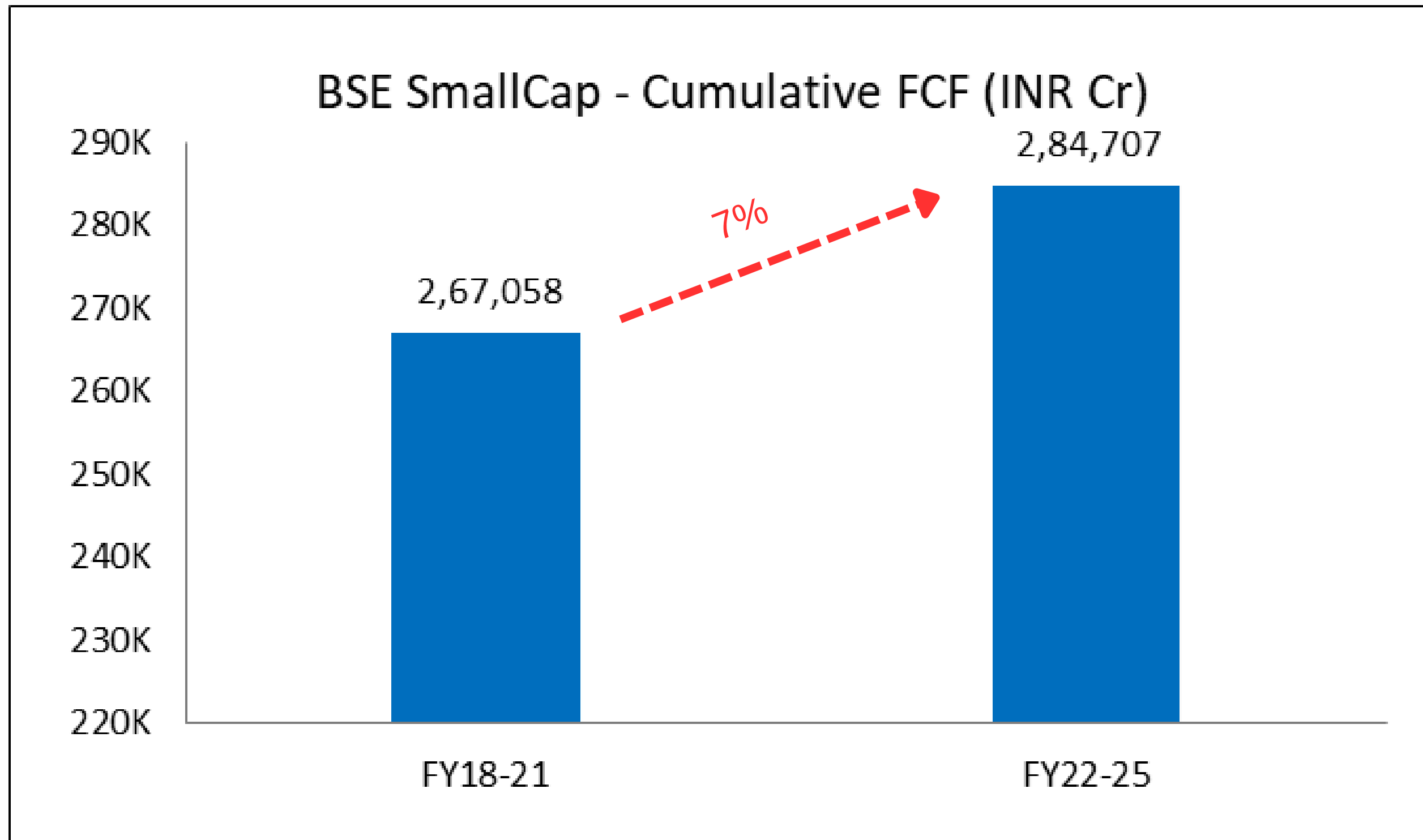
The otherwise positive FCF generation across the broader universe was largely offset by elevated capital investments undertaken by certain corporates, notably the Godrej Group (Godrej Industries and Godrej Properties), as well as select PSUs such as SJVN, NHPC, and Oil India.

FCF = Cashflow from Operations - Capex and Fixed Asset Advances

Note: Excl. Banks, Finance and Insurance companies, and companies not having CFO numbers starting FY18

Source: ACE Equity (Total number of filtered companies: 110)

BSE Smallcap Index - Historical Free Cash Flows (FCF)



The cumulative four-year FCF improved from INR 2.7 lakh crore for FY18–21 to INR 2.8 lakh crore for FY22–25, representing an absolute growth of 7%.

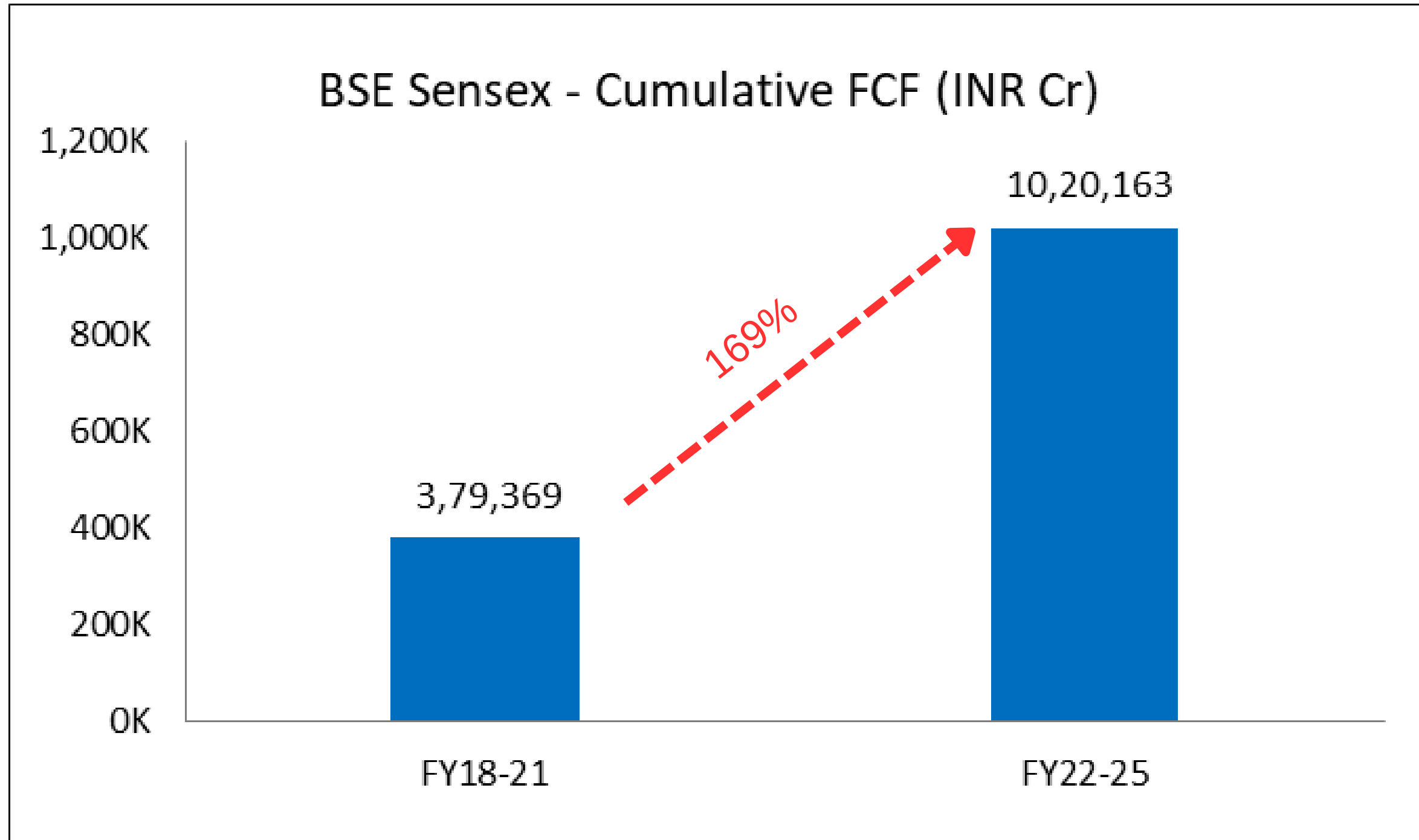
This stronger FCF generation has contributed to a meaningful improvement in the margin profile of small-cap companies. Over the past four years (FY22–25), many of these companies have undertaken significant capital expenditure, with cumulative capex reaching INR 5.8 lakh crore—an increase of 41% compared with the FY18–21 period.

FCF = Cashflow from Operations - Capex and Fixed Asset Advances

Note: Excl. Banks, Finance and Insurance companies, and companies not having CFO numbers starting FY18

Source: ACE Equity (Total number of filtered companies: 979)

BSE Midcap Index - Historical Free Cash Flows (FCF)



The cumulative 4-year FCF experienced a remarkable surge, increasing from INR 3.8 Lakh Cr between FY2018- 21 to an impressive INR 10.2 Lakh Cr between FY22-25, reflecting an absolute growth of 169%.

This robust FCF generation was driven significantly by telecom companies - Bharti Airtel and Reliance Jio.

This 169% FCF growth from Large-cap companies are significantly outpacing the cash flows seen in small and mid-cap companies.

FCF = Cashflow from Operations - Capex and Fixed Asset Advances

Note: Excl. Banks, and Finance and Insurance companies, and companies not having CFO numbers starting FY18

Source: ACE Equity

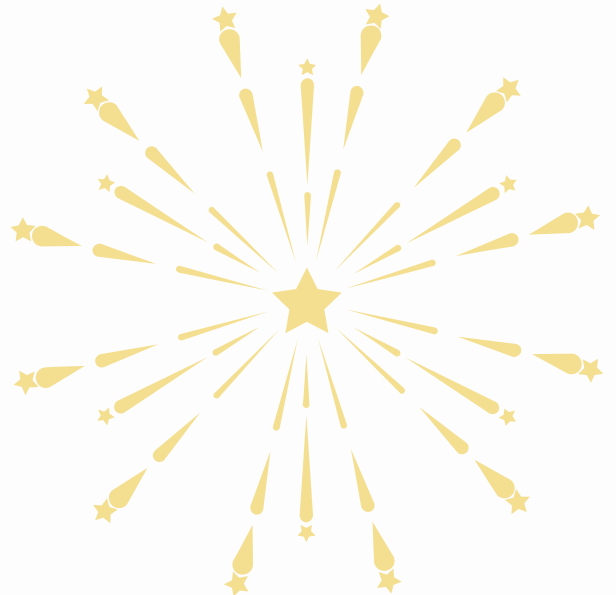
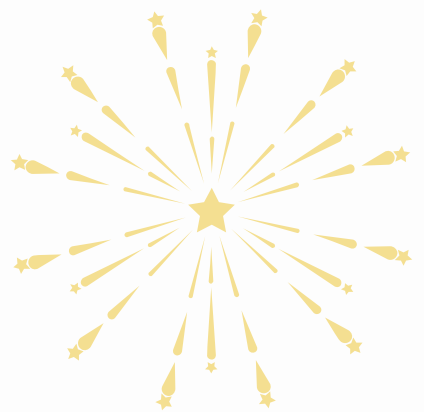
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2026

“Happy New Year!

Wishing you a year filled with peace, good health, and abundant success in the markets.”



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