

# **SMALL CAP. GIANT POTENTIAL.**

PRESENTING

# **BAJAJ FINSERV SMALL CAP FUND**

An open ended equity scheme predominantly investing in small cap stocks.

NFO PERIOD 27th Jun - 11th Jul, 2025

Give your investments the 3-in-1 advantage

## Quality

Companies with distinct competitive advantages

#### Growth

Companies with high scalability potential

#### Value

Companies that present intrinsic value opportunities







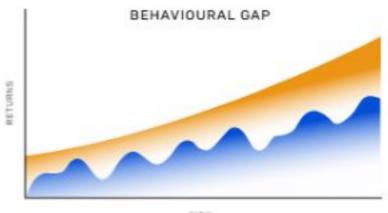
# RISK ISN'T WHAT MOST THINK IT IS

"Risk comes from not knowing what you're doing."

- Warren Buffet

Risk has long been perceived as the enemy of investment success. But in reality, risk is the necessary ingredient that fuels returns. Without risk, there is no reward. The key lies in understanding, managing, and leveraging risk rather than avoiding it.

#### RISK: PERCEPTION vs. REALITY



RISK

INVESTOR EXPECTATIONS

• REALITY







# **JUST PREPARE FOR IT**



# RISK VS. SAFETY: BUSTING SOME MYTHS

SACIACI PRISERY ASSET MANAGEMENT LIMITED

# SIZE DOESN'T ENSURE SAFETY, BUSINESS QUALITY DOES

Collapse of a prominent retail player in supermarkets



#### WHY IT SEEMED TOO BIG TO FAIL:

- 1,000+ stores across 321 cities (2017)
- ₹24,116 crore market cap (2017)



## WHAT WENT WRONG:

- -99% wealth erosion
- Stock corrected from peak: -57% (CAGR from Nov-2017 to Aug-2024)



#### KEY RISKS IGNORED:

High debt & excessive promoter pledging

FINSERY

 Poor capital allocation & unchecked expansion



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# FAMILIARITY DOESN'T ENSURE SAFETY, GOVERNANCE DOES

Downfall of a major IT firm in India



#### WHY IT SEEMED TOO BIG TO FAIL:

- . One of India's top 5 IT firms
- Constituent of Nifty 50 Index
- Global presence with 50,000+ employees



#### WHAT WENT WRONG:

- . -95% wealth erosion
- Stock corrected from ₹523.50
   (May 2008) to ₹23.75 (Jan 2009)





- Fabricated cash balances and overstated revenues
- Promoter fraud involving accounting manipulation



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**BAJAJ FINSERY ASSET MANAGEMENT LIMITED** 

# BEING UNDERVALUED ISN'T ENOUGH, GROWTH IS ESSENTIAL

Failure of an infrastructure finance company in India



## WHY IT SEEMED AN ATTRACTIVE BUY:

- Traded at a deep discount to book value and perceived to be undervalued
- Positioned as a key lender in infrastructure



#### WHAT WENT WRONG:

- Stock corrected from ₹137.10 (Jul-2017) to ₹2.10 (Aug-2023)
- Stock delisted
- A value trap, not a recovery story



775

#### KEY RISKS IGNORED:

- Rising NPAs with limited provisioning buffer
- Complex financial structuring and lack of transparency
- Weak governance and regulatory red flags



THE BUILD IN PER SULPITATION PURPOSES AND USE IN PROCESS TO SERVICE THE CONCEPT OF BUILDINGS



# ANOTHER POPULAR MYTH: SMALL CAP = RISK



# **HIGHEST MARKET CAP GROWTH - 5X IN 7 YEARS**



MARKET CAP IN (₹ LAKH CRORE)



# HIGHER LONG-TERM POTENTIAL IRRESPECTIVE OF MARKET DIRECTION

## RETURNS FROM PEAK

RETURNS IN NIFTY 500 FROM 2018 TO 2025



BUTS ABOVE ONLY BY JUST THE NAV. ST. BOOK

# RETURNS FROM TROUGH



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# CONTRIBUTION TO MARKET CAP GREW 1.4X IN LAST 3 YEARS

Between Dec'21 and Dec'24, small caps increased their share in the total market capitalization of all listed companies by 6%, outperforming mid caps (which grew by 2%) and large caps (which fell by 8%).

This underscores the growing prominence of the small cap segment and the expanding opportunities it offers.

# CONTRIBUTION TO MARKET CAP



Contribution to market cap of all listed companies



# CONTRIBUTION TO PROFITS GREW 2.5X IN LAST 4 YEARS

Between Sep'21 and Dec'24, small caps saw their share in India's corporate earnings expand by 2.5x, far outpacing mid caps (which expanded by 1.1x) and large caps (which expanded by 0.9x).

This sharp earnings delta highlights the accelerating potential within small caps.

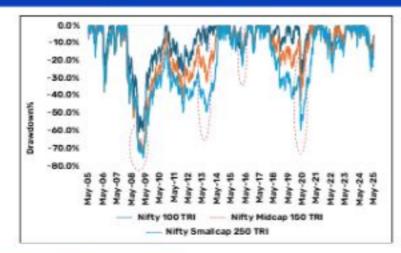
# CONTRIBUTION TO PAT OF TOP 500 COMPANIES

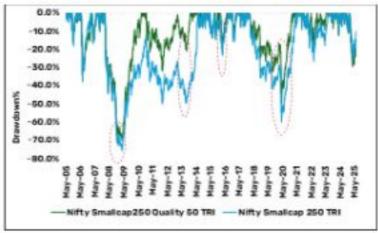




# RETHINKING SMALL CAP VOLATILITY THROUGH A QUALITY LENS

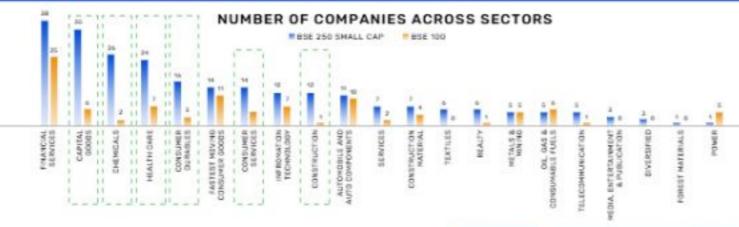
While small caps tend to experience higher drawdowns compared to broader indices, the relatively lower drawdown in the quality small cap index highlights the importance of selective exposure. This reinforces the need for right active management over passive benchmark investing.







# **DIVERSIFICATION ACROSS MORE THEMES**



Small caps offer a more diversified sectoral spread compared to large caps, with substantially more opportunities across key growth sectors highlighted above.

MARKET CAP	LARGE CAP	HID DAP	SMALL CAP
NO. OF SECTORS COVERED	17	12	21



VOLATILITY DOESN'T ALWAYS MEAN RISK, IT OFTEN MEANS OPPORTUNITY

# MEET MR. MARKET — A TIMELESS LESSON IN INVESTING BY BENJAMIN GRAHAM

Every day, he offers to buy your share or sell you his at a new price. His mood swings aren't based on fundamentals, but emotions.

Some days, he's euphoric and offers an inflated price

Other days, he's fearful and offers a deep discount



# VOLATILITY DOESN'T ALWAYS MEAN RISK, IT OFTEN MEANS OPPORTUNITY

## WHAT WE LEARN FROM MR. MARKET



Volatility is not a threat – it's an opportunity.

When Mr. Market panics, disciplined investors can buy quality at a discount.



You are not obligated to act.

You don't have to buy or sell daily. The power lies in patience.



Emotional discipline pays.

Mr. Market's irrationality is your edge—if you remain rational.



Independent thinking wins.

Success comes from focusing on value, not noise.





# WHY INVEST IN SMALL CAPS NOW?



# SMALL IN SIZE, NOT IN IMPACT

EVERYDAY LEADERS ACROSS INDUSTRIES THAT ARE SMALL CAPS

Consumer durables
Capital goods
Consumer services
FMCG
Metals & Mining
Healthcare
BFSI
Construction materials
Power
Automobile and auto components

And many more...

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# **CORRECTION IN PRICE, NOT IN QUALITY**

FY25 SAW A CORRECTION IN SMALL CAPS, OFFERING AN OPPORTUNITY TO BUY QUALITY COMPANIES AT DISCOUNT.

CORRECTION FROM 52 WEEK HIGH	NUMBER OF SMALL CAP COMPANIES
0 to -15%	43
-15% to -30%	81
-30% to -45%	85
OVER -45%	41

Most are trading well **below 52-week highs**, making valuations compelling.

21,669	5792.24
29,941	6039.25

The index rose just 4% since FY24 while PAT grew 38%, reflecting the unrealised value of small caps.

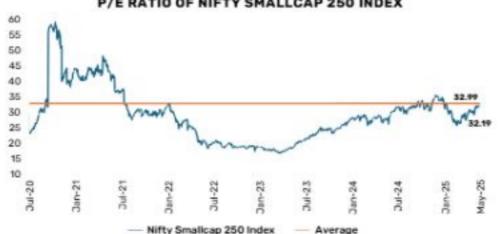
1 YEAR ROCE	% OF SMALL CAP COMPANIES
0 - 10%	21%
10%-20%	35%
20%-30%	23%
OVER 30%	16%

74% of the top 250 small caps report ROCE above 10%, reflecting strong fundamentals.



# **VALUATIONS AT 5-YEAR AVERAGE**

# P/E RATIO OF NIFTY SMALLCAP 250 INDEX

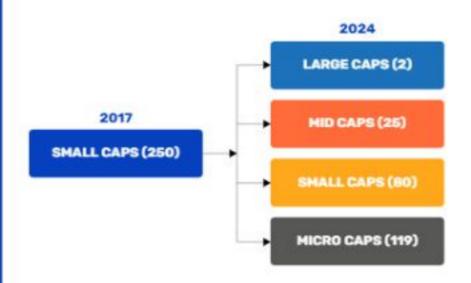


Small cap valuations are hovering around their 5-year average, with significant corrections in select segments. This creates a favorable entry point for new NFOs to build portfolios by capitalizing on these selective opportunities.



# NOT ALL SMALL CAPS GROW TO BECOME LARGE CAPS

Nearly 50% of the small cap companies from 2017 have slipped into micro cap territory. This highlighs the importance of not just picking the right small caps, but also knowing what to avoid.





# SMALL CAPS - WELL POSITIONED TO LEVERAGE IPOS

Small caps have dominated the IPO landscape, with 196 listings since 2020—yet only 4 have transitioned to mid caps, and none to large caps. While the segment has delivered strong returns, this also highlights the need for careful selection, as not all IPOs translate into long-term quality.

#### **IPO CONCENTRATION IN SMALL CAPS**

MARKET CAP OF COMPANIES LISTED	COUNT OF IPOs
LARGE CAP IPO	14
MID CAP IPO	18
SMALL CAP IPO	196

#### **AVERAGE CAGR IN LAST 4YEARS**

MARKET CAP	2020	2021	2022	2023
LARGE CAP	-3%	8%	-3%	35%
MID CAP	-	-2%	-6%	23%
SMALL CAP	30%	16%	36%	25%
GRAND TOTAL	25%	13%	31%	25%

Small cap IPOs have delivered the highest CAGR in 3 of the last 4 years.



INTRODUCING

# BAJAJ FINSERV SMALL CAP FUND

An open ended equity scheme predominantly investing in small cap stocks

ONE PORTFOLIO - THREE STRENGTHS

QUALITY

GROWTH

VALUE



# **5 PILLARS OF OUR APPROACH**



Sound fundamentals

Consistent earnings

Sustainable competitive advantages

#### GROWTH

Long-term vision

Long growth runway

Sustainable business models

#### UNDERVALUED OPPORTUNITIES

Stocks trading below their intrinsic values

Strong fundamentals but temporary mispricing

Turnaround businesses

# LEADERSHIP

Emerging category leaders

Dominant in niche segments

High market share in micro segments

## GOVERNANCE

Transparent practices

Aligned promoter interests

Run by seasoned managements



# PROVEN MANAGEMENT OF SMALL CAPS

Current small cap exposure in our existing equity schemes through 3 different strategies of Growth (Megatrends), Quality (Moat investing) and Value (Contrarian)

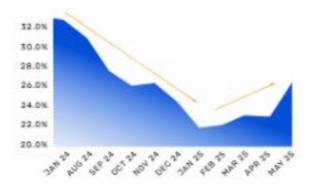
BAJAJ FINSERV MUTUAL FUND	INVESTMENT STRATEGY	SMALL CAP STOCKS IN CURRENT PORTFOLIO (#)	SELECTION CRITERIA	
Bajaj Finserv Flexi Cap Fund	Megatrends	37	3Y Growth (CAGR)	30.45%
Bajaj Finserv Large and Mid Cap Fund	Moat	13	1Y ROCE	23.97%
Bajaj Finserv Multi Cap Fund	Contrarian	35	1Y Forward PB Ratio	4.73

The AMC overall has an exposure to 78 unique small cap stocks

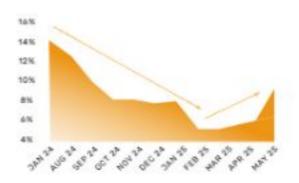


# STRATEGIC ALLOCATION TO SMALL CAPS IN CURRENT PORTFOLIOS





# SMALL CAP ALLOCATION IN BAJAJ FINSERV LARGE AND MID CAP FUND





# **RISK-PRUDENT, NOT RISK-AVERSE**

Fund's approach to mitigating risks and unlocking growth in small caps

RISK	HOW IT AFFECTS INVESTORS	FUND'S RISK MITIGATION APPROACH
Information Gaps	Low analyst coverage, limited disclosures, poor transparency	In-depth internal research, management interaction, and forensic checks
<b>Governance Concerns</b>	Promoter dominance, related-party transactions, ethical lapses	Strict governance filters, promoter background checks
Capital Misallocation	Reckless expansion, unrelated diversification, poor ROE projects	Emphasis on capital efficiency and strong ROCE/ROE track record
High Leverage	Excessive debt makes companies vulnerable in downturns	Prefer companies with healthy balance sheet and interest coverage ratios
<b>Business Concentration</b>	Over-dependence on a single product, client, or geography of the business	Screen for robust revenue models and de-risk by diversified growth

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# THE INVESTMENT PHILOSOPHY THAT GENERATES LONG-TERM OUTPERFORMANCE - INQUBE

While most investors focus on what to invest in, we focus on how to invest more effectively. To achieve this, we've identified three key sources of alpha with a holistic approach that blends fundamental analysis, quantitative modeling, and behavioural insights.

# INQUBE



Collecting superior data and information

INFORMATION EDGE



Smarter data processing to build efficient models.

QUANTITIVE EDGE



Making investment decisions by understanding market sentiment while mitigating biases

**BEHAVIOURAL EDGE** 



# **EQUITY INVESTMENT PROCESS**

1

#### IDENTIFYING

IDENTIFYING CYCLES AND MEGATRENDS

- Macros
   Cycles
  - Themes
  - Trends
- · Market indicators

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- Screener
- Corporate meetings
- · In-house research
- External analysts/Consultants

2

## ANALYSING

INVESTMENT CHECKLIST

- Business
- Management
- Valuation

3

## ALLOCATION

- · Regulatory requirements
- Internal risk management limits
- Investment mandate
- · Investment recording
- · Position sizing



# **PORTFOLIO CREATION PROCESS**

UNIVERSE 1150 STOCKS

SMALL CAP 900 STOCKS

TOTAL COVERAGE 300-400 STOCKS

PORTFOLIO 40-100 STOCKS





# **EQUITY INVESTMENT PROCESS**

#### POST-INVESTMENT REVIEW



#### MONITOR INVESTMENT PERFORMANCE

- . Track the performance of investments over time
- Regularly evaluate business performance and market trends
- . Monitor key financial and non-financial metrics



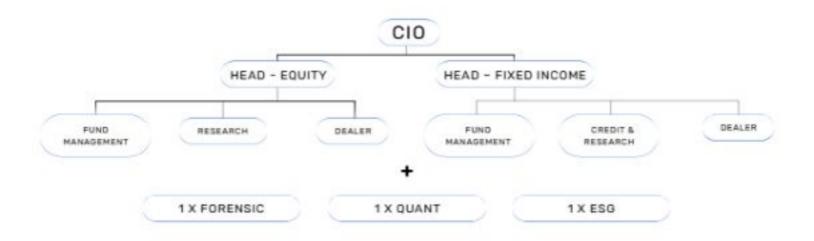
#### **RE-EVALUATE EXIT STRATEGY**

- · Determine exit points based on evolving market conditions to generate alpha
- Adjust strategies based on updated information



## **SEASONED TEAM WITH MULTI-DOMAIN EXPERTISE**

26-MEMBER TEAM WITH A COMBINED EXPERIENCE OF 267 YEARS, 19 MBAS, 6 CFAS, 3 CAS, 1 MA (ECO)





# **SEASONED TEAM WITH MULTI-DOMAIN EXPERTISE**





# **ENSURING QUALITY IN SMALL CAP INVESTING**

**Forensic Research Process** 

STEPS	FOCUS AREA	KEY CHECKS/INDICATORS
Initial Screening	Forensic risk model, red flag triggers	<ul> <li>Unusual profit growth, auditor changes, high pledging, sudden equity dilution</li> </ul>
Accounting Quality	Earnings credibility & revenue recognition	<ul> <li>Cash flow vs. profit mismatch, aggressive revenue booking, capex vs. asset productivity</li> </ul>
Cash Flow & Balance Sheet	Earnings credibility & revenue recognition	<ul> <li>CFO vs. PAT, rising receivables/inventory, high leverage, poor interest coverage</li> </ul>
Promoter & Governance	Promoter intent, board practices, historical conduct	<ul> <li>Promoter pledging, litigation history, related-party transactions, board independence - independent directors, board autonomy ensuring proper checks and balances</li> </ul>
Auditor & Disclosure Check	Auditor quality, reporting transparency	<ul> <li>Frequent auditor change, qualified audit opinions, delayed financials, inadequate disclosures</li> </ul>
Red Flag Mapping & Scoring	Risk assessment & investment decision support	<ul> <li>Forensic scorecard, watchlist maintenance</li> </ul>



### **IN SUMMARY**

#### Perception of Risk

- · Risk is not the enemy it's the fuel for long-term returns
- Risk # Size: Even large, familiar companies have failed due to poor governance or excessive debt
- In investing, outperformance in the long term lies in quality, governance, and growth—not just size

#### Why Invest in Small Caps

- Higher growth potential: Small caps outpaced large and mid caps in profit contribution (2.5x growth in 4 years)
- Diversification & depth: Small caps span across themes, offering broad exposure to India's economic engines.

#### Why Invest in Small Caps Now

- Valuation opportunity: FY25 correction in prices without erosion in fundamentals presents a value entry point.
- Profit growth intact: Despite market correction, profits and return ratios (74% with ROCE >10%) remain strong
- · Undiscovered leaders: Many small caps are driving growth in niche segments and are market leaders in these segments
- Selective corrections in certain segments present a favorable opportunity for small cap NFOs to build well-positioned portfolios

#### Why Bajaj Finserv Small Cap Fund

- · Three-pronged alpha strategy: Combines Growth, Quality and Value styles
- Robust investment process: INQUBE framework blending top-down trends, bottom-up stock picking, and behavioural insights
- Proven capability: 78 unique small cap holdings across existing schemes + seasoned investment team with multi-domain expertise



# WHO IS THIS FUND FOR?

#### INVESTORS WHO:

Want to invest in fundamentally strong businesses in the small cap space trading below intrinsic value

Prefer quality small cap businesses with robust governance and long-term sustainability

Want to diversify their portfolio adding small caps with high growth potential

Are looking to build wealth by capturing small cap growth over time



# **SCHEME FEATURES**

Scheme Type	An open ended equity scheme predominantly investing in small cap stocks			
Plans	Regular Plan   Direct Plan			
Option	Growth   IDCW			
Minimum Application Amount	Rs. 600 (Plus multiples of Re. 1)			
Minimum Additional Application Amount	Rs. 100 (Plus multiples of Re. 1)			
Entry Load	MI			
	Particulars	Upto 10% of units held	Remaining 90% of units held	
Exit Load	If units redeemed/switched out within 6 months from allotment date	MI	1% of applicable NAV	
If units redeemed/switched out after 6 months from all otment date Nil				
Fund Manager	Mr. Nimesh Chandan and Mr. Sorbh Supta (Equity Portion)   Mr. Sidd	harth Chaudhary (Debt	Portion)	
Benchmark Index	BSE 250 SmallCap TRI			
SIP/SWP/STP	Available			

NFO OPEN DATE:

27 JUNE 2025

NFO CLOSE DATE:

11 JULY 2025



# **BAJAJ FINSERV SMALL CAP FUND**

An open ended equity scheme predominantly investing in small cap stocks

#### Product label

This product is suitable for investors who are seeking":

- · wealth creation over long term
- . to invest predominantly in equity and equity related instruments of small cap companies.

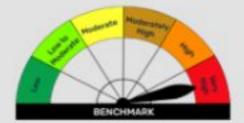
"Investors should consult their financial advisers if in doubt about whether the product is suitable for them

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SCHEME

The risk of the scheme is very high

#### RISKOMETER# BENCHMARK



The risk of the benchmark i.e. BSE 250 SmallCap TRI is Very High

#The above product labelling assigned during the New Fund Offer is based on Internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made.



# DISCLAIMER

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.



# **ANNEXURE**

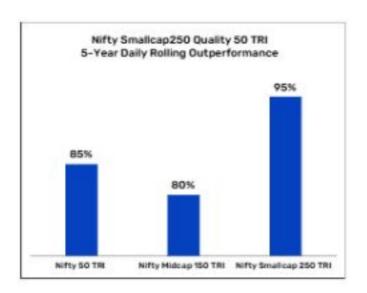


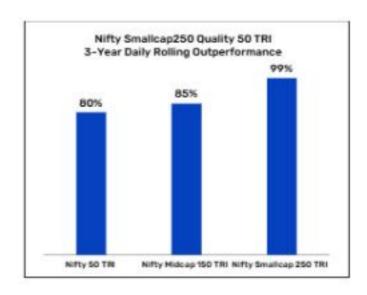
# QUALITY SMALL CAPS OUTPERFORM BROADER INDICES OVER TIME

	Nifty Smallcap250 Quality 50	Nifty Smallcap 250	Nifty Midcap 150	Nifty 100	Date
	-0.6%	11.85%	-1.06%	13.54%	FY 07
	13.0%	31.33%	21.47%	23.86%	FY 08
	-49.2%	-54.90%	-48.52%	-36.65%	FY 09
( )	177.6%	141.42%	135.77%	84.87%	PY 10
<ul> <li>Outperformance</li> </ul>	15.6%	0.91%	4.74%	11.40%	FV 11
	-2.9%	-8.60%	-4.61%	-7.80%	FY 12
	5.6%	-5.26%	4.47%	8.80%	FY 13
	36.1%	22.90%	18.01%	19.94%	FY 14
0	66.5%	62.76%	59.73%	30.76%	FY 15
<ul> <li>Outperformance</li> </ul>	0.8%	-5.95%	-1.67%	-6.89%	FY 16
	43.9%	40.56%	37.21%	22.59%	FY 17
	11.6%	12.87%	16.66%	12.22%	FY 18
	-5.1%	-12.44%	-0.65%	13.96%	FY 19
	-34.4%	-40.22%	-30.09%	-24.94%	FY 20
	109.0%	118.68%	101.57%	71.18%	FY 21
	40.0%	37.02%	25.05%	20.63%	FY 22
. O to	1.0%	-6.03%	2.77%	-1.58%	FY 23
<ul> <li>Outperformance</li> </ul>	55.6%	64.15%	57.54%	34.79%	FY 24
	6.2%	6.05%	8.21%	6.18%	FY 25



# **ROLLING RETURNS OF QUALITY SMALL CAPS**







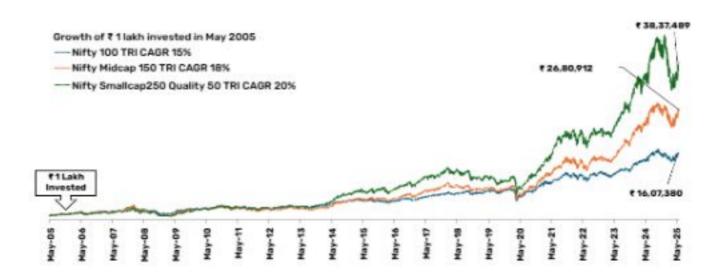
# **QUALITY WITHSTANDS VOLATILITY**

Date Nifty 100 Nifty Midday 150 Nifty Smalless 250 Total Nifty Smallesy 250 Quality I						
Date	TRI	TRI	Nifty Smallcap 250 TRI	TRI		
FY 07	29%	28%	28%	27%		
FY 08	32%	34%	31%	27%		
FY 09	42%	34%	35%	29%		
FY 10	30%	29%	33%	26%		
FY 11	17%	18%	20%	17%		
FY 12	20%	19%	21%	15%		
FY 13	13%	13%	14%	10%		
FY 14	18%	15%	15%	11%		
FY 15	54%	17%	19%	16%		
FY 16	17%	19%	21%	20%		
FY 17	13%	14%	15%	14%		
FY:18	10%	14%	16%	14%		
FY 19	12%	15%	17%	16%		
FY 20	27%	25%	25%	25%		
FY 21	22%	19%	20%	19%		
FY 22	16%	18%	20%	18%		
FY 23	15%	16%	17%	16%		
FY 24	10%	13%	14%	16%		
FY 25	15%	19%	21%	22%		

Small cap Quality index has shown lesser standard deviation than large caps in some years

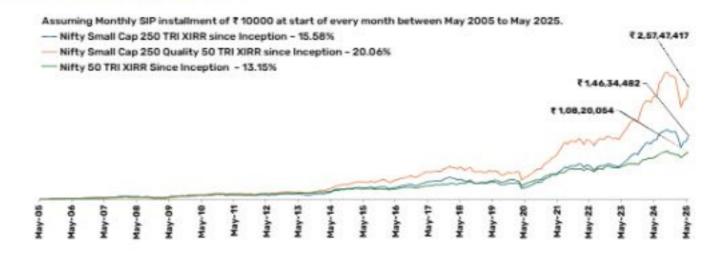


# **WEALTH CREATION IN QUALITY SMALL CAPS**





# QUALITY SMALL CAPS OUTSHINE BROADER INDICES IN SIP PERFORMANCE





# **RISK-O-METER AND PRODUCT LABEL**

#### Salai Finnery Flact Can Food

An other embed secure commiss invasting somes large cap, next cap, small cap shocks.

This product is surfages the investors who are excelleng?

- · Must be creation frogetist appropriates over long term
- It restricted in equity and equity related trafficewise across large cup, trick cap and small cap stroks.

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#### Bajaj Finnery Large and Hid Cap Fund

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#### Sajaj Finzerv Hufti Cap Fund

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This product is suitable for investors who are cooling\*.

- · weath awater over one term
- to med predominally in equity and equity mided instruments of rarge equitations, and explorarements.

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