



# What is Nifty Smallcap 250 Index Fund?

When you enter the market with the aim of participating in the growth of the equities, you have varied options at hand, from direct investing to mutual funds. Among mutual funds, you can choose from active equity funds or passive equity funds, based on your investor profile. If you are keen on a high-risk, high-return avenue you should turn your attention towards Nifty Smallcap 250 index funds. These funds are passive index funds which will help you participate in the growth of small companies, enabling you to meet your investment objectives in an optimal manner. If you are wondering what is Nifty Smallcap 250 index fund in share market, here are all the details you need.

## What is NIFTY SMALL CAP 250 Index fund?

The Nifty Small Cap 250 Index is a stock market index that tracks the performance of small-cap companies listed on the National Stock Exchange of India (NSE). It is a subset of the broader Nifty index, which tracks the performance of the top 50 companies listed on the NSE. As the name suggests, this index invests in Nifty Smallcap 250 companies, or the top small-cap companies which have a market capitalization between Rs. 250 crore and Rs. 5000 crore. Since these companies are often in the early stages of growth, they have the ability to offer you high growth potential, albeit with correspondingly higher risk. This is because smaller companies are more volatile and risky than larger, more established companies. Now that you know the meaning of Nifty Smallcap 250, let us look at the other important aspects.

## How are stocks selected to be part of NIFTY SMALL CAP 250?

The index is calculated using a free float market capitalisation-weighted methodology, ensuring that companies with higher market capitalisation have a higher weighting in the index. As we have already seen, all these companies have a market capitalisation between Rs. 250 crore and Rs. 5000 crore. Further, the index undergoes regular review and rebalancing to ensure an updated benchmark as well as optimal results. The NSE also considers factors such as liquidity and trading volume, in addition to certain eligibility criteria related to financial performance, governance, and compliance with regulations, while selecting companies to be a part of the Nifty Smallcap 250 index.

## List of stocks under NIFTY SMALL CAP 250

Some of the major companies listed on the index (as on April 2023) are as follows – Aarti Drugs Ltd, Balaji Amines Ltd, Can Fin Homes Ltd, DCM Shriram Ltd, Eclerx Services Ltd, Fertilisers and Chemicals Travancore Ltd, Gujarat Ambuja Exports Ltd, HEG Ltd, Indiabulls Real Estate Ltd, Jamna Auto Industries Ltd, Kalpataru Power Transmission Ltd, Lakshmi Machine Works Ltd, Mahindra CIE Automotive

**NIFTY SMALL CAP 250 performance**

While small-cap stocks have the potential to outperform larger, more established companies, they also exhibit significant volatility. Therefore, such investments are better suited to long-term investors with a high risk appetite. Accordingly, it is advisable to invest in the Nifty Smallcap 250 index only if you have a time horizon of 5 years or more, as this period allows the index to overcome potential volatility. In the last five years, the index has grown from around 6100 points to a robust 9600, indicating the stellar performance.

**Advantages of NIFTY SMALL CAP 250**

Some of the major advantages of investing in the index are –

- *Diversification:* The Nifty Smallcap 250 includes a diversified basket of small-cap stocks from various sectors, ensuring lower risk and a potential for better risk-adjusted returns.
- *Growth potential:* Small-cap stocks are often in the early stages of growth and have the potential for high growth rates, thus offering the potential for compelling risk-adjusted returns, especially over the long term.
- *Low correlation with large-cap stocks:* Small-cap stocks tend to have a low correlation with large-cap stocks, which means that they may perform well even when large-cap stocks are underperforming.
- *Tax benefits:* Investment in Nifty Smallcap 250 index offers the tax benefits available on equity funds.

**Disadvantages of NIFTY SMALL CAP 250**

The biggest disadvantages of investing in this index are the underlying high risk and volatile nature of these stocks. This makes them more sensitive to economic downturns or industry-specific challenges. Further, there is an inherent managerial risk since smaller companies may be more dependent on their management teams. Poor management decisions or practices can have a significant impact on the company's financial performance and stock price.

**Investing in NIFTY SMALL CAP 250**

The Nifty Smallcap 250 Index provides investors with a way to invest in a diversified portfolio of small-cap companies listed on the NSE. The index is widely used by investors as a benchmark for small-cap companies in India. It is also used by mutual funds and exchange-traded funds (ETFs) as a basis for constructing portfolios that track the performance of small-cap companies.

Investing in small-cap companies can be a way for investors to diversify their portfolio and potentially enhance portfolio returns. However, before you take a step forward, you must carefully consider the risks associated with small-cap investing, including greater volatility and liquidity risk. As with any investment, it is advisable that you do your due diligence and consult with a financial advisor before making any investment decisions.