

# A STUDY ON THE IMPACT OF MICRO-CAP INVESTMENTS ON INDIA'S PROGRESS TOWARD A FIVE TRILLION ECONOMY: EXAMINING INVESTOR PROFILES, MARKET TRENDS, AND STRATEGIC APPROACHES

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## **Abstract**

*This research paper explores the depths of a fairly unexplored part of the Indian stock market. The micro-cap companies have been overlooked because of the scarcity of information regarding them, corporate governance issues, high risk, financial statement manipulations, and many other issues but, with the recent advancements in technology, information is becoming readily available and the landscape of micro-cap investments is undergoing a significant change. corporate governance is gaining importance and companies have started to give importance to it. Investor ideologies are also changing with new-age investors having a higher risk appetite than the previous ones. The investment avenues chosen by the investors are affected by their expectations and profiles so the research will also be looking over various investor profiles. With India moving towards a 5 trillion dollar economy it is highly favoring the Indian share market, and micro-cap space is also gaining importance. This research also looks over the characteristics of micro-cap space that have brought in the changes in the space High-risk reward being the leading one. also, Data from the previous year 2023 shows Nifty Microcap 250 index's impressive 43% growth. For perspective, the Nifty Smallcap 250 grew by 29%, the Nifty Midcap 150 by 26%, and the Nifty 50 by 7.8% over the same timeframe. This research aims to understand how investor profiles, market dynamics, investor strategies, and other factors have brought in a change in the landscape of micro-cap investment.*

**Keywords:** Micro Cap, investor profile, five trillion economy, Indian stock market.

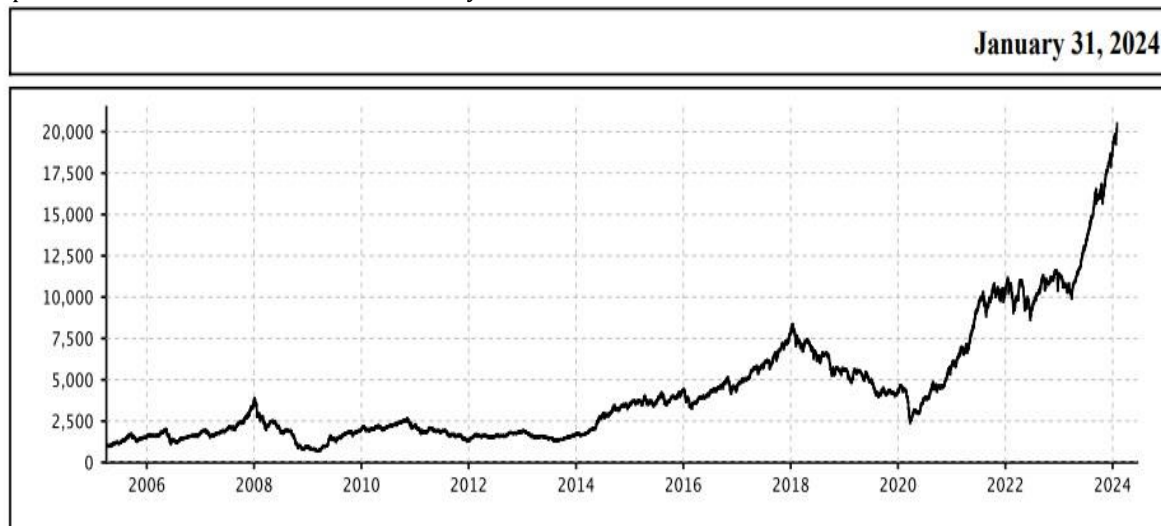
## **INTRODUCTION**

The Indian share market has been following a continuous uptrend because of all the advancements in the country and supporting factors In recent years, the Indian stock market has witnessed dynamic trends, reflecting both domestic and global factors. Factors such as economic reforms, government policies, corporate earnings, and geopolitical events influence market movements. The integration of technology has transformed trading practices, with algorithmic trading and online platforms gaining importance. The vision of the government of a 5 trillion dollar economy and the steps taken by them have helped the Indian stock market prosper. The shares in the Indian stock market are traded at 2 main exchanges that are Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). stocks are classified into various categories based on their face value, market capitalization, free float ratio, ownership, etc.

Majorly market capitalization i.e. market cap is used to identify stocks in various categories. Indian stock market classified stocks into 4 categories based on market capitalization- large cap, medium(mid) cap, small-cap, and micro-cap. Market Capitalization: Large-cap companies are typically the largest and most established companies in the market. Market Cap Range: Companies with a market capitalization usually exceeding INR 20,000 crores. Examples: Reliance Industries, TCS, HDFC Bank. Mid-Cap Market Capitalization: Mid-cap companies fall in between large-cap and small-cap companies in terms of size. Market Cap Range: Companies with a market capitalization typically range from INR 5,000 crores to INR 20,000 crores. Examples: Voltas, Muthoot Finance. Market Capitalization of Small-cap companies is generally smaller in size compared to mid-cap and large-cap companies. Market Cap Range: Companies with a market capitalization usually below INR 5,000 crores. Examples: RBL Bank, Escorts, Future Retail. The market capitalization of microcap is not specified by SEBI but the NSE microcap 250 sheds some light on the topic that microcap companies are usually the companies whose market cap is below 5000 crores the NSE has defined microcap as 2.6% Full Market Cap coverage and Weighted average constituent turnover - ~Rs. 14 cr of all the shares listed on the exchange.

A brief history of the microcap sector in India-

The microcap space in India was often overlooked in the past years due to issues like price manipulation, improper regulatory enforcement, limited resources, scarcity of data, market rumors, etc. but, after the dematerialization of shares and development in technology shares and information regarding them got readily available on the websites of exchanges that they are traded at that are BSE or NSE or both. After the tightening of the regulatory framework and compliance, the sector has seen a rise in returns and performed at par or overperformed the benchmark indices like nifty 50.



The chart above shows the growth of the Nifty microcap 250 index from year 2006-2024  
Source-national stock exchange

**India's vision for a 5 trillion dollar** government's blueprint for building an economy worth \$5 trillion in India includes prioritizing macroeconomic growth and balancing it with common welfare at the microeconomic level, promoting the fintech and digital economy, technology-enabled development, energy transition, and climate action, and depending on a positive feedback loop of investment and expansion. In 2014, the Government's Road Map entered into force. Union Minister of State for Finance Shri Pankaj Chaudhary made this claim in a written response to a Rajya Sabha. To boost economic expansion and pull in private sector investment, the government is additionally focusing on a capex-led growth strategy, significantly raising its capital investment spending during the previous three years. Between 2020–21 and 2022–23, the Central Government's investment in the capital grew from 2.15 percent to 2.7 percent of GDP.

## REVIEW OF LITERATURE

- **"Small Stocks, Big Money: Interviews With Microcap Superstars"** by Dave Gentry is a book that offers first-hand insights into microcap investing, focusing on successful investors who have made fortunes in small stocks. The book emphasizes the significance of risk mitigation when making investments in smaller enterprises and offers helpful guidance for new investors. The authors stress that while there is a greater chance of loss when investing in small stocks, there is also a greater potential reward. The book offers information on finding the best companies to invest in and creating an appropriate financial strategy for potential large profits.
- **"Exploring the Potential of Micro-Caps: A Closer Look at Investing in Small Cap."** by Parikshit Singh ( 2023). Micro-cap stocks present a unique investment opportunity for investors seeking potentially high returns, despite inherent risks. These small companies have the potential for significant growth but also come with liquidity challenges and higher risks. Investors should engage in thorough research and analysis before investing in any small company, and exercise caution while trading micro-cap scrips.
- **The press release bureau of India in the article published on August 1 2023** draws light on India's roadmap to a 5 trillion dollar economy. The Minister stated that major reforms include the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), a significant reduction in the corporate tax rate, the Make in India, and Start-up India strategies. The make-in-India strategies and start-ups are expected to boost businesses on a micro level
- **Suman Bhakri in her research on INDIA \$ 5 TRILLION ECONOMY: VISION & MISSION** highlighted various initiatives planned by the government and execution of the same based on the data available in the year. The research sheds light on the sector-wise contribution of each sector in percentage terms. the paper also discusses various initiatives taken by the government and challenges faced by India in its journey to a 5 trillion economy.

- **MSME Financing in India: Key to the 5 Trillion by H K Pradhan and Pankaj K Agarwal (bhakri, 2020)** highlights that to provide micro, small, and medium-sized firms (MSMEs) with access to capital and market prospects, the Indian government has set policies in action. However, a lot of MSMEs still have obstacles to investment that limit their ability to grow. India's economy receives significant support from the MSME sector, which aims to account for 50% of GDP by 2025 and account for a considerably huge role in India's aim to become a 5 trillion economy by 2024. A pro-MSME policy would boost economic expansion and generate job opportunities because SMEs have significant reciprocal relationships. The issues confronting the MSME sector require coordinated policy responses.
- **The National Institute for Micro, Small and Medium Enterprises (ni-MSME) (An organization of the Ministry of MSME, Govt. of India)** states its main objective is that Entrepreneurs are to be given information that would facilitate taking the best advantage of the schemes. This would give them encouragement, enhancement, and handholding resulting in improving productivity of the enterprises. Development of enterprises in terms of establishment, expansion, modernization, acquisitions, and mergers can take place. Organizational structure in terms of proprietary, partnership, cooperatives, corporations, etc., can be planned. Issues like state development, infrastructure, fiscal issues, export prospects, etc., pave the way for economic prospects.

## RESEARCH METHODOLOGY

### Statement of Problem

Understanding the role of the micro-cap sector in India's road to a 5 trillion dollar economy and investigate and understand the dynamics, challenges, and opportunities associated with micro-cap stocks and the investor landscape in India.

### Objective of the study

- To study the Impact of Micro-Cap Investments on India's Progress toward a Five Trillion Economy
- To analyze the characteristics and trends of micro-cap stocks in India
- To Assess the performance of micro-cap stocks in comparison to other investment options, such as large-cap and mid-cap stocks.
- To Identify potential risks associated with micro-cap investments and propose risk management strategies for investors.
- To examine the profile and investment strategies of investors engaged in micro-cap investing.

### Significance of the study

- Define the relationship between Micro-Cap Investments and India's Progress toward a Five Trillion Economy
- Contribute to the existing body of knowledge on the Indian stock market, particularly the micro-cap segment.
- Provides insights for investors, regulators, and market participants to understand the dynamics of micro-cap investing in India
- Assess the performance of micro-cap stocks in comparison to other investment options, such as large-cap and mid-cap stocks.

### Scope and Limitations of the study

- Examine how factors such as GDP growth, line of credits, and other initiatives by the government help micro businesses prosper
- Focus on micro-cap stocks listed on major Indian stock exchanges, including the NSE and BSE.
- The microcap sector is highly unorganized and hard to track as a whole Nifty microcap 250 indice is taken as a representative of the microcap sector.
- Dependence on secondary data sources may have limitations in terms of accuracy or timeliness.

### Type of Research

The given study is done based on exploratory and analytical research. An in-depth analysis of the micro-cap sector is done by analyzing trends and reasons for the trends.

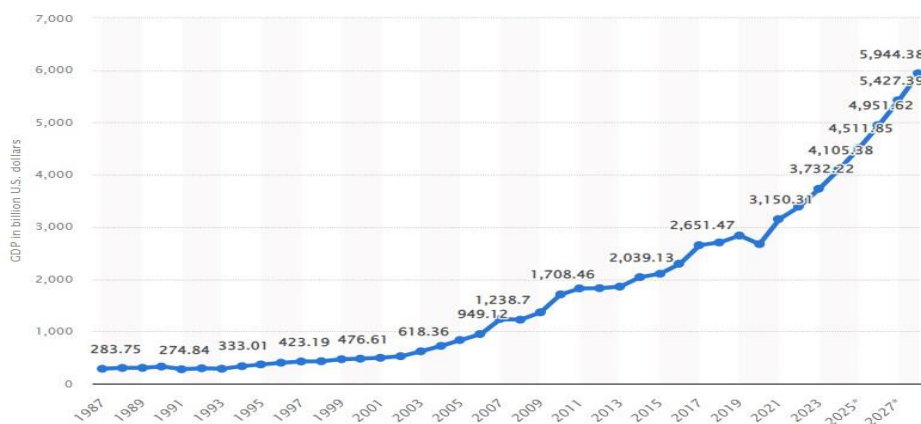
### Methods of Collection of Data

The above research is structured with the help of secondary data that has been analyzed thoroughly, selecting the most relevant information and presenting it in the study.

- Reference of Literature Review, Financial articles and books.
- Data backed by official websites of the National Stock Exchange.
- Historical data from the official website of the Bombay Stock Exchange.
- Financial numbers and turnovers from websites of NSE, BSE, and SEBI.
- National Institute for Micro, Small and Medium Enterprises (ni-MSME) (An organization of the Ministry of MSME, Govt. of India)

## DATA ANALYSIS AND INTERPRETATION

Data collected from various sources such as the website of the National stock exchange and information on the GDP growth of the country is displayed below for a better understanding and comparison of the aspects of the micro-cap sector. GDP plays an important role in reflecting the trends of development in the country and one can estimate the growth in the manufacturing and service industry and its implications on the country's economy



Source: Statista 2024

The charts above portray the GDP growth of India. The GDP growth of India accelerated after India adopted globalization in 1991 and opened its markets to the world. The second reform came after India announced its vision to be a 5 trillion dollar economy by 2024. Various reforms such as credit and working capital lines to small businesses and initiatives, Make in India initiatives, have helped to achieve the GDP growth prospects planned by the government. major reforms including Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), a significant reduction in the corporate tax rate, the Make in India and Start-up India strategies, and Production Linked Incentive Schemes, among others, have been implemented.



### The Nifty Microcap 250 Index has outperformed the Nifty Smallcap 250 Index over the short term and long term

Exhibit 3: Nifty Microcap 250, Nifty Smallcap 250 and Nifty 500 Index performance



Source: NSE Indices. Data as of June 30, 2021

The Nifty Microcap 250 index has been performing at par with the small cap250 and nifty 500 index and in recent years, the Nifty Microcap 250 has outperformed both of the indices. The microcap 250 index is seeing this upward trend due to various reasons such as improvements in the regulatory environment, the increasing

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importance of corporate governance, and initiatives by the Government of India such as lines of credit to businesses, working capital loans, and other short and long term loans under various schemes.

After the announcement of the Roadmap to making India a \$5 trillion economy in 2014 Major reforms including the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), a significant reduction in the corporate tax rate, the Make in India and Start-up India strategies, and Production Linked Incentive Schemes, among others, have been implemented.

**Nifty Microcap 250, Nifty Smallcap 250 and Nifty 500 Index performance table**

Period	CAGR Returns			Volatility			Return-Risk		
	Nifty Microcap 250	Nifty Smallcap 250	Nifty 500	Nifty Microcap 250	Nifty Smallcap 250	Nifty 500	Nifty Microcap 250	Nifty Smallcap 250	Nifty 500
Since Apr 01, '05	16.2%	15.5%	14.6%	23.7%	22.3%	21.7%	0.68	0.69	0.67
15 years	15.3%	13.3%	13.0%	23.1%	21.9%	21.5%	0.66	0.61	0.61
10 years	19.0%	13.6%	12.8%	20.2%	19.0%	17.0%	0.94	0.72	0.76
7 years	19.8%	12.9%	13.1%	21.7%	19.9%	17.2%	0.91	0.65	0.76
5 years	18.2%	14.1%	15.4%	21.4%	19.8%	17.8%	0.85	0.71	0.87
3 years	15.5%	14.7%	15.0%	23.1%	21.4%	20.9%	0.67	0.68	0.72
1 year	147.2%	109.4%	60.8%	20.4%	18.3%	16.0%	7.23	5.98	3.80
6 months	61.4%	39.5%	17.6%	19.6%	17.1%	17.0%	3.14	2.31	1.03
3 months	40.7%	21.7%	9.8%	21.0%	17.7%	14.2%	1.94	1.23	0.69

Source: NSE Indices. Data as of June 30, 2021. Returns based on TRI values

For the year 2020, the Nifty Microcap 250 Index has performed better than the Nifty Smallcap 250 Index. The Nifty Microcap 250 Index returned 147.2% between June 30, 2020, and June 30, 2021, while the Nifty Smallcap 250 Index returned 109.4% during the same time frame. The Nifty Microcap 250 Index has beaten the Nifty Smallcap 250 Index since its inception, returning 16.2% CAGR compared to 15.5% CAGR for the Nifty Smallcap 250 Index between April 01, 2005, and June 30, 2021. The Nifty Microcap 250 Index has been more volatile than the Nifty Smallcap 250 Index over various time horizons in the Exhibit above. For instance, the annualized volatility of the Nifty Microcap 250 Index was 20.2% for the last ten years, from June 30, 2011, to June 30, 2021, whereas the Nifty Smallcap 250 Index had 19.0% during the same timeframe. Similarly, from June 30, 2020, to June 30, 2021, the previous year, the Nifty Microcap 250 Index generated returns that were higher than those of the Nifty Smallcap 250 Index, but at an annualized volatility of 20.4% compared to the Nifty Smallcap 250 Index's 18.3%. Compared to the Nifty Smallcap 250 Index, the Nifty Microcap 250 Index has a higher return-risk ratio across particular time horizons, despite its lower volatility. For instance, for the ten years time frame between June 30, 2011, and June 30, 2021, the return-risk ratio for the Nifty Microcap 250 Index is 0.94, whereas it is 0.72 for the Nifty Smallcap 250 Index during the same period. In contrast, over the most recent one-year period from June 30, 2020, to June 30, 2021, the Nifty Microcap 250 Index had a return risk ratio of 7.23 as opposed to 5.98 for the Nifty Smallcap 250 Index.

**Performance of Nifty Microcap 250, Nifty Smallcap 250 and Nifty 500 Index by calendar**



Source: NSE Indices. Data as of June 30, 2021. Data for the year 2005 is from April 01, 2005 to December 30, 2005. \*YTD

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Based on the data collected from the National Stock Exchange website, the Nifty Microcap 250 Index has performed better than the Nifty Smallcap 250 Index in 9 out of the last 16 calendar years. Its most consistent run of outperformance against the Nifty Smallcap 250 Index was between 2012-2017, where it outperformed for 6 consecutive years. However, during weak markets, the Nifty Microcap 250 Index tends to underperform the Nifty Smallcap 250 Index, and since 2005, it has underperformed the Nifty Smallcap 250 Index in 4 out of the 5 years when the

Nifty Smallcap 250 Index had negative returns. On the other hand, during bear markets, the Nifty Microcap 250 Index has underperformed the Nifty 500 Index. In 2018 and 2019, despite being moderate return years for the Nifty 500 Index, the Nifty Microcap 250 Index returned -27% and -24% respectively, compared to -2% and 9% for the Nifty 500 Index over the same period. All three indices suffered their maximum drawdown since inception during the Global Financial Crisis of 2008-09, with the Nifty Microcap 250 Index having the highest drawdown at -78.9%, compared to -72.8% and -63.7% for the Nifty Smallcap 250 Index and Nifty 500 Index. The Nifty Microcap 250 Index has outperformed the Nifty 500 Index in 8 out of the last 16 calendar years, particularly during strong bull market years and recoveries after a market crash. Since 2005, the Nifty 500 Index has returned greater than 35% in 6 calendar years, and in 5 of those years, the Nifty Microcap 250 Index has outperformed the Nifty 500 Index.

**The National Institute for Micro, Small and Medium Enterprises (ni-MSME)** (An organization of the Ministry of MSME, Govt. of India) in their handout of schemes of displayed various schemes and ministries which gives information about more than 50 schemes for MSMEs. The ministry states its main objective is to promote a culture of entrepreneurship by taking various measures to encourage young people to choose business as a viable and stable career option instead of traditional jobs. Multiple ministries are offering schemes, subsidies, and assistance to support entrepreneurs, and these initiatives are now being consolidated under a single umbrella to form a pioneering effort focused on MSME-related schemes.

Some important schemes that helped the space prosper are ● Providing financial assistance on International Cooperation

- Assistance to Training Institutions Scheme (ATI Scheme)
- Marketing Assistance Scheme
- Credit Guarantee Scheme
- Credit Linked Capital Subsidy Scheme for Technology Upgradation
- ISO 9000/ISO 14001 Certification Reimbursement Scheme
- Micro & Small Enterprises Cluster Development Program 05
- Micro Finance Programme
- MSME Market Development Assistance (MDA)
- National Awards (for individual MSEs)
- National Manufacturing Competitiveness Programme (NMCP)

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions:

The Indian stock market as a whole has seen a positive uptrend after the initiatives by the government. With the changing conditions in the micro-cap segment, the segment is attracting investors who seek higher profit and have a large risk appetite. The Microcap sector offers a high-risk and high-return investment avenue. The growth potential in the micro-cap space is huge as the company's market capitalization is low but can increase very rapidly which can lead to an increase in valuation and prices of the stock. SEBI is working hard to promote corporate governance and regulatory compliance and the results can be seen as there are fewer instances of manipulations and other regulatory breaches. The initiatives by The National Institute for Micro, Small, and Medium Enterprises in collaboration with various ministries have rolled out more than 50 schemes to promote small-scale businesses which lead to the growth of the country. As a result of the initiatives the micro-cap sector has received a boost and various new companies and ideas are starting to take face we can conclude that the micro-cap sector as a whole has helped the economy of the country to grow while earning profits for the investors.

### Recommendations:

- There should be SEBI defined classification of micro-caps as companies that come after the Nifty 500 in terms of total market capitalization are usually considered micro-caps.
- Micro-caps cannot be viewed with the same lens as one would view mid-caps and small-caps because the latter two can be considered a basket and there's some sort of umbrella that you can put all of them under. But this equation gets diluted as you move towards the deeper end of the market, which is micro-cap

- Investing in micro-cap stocks can offer potential rewards, but it also comes with several risks that investors should be aware of. Lack of liquidity, volatility, limited information on companies, a higher risk of fraud, business risk, a lack of institutional interest, long-term viability, and market manipulation are key factors that make micro-cap stocks much riskier than large-cap stocks.
- While returns on investment in the micro-cap space could be higher in the long run, these investments are highly volatile and prone to fluctuations in the short term. Cycles have become shorter and sharper, and to ensure long-term survival and wealth creation, it's crucial to remain vigilant not only in the near term but also in the short term.
- Currently there are no specific guidelines around the micro-cap segment SEBI should add guidelines and proper definition to the segment as done by the U.S. Securities and Exchange Commission (SEC)

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