



# Pulling your financial strings

**MONETARY POLICY EXPLAINED.** Here we strip the RBI's moves off the jargon and explain what they mean for your investments

**Nishanth Gopalakrishnan**  
bl, research bureau

Every time the RBI clears its throat, markets perk up their ears, like they did when the RBI slashed policy repo rate by 50 basis points (bps) last week. Before the day of the announcement, big-ticket investors and institutions spend time working on models and simulations that give them an idea of how the central bank's actions would impact their portfolios.

While such investors hang on every word in the monetary policy statement, it is with equal rigour that retail investors, too, should take cues from RBI's moves. Whether you are betting on stocks, eyeing a property purchase, or just parking money in humble FDs - the RBI is quietly shaping your returns. But central bank actions such as OMO, CRR, VRR and so on can be daunting. Fret not. Here we strip them off the jargon and simplify them, while also explaining what they mean for your investments.

## REPO RATE

Policy repo rate or simply repo rate is the rate at which the RBI lends to commercial banks. The RBI uses the repo rate to communicate its monetary policy stance - whether expansionary (a repo cut), contractionary (a repo hike) or status quo (pause in the rate cycle).

Do note that the repo rate (currently 5.5 per cent) is just a signal and the actual borrowing/depositing takes place through RBI's liquidity corridor - via the Marginal Standing Facility (MSF) and Standing Deposit Facility (SDF). Banks, if faced with liquidity deficit, can tap the MSF, wherein they can borrow from the RBI at repo rate plus 25 bps (currently 5.75 per cent). If they have excess liquidity, they

can deposit the excesses with the RBI via the SDF, earning repo minus 25 bps (currently 5.25 per cent). Thus, MSF and SDF create a 50-bp corridor around the repo rate, ensuring that the call money market rates (explained later) stay close to the benchmark repo rate.

Repo rate influences borrowing and lending rates, economic growth and inflation. When the RBI hikes the repo rate, banks have to pay more interest to borrow from it. To maintain profitability, they pass on this higher cost to borrowers, making loans more expensive. At the same time, since banks earn more on loans, they tend to offer higher interest on deposits, benefiting depositors.

Conversely, when the RBI cuts the repo rate, banks pay less to borrow and can afford to lower lending rates. This makes loans cheaper for both consumers and businesses. Credit-hungry sectors such as infrastructure, power and real estate borrow more to expand, while consumers are incentivised to spend. This easy access to credit fuels demand and helps boost economic growth. If the RBI raises the repo rate instead, the opposite occurs. Loans become costlier, demand slows and economic growth takes a hit.

How does it impact inflation? Inflation occurs as a result of too much cheap money floating around (liquidity) chasing too few goods (and services). A hike in the repo rate arrests surplus liquidity, bringing prices down.

Now, how does it impact your portfolio? Your debt investments (treasury bills, government and corporate bonds, debt mutual funds, etc.) will be the immediate beneficiaries (or casualties) of repo movements. You see, banks depend on the call money market (market where one bank lends to another) to borrow for their very

## ACTION-REACTION

- RBI's moves affect all asset classes except gold
- CRR eases cost of funds for banks
- VRR and VRRR address very short-term liquidity deficit/ surplus

short-term needs (overnight and up to 14 days) and any change in the repo rate impacts call market rates.

A repo hike means higher call market rates and vice-versa. Yields of short-term debt instruments take cues from the call market rates. If rates in the call market fall, most likely your 91-day T-bills also will earn less. Similarly, yields of longer-term instruments (such as G-Secs, corporate bonds) also will fall, as their yields are a function of short-term yield plus a spread for holding the securities longer, known as term premium. The fall in long-term yields may not be proportionate though.

For equities, a repo rate cut brings down the cost of equity used to discount future cash flows and thus, can take the value of shares upwards and vice-versa. This is so, provided the rate cut is not happening as a response to a shock to the economy, in which case value of equities will depend more on the impact to economy and less on the cost of equity.

## CASH RESERVE RATIO

Cash reserve ratio or CRR determines how much of a bank's deposits it needs to keep as reserves with the RBI. It acts as a protective buffer for the banking system against liquidity risks. This balance that banks keep with the RBI doesn't earn interest.

In a surprise move, the RBI announced that there will be a 100-bp cut to the CRR over four fortnights starting September 6, making it 3 per cent from the current 4 per cent. As banks are mandated to keep less money with the RBI when this takes effect, this is expected to free up liquidity worth ₹2.5 lakh crore, which banks can put to productive use (advancing loans). This is positive for banks and investors in banks. How so? Because, with this additional liquidity in hand, banks need not hustle for deposits and be aggressive with deposit rates. Thus, this will ease their cost of funds. As a result, banks would charge lower interest rates on loans across tenors.

Short-term yields (duration up to one year) which have cooled from levels seen late 2024 to early 2025, thanks to RBI's measures to infuse liquidity, would go even lower when the 100-bps CRR cut completes in December 2025.

## OMO AUCTIONS

Open Market Operations (OMOs) are tools used by the RBI to manage liquidity in the banking system by buying or selling G-Secs via auctions. When there's surplus liquidity, the RBI sells G-Secs to banks, effectively pulling money out of the system and tightening liquidity. On the other hand, when there's a shortage of funds in the system, the RBI buys G-Secs from banks. This pumps money into the system, easing liquidity conditions and increasing the money supply.

As regards your portfolio, your short-term debt instruments' (duration up to one year) yield will come down as the RBI buys bonds off banks and vice-versa. It is to be noted that the RBI conducts OMOs to address short-term liquidity crunches/ excesses. Thus, there

may not be any meaningful impact on longer-duration debt instruments and equities, nevertheless it can influence sentiment around assets as well.

## VRR AUCTIONS

Like OMOs, VRR or variable rate repo auctions are one of RBI's tools to inject short-term liquidity. Whenever the central bank perceives a liquidity crunch in the call market, it calls a VRR auction for an amount it assesses to be adequate to bridge the liquidity gap. Banks can participate and bid for an advance from the RBI at a rate higher than the repo rate.

The RBI will specify the tenor of the advance when it announces the auction - for example, a 14-day VRR auction. This means that the bank borrowing through this window has to repay the RBI after 14 days. The RBI often uses the one-day (overnight) VRR auction and hence quite short-term in nature. This can take yields on short-term debt instruments downward, while longer-term debt securities and equities remain unaffected.

While both VRR and buying G-Secs in an OMO are meant to infuse liquidity, the VRR is used to address very short-term, often transient liquidity deficits, while OMOs, in general, address slightly longer-term deficits.

## VRRR AUCTIONS

VRRR, or Variable Rate Reverse Repo auctions, are very similar to VRR auctions, except that the RBI uses VRRR to absorb excess liquidity in the system, as opposed to addressing liquidity deficits with VRR auctions. Here, banks can bid for an interest rate which the RBI should pay them for parking excess funds with it. VRRR, too, is a short-term tool and can have an impact on yields of short-term debt securities. Debt securities at the longer end and equities largely remain immune.

## IMPACT ON GOLD

Gold, being a safe haven asset, competes with US treasuries. Consequently, actions by US' Federal Reserve are more relevant for its price moves rather than actions by the RBI. As a rule of thumb, when US Treasury yields go up, gold gets less attractive and thus its price falls. Gold prices rise when US Treasury yields cool down. However, this historical trend has been broken in recent years with both gold and US treasury yields going up.

Similarly, the link between long-term rates and short-term rates is also usually linear. However, if investors are worried that a central bank is cutting interest rates even when inflation risks persist, while short-term rates decline, the long-term rates can increase due to higher term premium.

**Canara Bank**  
Get a Loan Faster Than Watching The Next Episode

**ROI @ 9.25% p.a.**

**AVAIL LOAN UP TO ₹1Cr\***

**Mutual Funds of all AMC's are accepted for Instant Loan\***

100% Digital Process - No Paperwork, No Bank Visit

Flexibility to choose between Term Loan or Overdraft

Online Verification with Video KYC

Available 24x7

Money Transferred to your Savings Account

Your Trusted Choice For LOAN AGAINST MUTUAL FUNDS

1800 1030

National Cyber Crime Reporting Portal <https://cybercrime.gov.in> | National Cyber Crime Helpline- 1930

## Interest rates on home loans (%)

Institution	Loan amount		
	Under ₹30 lakh	₹30 to ₹75 lakh	Over ₹75 lakh
<b>BANKS (Floating rates)</b>			
Axis Bank	8.75-9.65	8.75-9.65	8.75-9.65
Bank of Baroda	7.50-9.10	7.50-9.10	7.50-9.10
Bank of India	7.85-8.85	7.85-8.85	7.85-8.85
Bank of Maharashtra	7.35-9.90	7.35-9.90	7.35-9.90
Canara Bank	7.40-10.25	7.35-10.25	7.30-10.15
Central Bank	7.85-9.15	7.85-9.15	7.85-9.15
DBS Bank	<=8.40	<=8.40	<=8.40
HDFC Bank	8.45-9.70	8.45-9.70	8.45-9.70
ICICI Bank	>=8.50	>=8.50	>=8.50
Indian Bank	7.40-8.80	7.40-8.80	7.40-8.80
IOB	8-8.60	8-8.60	8-8.60
IDBI Bank	8.0-12.50	8.0-12.50	8.0-12.50
J&K Bank	>= 8.0	>= 8.0	>= 8.0
Karnataka Bank	8.62-10.86	8.62-10.86	8.62-10.86
Karur Vysya Bank	8.45-11.40	8.45-11.40	8.45-11.40
Kotak Mahindra Bank	>=8.65	>=8.65	>=8.65
Punjab National Bank	7.55-9.20	7.50-9.20	7.50-9.10
Punjab & Sind Bank	7.55-10.75	7.55-10.75	7.55-10.75
State Bank of India	8.0-8.95	8.0-8.95	8.0-8.95
South Indian Bank	8.30-10.60	8.30-10.60	8.30-10.60
Tamilnad Mercantile Bank	8.50-9.75	8.50-9.75	8.50-9.75
<b>HOUSING FINANCE COMPANIES (Floating rates)</b>			
Tata Capital	>=8.75	>=8.75	>=8.75
PNB Housing	8.50-11.25	8.50-11.45	8.50-11.45
Samman Capital	>=8.75%	>=8.75%	>=8.75%
Aditya Birla Housing Fin	>=8.50	>=8.50	>=8.50
Bajaj Finserv	7.99-17.00	7.99-17.00	7.99-17.00
GIC Housing Finance	>=8.80	>=8.80	>=8.80
Sundaram Home Finance*	>=10	>=10	>=10
IIFL Home Finance	>=8.75	>=8.75	>=8.75

Rates that vary with tenures or credit score within the specified loan amounts are indicated as a range. Fixed interest rates may be subject to a revision after a specified tenure. Rates may also apply only for a definite period and change to floating thereafter. Data taken from respective bank's website as on Jun 13, 2025. Contributed by BankBazaar.com. \*Annual percentage rate;

**Dhruvaivel Gunasekaran**  
bl, research bureau

The small-cap mutual fund category has demonstrated high volatility over the past nine months, characterised by two distinct phases: a substantial correction from September 2024 to March 2025, followed by a robust recovery between March and June 2025.

Following outstanding performance in early 2024, small-cap funds faced a comprehensive correction starting in late September 2024 that persisted until early March 2025. The small-cap category suffered the steepest decline at 22 per cent, compared to mid-cap (20 per cent), multi-cap (19 per cent) and large-cap (17 per cent) funds.

## THE DRAWDOWN

The downturn stemmed from elevated valuations and persistent foreign institutional investor selling resulting from economic slowdown concerns. Small-caps experienced amplified losses due to risk-averse sentiment that drove investors from high-risk assets toward safer alternatives. Mahindra Manulife Small Cap recorded the largest decline at 26 per cent, while HSBC Small Cap and Bank of India Small Cap fell 25.6 per cent and 25 per cent respectively. Meanwhile, Motilal Oswal Small Cap (-17 per cent), Quantum Small Cap (-17.4 per cent), and Axis Small Cap (-19.7 per cent) managed to contain the loss relatively well in the category.

The correction disproportionately affected capital goods, PSU and real estate sectors, with BSE Power (-34 per cent), BSE Utilities (-33 per cent), BSE Realty (-30 per cent), NIFTY PSE (-28 per cent) and Nifty EV and New Age Automotive (-27 per cent) experiencing severe declines.

Among top holdings in small-cap schemes, HFCL, Power Mech Projects, Restaurant Brands Asia, TVS Holdings and SH Kelkar plummeted 43-48 per cent. However, Shaily Engineering Plastics, Acutaas Chemic-



# Small-cap funds dodge and rally

**INVEST WISE.** We analyse how small-cap mutual funds navigated both the correction and rebound phases seen in the last nine months

als, Narayana Hrudayalaya, PG Electrolast and Wockhardt defied the trend with positive returns of 23-47 per cent.

## RECOVERY DYNAMICS

Recovery commenced on March 4 for Nifty 50 and large-cap indices, while Nifty Smallcap 250 bottomed earlier on February 28. Compelling valuations, robust domestic institutional flows and India's improving economic fundamentals—including strong GDP growth and earnings resilience—fuelled the rebound. The Nifty Smallcap 250's PE multiple compressed to 26 from September 2024's 32 level.

Small-caps demonstrated superior recovery momentum, generating 22 per cent returns compared to mid-cap (21 per cent), flexi-cap (16 per cent) and large-cap (15 per cent)

## ● DISTINCT PHASES

A substantial correction from September 2024 to March 2025; a robust recovery between March and June 2025

fund categories. Nifty India Defence, Nifty Capital Markets, Nifty Mid-Small Financial Services, BSE Industrials, BSE Realty and BSE Capital Goods staged dramatic recoveries with returns of 29-72 per cent.

Quality-focused small-cap schemes outperformed. DSP Small Cap, ITI Small Cap, Bandhan Small Cap and Aditya Birla SL Small Cap led performance with gains of 25.4 per cent, 25 per cent, 24.5 per cent and 24.4 per cent respectively from February 28 to June 11.

Within top holdings, Lumax Auto

Technologies, Paradeep Phosphates, Solar Industries India, Carysil and Bharat Dynamics delivered exceptional returns of 80-107 per cent.

Portfolio analysis and AMFI data from September 2024 reveal several noteworthy trends.

**Rising investor interest:** Small-cap fund folios surged 29 lakh to 2.5 crore between September 2024 and May 2025, mirroring trends across equity categories. Risk-seeking retail investors are propelling this growth, attracted by the large recent returns. However, small-cap allocations should align with the individual's risk profile.

**Shift toward micro-caps:** Micro-cap allocation within small-cap fund portfolios expanded by 2 percentage points to 32 per cent from September 2024. Current category average allocations stand at 7 per cent for large-cap, mid-cap (12 per cent) and small-cap (48 per cent) as of May. LIC MF Small Cap (56 per cent), Tata Small Cap (53 per cent) and DSP Small Cap (53 per cent) maintain the highest micro-cap exposure.

Popular micro-cap holdings include Equitas Small Finance Bank, JK Lakshmi Cement, Kirloskar Pneumatic Company, Rolex Rings and TeamLease Services, held by at least 10 small-cap funds.

**Broadening the stock universe:** The biggest funds in the category navigated this period by expanding their holdings. Nippon India Small Cap, with assets of ₹63,007 crore, added 18 stocks to reach 237 holdings. Quant Small Cap (AUM of ₹28,205 crore) incorporated 20 new positions totalling 92, Bandhan Small Cap (₹11,743 crore) added 17 to reach 187 and SBI Small Cap (₹34,028 crore) included six additional stocks for 63 total holdings.

Despite market turbulence, small-cap funds attracted net inflows of ₹36,372 crore from September 2024 to May 2025, compelling fund managers to expand their portfolios.

While diversification offers benefits, excessive stock additions risk creating index-like portfolios that may compromise alpha.

## ALERTS.

### Validated UPI IDs for investor payments

SEBI has announced a new framework requiring all investor-facing intermediaries to use standardised and validated UPI IDs for collecting investor payments, effective October 1. These UPI handles will include the suffix "@valid" linked to designated banks, ensuring payments go only to verified entities. While usage is optional for investors, it is mandatory for intermediaries to obtain and offer these UPI IDs.

**Malabar Regional Co-Operative Milk Producers' Union Ltd.**  
Kannur Dairy, Kathapram (PO), Sreekanthapuram  
Kannur - 670 631, Kerala, Ph: 0460-2233501/510  
[www.malabarmilk.com](http://www.malabarmilk.com)  
E-mail: [kannurdairy@malabarmilk.com](mailto:kannurdairy@malabarmilk.com)

**RE-ETENDER NOTICE**  
Milma Kannur Dairy invites Re-ETender for the Design and Supply of one Multipurpose Vat (1KL), one Ghee Settling tank (2KL) and one Ghee Storage tank (5KL) at Kannur Dairy. E-Tender ID: 2025\_KCMDF\_764979\_2 Bid Reference No.:KNR/ENGG/124/2025-26/ GHEE HANDLING EQUIPMENT Estimated cost: Rs.24 lakhs. Last date of submission: 30.06.2025, 10:00 AM For more details visit [www.malabarmilk.com](http://www.malabarmilk.com) or contact - 9447701332, 8075847095  
**DAIRY MANAGER**

thehindubusinessline.  
**Classifieds**  
**REAL ESTATE**  
**SELLING**  
**FACTORIES & SITES**  
Industrial Land sale at Mogappair East 4.25 grounds 12.5C only company to company regn. Ph: 72993 48081  
To advertise visit [www.thehinduads.com](http://www.thehinduads.com)  
Toll Free: 1800 102 4161

**MCL MAHANADI COALFIELDS LIMITED**  
(A Subsidiary of Coal India Limited)  
JAGRUTI VIHAR, BURLA-768020, DIST: SAMBALPUR (ODISHA)  
Tel. Phone (EPABX): 0663-2542461 to 469, Website: [www.mahanadicoal.in](http://www.mahanadicoal.in)

**Notice**  
"All the tenders issued by CIL and its Subsidiaries for procurement of Goods, Works and Services are available on websites of Coal India Ltd. [www.coalindia.in](http://www.coalindia.in), respective Subsidiary Company (MCL, [www.mahanadicoal.in](http://www.mahanadicoal.in)), CIL e-procurement portal <https://coalindiatenders.nic.in> and Central Public Procurement Portal <https://eprocure.gov.in> in addition, procurement is also done through GeM Portal <https://gem.gov.in>".  
**R-5259**

**Kerala Maritime Board**  
(A Statutory Board of Govt. of Kerala)

**Request for Proposal (RFP)**  
Development of  
**Kerala Maritime Education and Edutainment Hub at Neendakara, Kollam, Kerala in PPP mode**

RFP ref no. 01/2025-26-HOKMB-TVM/1117/2024-E1, Dated: 12-06-2025  
Due Date of Submission: 28-07-2025

For details visit: <https://etenders.kerala.gov.in/>

Kerala Maritime Board is soliciting proposals from interested and eligible Bidders for the development of state-of-the-art maritime education and edutainment hub by leveraging the existing infrastructure and picturesque land at Neendakara, Kollam, Kerala in PPP mode.

Email Id: [kmb.kerala@gmail.com](mailto:kmb.kerala@gmail.com)  
KMB Website: <https://kmb.kerala.gov.in/>



# Pulling your financial strings

**MONETARY POLICY EXPLAINED.** Here we strip the RBI's moves off the jargon and explain what they mean for your investments

**Nishanth Gopalakrishnan**  
bl, research bureau

Every time the RBI clears its throat, markets perk up their ears, like they did when the RBI slashed policy repo rate by 50 basis points (bps) last week. Before the day of the announcement, big-ticket investors and institutions spend time working on models and simulations that give them an idea of how the central bank's actions would impact their portfolios.

While such investors hang on every word in the monetary policy statement, it is with equal rigour that retail investors, too, should take cues from RBI's moves. Whether you are betting on stocks, eyeing a property purchase, or just parking money in humble FDs - the RBI is quietly shaping your returns. But central bank actions such as OMO, CRR, VRR and so on can be daunting. Fret not. Here we strip them off the jargon and simplify them, while also explaining what they mean for your investments.

## REPO RATE

Policy repo rate or simply repo rate is the rate at which the RBI lends to commercial banks. The RBI uses the repo rate to communicate its monetary policy stance - whether expansionary (a repo cut), contractionary (a repo hike) or status quo (pause in the rate cycle).

Do note that the repo rate (currently 5.5 per cent) is just a signal and the actual borrowing/depositing takes place through RBI's liquidity corridor - via the Marginal Standing Facility (MSF) and Standing Deposit Facility (SDF). Banks, if faced with liquidity deficit, can tap the MSF, wherein they can borrow from the RBI at repo rate plus 25 bps (currently 5.75 per cent). If they have excess liquidity, they

can deposit the excesses with the RBI via the SDF, earning repo minus 25 bps (currently 5.25 per cent). Thus, MSF and SDF create a 50-bp corridor around the repo rate, ensuring that the call money market rates (explained later) stay close to the benchmark repo rate.

Repo rate influences borrowing and lending rates, economic growth and inflation. When the RBI hikes the repo rate, banks have to pay more interest to borrow from it. To maintain profitability, they pass on this higher cost to borrowers, making loans more expensive. At the same time, since banks earn more on loans, they tend to offer higher interest on deposits, benefiting depositors.

Conversely, when the RBI cuts the repo rate, banks pay less to borrow and can afford to lower lending rates. This makes loans cheaper for both consumers and businesses. Credit-hungry sectors such as infrastructure, power and real estate borrow more to expand, while consumers are incentivised to spend. This easy access to credit fuels demand and helps boost economic growth. If the RBI raises the repo rate instead, the opposite occurs. Loans become costlier, demand slows and economic growth takes a hit.

How does it impact inflation? Inflation occurs as a result of too much cheap money floating around (liquidity) chasing too few goods (and services). A hike in the repo rate arrests surplus liquidity, bringing prices down.

Now, how does it impact your portfolio? Your debt investments (treasury bills, government and corporate bonds, debt mutual funds, etc.) will be the immediate beneficiaries (or casualties) of repo movements. You see, banks depend on the call money market (market where one bank lends to another) to borrow for their very

## ACTION-REACTION

- RBI's moves affect all asset classes except gold
- CRR eases cost of funds for banks
- VRR and VRRR address very short-term liquidity deficit/ surplus

short-term needs (overnight and up to 14 days) and any change in the repo rate impacts call market rates.

A repo hike means higher call market rates and vice-versa. Yields of short-term debt instruments take cues from the call market rates. If rates in the call market fall, most likely your 91-day T-bills also will earn less. Similarly, yields of longer-term instruments (such as G-Secs, corporate bonds) also will fall, as their yields are a function of short-term yield plus a spread for holding the securities longer, known as term premium. The fall in long-term yields may not be proportionate though.

For equities, a repo rate cut brings down the cost of equity used to discount future cash flows and thus, can take the value of shares upwards and vice-versa. This is so, provided the rate cut is not happening as a response to a shock to the economy, in which case value of equities will depend more on the impact to economy and less on the cost of equity.

## CASH RESERVE RATIO

Cash reserve ratio or CRR determines how much of a bank's deposits it needs to keep as reserves with the RBI. It acts as a protective buffer for the banking system against liquidity risks. This balance that banks keep with the RBI doesn't earn interest.

In a surprise move, the RBI announced that there will be a 100-bp cut to the CRR over four fortnights starting September 6, making it 3 per cent from the current 4 per cent. As banks are mandated to keep less money with the RBI when this takes effect, this is expected to free up liquidity worth ₹2.5 lakh crore, which banks can put to productive use (advancing loans). This is positive for banks and investors in banks. How so? Because, with this additional liquidity in hand, banks need not hustle for deposits and be aggressive with deposit rates. Thus, this will ease their cost of funds. As a result, banks would charge lower interest rates on loans across tenors.

Short-term yields (duration up to one year) which have cooled from levels seen late 2024 to early 2025, thanks to RBI's measures to infuse liquidity, would go even lower when the 100-bps CRR cut completes in December 2025.

## OMO AUCTIONS

Open Market Operations (OMOs) are tools used by the RBI to manage liquidity in the banking system by buying or selling G-Secs via auctions. When there's surplus liquidity, the RBI sells G-Secs to banks, effectively pulling money out of the system and tightening liquidity. On the other hand, when there's a shortage of funds in the system, the RBI buys G-Secs from banks. This pumps money into the system, easing liquidity conditions and increasing the money supply.

As regards your portfolio, your short-term debt instruments' (duration up to one year) yield will come down as the RBI buys bonds off banks and vice-versa. It is to be noted that the RBI conducts OMOs to address short-term liquidity crunches/ excesses. Thus, there

may not be any meaningful impact on longer-duration debt instruments and equities, nevertheless it can influence sentiment around assets as well.

## VRR AUCTIONS

Like OMOs, VRR or variable rate repo auctions are one of RBI's tools to inject short-term liquidity. Whenever the central bank perceives a liquidity crunch in the call market, it calls a VRR auction for an amount it assesses to be adequate to bridge the liquidity gap. Banks can participate and bid for an advance from the RBI at a rate higher than the repo rate.

The RBI will specify the tenor of the advance when it announces the auction - for example, a 14-day VRR auction. This means that the bank borrowing through this window has to repay the RBI after 14 days. The RBI often uses the one-day (overnight) VRR auction and hence quite short-term in nature. This can take yields on short-term debt instruments downward, while longer-term debt securities and equities remain unaffected.

While both VRR and buying G-Secs in an OMO are meant to infuse liquidity, the VRR is used to address very short-term, often transient liquidity deficits, while OMOs, in general, address slightly longer-term deficits.

## VRRR AUCTIONS

VRRR, or Variable Rate Reverse Repo auctions, are very similar to VRR auctions, except that the RBI uses VRRR to absorb excess liquidity in the system, as opposed to addressing liquidity deficits with VRR auctions. Here, banks can bid for an interest rate which the RBI should pay them for parking excess funds with it. VRRR, too, is a short-term tool and can have an impact on yields of short-term debt securities. Debt securities at the longer end and equities largely remain immune.

## IMPACT ON GOLD

Gold, being a safe haven asset, competes with US treasuries. Consequently, actions by US' Federal Reserve are more relevant for its price moves rather than actions by the RBI. As a rule of thumb, when US Treasury yields go up, gold gets less attractive and thus its price falls. Gold prices rise when US Treasury yields cool down. However, this historical trend has been broken in recent years with both gold and US treasury yields going up.

Similarly, the link between long-term rates and short-term rates is also usually linear. However, if investors are worried that a central bank is cutting interest rates even when inflation risks persist, while short-term rates decline, the long-term rates can increase due to higher term premium.

**Canara Bank**  
Get a Loan Faster Than Watching The Next Episode

**ROI @ 9.25% p.a.**

**AVAIL LOAN UP TO ₹1Cr\***

**Mutual Funds of all AMC's are accepted for Instant Loan\***

100% Digital Process - No Paperwork, No Bank Visit

Flexibility to choose between Term Loan or Overdraft

Online Verification with Video KYC

Available 24x7

Money Transferred to your Savings Account

Your Trusted Choice For LOAN AGAINST MUTUAL FUNDS

1800 1030

National Cyber Crime Reporting Portal <https://cybercrime.gov.in> | National Cyber Crime Helpline- 1930

## Interest rates on home loans (%)

Institution	Loan amount		
	Under ₹30 lakh	₹30 to ₹75 lakh	Over ₹75 lakh
<b>BANKS (Floating rates)</b>			
Axis Bank	8.75-9.65	8.75-9.65	8.75-9.65
Bank of Baroda	7.50-9.10	7.50-9.10	7.50-9.10
Bank of India	7.85-8.85	7.85-8.85	7.85-8.85
Bank of Maharashtra	7.35-9.90	7.35-9.90	7.35-9.90
Canara Bank	7.40-10.25	7.35-10.25	7.30-10.15
Central Bank	7.85-9.15	7.85-9.15	7.85-9.15
DBS Bank	<=8.40	<=8.40	<=8.40
HDFC Bank	8.45-9.70	8.45-9.70	8.45-9.70
ICICI Bank	>=8.50	>=8.50	>=8.50
Indian Bank	7.40-8.80	7.40-8.80	7.40-8.80
IOB	8-8.60	8-8.60	8-8.60
IDBI Bank	8.0-12.50	8.0-12.50	8.0-12.50
J&K Bank	>= 8.0	>= 8.0	>= 8.0
Karnataka Bank	8.62-10.86	8.62-10.86	8.62-10.86
Karur Vysya Bank	8.45-11.40	8.45-11.40	8.45-11.40
Kotak Mahindra Bank	>=8.65	>=8.65	>=8.65
Punjab National Bank	7.55-9.20	7.50-9.20	7.50-9.10
Punjab & Sind Bank	7.55-10.75	7.55-10.75	7.55-10.75
State Bank of India	8.0-8.95	8.0-8.95	8.0-8.95
South Indian Bank	8.30-10.60	8.30-10.60	8.30-10.60
Tamilnad Mercantile Bank	8.50-9.75	8.50-9.75	8.50-9.75
<b>HOUSING FINANCE COMPANIES (Floating rates)</b>			
Tata Capital	>=8.75	>=8.75	>=8.75
PNB Housing	8.50-11.25	8.50-11.45	8.50-11.45
Samman Capital	>=8.75%	>=8.75%	>=8.75%
Aditya Birla Housing Fin	>=8.50	>=8.50	>=8.50
Bajaj Finserv	7.99-17.00	7.99-17.00	7.99-17.00
GIC Housing Finance	>=8.80	>=8.80	>=8.80
Sundaram Home Finance*	>=10	>=10	>=10
IIFL Home Finance	>=8.75	>=8.75	>=8.75

Rates that vary with tenures or credit score within the specified loan amounts are indicated as a range. Fixed interest rates may be subject to a revision after a specified tenure. Rates may also apply only for a definite period and change to floating thereafter. Data taken from respective bank's website as on Jun 13, 2025. Contributed by BankBazaar.com. \*Annual percentage rate.

**Dhruvaivel Gunasekaran**  
bl, research bureau

The small-cap mutual fund category has demonstrated high volatility over the past nine months, characterised by two distinct phases: a substantial correction from September 2024 to March 2025, followed by a robust recovery between March and June 2025.

Following outstanding performance in early 2024, small-cap funds faced a comprehensive correction starting in late September 2024 that persisted until early March 2025. The small-cap category suffered the steepest decline at 22 per cent, compared to mid-cap (20 per cent), multi-cap (19 per cent) and large-cap (17 per cent) funds.

## THE DRAWDOWN

The downturn stemmed from elevated valuations and persistent foreign institutional investor selling resulting from economic slowdown concerns. Small-caps experienced amplified losses due to risk-averse sentiment that drove investors from high-risk assets toward safer alternatives. Mahindra Manulife Small Cap recorded the largest decline at 26 per cent, while HSBC Small Cap and Bank of India Small Cap fell 25.6 per cent and 25 per cent respectively. Meanwhile, Motilal Oswal Small Cap (-17 per cent), Quantum Small Cap (-17.4 per cent), and Axis Small Cap (-19.7 per cent) managed to contain the loss relatively well in the category.

The correction disproportionately affected capital goods, PSU and real estate sectors, with BSE Power (-34 per cent), BSE Utilities (-33 per cent), BSE Realty (-30 per cent), NIFTY PSE (-28 per cent) and Nifty EV and New Age Automotive (-27 per cent) experiencing severe declines.

Among top holdings in small-cap schemes, HFCL, Power Mech Projects, Restaurant Brands Asia, TVS Holdings and SH Kelkar plummeted 43-48 per cent. However, Shaily Engineering Plastics, Acutaas Chemic-



# Small-cap funds dodge and rally

**INVEST WISE.** We analyse how small-cap mutual funds navigated both the correction and rebound phases seen in the last nine months

als, Narayana Hrudayalaya, PG Electrolast and Wockhardt defied the trend with positive returns of 23-47 per cent.

## RECOVERY DYNAMICS

Recovery commenced on March 4 for Nifty 50 and large-cap indices, while Nifty Smallcap 250 bottomed earlier on February 28. Compelling valuations, robust domestic institutional flows and India's improving economic fundamentals—including strong GDP growth and earnings resilience—fuelled the rebound. The Nifty Smallcap 250's PE multiple compressed to 26 from September 2024's 32 level.

Small-caps demonstrated superior recovery momentum, generating 22 per cent returns compared to mid-cap (21 per cent), flexi-cap (16 per cent) and large-cap (15 per cent)

## ● DISTINCT PHASES

A substantial correction from September 2024 to March 2025; a robust recovery between March and June 2025

fund categories. Nifty India Defence, Nifty Capital Markets, Nifty Mid-Small Financial Services, BSE Industrials, BSE Realty and BSE Capital Goods staged dramatic recoveries with returns of 29-72 per cent.

Quality-focused small-cap schemes outperformed. DSP Small Cap, ITI Small Cap, Bandhan Small Cap and Aditya Birla SL Small Cap led performance with gains of 25.4 per cent, 25 per cent, 24.5 per cent and 24.4 per cent respectively from February 28 to June 11.

Within top holdings, Lumax Auto

Technologies, Paradeep Phosphates, Solar Industries India, Carysil and Bharat Dynamics delivered exceptional returns of 80-107 per cent.

Portfolio analysis and AMFI data from September 2024 reveal several noteworthy trends.

**Rising investor interest:** Small-cap fund folios surged 29 lakh to 2.5 crore between September 2024 and May 2025, mirroring trends across equity categories. Risk-seeking retail investors are propelling this growth, attracted by the large recent returns. However, small-cap allocations should align with the individual's risk profile.

**Shift toward micro-caps:** Micro-cap allocation within small-cap fund portfolios expanded by 2 percentage points to 32 per cent from September 2024. Current category average allocations stand at 7 per cent for large-cap, mid-cap (12 per cent) and small-cap (48 per cent) as of May. LIC MF Small Cap (56 per cent), Tata Small Cap (53 per cent) and DSP Small Cap (53 per cent) maintain the highest micro-cap exposure.

Popular micro-cap holdings include Equitas Small Finance Bank, JK Lakshmi Cement, Kirloskar Pneumatic Company, Rolex Rings and TeamLease Services, held by at least 10 small-cap funds.

**Broadening the stock universe:** The biggest funds in the category navigated this period by expanding their holdings. Nippon India Small Cap, with assets of ₹63,007 crore, added 18 stocks to reach 237 holdings. Quant Small Cap (AUM of ₹28,205 crore) incorporated 20 new positions totalling 92, Bandhan Small Cap (₹11,743 crore) added 17 to reach 187 and SBI Small Cap (₹34,028 crore) included six additional stocks for 63 total holdings.

Despite market turbulence, small-cap funds attracted net inflows of ₹36,372 crore from September 2024 to May 2025, compelling fund managers to expand their portfolios.

While diversification offers benefits, excessive stock additions risk creating index-like portfolios that may compromise alpha.

## ALERTS.

### Validated UPI IDs for investor payments

SEBI has announced a new framework requiring all investor-facing intermediaries to use standardised and validated UPI IDs for collecting investor payments, effective October 1. These UPI handles will include the suffix "@valid" linked to designated banks, ensuring payments go only to verified entities. While usage is optional for investors, it is mandatory for intermediaries to obtain and offer these UPI IDs.

**Malabar Regional Co-Operative Milk Producers' Union Ltd.**  
Kannur Dairy, Kathapram (PO), Sreekanthapuram  
Kannur - 670 631, Kerala, Ph: 0460-2233501/510  
[www.malabarmilk.com](http://www.malabarmilk.com)  
E-mail: [kannur@milksociety.com](mailto:kannur@milksociety.com)

**RE-ETENDER NOTICE**  
Milma Kannur Dairy invites Re-ETender for the Design and Supply of one Multipurpose Vat (1KL), one Ghee Settling tank (2KL) and one Ghee Storage tank (5KL) at Kannur Dairy.  
E-Tender ID: 2025\_KCMDF\_764979\_2 Bid Reference No.:KNR/ENGG/124/2025-26/ GHEE HANDLING EQUIPMENT Estimated cost: Rs.24 lakhs. Last date of submission: 30.06.2025, 10:00 AM For more details visit [www.malabarmilk.com](http://www.malabarmilk.com) or contact - 9447701332, 8075847095  
**DAIRY MANAGER**

thehindu **businessline**  
**Classifieds**

**REAL ESTATE**

**SELLING**

**FACTORIES & SITES**

Industrial Land sale at Mogappair East 4.25 grounds 12.5C only company to company regn. Ph: 72993 48081

To advertise visit [www.thehinduads.com](http://www.thehinduads.com)  
Toll Free: 1800 102 4161

**MCL MAHANADI COALFIELDS LIMITED**  
(A Subsidiary of Coal India Limited)  
JAGRUTI VIHAR, BURLA-768020, DIST: SAMBALPUR (ODISHA)  
Tel. Phone (EPABX): 0663-2542461 to 469, Website: [www.mahanadicoal.in](http://www.mahanadicoal.in)

**Notice**  
"All the tenders issued by CIL and its Subsidiaries for procurement of Goods, Works and Services are available on websites of Coal India Ltd. [www.coalindia.in](http://www.coalindia.in), respective Subsidiary Company (MCL, [www.mahanadicoal.in](http://www.mahanadicoal.in)), CIL e-procurement portal <https://coalindiatenders.nic.in> and Central Public Procurement Portal <https://eprocure.gov.in> in addition, procurement is also done through GeM Portal <https://gem.gov.in>".

**R-5259**

**Kerala Maritime Board**  
(A Statutory Board of Govt. of Kerala)

**Request for Proposal (RFP)**  
Development of  
**Kerala Maritime Education and Edutainment Hub at Neendakara, Kollam, Kerala in PPP mode**

RFP ref no. 01/2025-26-HOKMB-TVM/1117/2024-E1, Dated: 12-06-2025  
Due Date of Submission: 28-07-2025

For details visit: <https://etenders.kerala.gov.in/>

Kerala Maritime Board is soliciting proposals from interested and eligible Bidders for the development of state-of-the-art maritime education and edutainment hub by leveraging the existing infrastructure and picturesque land at Neendakara, Kollam, Kerala in PPP mode.

Email Id: [kmb.kerala@gmail.com](mailto:kmb.kerala@gmail.com)  
KMB Website: <https://kmb.kerala.gov.in/>



# Pulling your financial strings

**MONETARY POLICY EXPLAINED.** Here we strip the RBI's moves off the jargon and explain what they mean for your investments

**Nishanth Gopalakrishnan**  
bl, research bureau

Every time the RBI clears its throat, markets perk up their ears, like they did when the RBI slashed policy repo rate by 50 basis points (bps) last week. Before the day of the announcement, big-ticket investors and institutions spend time working on models and simulations that give them an idea of how the central bank's actions would impact their portfolios.

While such investors hang on every word in the monetary policy statement, it is with equal rigour that retail investors, too, should take cues from RBI's moves. Whether you are betting on stocks, eyeing a property purchase, or just parking money in humble FDs – the RBI is quietly shaping your returns. But central bank actions such as OMO, CRR, VRR and so on can be daunting. Fret not. Here we strip them off the jargon and simplify them, while also explaining what they mean for your investments.

## REPO RATE

Policy repo rate or simply repo rate is the rate at which the RBI lends to commercial banks. The RBI uses the repo rate to communicate its monetary policy stance – whether expansionary (a repo cut), contractionary (a repo hike) or status quo (pause in the rate cycle).

Do note that the repo rate (currently 5.5 per cent) is just a signal and the actual borrowing/depositing takes place through RBI's liquidity corridor – via the Marginal Standing Facility (MSF) and Standing Deposit Facility (SDF). Banks, if faced with liquidity deficit, can tap the MSF, wherein they can borrow from the RBI at repo rate plus 25 bps (currently 5.75 per cent). If they have excess liquidity, they

can deposit the excesses with the RBI via the SDF, earning repo minus 25 bps (currently 5.25 per cent). Thus, MSF and SDF create a 50-bp corridor around the repo rate, ensuring that the call money market rates (explained later) stay close to the benchmark repo rate.

Repo rate influences borrowing and lending rates, economic growth and inflation. When the RBI hikes the repo rate, banks have to pay more interest to borrow from it. To maintain profitability, they pass on this higher cost to borrowers, making loans more expensive. At the same time, since banks earn more on loans, they tend to offer higher interest on deposits, benefiting depositors.

Conversely, when the RBI cuts the repo rate, banks pay less to borrow and can afford to lower lending rates. This makes loans cheaper for both consumers and businesses. Credit-hungry sectors such as infrastructure, power and real estate borrow more to expand, while consumers are incentivised to spend. This easy access to credit fuels demand and helps boost economic growth. If the RBI raises the repo rate instead, the opposite occurs. Loans become costlier, demand slows and economic growth takes a hit.

How does it impact inflation? Inflation occurs as a result of too much cheap money floating around (liquidity) chasing too few goods (and services). A hike in the repo rate arrests surplus liquidity, bringing prices down.

Now, how does it impact your portfolio? Your debt investments (treasury bills, government and corporate bonds, debt mutual funds, etc.) will be the immediate beneficiaries (or casualties) of repo movements. You see, banks depend on the call money market (market where one bank lends to another) to borrow for their very

## ACTION-REACTION

- RBI's moves affect all asset classes except gold
- CRR eases cost of funds for banks
- VRR and VRRR address very short-term liquidity deficit/ surplus

short-term needs (overnight and up to 14 days) and any change in the repo rate impacts call market rates.

A repo hike means higher call market rates and vice-versa. Yields of short-term debt instruments take cues from the call market rates. If rates in the call market fall, most likely your 91-day T-bills also will earn less. Similarly, yields of longer-term instruments (such as G-Secs, corporate bonds) also will fall, as their yields are a function of short-term yield plus a spread for holding the securities longer, known as term premium. The fall in long-term yields may not be proportionate though.

For equities, a repo rate cut brings down the cost of equity used to discount future cash flows and thus, can take the value of shares upwards and vice-versa. This is so, provided the rate cut is not happening as a response to a shock to the economy, in which case value of equities will depend more on the impact to economy and less on the cost of equity.

## CASH RESERVE RATIO

Cash reserve ratio or CRR determines how much of a bank's deposits it needs to keep as reserves with the RBI. It acts as a protective buffer for the banking system against liquidity risks. This balance that banks keep with the RBI doesn't earn interest.

In a surprise move, the RBI announced that there will be a 100-bp cut to the CRR over four fortnights starting September 6, making it 3 per cent from the current 4 per cent. As banks are mandated to keep less money with the RBI when this takes effect, this is expected to free up liquidity worth ₹2.5 lakh crore, which banks can put to productive use (advancing loans). This is positive for banks and investors in banks. How so? Because, with this additional liquidity in hand, banks need not hustle for deposits and be aggressive with deposit rates. Thus, this will ease their cost of funds. As a result, banks would charge lower interest rates on loans across tenors.

Short-term yields (duration up to one year) which have cooled from levels seen late 2024 to early 2025, thanks to RBI's measures to infuse liquidity, would go even lower when the 100-bps CRR cut completes in December 2025.

## OMO AUCTIONS

Open Market Operations (OMOs) are tools used by the RBI to manage liquidity in the banking system by buying or selling G-Secs via auctions. When there's surplus liquidity, the RBI sells G-Secs to banks, effectively pulling money out of the system and tightening liquidity. On the other hand, when there's a shortage of funds in the system, the RBI buys G-Secs from banks. This pumps money into the system, easing liquidity conditions and increasing the money supply.

As regards your portfolio, your short-term debt instruments' (duration up to one year) yield will come down as the RBI buys bonds off banks and vice-versa. It is to be noted that the RBI conducts OMOs to address short-term liquidity crunches/ excesses. Thus, there

may not be any meaningful impact on longer-duration debt instruments and equities, nevertheless it can influence sentiment around assets as well.

## VRR AUCTIONS

Like OMOs, VRR or variable rate repo auctions are one of RBI's tools to inject short-term liquidity. Whenever the central bank perceives a liquidity crunch in the call market, it calls a VRR auction for an amount it assesses to be adequate to bridge the liquidity gap. Banks can participate and bid for an advance from the RBI at a rate higher than the repo rate.

The RBI will specify the tenor of the advance when it announces the auction – for example, a 14-day VRR auction. This means that the bank borrowing through this window has to repay the RBI after 14 days. The RBI often uses the one-day (overnight) VRR auction and hence quite short-term in nature. This can take yields on short-term debt instruments downward, while longer-term debt securities and equities remain unaffected.

While both VRR and buying G-Secs in an OMO are meant to infuse liquidity, the VRR is used to address very short-term, often transient liquidity deficits, while OMOs, in general, address slightly longer-term deficits.

## VRRR AUCTIONS

VRRR, or Variable Rate Reverse Repo auctions, are very similar to VRR auctions, except that the RBI uses VRRR to absorb excess liquidity in the system, as opposed to addressing liquidity deficits with VRR auctions. Here, banks can bid for an interest rate which the RBI should pay them for parking excess funds with it. VRRR, too, is a short-term tool and can have an impact on yields of short-term debt securities. Debt securities at the longer end and equities largely remain immune.

## IMPACT ON GOLD

Gold, being a safe haven asset, competes with US treasuries. Consequently, actions by US' Federal Reserve are more relevant for its price moves rather than actions by the RBI. As a rule of thumb, when US Treasury yields go up, gold gets less attractive and thus its price falls. Gold prices rise when US Treasury yields cool down. However, this historical trend has been broken in recent years with both gold and US treasury yields going up.

Similarly, the link between long-term rates and short-term rates is also usually linear. However, if investors are worried that a central bank is cutting interest rates even when inflation risks persist, while short-term rates decline, the long-term rates can increase due to higher term premium.

**Canara Bank**  
Get a Loan Faster Than Watching The Next Episode

**ROI @ 9.25% p.a.**

**AVAIL LOAN UP TO ₹1Cr\***

**Mutual Funds of all AMC's are accepted for Instant Loan\***

100% Digital Process - No Paperwork, No Bank Visit

Flexibility to choose between Term Loan or Overdraft

Online Verification with Video KYC

Available 24x7

Money Transferred to your Savings Account

Your Trusted Choice For LOAN AGAINST MUTUAL FUNDS

1800 1030

National Cyber Crime Reporting Portal <https://cybercrime.gov.in> | National Cyber Crime Helpline- 1930

## Interest rates on home loans (%)

Institution	Loan amount		
	Under ₹30 lakh	₹30 to ₹75 lakh	Over ₹75 lakh
<b>BANKS (Floating rates)</b>			
Axis Bank	8.75-9.65	8.75-9.65	8.75-9.65
Bank of Baroda	7.50-9.10	7.50-9.10	7.50-9.10
Bank of India	7.85-8.85	7.85-8.85	7.85-8.85
Bank of Maharashtra	7.35-9.90	7.35-9.90	7.35-9.90
Canara Bank	7.40-10.25	7.35-10.25	7.30-10.15
Central Bank	7.85-9.15	7.85-9.15	7.85-9.15
DBS Bank	<=8.40	<=8.40	<=8.40
HDFC Bank	8.45-9.70	8.45-9.70	8.45-9.70
ICICI Bank	>=8.50	>=8.50	>=8.50
Indian Bank	7.40-8.80	7.40-8.80	7.40-8.80
IOB	8-8.60	8-8.60	8-8.60
IDBI Bank	8.0-12.50	8.0-12.50	8.0-12.50
J&K Bank	>= 8.0	>= 8.0	>= 8.0
Karnataka Bank	8.62-10.86	8.62-10.86	8.62-10.86
Karur Vysya Bank	8.45-11.40	8.45-11.40	8.45-11.40
Kotak Mahindra Bank	>=8.65	>=8.65	>=8.65
Punjab National Bank	7.55-9.20	7.50-9.20	7.50-9.10
Punjab & Sind Bank	7.55-10.75	7.55-10.75	7.55-10.75
State Bank of India	8.0-8.95	8.0-8.95	8.0-8.95
South Indian Bank	8.30-10.60	8.30-10.60	8.30-10.60
Tamilnad Mercantile Bank	8.50-9.75	8.50-9.75	8.50-9.75
<b>HOUSING FINANCE COMPANIES (Floating rates)</b>			
Tata Capital	>=8.75	>=8.75	>=8.75
PNB Housing	8.50-11.25	8.50-11.45	8.50-11.45
Samman Capital	>=8.75%	>=8.75%	>=8.75%
Aditya Birla Housing Fin	>=8.50	>=8.50	>=8.50
Bajaj Finserv	7.99-17.00	7.99-17.00	7.99-17.00
GIC Housing Finance	>=8.80	>=8.80	>=8.80
Sundaram Home Finance*	>=10	>=10	>=10
IIFL Home Finance	>=8.75	>=8.75	>=8.75

Rates that vary with tenures or credit score within the specified loan amounts are indicated as a range. Fixed interest rates may be subject to a revision after a specified tenure. Rates may also apply only for a definite period and change to floating thereafter. Data taken from respective bank's website as on Jun 13, 2025. Contributed by BankBazaar.com. \*Annual percentage rate.

**Dhruvaivel Gunasekaran**  
bl, research bureau

The small-cap mutual fund category has demonstrated high volatility over the past nine months, characterised by two distinct phases: a substantial correction from September 2024 to March 2025, followed by a robust recovery between March and June 2025.

Following outstanding performance in early 2024, small-cap funds faced a comprehensive correction starting in late September 2024 that persisted until early March 2025. The small-cap category suffered the steepest decline at 22 per cent, compared to mid-cap (20 per cent), multi-cap (19 per cent) and large-cap (17 per cent) funds.

## THE DRAWDOWN

The downturn stemmed from elevated valuations and persistent foreign institutional investor selling resulting from economic slowdown concerns. Small-caps experienced amplified losses due to risk-averse sentiment that drove investors from high-risk assets toward safer alternatives. Mahindra Manulife Small Cap recorded the largest decline at 26 per cent, while HSBC Small Cap and Bank of India Small Cap fell 25.6 per cent and 25 per cent respectively. Meanwhile, Motilal Oswal Small Cap (-17 per cent), Quantum Small Cap (-17.4 per cent), and Axis Small Cap (-19.7 per cent) managed to contain the loss relatively well in the category.

The correction disproportionately affected capital goods, PSU and real estate sectors, with BSE Power (-34 per cent), BSE Utilities (-33 per cent), BSE Realty (-30 per cent), NIFTY PSE (-28 per cent) and Nifty EV and New Age Automotive (-27 per cent) experiencing severe declines.

Among top holdings in small-cap schemes, HFCL, Power Mech Projects, Restaurant Brands Asia, TVS Holdings and SH Kelkar plummeted 43-48 per cent. However, Shaily Engineering Plastics, Acutaas Chemic-



# Small-cap funds dodge and rally

**INVEST WISE.** We analyse how small-cap mutual funds navigated both the correction and rebound phases seen in the last nine months

als, Narayana Hrudayalaya, PG Electrolast and Wockhardt defied the trend with positive returns of 23-47 per cent.

## RECOVERY DYNAMICS

Recovery commenced on March 4 for Nifty 50 and large-cap indices, while Nifty Smallcap 250 bottomed earlier on February 28. Compelling valuations, robust domestic institutional flows and India's improving economic fundamentals—including strong GDP growth and earnings resilience—fuelled the rebound. The Nifty Smallcap 250's PE multiple compressed to 26 from September 2024's 32 level.

Small-caps demonstrated superior recovery momentum, generating 22 per cent returns compared to mid-cap (21 per cent), flexi-cap (16 per cent) and large-cap (15 per cent)

## ● DISTINCT PHASES

A substantial correction from September 2024 to March 2025; a robust recovery between March and June 2025

fund categories. Nifty India Defence, Nifty Capital Markets, Nifty Mid-Small Financial Services, BSE Industrials, BSE Realty and BSE Capital Goods staged dramatic recoveries with returns of 29-72 per cent.

Quality-focused small-cap schemes outperformed. DSP Small Cap, ITI Small Cap, Bandhan Small Cap and Aditya Birla SL Small Cap led performance with gains of 25.4 per cent, 25 per cent, 24.5 per cent and 24.4 per cent respectively from February 28 to June 11.

Within top holdings, Lumax Auto

Technologies, Paradeep Phosphates, Solar Industries India, Carysil and Bharat Dynamics delivered exceptional returns of 80-107 per cent.

Portfolio analysis and AMFI data from September 2024 reveal several noteworthy trends.

**Rising investor interest:** Small-cap fund folios surged 29 lakh to 2.5 crore between September 2024 and May 2025, mirroring trends across equity categories. Risk-seeking retail investors are propelling this growth, attracted by the large recent returns. However, small-cap allocations should align with the individual's risk profile.

**Shift toward micro-caps:** Micro-cap allocation within small-cap fund portfolios expanded by 2 percentage points to 32 per cent from September 2024. Current category average allocations stand at 7 per cent for large-cap, mid-cap (12 per cent) and small-cap (48 per cent) as of May. LIC MF Small Cap (56 per cent), Tata Small Cap (53 per cent) and DSP Small Cap (53 per cent) maintain the highest micro-cap exposure.

Popular micro-cap holdings include Equitas Small Finance Bank, JK Lakshmi Cement, Kirloskar Pneumatic Company, Rolex Rings and TeamLease Services, held by at least 10 small-cap funds.

**Broadening the stock universe:** The biggest funds in the category navigated this period by expanding their holdings. Nippon India Small Cap, with assets of ₹63,007 crore, added 18 stocks to reach 237 holdings. Quant Small Cap (AUM of ₹28,205 crore) incorporated 20 new positions totalling 92, Bandhan Small Cap (₹11,743 crore) added 17 to reach 187 and SBI Small Cap (₹34,028 crore) included six additional stocks for 63 total holdings.

Despite market turbulence, small-cap funds attracted net inflows of ₹36,372 crore from September 2024 to May 2025, compelling fund managers to expand their portfolios.

While diversification offers benefits, excessive stock additions risk creating index-like portfolios that may compromise alpha.

## ALERTS.

### Validated UPI IDs for investor payments

SEBI has announced a new framework requiring all investor-facing intermediaries to use standardised and validated UPI IDs for collecting investor payments, effective October 1. These UPI handles will include the suffix "@valid" linked to designated banks, ensuring payments go only to verified entities. While usage is optional for investors, it is mandatory for intermediaries to obtain and offer these UPI IDs.

**Malabar Regional Co-Operative Milk Producers' Union Ltd.**  
Kannur Dairy, Kathapram (PO), Sreekanthapuram  
Kannur - 670 631, Kerala, Ph: 0460- 2233501/510  
[www.malabarmilk.com](http://www.malabarmilk.com)  
E-mail: [kandairy@malabarmilk.com](mailto:kandairy@malabarmilk.com)

**RE-ETENDER NOTICE**  
Milma Kannur Dairy invites Re-ETender for the Design and Supply of one Multipurpose Vat (1KL), one Ghee Settling tank (2KL) and one Ghee Storage tank (5KL) at Kannur Dairy.  
E-Tender ID: 2025\_KCMMF\_764979\_2 Bid Reference No.:KNR/ENGG/124/2025-26/ GHEE HANDLING EQUIPMENT Estimated cost : Rs.24 lakhs. Last date of submission : 30.06.2025, 10:00 AM For more details visit [www.malabarmilk.com](http://www.malabarmilk.com) or contact - 9447701332, 8075847095  
**DAIRY MANAGER**

thehindubusinessline.  
**Classifieds**

**REAL ESTATE**

**SELLING**

**FACTORIES & SITES**

Industrial Land sale at Mogappair East 4.25 grounds 12.5C only company to company regn. Ph: 72993 48081

To advertise visit [www.thehinduads.com](http://www.thehinduads.com)  
Toll Free: 1800 102 4161

**MCL MAHANADI COALFIELDS LIMITED**  
(A Subsidiary of Coal India Limited)  
JAGRUTI VIHAR, BURLA-768020, DIST: SAMBALPUR (ODISHA)  
Tel. Phone (EPABX) : 0663-2542461 to 469, Website : [www.mahanadicoal.in](http://www.mahanadicoal.in)

**Notice**  
"All the tenders issued by CIL and its Subsidiaries for procurement of Goods, Works and Services are available on websites of Coal India Ltd. [www.coalindia.in](http://www.coalindia.in), respective Subsidiary Company (MCL, [www.mahanadicoal.in](http://www.mahanadicoal.in)), CIL e-procurement portal <https://coalindiatenders.nic.in> and Central Public Procurement Portal <https://eprocure.gov.in> in addition, procurement is also done through GeM Portal <https://gem.gov.in>".

**R-5259**

**Kerala Maritime Board**  
(A Statutory Board of Govt. of Kerala)

**Request for Proposal (RFP)**  
Development of  
**Kerala Maritime Education and Edutainment Hub at Neendakara, Kollam, Kerala in PPP mode**

RFP ref no. 01/2025-26-HOKMB-TVM/1117/2024-E1, Dated: 12-06-2025  
Due Date of Submission: 28-07-2025

For details visit: <https://etenders.kerala.gov.in/>

Kerala Maritime Board is soliciting proposals from interested and eligible Bidders for the development of state-of-the-art maritime education and edutainment hub by leveraging the existing infrastructure and picturesque land at Neendakara, Kollam, Kerala in PPP mode.

Email Id: [kmb.kerala@gmail.com](mailto:kmb.kerala@gmail.com)  
KMB Website: <https://kmb.kerala.gov.in/>