

MF Tracker: Nippon India Small Cap Fund tops all equity funds over 10 years. Is it too late to invest?

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Nippon India Small Cap Fund topped all equity mutual funds over a 10 year horizon including the sectoral and thematic funds, an analysis by ETMutualFunds showed. There were nearly 224 funds in the said time period.

The analysis further showed that the small cap fund delivered a CAGR of 20.94% in the said time period. Launched on September 16, 2010 the fund is given five star rating by Value Research and Morningstar both.

Based on the trailing returns, the fund has failed to outperform the category average in the shorter time period but has outperformed its benchmark and category average in the longer horizon.

In the last three months, the fund delivered a return of 16.15% against 17.60% by the benchmark and 18.33% as the category average. In the last six months, the fund delivered a return of 8.45% against 8.11% by the benchmark and 9.12% as the category average.

The fund posted a return of 5.83% in the last one year compared to 2.44% by the benchmark and 6.72% as the category average. In the last three years, the posted a return of 18.35% against 19.42% by the benchmark and 17.41% as the category average.

In the last five years and 10 years, the fund outperformed its benchmark and category average. The fund delivered a return of 20.38% in the last five years compared to 16.92% by the benchmark and 17.25% by the category average. In the last 10 years, the fund gave 20.94% against 15.65% by the benchmark and 17.07% as the category average. Since its inception, the fund has delivered a CAGR of 20.03%.

How an expert decoded the performance?

Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors analysed the performance and told ETMutualFunds that according to the fund factsheet, Nippon India Small Cap Fund focuses on identifying good growth businesses with quality management and rational valuations and prudent risk management via deep diversification across sectors and stocks helps generate superior risk-adjusted performance over long periods.

Dhawan further said that for the quarter ending March 31, 2026, the fund generated a strong active outperformance of +2.91% against its benchmark (-11.37% vs -14.28%). Stock selection was the primary alpha driver, contributing +2.59%, while sector allocation added +0.32% and this quantitative breakdown demonstrates that the fund's historical edge relies heavily on superior bottom-up stock picking rather than just riding the market wave.

“Over a longer 10-year horizon, this consistent alpha generation enabled a robust alpha against the benchmark returns,” the expert said in the end.

On the basis of yearly returns for the last 10 calendar years, the fund posted negative returns in 2018 and 2019 only where it went down 16.69% and 2.52% respectively. In the last 10 years, the fund delivered the highest return in 2021 of around 74.34%.

If an investor invested Rs 10,000 through monthly SIP in the fund since its inception, the value would

have been Rs 1.36 crore with an XIRR of 22.26%. In the last 10 years, the value of the same SIP would have been Rs 36.79 lakh with an XIRR of 21.36%.

In the last five years, the value of this SIP would have been Rs 9.13 lakh with an XIRR of 17.10%. And lastly, in the last three years, the value would have been Rs 4.18 lakh with an XIRR of 10.27%

A lumpsum investment of Rs 1 lakh made in this fund at the time of inception would have been Rs 17.78 lakh with a CAGR of 20.03%. In the last 10 years, the value would have been Rs 6.69 lakh with a CAGR of 20.94%. In the last five years, this lumpsum investment would have been Rs 2.55 lakh with a CAGR of 20.60% and in the last three years would have been Rs 1.65 lakh with a CAGR of 18.38%.

The fund had an AUM of Rs 74,604 crore as of May 31, 2026 (last available data) compared to Rs 72,672 crore in April. The fund is the largest small cap fund based on the assets managed.

Can it sustain its leadership position as AUM continues to grow?

Dhawan said that to handle this scale, the portfolio has expanded to 252 holdings, keeping individual position sizes exceptionally small to control liquidity and execution constraints and the fund house has restricted fresh lump sum inflows periodically since July 2023 to protect existing investors from asset dilution.

He further said that while these active capacity controls manage liquidity risk well, the large asset base naturally makes swift market manoeuvring more challenging and sustaining historical top-tier leadership may be difficult because such extensive diversification can cause performance to mirror an index over time.

“Expectations should adjust toward stable long-term compounding rather than expecting immediate explosive returns over smaller, nimbler peers with good stock picking abilities.”

According to Amitabh Lara, Executive Director, Anand Rathi Wealth Limited currently, Nifty Smallcap 250 is trading about 17.4% below its fair value, compared with 9.6% for the Nifty Midcap 150 and around 5-9% for large-cap indices. Hence, small caps have corrected more than large caps and mid caps relative to their earnings potential.

The PE and PBV ratio of the flexi cap fund were recorded at 48.16 times and 6.79 times respectively whereas the dividend yield ratio was recorded at 0.84 times as of May 2026.

So with current valuations does the fund still remain attractive?

Dhawan said that with the broader small-cap segment trading at elevated multiples, the immediate risk-reward proposition for new investors feels balanced rather than highly lucrative. Stretched valuations imply that much of the near-term structural earnings growth may have already been priced into the market.

“However, the fund's underlying structure still provides strong relative comfort during periods of volatility. Its lower beta of 0.84 and a Sharpe ratio of 0.80 indicate that it handles market shocks significantly better than its benchmark, Nifty Small Cap 250 TRI.”

Therefore, while the potential for immediate returns is lower, it remains a sound vehicle for compounding wealth. The risk-reward is favourable only if you look past the current macro and commit to a full market cycle, Dhwan further said.

Being a small cap fund, the fund holds 12.68% in large caps, 13.71% in mid caps, 5.17% in others, and 68.44% in small caps. In comparison to the small category, the fund is overweight on large caps and mid caps.

This small fund has the highest allocation in capital goods of around 16.21%, followed by 8.84% in automobiles & ancillaries.

ETMutualFunds analysed the other key ratios of the fund in a three year period. Based on the last three years, the scheme has offered a Treynor ratio of 1.54 and an alpha of 0.09. The sortino ratio of the scheme was recorded at 0.48.

The return due to net selectivity was recorded at 0.06 and return due to improper diversification was recorded at 0.02 in the last three years.

Others in small cap basket

Including Nippon India Small Cap Fund, around 13 small cap funds have completed 10 years of existence, of which Quant Small Cap Fund delivered the second highest return of around 19.61% and Aditya Birla SL Small Cap Fund delivered the lowest return of 13.12% in the last 10 years.

Time to choose small caps?

Dhawan said entering small-cap funds via a lump-sum route right now is less preferred, given the elevated valuation landscape. Instead, deploying capital through systematic investment plans (SIPs) is a smart way to accumulate units during inevitable market corrections.

“For an ideal asset allocation, small caps should be capped at 10% to 15% of your overall equity portfolio, unless you have a very aggressive risk tolerance. This measured exposure could mean that your capital is not exposed to any sharp or prolonged cyclical small-cap downturns.”

Dhawan further said that given the inherent volatility and longer recovery cycles of smaller companies, a strict investment horizon of at least 7 -10 years is essential. This timeline allows the portfolio ample room to bounce back from corrections and maximize long-term compounding.

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