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BOURSES LISTED SM
STEADY GROWTH**

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ILLUSTRATION BY

SMEs |

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ADING TRACTION ON
PLATFORMS AT THE
Es HAVE REGISTERED
OVER THE YEARS
RUKHAIYAR

ANIRBAN GHOSH

FUNDS RAISED
BY SMEs THROUGH
IPOs IN 2022 HAVE
ALREADY BREACHED
THE 2021
QUANTUM

NEARLY 50 SME
COMPANIES HAVE
GONE FOR IPOs TILL
DATE IN 2022

IN 2018, A RECORD
141 SME IPOs
WERE LAUNCHED



LET US GO BACK a decade. Then, India already had a vibrant stock market with many well-known business families and conglomerates having listed their companies on the bourses. But a missing link was a dedicated platform for small and medium enterprises (SMEs)—often considered the backbone of any economy. For context, government data shows there are nearly 9.8 million registered micro, small and medium enterprises or MSMEs in the country.

Such a platform was always on the minds of market participants—something on the lines of the London Stock Exchange's Alternative Investment Market or AIM platform—wherein such companies could be provided with a lenient set of listing rules, which would prepare them to migrate to the main exchanges after a few years.

Eventually, such a segment was launched—both on the BSE and the National Stock Exchange (NSE)—in March 2012. Soon after, the first SME listed. If the numbers are anything to go by, the segment has registered consistent growth since inception. That's commendable, considering that its trading turnover pales in comparison to the benchmark indices. For example, on the BSE SME, the average daily trading turnover in July is pegged at ₹18.5 crore with the cumulative turnover at nearly ₹315 crore; on the BSE, the comparable figures are ₹3,211 crore and ₹54,588 crore, respectively. The segment has also helped companies grow and scale to the next level by providing them the benefits of listing, like increased visibility, better access to finance and better compliance and processes, along with the respect a listed entity enjoys.

THE BENEFITS OF LISTING

Brothers Rahul and Varun Batra are Directors of Beta Drugs, an SME listed on NSE Emerge. Theirs was a business like any other family-managed venture, and it was doing pretty well before being listed. But listing did change

the business for good. “The best thing to come with listing is the level of professionalism in our company,” says Rahul Batra. “When we decided to get listed, we brought on board a professional CFO who helped us save a lot on interest costs. We got experts in HR, sales, data management and almost for everything. Once you are listed in the market, you have to deliver good results and that pressure helped us perform better. If we had not listed, we wouldn't have brought in this kind of professionalism,” he adds.

One of the reasons for improved professionalism is the fact that listing brings with it institutional investors as the SME arena has been seeing traction from them.

“The SME segment has grown significantly year on year, especially during pre-Covid-19 times. Many of our IPOs witnessed participation from mutual funds, alternative investment funds, and ultra HNIs,” says Mahavir Lunawat, Founder, Pantomath Capital, an investment banking firm that has managed more than 100 SME issues.

He adds that the issues have provided exits to PE/VC funds, while there have been cases of acquisitions, fur-

Given that listing has its benefits and there are a lot of SMEs wanting to get listed, there is strong potential for growth of both SMEs and the segment

ther fund-raising and significant expansions after listing in several cases. "This segment has emerged as a true alternative for early-stage businesses to raise growth capital without the interest burden," he says.

THE NUMBERS GAME

When the segment launched, each of the two exchanges wanted to achieve supremacy by getting more companies to list on its respective platform. The BSE took the lead in the first four years, with nearly 120 SMEs listing on its platform against 11 on NSE Emerge; NSE claimed it was focussing on quality, not quantity. While the BSE has maintained its lead in most of the years since launch, the NSE did manage to outpace it in 2017 and 2018, by getting a total of 159 SMEs on its platform against the BSE's 118.

Till June 2022, a total of 383 SMEs had entered the capital markets by listing on BSE SME while NSE Emerge saw 257 listings. And in terms of the number of companies migrating from the SME segment to the main board, the BSE leads with 147 entities against the NSE's 109.

Ajay Kumar Thakur, Head of BSE SME & Start-up, BSE, attributes this trend to the awareness efforts put in by the exchange along with markets regulator Sebi, state governments, merchant bankers and industry associations. "We have got companies listed from 20 states... This will help them in getting equity funding, create visibility and transparency and unlock their value," he says, adding that growth in the sector will create employment.

In the current calendar year till June, as many as 45 SMEs launched IPOs—nearly thrice the number of issues on the main board—to get listed, with the cumulative size of the public issues pegged at nearly ₹800 crore. The first six months of CY22 have already seen the quantum of funds raised move past last year's total of ₹746 crore, as per data from Prime Database. The amount, however, is lower than what was witnessed in 2018 when 141 SMEs entered the capital markets while raising a record ₹2,287 crore.

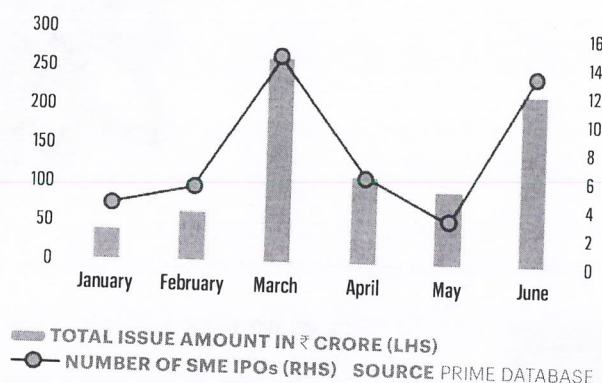
STORMY WINDS

The numbers may show that the SME segment is robust and growing but it did have its own share of controversies.

In 2015, a few companies in the segment, along with

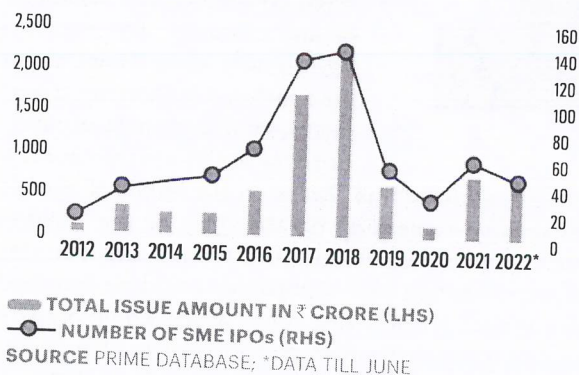
SME IPOs IN 2022

This year, March and June saw the highest number of IPOs by SMEs, with 27 of them raising ₹487 crore in total



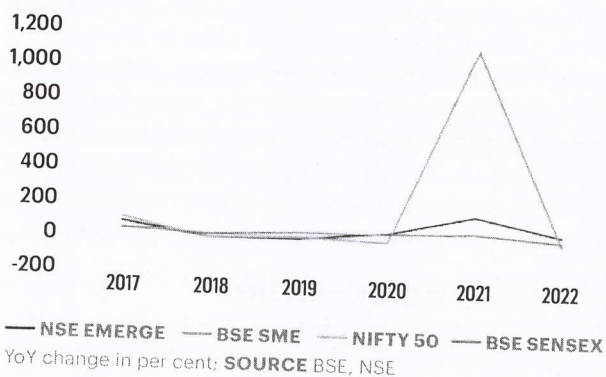
THE LISTING GAME

In the past 10 years, 655 SMEs have raised a total of ₹7,792 crore by listing on the bourses



BEATING THE BENCHMARK

While minuscule in size, the SME indices have beaten the Nifty and Sensex in the past three years



GRAPHICS BY RAHUL SHARMA

The SME platforms have helped firms scale to the next level by providing them the benefits of listing like increased visibility, better access to finance and better compliance and processes

their directors and promoters were barred from the markets for allegedly using the exchange platforms for money laundering, tax evasion and manipulation.

“The schemes, plan, device and artifice employed in this case, apart from being a possible case of money laundering or tax evasion which could be seen by the concerned law enforcement agencies separately, is prima facie also a fraud in the securities market in as much as it involves, manipulative transactions in securities and misuse of the securities market,” stated an 80-page order issued by Sebi in June 2015.

In all, nearly 240 entities were barred from the securities market after the regulatory probe. “It appears that the entities... created demand for the supply of shares from preferential allottees and pre-IPO transferees and provided hugely profitable exit to them at an unrealistic price achieved through price manipulation,” stated the Sebi order, highlighting the fact that the unusual price rise was without any significant improvement in the companies’ financials.

Even today, the platforms see quite a few instances of stock prices registering a huge spike, though market participants feel that the wrongdoings in the SME segment are a thing of the past with the current regulatory framework being much more evolved and stringent than what it used to be during the early days of the segment.

“Barring a few stray instances, we have not come across any such undesirable cases. A more pertinent issue, in my view, is how vulnerable are businesses, and whether they are sustainable. The quality of businesses is a very critical barometer, especially given the fact that early-stage investing is high risk, high return. We must think of a more robust mechanism for en-



“The success of this platform has brought positivity among SMEs and other stakeholders... We have got firms listed from 20 states”

AJAY KUMAR THAKUR
HEAD, BSE SME & START-UP, BSE



“This segment has emerged as a true alternative for early-stage businesses to raise growth capital without the interest burden”

MAHAVIR LUNAWAT
FOUNDER, PANTOMATH CAPITAL

suring that sustainable businesses are brought to the public in order to strive for next-level growth,” says Lunawat.

STRONG POTENTIAL

As for those who have taken advantage of the platform diligently, the benefits are many. “The SME platform prepares you to migrate to the main board and since the regulatory framework of the SME segment is a bit lenient compared to the main board, a company gets two to three years to make the requisite changes and be ready to move to the main board,” says Ashish Saraf, President of Manorama Industries, a Chhattisgarh-based SME that jumped to the main board after being listed in the SME segment.

The amount of respect and prestige definitely goes up after migrating, Saraf adds, highlighting the fact that he gets enquiries from many Chhattisgarh-based SMEs as they want to understand the experience and benefits of listing. Firms can migrate to the main board after staying listed on the SME platforms for a minimum of three years, of which they should be profitable for at least two years.

Given that listing has its benefits and there are a lot of SMEs wanting to get listed, there is strong potential for growth of both the SMEs and the segment. With exchanges doing a lot in terms of creating awareness, the coming years should be interesting for the segment, provided good quality companies come to the arena and stock prices are influenced by fundamentals instead of entities with vested interests. BT

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