

SMEs beat main-board companies in returns race

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SMALL AND MEDIUM enterprises (SMEs) listed on the SME exchanges have outperformed companies listed on the main board this year.

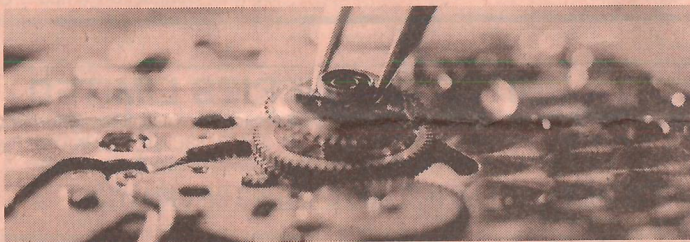
As many as 87 SMEs have tapped the market this year, collectively mopping up ₹1,511 crore. Of these, 69 companies have listed on the SME exchanges and returned 84% on an average. Sixteen companies have given returns in excess of 100%, with Emyrean Cashews (643%), Rachana Infrastructure (448%) and Jayant Infratech (419%) giving the highest returns. Sixteen of the 69 companies have given negative returns.

In contrast, just 20 main-board IPOs have hit the markets, collecting ₹43,275 crore. These have returned 40% on an average after listing, with Adani Wilmar and Veranda Learning Solutions giving returns in excess of 100%.

The BSE SME IPO has beaten the BSE Smallcap returns for each of the last six years. The outperformance stands at 5.5% year-to-date.

“Just like the startup ecosystem, the SME listed space is seeing increased interest from investors as these have the potential to give multi-bagger returns. The quality of the companies tapping the market has improved, too,” said Gaurav and Prateek Jain, directors at Hem Securities. The average SME IPO size has doubled in the last decade to ₹20.5 crore in 2022 from under ₹10 crore in 2012, according to Hem Securities. Maharashtra and Gujarat are responsible for most SME IPOs.

Despite the possibility of high returns, experts said there are chances of losing one's entire capital in SME stocks. Analysing these firms could be tough because they



TOP SME PERFORMERS IN 2022

	Offer price (₹)	CMP (₹)	Change (%)
Emyrean Cashews	37	275.0	643.2
Rachana Infrastructure	135	740.3	448.3
Jayant Infratech	67	347.8	419.1
Cool Caps Industries	38	180.0	373.7
Sailani Tours N Travels	15	58.3	288.3
Maruti Interior Products	55	198.5	260.9
Olotech Solutions	27	92.3	241.7
Globesecure Technologies	29	92.2	217.8
Agni Green Power	10	28.0	180.0
Upsurge Seeds Of Agriculture	120	314.0	161.7

CMP as on September 30, 2022

Source : primedatabase.com

are not tracked by analysts and there is limited data available in the public domain. Investors are left to themselves when it comes to gauging the credibility of promoters.

The SME segment has been grappling with lack of liquidity and lacklustre institutional participation. A recent working paper by the Reserve Bank of India (RBI) has advocated the need for greater institutional participation in such IPOs. The paper has found that lack of after-market liquidity remains a problem in the SME exchanges, with the turnover ratios significantly declining within the first 60 trading days after listing.

The regulator in 2018 slashed the minimum anchor investor size from ₹10 crore to ₹2 crore for SME IPOs, but the anchor participation in the segment still remains muted. In 2020, the stock exchanges had

approached the Centre and state governments for part-funding share sales of SMEs.

Companies listed on the SME exchanges have better profitability ratios, higher return on assets and asset utilisation ratios as well as the debt-equity ratio, compared with the smallest 25% of firms listed on the main board, according to the RBI study. However, firms listed on the SME exchanges have lower liquidity as reflected in a lower quick ratio, current ratio and cash-to-current liabilities.

“It appears that retail investors are more prone to investing in SME IPOs which are issued during the market boom, but eventually generate a lower return in the longer run. The above results indicate the presence of significant information asymmetry in the SME IPO market in India...” the paper observed.