

Why SME IPOs are garnering massive investor interest

Malvika Maloo

malvika.maloo@livemint.com

NEW DELHI

The initial public offerings (IPOs) of small and medium enterprises (SMEs) have garnered massive investor interest, with ten of them getting subscribed a hundred-fold amid challenges faced by bigger IPOs that trade on the mainboard.

Since the beginning of the year, about 88 SMEs have opened for subscriptions on BSE's SME and National Stock Exchange's Emerge segments, raising more than ₹1,542.7 crore. In contrast, only 22 large companies went public on the mainboards of the two exchanges, according to data from Primedatabase.com.

Listing gains for most of the SMEs have been positive and the stocks have performed well too.

"About 12 of the 88 reported negative returns. This (segment) has given really good return," said Suvajit Ray, head of product and distribution at IIFL Securities. More companies will likely take the route, he said.

"There were a lot of brokers who never used to touch SME IPOs or even large companies. We never used to do it. Last year, we started. I believe this is a very good market," he said.

A part of this boom is because of the change in IPO financing rules that came into effect on 1 April. The Reserve Bank of India capped borrowing for IPO financing from



So far this year, about 88 SMEs have opened for subscriptions, and at least 10 have been subscribed a hundred-fold.

HT

non-banking lenders at ₹1 crore.

As a result, "a lot of HNI (high net worth individual) customers are now shifting largely into the other portion to make quick bucks out of the IPO", Ray said.

At least 39 of these SMEs have been subscribed more than 10 times. In comparison, only five of the mainboard listings, Harsha Engineers, Campus Activewear, DreamFolks, Syrma SGS, and Adani Wilmar, have been able

to garner enough investor interest to be subscribed ten-fold.

Another reason is the size of the issue. "It is tougher to get high investor interest in a very big IPO than a smaller one," said Aditya Kondawar, partner and vice president of key accounts at Complete Circle Capital, a financial and wealth management firm.

The average size of these

SME issues was ₹17.53 crore. The largest, Rachana Infrastructure, was ₹72.4 crore.

"Earlier, nobody even thought of (this way). They probably used to get in touch with some VC setup, bank financing or equity dilution. Now, for them, IPO has become a cheaper source of raising money than getting through the VC source," Ray said.

The mainboard IPOs had an average size of ₹2,002.98 crore in comparison. To be fair, the IPO of Life Insurance Corporation of India's subscription, the largest one, by itself was ₹20,557.23 crore. Thirteen of these 22 large companies were looking to raise more than ₹5,000 crore.

Ten of these 39 SMEs have been subscribed more than 100 times. IT service provider OlaTech Solutions, which opened for subscription in August, was subscribed a staggering 500 times.

VCCIRCLE