SMEs catch investors' fancy amid eye-popping returns

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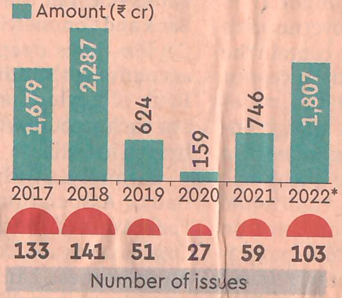
THIS IS THE second-best year for public share sales of small and medium enterprises (SMEs) as individual investors — lured by eye-popping returns — have flocked to pick up these offerings.

SMEs have mopped up over ₹1,800 crore by way of 103 offerings this year, more than twice the 38 mainboard issuances that have hit the market. The collection is 142% higher than the previous year and is higher than the cumulative ₹1,529 crore garnered in the previous three years. CY18 was the best for SME IPOs, with 141 offerings garnering ₹2,287 crore.

MAKING A COMEBACK

SME collections this year are the second-best ever



*figures from some recent IPOs are tentative
Source: primedatabase.com

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■ Rachana Infrastructure (716%), Varanium Cloud (671%) and Empyrean Cashews (619%) are top performers

On Thursday, DroneAcharya Aerial Innovations, a Pune-headquartered drone startup, was oversubscribed 262 times on the last day of its public issue.

"Retail investors have made tons of money in SME IPOs, especially those that hit the market in the 12 months to May. That is what has led everyone to join the SME bandwagon," said Ambareesh Baliga, an independent market analyst.

Of the 103 offerings this year, 98 companies have listed on the SME exchanges and returned 95% on average. Thirty-one companies have returned more than 100%. Rachana Infrastructure (716%), Varanium Cloud (671%) and Empyrean Cashews (619%) are the top performers.

Twenty-seven of these 98 companies are trading in the red.

The BSE SME IPO has beaten the BSE Smallcap returns for each of the last six years. This year the IPO index is up 39% against -1% generated by the small cap index.

The outperformance and the uptick in the number of SME IPOs is surprising given the adverse market conditions this year for equities.

"SMEs are emerging as an acceptable asset class among a section of retail investors, especially given the growing startup ecosystem," said Gaurav and Prateek Jain, directors at Hem Securities.

The average SME IPO size has ballooned to over ₹20 crore in 2022 from under ₹10 crore in 2012, according to a recent study done by Hem Securities. Maharashtra and Gujarat have contributed the most SME IPOs.

Despite the possibility of high returns, experts said there was a chance of losing one's entire capital in SME stocks.

Analysing these firms can be tough because they are not tracked by analysts and there is limited data in the public domain. Investors are left to themselves when it comes to gauging the credibility of promoters.

Baliga says that the several IPOs have substantially come off from their highs and investors need to exercise caution while investing.

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"Unlike mainboard IPOs, there is hardly enough research or background information about these companies. If there's a significant correction, volumes can dry up pretty quickly, leaving investors without an exit option," said Baliga.

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 slashed the minimum anchor investor size from ₹10 crore to ₹2 crore for SME IPOs in 2018, 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, these firms 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 paper had observed.