

Exchanges slap fresh restrictions on SME stocks

Move aimed at investor protection amid jump in speculative activity

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Amid growing small investor interest in shares of small and medium enterprises (SMEs), stock exchanges have announced implementation of graded surveillance measures (GSM).

Exchanges said the decision to extend GSM framework to SMEs was taken in a joint surveillance meeting with the markets regulator Securities and Exchange Board of India (Sebi). The GSM framework is imposed based on certain red flags in the financials of the companies.

To safeguard the interest of investors, many brokers prohibit trading or purchase of shares of companies placed under GSM.

“Market participants may note that the GSM framework shall be in conjunction with all other prevailing surveillance measures being imposed by the exchanges from time to time. The GSM framework for SME stocks would be made effective from the subsequent quarterly review (quarter ended September 2023, or Q2FY24),” said the exchanges in a circular issued last week.

The exchanges will issue the first list of shortlisted companies during the quarterly review for mainboard securities.

The move comes close to the introduction of the short-term additional surveillance measure (ST-ASM) framework and trade-to-trade settlement for SME stocks in September and effective from October.

The decision was to bring down speculative activity and irrational returns seen in the segment. The BSE SME IPO index has surged over 13 per cent this month and jumped nearly 84 per cent this year. The return in the last three years has been over 3,000 per cent. In comparison, the Benchmark Sensex has moved up 8.5 per cent this year and close to 50 per cent in three years.

Following the surveillance measures, SME stocks saw a dip in the average daily turnover (ADTV). However, the volumes once again bounced back. The ADTV in August, before the implementation of ST-ASM, stood at ₹85 crore, nearly double than that recorded in January. It slipped to ₹58 crore in October but is back to over ₹70 crore in November.

As per data from Prime Database, public issues of SMEs have garnered over ₹3,000 crore between April and October from 108 issues. Nearly 60 per cent of the issues have raised money in the last three months.

The circular by stock exchanges says that the review will be carried out on a quarterly basis based on the



SME PUBLIC ISSUE RUSH

	No. of issues	Amount raised (₹ cr)
Apr	6	81.0
May	11	412.5
Jun	17	596.3
Jul	12	332.3
Aug	14	303.9
Sep	36	998.4
Oct	12	276.4
Total	108	3,000.7

Source: PRIME Database

UP & BEYOND

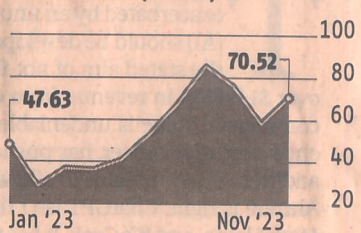
Change %

	Nov	YTD	3-year
BSE SME IPO	13.2	83.80	3,039.7
Sensex	3.4	8.50	49.8
BSE IPO	9.4	36.10	67.2

Source: BS Research

AVERAGE DAILY TRADING DATA

Total turnover (₹ crore)



Source: BSE SME

latest half-yearly results filed by companies. Depending on the stages of the surveillance measures, margin requirements and circuit filters are imposed for investor protection.

“Most of the stocks brought under GSM have weak financials. The exchanges want to safeguard investors when it comes to dealing in them. It is like raising a red flag. ASM is imposed based on price movement. As a system, we block all companies in GSM and do not allow investors to buy these stocks. Even for companies in the Stage-1 category, the margin requirement is double and it is freed after 45-60 days,” explained a broker.