SME mop-up via IPOs makes giant strides

SMALL GETS BIG. SME platforms saw a record fund raising of ₹4,305 crore in CY23; retail investors' interest on the rise

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This will be the best year for public share sales of small and medium enterprises (SMEs) against the backdrop of a sustained rally in small companies and ample domestic liquidity.

The SME platform saw a record 168 offerings, with an average size of ₹25.6 crore, mopping up ₹4,305 crore. This is higher than the combined amount raised in the previous four years and nearly twice the previous record of ₹2,287 crore garnered in 2018. The amount collected by SMEs is roughly a tenth of the ₹44,882 crore collected by mainboard IPOs this year.

The total market capitalisation of firms listed on BSE's SME platform crossed ₹1-lakh crore this month. The total number of SME issuances since 2012 now stand at 887.

Experts believe that the rally in mid- and small-cap stocks has percolated down to SMEs as well.

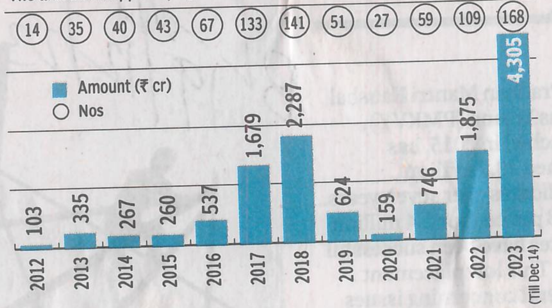
"The concept of SME listing has evolved and companies are now much more comfortable listing on this platform than before. The average issue size has increased about 50 per cent over last year," said an investment banker.

The BSE Smallcap index has gained 46 per cent this year compared with returns of 17 per cent for the Sensex. The BSE SME IPO index is up 95 per cent compared with returns of 44 per cent for the BSE IPO index.

Spectrum Talent Management and Khazanchi Jewellers were the biggest SME IPOs, with an issue size of ₹99.8 crore and ₹91.9 crore, respectively. Overall, there were 18 IPOs with an issue size of over ₹50 crore.

From strength to strength

The amount mopped up by SME IPOs this year is 1.9x the previous record



Source: primedatabase.com

ATTRACTIVE RETURNS

The possibility of making quick returns has drawn individual investors to pick up these offerings. And they have not been entirely disappointed. Share prices of 45 companies jumped over 50 per cent on debut, with 13 firms returning more than 100 per cent. Seventy out of the 162 companies, however, returned less than 10 per cent on listing day, with 30 ending in the red.

The post-listing performance has been better. Eighty-two SMEs that listed this year have gained more than 50 per cent, with 57 soaring over 100 per cent, if prices at the end of December 14 are considered. Forty companies are trading in the red.

CAUTION NEEDED

Despite the possibility of high returns, experts highlight the probability of losing the entire capital in these companies. Analysing these firms can be a challenge as they are not tracked by analysts. This means investors are left to themselves when it comes to assessing the fundamentals and gauging the credibility of the promoters.

"Look at whether the business model is viable and if the valuations are comparable to any of the listed peers. Assess the balance sheets of the companies in terms of debt to equity ratio, debt to sales ratio and inventory and receivables as a percentage of annualised sales.

Any abnormal deviation in profits in the quarter before the IPO calls for caution," said G Chokkalingam, founder, Equinomics Research.

He believes that investors should not allocate more than 5-10 per cent of the equity portfolio to SME stocks.

"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.

Protecting retail investors' interest remains important given that many of the SME IPOs have generated negative BHAR/CAR (Buy-and-Hold Abnormal Return/Cumulative Abnormal Return)," a working paper by the RBI had observed last year.