

SMEs make most of IPO wave on retail investor interest

Mayur Bhalerao

mayur.bhalerao@livemint.com

MUMBAI: Small enterprises stormed the stock exchanges in the just-ended fiscal year, amplifying the trend of the previous years, and tempting investors seeking new investment avenues.

During 2023-24, a record 204 small and medium enterprises (SMEs) floated initial public offerings (IPOs) to raise ₹5,961 crore, up nearly 167% from a year ago, while the mainboard IPO mop-up rose a more sedate 20%. This follows ₹965 crore, ₹244.28 crore and ₹436 crore that SMEs raised in the three previous fiscal years.

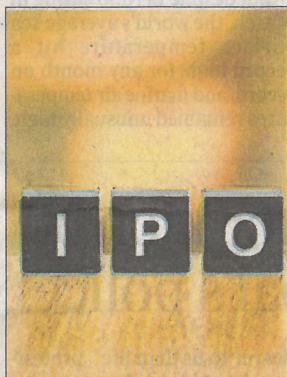
The trend signifies the growing confidence of investors in the potential of SMEs and their ability to generate strong returns.

However, around 51% of these companies that went public in FY24 were trading below issue price on Tuesday.

"SME-listed companies have emerged as outliers in the past four to five years, with a surge in high net worth individuals (HNIs) and retail investors seeking higher returns. There's growing interest in the SME space due to the introduction of new business opportunities that aren't as commonly listed on the main board," Abhilash Pagaria, head, Nuvama Alternative and Quantitative Research said.

In March alone, 27 SMEs raised ₹862 crore, up 35% from February, which saw 16 companies raise ₹638 crore. This is the highest number of SME IPOs since September 2023. In March 2022, 14 companies raised ₹264.3 crore.

In March 2021, nine companies (₹109.1 crore) and six in March 2020 (26.33 crore), according to data from Prime



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Database.

The BSE SME IPO Index returned an impressive 119% in 2023-24, against 76.3% in 2022-23.

Large established firms list on the mainboards of NSE and BSE, while smaller firms with greater growth potential and higher risk list on their SME platforms.

"While the SME segment has seen some exuberance and outperforming stocks, there are also pockets with underperforming stocks. Investors interested in this segment need to be very selective. Understanding the business models and valuations of individual companies is crucial. This is because the SME segment is suitable only for high-risk appetite investors who understand its dynamics," Kranthi Bathini, director of equity strategy at Wealth Mills Securities Pvt. Ltd said.

In March, Madhabi Puri Buch, chairperson of the Securities and Exchange Board of India, remarked about instances of manipulation in SME IPOs, which sparked a fall in the shares of many listed SMEs. Buch said the regulator was keeping a close eye on IPOs and trading operations.