

NSE rule for SME IPOs sparks debate

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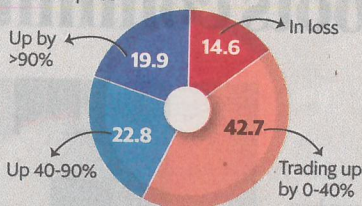
MUMBAI

Small businesses: Froth versus fundamentals

The National Stock Exchange rule implies that the listing-day gain can't be more than 90% of the issue price.

Almost one in five SMEs saw an astronomical debut

Share (%) of stocks listed since 2021 on NSE, based on listing price* as compared to issue price

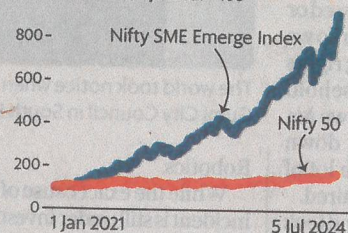


*Difference between offer price and the closing price on listing day; latest data as of 8 July 2024; analysis based on 281 SME IPOs listed on NSE since 2021.

Tiny businesses' index trounces heavyweight Nifty by a wide margin

Daily index values

1,000 - Rebased to 1 Jan 2021 = 100



Concerned over the irrational rise in share prices on the listing day of small and medium enterprises' (SME) initial public offerings (IPOs), the National Stock Exchange of India (NSE) last week imposed a price control cap of 90% over the issue price.

The rule means that the listing-day gain can't be more than 90% of the issue price.

This has sparked a debate among industry experts—while some believe it will bring stability and discourage speculation, others worry it could hurt valuations and hamper efforts to raise capital.

A *Mint* analysis of data, sourced from primedatabase.com for 281 SME IPOs listed on NSE since 2021, revealed that around 43% of these small businesses saw healthy gains on the listing day, with their closing prices up to 40% higher than the offer prices.

Around a quarter of these firms saw gains between 40% and 90%, and nearly 20% soared over 90%. A strong investor appetite fuelled these gains. However, not all IPOs were a success story. Around 14.6% of the companies experienced losses on their listing day compared to the offer price. Of the 20% of SME firms that made a phenomenal market debut, shares of around 88% are trading at 90% above the issue price.

"The NSE's new rule limiting SME IPO opening prices may impact capital raising and

valuations. While intended to curb excessive speculation, this 90% cap could potentially reduce initial investor enthusiasm and first-day gains. This might make SME IPOs less attractive to some investors, potentially affecting demand and the amount of capital companies can raise," said Atul Parakh, chief executive at online investment and trading firm Bigul.

"However, it could also lead

to more stable post-listing performance and realistic valuations. Companies may need to price their IPOs more conservatively to ensure adequate investor interest. Overall, this rule may encourage a more measured approach to SME listings, balancing growth potential with market stability," he added.

Their phenomenal journey could also be captured in the meteoric rise of the Nifty SME

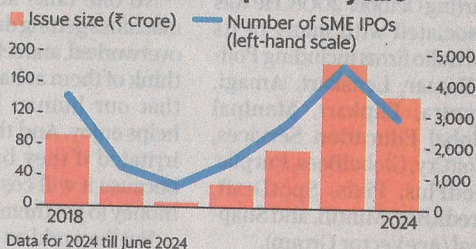
Some of these tiny titans managed whopping gains on listing day

Top 10 SME IPOs listed on NSE so far in 2024, by issue size (₹ crore)

Company	Issue size (₹ crore)	Listing day change (%)*
Petro Carbon & Chemicals	106	84.2
Baweja Studios	92	-3.4
Vilas Transcore	90	53.6
ABS Marine Services	90	90
Wise Travel India	88	39.3
Aimtron Electronics	82	57.2
Alpex Solar	71	200.4
M.V.K. Agro Food Product	63	-30.9
Shivalic Power Control	61	226.6
Trust Fintech	60	48.9

*Difference between offer price and the closing price on listing day

Several SME IPOs have flooded the capital market in the past two years



Data for 2024 till June 2024

Source: primedatabase.com, Capitaline

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Emerge Index which is designed to reflect the performance of a portfolio of eligible small and medium enterprises. It has been on a tear, rocketing nine-fold since the start of 2021, compared to the nearly 74% rise in the Nifty 50 index.

Kush Gupta, director at SKG Investment & Advisory, welcomes the NSE's action.

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