

PUBLIC AFFAIR

THE WORKING ENVIRONMENT OF SMEs HAS UNDERGONE SIGNIFICANT CHANGE DUE TO POLICY INTERVENTIONS, AND IPOs HAVE BEEN HELPING SMALL BUSINESSES UNLOCK AN IMMENSE AMOUNT OF VALUE

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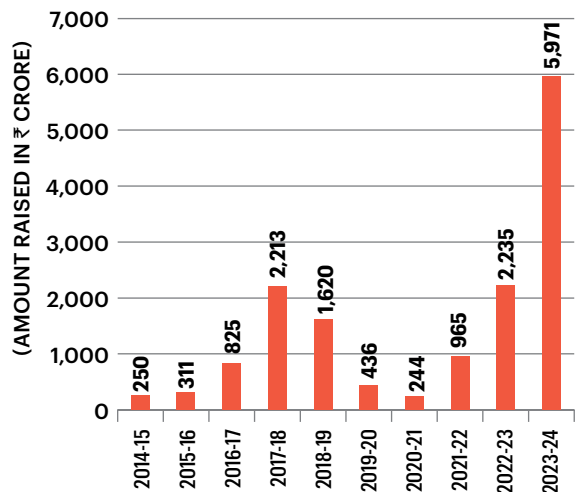


Small and medium enterprises (SMEs) are facing challenges on multiple fronts. But some of them have made the move towards formalisation and tasted success on D-Street. This is evident from the funds they have raised in the primary market in FY24. More than 190 SMEs raised a record ₹5,971 crore through the BSE SME and the NSE Emerge platforms between April 2023 and March 2024, data shows. Of these, 72% companies have delivered positive returns to investors up to May 24, 2024. SMEs had raised ₹2,235 crore and ₹965 crore in FY23 and FY22, respectively, according to data provider primedatabase.com.

Market watchers say the working environment of SMEs has undergone significant changes over

FLIGHT PATH

- SMEs raised a record amount of nearly ₹6,000 crore from the primary market in FY24
- Cumulative fundraising by SMEs, in the past 10 years, now stands at over ₹15,000 crore



SOURCE PRIMEDATABASE.COM

the past decade due to various policy implementations and regulatory reforms, and SME IPOs have been helping them unlock immense value.

“Government-friendly policies are serving as a catalyst for their growth, enhancing their potential for success. The SME landscape is poised for substantial advancement in the coming years,” says Ravi Singh, SVP-Retail Research of financial services firm Religare Broking.

THE SUCCESS RECIPE

Innovation, strong leadership, and consistent growth seem to be the key factors behind the success of select SMEs on D-Street. A dozen SME firms, which debuted on the bourses in FY24, have rallied more than 500% against their issue price till date. In addition, other 65 recently-listed SME stocks have rallied between 100% and 500%.

“Being in the early stages of development, these businesses have the possibility to generate substantial returns, provided a thorough study of their business fundamentals is conducted,” says Singh.

Despite being small businesses, these companies have given staggering returns on the bourses. For instance, Bondada Engineering—an infra player that focusses on project execution excellence—has emerged as the top gainer, surging 2,289% over its issue size. The stock was listed on the BSE SME platform on August 30, 2023. Among other major gainers, Oriana Power, Owais Metal & Mineral Process, and Trident Techlabs also advanced more



“Market regulator Sebi can raise the minimum IPO size to ₹30 crore to strengthen the SME IPO space and protect investors”

KULBHUSHAN PARASHAR

Founder and MD, Corporate Capital Ventures

TOP 10 PERFORMERS

● At least four SMEs have rallied over 1,000% against their issue price ● 72% of IPOs that hit D-Street in FY24 have delivered positive returns to investors till May 24, 2024

Company	Listing Date	Issue Size (₹ crore)	Change* (in %)
Bondada Engineering	Aug 30, 2023	42.72	2,289
Oriana Power	Aug 11, 2023	59.66	1,816
Owais Metal & Mineral Processing	Mar 4, 2024	42.69	1,279
Trident Techlabs	Dec 29, 2023	16.03	1,194
Kody Technolab	Sep 27, 2023	27.52	906
Meson Valves India	Sep 21, 2023	31.09	805
Sahana System	Jun 12, 2023	32.74	733
Srivari Spices & Foods	Aug 18, 2023	9.00	608
Australian Premium Solar (India)	Jan 18, 2024	28.08	588
Amic Forging	Dec 6, 2023	34.80	531

*IN SHARE PRICE OVER ISSUE PRICE; DATA AS OF MAY 24, 2024

SOURCE ACE EQUITY

than 1,000% against their issue price.

Anirudh Saraswat, Co-founder of Oriana Power says, “Innovation with cutting-edge solar solutions, strong leadership and strategic acumen, financial prowess and consistent growth has helped us succeed... Knowing what not to do is as crucial, if not more, than knowing what to do, guiding you away from pitfalls and towards success.”

Those that have done well on the bourses have also reported robust results. For instance, consolidated gross sales of Oriana Power jumped 184% year-on-year (YoY) to ₹382.88 crore for FY24. On the other hand, net profit increased nearly 415% YoY to ₹54.35 crore. Prior to listing, the company had posted gross sales and net profit of ₹134.72 crore and ₹10.56 crore respectively, in FY23.

SMEs have also benefitted from the listing as their visibility and credibility have improved. Deepanshu Goel, MD of packaging and premedia firm Creative Graphics, says they are a leading player in the flexographic plate industry. “However, outside of the industry not many people were aware of flexography

and the work that we do. Our listing has enabled us to transmit our message to a vast network... and we have benefitted from the inbound interest from those who want to partner with us," he says. Shares of Creative Graphics, which listed on NSE Emerge on April 9, 2024, have advanced 227% till May 24, 2024.

Overall, more than 600 companies have raised money from SME exchanges since 2012. G. Chokkalingam, Founder of market research company Equinomics Research says, "Investors should invest in SME IPOs—the overall market cap of listed SMEs is insignificant compared to their combined GDP contribution. Therefore, this boom in SME IPOs would continue and investors should participate in it." Micro, small, and medium enterprises (MSMEs) have contributed 30% to GDP in FY22, per latest data.

BETTER DAYS FOR SMEs

The introduction of GST caused pain for MSMEs. But Kulbhushan Parashar, Founder & MD of financial services firm Corporate Capital Ventures sees a positive side to it. He says GST required businesses to adopt accurate reporting standards. "This shift has increased transparency and ensured compliance with regulatory standards, fundamentally altering the internal operations of SMEs," he says. While the government's policy mandating payments to MSMEs within 45 days has been a pain point, Parashar believes it is a step in the right direction. As of May 27, 2024, per the Udyam Registration Portal, the total number of MSMEs registered since July 2020 is 45 million (including informal micro enterprises registered on the Udyam Assist Platform). Udyam was launched by the MSME ministry in July 2020.

According to Saurabh Mukherjea, Founder and Chief Investment Officer of Marcellus Investment Managers, the past decade can be divided into two distinct phases for SMEs. The first phase—from 2012 to 2018—was marked by challenges. However, he identifies an optimistic second phase that commenced in 2021. During this period, well-organised SMEs that have enhanced their efficiency, accessed affordable working capital funding from formal lending channels, adopted UPI for transactions and utilised the internet for various aspects like sales, marketing, and fulfilment, are experiencing success.



G. CHOKKALINGAM
Founder, Equinomics Research

"Investors should choose SMEs that offer comfort in terms of both valuations and quality of balance sheet"

INVESTORS' DILEMMA

Market analysts think liquidity is a major concern in SME stocks. Chokkalingam believes sometimes governance issues are also a cause of worry. Accounting frauds unearthed by markets regulator the Securities and Exchange Board of India (Sebi), in May, pose another risk to the rally in shares of small businesses. SME exchange-listed firms Varanium Cloud and Add-Shop E-Retail were found to have manipulated their financial statements, according to initial orders issued by Sebi. Shares of Varanium Cloud and Add-Shop E-Retail have declined 48% and 24%, respectively, on a month-to-date basis till May 24, 2024.

On the other hand, market watchers believe that SMEs offer huge growth potential due to a smaller base. "A major advantage is that they open up a huge number of unique businesses or micro businesses that have solid growth potential. In contrast, large-cap stocks are concentrated in just about 10 or 12 sectors, which generally offer growth opportunities within a range due to a large base. But many SMEs offer huge growth opportunities due to a smaller base and some SMEs offer very high margins due to the unique nature of business," Chokkalingam says, adding investors should choose SMEs which offer comfort in terms of both valuations and quality of balance sheet.

EXPECTATIONS FROM SEBI

Parashar says that to strengthen the SME IPO space, Sebi can raise the minimum IPO size to ₹30 crore. Currently, there is no minimum issue size for SME issues. In FY23, jewellery firm Shoora Designs raised as little as ₹2.03 crore from the primary market. This step may ensure that companies with adequate resources and manpower enter the capital markets.

Second, he adds, Sebi should consider revising its lot size policy. A policy of early and frequent lot size revisions could increase the accessibility of SME IPOs to a wider range of investors. Reducing lot size or requiring more frequent adjustments would lower the entry barrier.

After all, exuberance in the SME IPO space will only further India's growth story and harness the immense potential that small enterprises have. **BT**

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