

SME IPO frenzy in four charts

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BSE Sensex has risen 3.56 times in the last 10 years. If you thought that was good, here is some interesting data. In this same period, the BSE SME IPO index, which tracks the companies in the SME segment, has risen a whopping 110 times till September 11, 2024. Much of the gains are in the last three years, post Covid, when the index rose 16 times compared with the mainboard index's 1.6 times rise. In a self-propagating cycle, wherein investors have to analyse their investment with very little institutional research, the liquidity deluge has powered the rally. Average subscription has ballooned from the astronomical levels of 80 times in FY23 to 200 times in FY24 as per Prime Database data. Average valuations, which were at 20 times for FY24 IPOs at the time of offer, have been swiftly moved to around 40 times for the same set of companies now. Here is the SME IPO story in 4 charts.

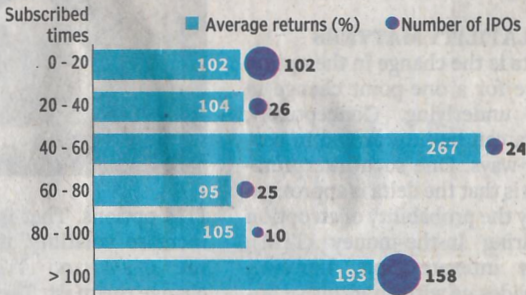
Index rally: Evidently, the SME index is in bubble territory. After the inflection point post-Covid, the BSE SME IPO index has rallied to astronomical heights



Strong returns in short span: SME IPO segment is buzzing with activity. While 2023 SME IPOs tripled on average, an equal number of IPOs in 2024 till September 11 have already doubled.



Strong subscriber base: Strong subscriber interest in SMEs evidenced by subscription trends. Average subscription has more than doubled from 81 times in 2023 to 201 times in 2024. But the returns are not correlated to subscription.



Issue size to m-cap: Average issue size is a quarter of the market cap and larger issues have significantly lower returns.

