

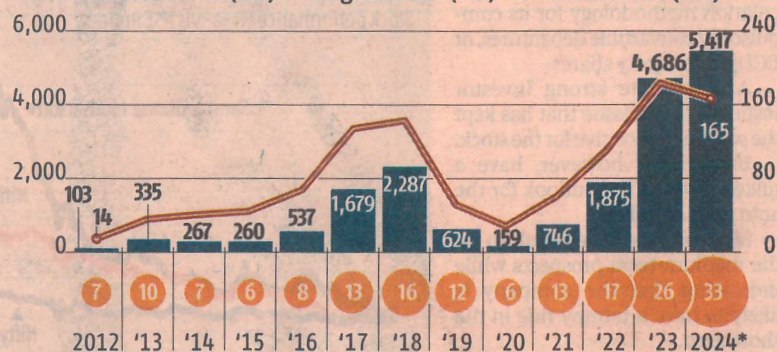
Bourses up vigil on SME IPOs

Mandate comprehensive financial disclosures

BALLOONING SME LISTINGS

Average SME IPO size has increased four times than its early years

■ Amount raised in ₹ cr (LHS) ● Avg issue size (₹ cr) — No. of issues (RHS)



*Data as on August 31

Source: PRIME Database

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Stock exchanges have intensified scrutiny on Small and Medium Enterprise (SME) listings by mandating more comprehensive financial disclosures and enhanced monitoring of utilisation of issue proceeds from investment bankers, amid rising instances of dubious practices.

Bourses — responsible for vetting initial public offering (IPO) documents and granting approvals to SMEs — have tightened norms in recent weeks with further measures planned for new filings to safeguard investor interests, sources said.

A step in this direction was to pull the plug on the listing of Trafiksol ITS Technologies, whose IPO had garnered over 300 times subscriptions and bids worth over ₹10,000 crore, following concerns surrounding its disclosures and plans to utilise the issue proceeds. An email sent to the company seeking the specific queries raised by the exchange or market regulator remained unanswered till the time of going to the press.

“Had the company listed, it would have taken far more resources and time for the regulator to take enforcement action — which would have resulted in potential losses for investors. The move by the exchange sends out a strong signal to ensure best practices,” said an official.

Experts said while there is a case for more vigil, a similar level of disclosures and governance as followed by the mainboard cannot be expected.

“It is not fair to paint all SMEs with the same brush. While some of them are genuine and credible companies, there are a few bad apples too. These are extremely small companies. To expect governance to be at the same level as that of mainboard companies would not be correct,” said Pranav Haldea, Managing

Director, PRIME Database Group.

“These are inherently riskier bets which is why a minimum threshold of ₹1 lakh was kept to keep the small investors away. In my view, it is high time that this threshold, set in 2012, was at least doubled,” Haldea said.

Fund raises by SMEs this year have already surpassed last year’s record tally. Until August, ₹5,417 crore was raised by 165 companies. However, it has slowed in recent months amid heightened surveillance.

SME IPOs raised ₹659 crore in August, 36 per cent lower than in July. Of this amount, 99 per cent was through new issuance of equity shares.

The total listings on NSE’s Emerge platform for SMEs touched 527 in August with a combined market capitalisation crossing ₹2 trillion. About 140 companies that were initially listed on the Emerge platform have moved to the mainboard. The BSE, on the other hand, has seen a listing of 524 companies, of which 185 have migrated to the mainboard.

A move to the mainboard, where the regulatory compliance level is higher, is seen as a sign of good progression for smaller companies. However, there have been instances of fraudulent practices — caught by the regulator — in certain SMEs that migrated to the mainboard, albeit with lower checks.

The disclosures and level of information available on IPO-bound SMEs are often poorer compared to companies listing on the mainboard. Typically, investors apply for SME IPOs taking cues from the grey market. In most cases, the stocks list at a huge premium, making it a profitable trade. However, liquidity and prices tend to correct as the euphoria at the time of listing fades.

The exchanges have also recently capped the listing day gains of SMEs and introduced additional eligibility criteria.