

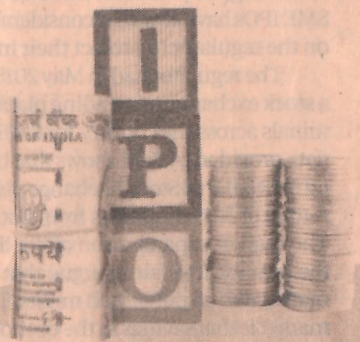
SMEs voice concern over tighter IPO norms

Sebi has proposed an overhaul of SME IPO rules to curb fund diversion and malpractices

TRACKING THE FUNDRAISE

SME IPOs

FY	No. of issues	Issue amt (₹ cr)
12	1	7
13	24	208
14	37	286
15	38	250
16	50	311
17	80	825
18	154	2,213
19	106	1,620
20	45	436
21	28	244
22	70	965
23	125	2,235
24	204	5,971
25	154	5,651



Applicant-to-allotted investor ratio

FY22	4x
FY23	46x
FY24	245x

Source: Sebi

SME QIPs

Figures in brackets are the no. of issues

FY	Issue amt (₹ cr)
FY24 (1)	36.55
FY25 (2)	48.93

(Till October, 2024)

Source: PRIME Database

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Mumbai, 20 November

Of the total 199 small and medium enterprises (SMEs) listed this year so far, 22 had an issue size of less than ₹10 crore, a limit below which the Securities and Exchange Board of India (Sebi) may no longer allow SMEs in the listed ecosystem.

The market regulator on Tuesday proposed an overhaul of the rules governing the initial public offerings (IPOs) of SMEs and corporate governance norms for listed SMEs, following concerns over 'systemic risk' seen in the ecosystem with instances of fund diversion and price manipulation.

While industry players welcomed the review on corporate governance and transparency, many SME firms said the move will make it extremely difficult for them to raise funds and burden them with compliance issues.

"Instead of eliminating the bad players, Sebi has chosen to increase the bar for all. It was the duty of the exchanges to vet the applications and catch any such malpractice or fraudulent players when the draft offer documents were filed. The proposed changes make it difficult for smaller companies that want to raise money from the public. Not all banks are ready to lend to SMEs for growth capital and here the public market was very helpful," said Vinod Kumar, president, India SME Forum.

The forum, which claims to have over a hundred SMEs listed on the exchanges, will submit its concern on the proposals soon.

"There have been cases where non-serious players also entered the listed space, given this situation, some changes were expected and needed to strengthen the ecosystem," said Animesh Saxena, former president of the Federation of Indian Micro and Small &

Medium Enterprises (FISME).

"If the investors lose their confidence, it will be difficult to bring them back. Many investors had started thinking of SMEs as gold mines where they got good premiums on listing. But there has to be some balance," Saxena added.

Several players added that Sebi should have taken a wider view from SMEs at the co-creation stage of the proposals.

The market regulator has proposed the changes after consultation with exchanges and merchant bankers.

Sebi's norms include tighter eligibility conditions, higher entry amount for investors, increasing number of minimum allottees, higher lock-in requirements for promoters, and curbs on related party transactions, among dozens of other rules.

"Stricter compliance requirements would ensure there are checks and balances in place for detecting undesired manipulations. Sebi in December 2023 made additional surveillance measures applicable to the SME segment to increase surveillance on unwarranted trading practices. With these

compliance requirements in place, it is likely that compliance costs for SMEs might get escalated," said Makarand M Joshi, founder of the corporate compliance firm MMJC and Associates.

The market regulator has also proposed mandating statutory auditor certificates on a half-yearly basis. If the amount raised for working capital exceeds ₹5 crore, a statutory auditor certificate on a half-year basis with respect to the use of funds in working capital will be made mandatory.

Sebi not only pointed out glaring issues with nearly half a dozen SMEs but also highlighted the unusual rise in investor participation in the segment.

This is seen in the applicant-to-allotted investor ratio which has increased from 4 times in FY22 to 46 times in FY23, and to 245 times in FY24. The ratio shows the number of applications compared to the allotments.

On Sebi's mandate on operating profit of ₹3 crore in two of the three financial years before the filing of draft documents, a few players say it may become difficult for smaller companies to raise capital.