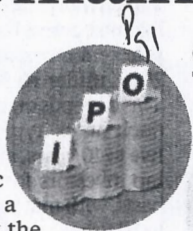


SME IPO wagon chugs along amid mainboard slowdown

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The market slump has brought mainboard initial public offerings (IPOs) to a grinding halt, but the small and medium enterprises (SME) segment continues to thrive.

In the first two months of this year, 40 SME IPOs hit the market, up from 34 in the same period last year. In contrast, only nine mainboard IPOs were executed in January and February, down from 16 in the same period last year. This momentum has continued into March, with half a dozen SME IPOs hitting the market, even as the mainboard is yet to see a single deal.



SHOWING RESILIENCE

	SME		Mainboard	
	No. of issues	Amt raised (₹ cr)	No. of issues	Amt raised (₹ cr)
Jan	20	880	6	4,845
Feb	20	930	3	10,878
Mar*	6	170	0	0

Note: *As of March 11; includes IPOs announced which are yet to conclude

2024 A RECORD YEAR FOR SME LISTINGS

	No. of issues	Amt raised (₹ cr)
2018	141	2,287
2019	51	624
2020	27	159
2021	59	746
2022	109	1,875
2023	182	4,686
2024	240	8,761

Source: Prime Database, exchanges

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Correction in SME IPO index sharper than mainboard

Retail investors' exuberance, driven by strong post-listing performances, is the primary reason for the robust fundraising in the SME segment.

The returns delivered by SME IPOs have encouraged investors to remain engaged.

"SME IPOs have had their own set of dynamics, both on the demand and supply sides, vis-a-vis the mainboard. On the demand side, the nature and size of investors differ, while on the supply side, the type of companies varies. However, the last couple of years has seen the demand side converging with an implosion in participation of retail investors in this segment, who are likely to be the same across SMEs and main board," said Pranav Haldea, managing director of Prime Database.

Haldea said the average number of retail applications per SME IPO was just 297 in 2020 but has surged

to 188,000 per SME IPO in 2024, driven primarily by listing gains, which have increased from 1 per cent to 60 per cent over the same period.

The BSE SME IPO index, which tracks the stock prices of companies listed on BSE's SME platform, rose 2.5 times in 2024, against the BSE IPO index's gain of 32 per cent.

However, the SME IPO index has corrected more sharply than the mainboard index lately. On a year-to-date basis, the BSE SME IPO index is down 26 per cent, while the mainboard index has declined by 19 per cent.

"These stocks are extremely risky and illiquid, and small investors should ideally stay away completely. While we have had a sizable number of issues in January & February (20 each), I would not be surprised if we see a drop in issuances in the future till the overall sentiment revives,"



said Haldea.

Investor exuberance has also raised concerns about the SME segment. Last year, the Securities and Exchange Board of India (Sebi) tightened regulations to ensure that only companies with strong track records get listed on the SME platform. Under the new norms, only issuers with an operating profit of

at least ₹1 crore over two to three financial years can launch an IPO. The regulator also capped the offer for sale (OFS) size by selling shareholders at 20 per cent of the total issue size, while an individual selling shareholder cannot sell more than 50 per cent of their holdings.

The SME platform, which was introduced in 2012, operates sepa-

rately from the mainboard, and adheres to different rules. The minimum application size for SME issues is around ₹1 lakh, compared to ₹15,000 for the mainboard issues.

The higher ticket size, initially intended to discourage retail investors, is no longer a deterrent, as most investors are now comfortable placing bids of ₹1 lakh or more.

Some experts call for even more guardrails.

"When it was introduced, ₹1 lakh was high enough of a barrier to prevent retail entry in hordes. However, in the last 10 years, earning capacity has gone up, and the amount has become small enough for many to invest in SME IPOs without much understanding. Ideally, they can increase the minimum lot size to ₹2 lakh for trading in SME stocks and keep a higher threshold for IPO applications," said Ambareesh Baliga, independent equity analyst.