

SME IPO frenzy: The allure and cost for retail investors

SME IPO fundraising hit record high in 2025, driven by buoyant markets, retail participation

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Record inflows, lighter listing norms and a rush for listing-day gains have made small and medium enterprise (SME) IPOs one of the hottest corners of Dalal Street this year. Yet as retail participation surges and fundraising hits new highs, returns are increasingly uneven—highlighting the risks lurking beneath the frenzy.

The surge in activity is clearly evident from the issuance numbers, with SMEs flocking to the SME platforms of the BSE and NSE to tap the buoyant markets and ample liquidity. According to data from Prime Database, 257 SMEs have raised around ₹10,965 crore in 2025—a record high.

There has been a huge increase in interest from retail investors in this high-risk segment, said Pranav Haldea, managing director of Prime Database, which tracks initial public offering (IPO) activity. "Between 2020 and 2024, the average retail applications in SME segment have gone up from 297 to 1.8 lakh per SME IPO."

However, strong retail demand has not translated into consistent returns. Of the 250 SME IPOs listed in 2025, 129 are trading below their issue price, data showed. "A large chunk of SME stocks end up trading below issue price within six months to a year," said Deepak Jasani, independent market expert.

It has been a galore of IPOs on Indian equity markets this year. The 90 IPOs launched so far in 2025 have cumulatively raised ₹1.51 trillion (as of 13 November 2025), only marginally behind the ₹1.59 trillion raised during the entirety of 2024, according to Prime Database.

Lighter rules, higher risk

SME platforms were designed to help smaller firms raise capital without meeting the stringent eligibility norms of the mainboard listing. Compared with larger companies, SMEs often lack scale, track record or resources needed to comply with full-fledged regulatory norms. For instance, in a mainboard IPO, a company must report an average operating profit of at least ₹15 crore over the past three years. SME issuers, in contrast, need to show operating profits of ₹1 crore in just two of the last three years. Operating profit is the profit from a business after deducting operating expenses, but before deducting interest and tax.

Disclosure requirements are also lighter: SME-listed firms are required to publish financial results only twice a year, whereas mainboard companies report quarterly.

That said, some safeguards remain common across platforms. Promoters of SME-listed companies, like those on the mainboard, must retain a minimum 20% stake for three years after listing.

However, the risk of price manipulation is high. "Due to lack of liquidity in the SME segment, prices can easily be influenced by vested interests. Retail investors can easily get lured into such IPOs in hopes of sharp listing gains," Haldea said.

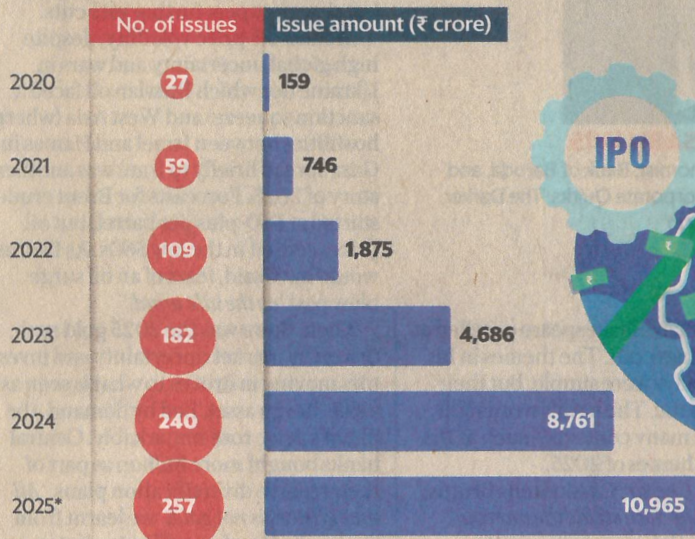
In fact, data from the Prime Database shows that average listing day gains have been decreasing in the SME IPO space, with the average at 12.55% in 2025, Haldea added.

"Given the lighter disclosure norms and smaller scale of operations, projec-

SME IPOs: A high-risk bet for retail investors?

Experts urge caution, advising deeper due diligence and warning against chasing listing-day gains.

Rising number of SME IPOs

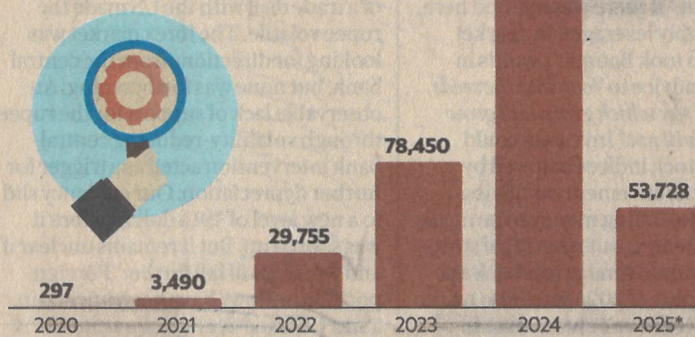


*as of 17 December 2025

Note: Issue amount of nine companies is calculated on lower price band as final issue price was not yet clear at the time of data collation
Issue amount has been rounded-off

Retail participation over the years

From July 2025, the minimum investment size for SME IPOs was raised to over ₹2 lakh, from the earlier ₹1 lakh. (calendar year)



*as of 19 December 2025

Source: primedatabase.com

129
Number of SME IPOs that are trading below their issue price after listing in 2025

What to watch out for

- ▶ Lighter disclosure requirements compared to mainboard IPOs
- ▶ Financial results are only required to be disclosed half-yearly
- ▶ Operating profit eligibility is lesser than mainboard IPO

Exit risks

- ▶ Company may not trade actively post-listing
- ▶ No single share trade possible, only lot sizes

ting the company's past performance into the future is far more uncertain in the SME space," Jasani said.

What investors should scrutinise
Given the relaxed regulatory framework, analysts advise that investors conduct more thorough research before applying to an SME IPO.

A close reading of the draft red herring prospectus (DRHP) is essential. Key indicators include debt levels, debt-to-equity ratios, revenue visibility and consistency in profit growth. Sudden spikes in profitability warrant particular attention.

"If there is a sharp jump of 30-60% in profits in any one year before the IPO, that's a red flag. Sometimes, it's about taking advantage of buoyant conditions in the market rather needing money to fund growth," said Jasani. "If the business is doing exceptionally well, why does it need capital immediately? Sometimes, it's about creating excitement rather than funding growth."

Investors should examine the company's products, customer base, pending litigations and outstanding dues. Valuations deserve close scrutiny too—especially the market capitalisation

being sought relative to earnings.

"Investors should never compromise on the valuation front...watch out for any stress on the balance sheet, study the business model. Investors should do their due diligence, instead of just taking speculative bets," said G. Chokalingam, founder and head of research at Equinomics.

The stated use of IPO proceeds is another critical factor. Jasani advises investors to favour companies raising funds for capacity expansion or long-term growth, rather than those primarily seeking working capital or debt repayment.

Sebi's warnings

Sebi chairman Tuhin Pandey has also raised concerns about SME IPOs. "The returns may look temporarily very attractive in terms of capital gains, but they actually may not be true," Pandey had said in a media interaction earlier in the year.

In August 2024, the markets regulator had issued an advisory on SMEs.

"Post listing, some of the SME companies and/or their promoters have been resorting to certain means that project an unrealistic picture of their operations. Such companies/promot-

ers have been seen to make public announcements that create a positive picture of their operations. These announcements are typically followed up with various corporate actions such as bonus issues, stock splits, preferential allotments, etc.," it said.

These moves can inflate stock prices and attract fresh investors, allowing promoters to exit at elevated valuations. Sebi had cautioned against such practices.

What should investors do?

Given the limited disclosures and evolving governance standards in the SME space, Jasani said retail investors should be pragmatic. "If you're not confident about a company's long-term prospects, you may be better off avoiding it," he added.

SME IPO market has attracted investors looking for sharp listing day gains, but the risks far outweigh the potential rewards. Retail investors should avoid the SME IPO market at least for now, as the margin of error remains thin.



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