

# Can Sebi curbs cool the SME IPO rush?

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The number of small businesses going public grew at a slower pace this year as stringent regulatory requirements to curb frenzy and unfavourable macroeconomic conditions dampened issuances.

The number of initial public offerings (IPOs) on the small and medium enterprises (SME) platforms grew 12.5% so far this year compared with a 31% surge in 2024, according to a report from Pantomath Capital Advisors.

The Securities and Exchange Board of India's (Sebi's) regulatory curbs significantly contributed to the slowdown by tightening eligibility, governance, and fund-use norms starting late 2024 and into 2025, said Jay Jhaveri, partner at Bhuta Shah and Co. LLP. These changes aimed to curb misuse and speculation, but made listings harder for some SMEs, he said.

Along with these policy-level changes, trade and other macro factors were also at play, according to Manick Wadhwa, director at SKI Capital. "After the US elections and the new president taking charge in January, macroeconomic headwinds began to emerge, and April and May saw a lull due to geopolitical tensions between India and Pakistan, which impacted IPO activity."

Sebi cracked down on potential manipulation in SME offers. In 2024, it introduced measures like stricter operating profit requirements for

## SME evolution

Difference between the biggest SME and smallest mainboard IPOs, over the years (issue size in ₹ crore)

	Issue size of the smallest mainboard IPO	Issue size of the biggest SME IPO	Difference
2015	70.0	40.4	29.7
2016	70.0	47.0	23.0
2017	36.0	55.5	-19.6
2018	77.4	88.1	-10.7
2019	23.0	45.7	-22.7
2020	61.2	14.3	46.9
2021	100.0	95.8	4.2
2022	60.0	72.4	-12.4
2023	66.0	99.9	-33.9
2024	72.2	188.0	-115.8
2025	116.2	161.1	-45.0

Source: Primedatabase.com

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SME issuers, a cap on the offer-for-sale (OFS) component, and steps to curb listing-day gains.

A company to list on the SME platform of either the National Stock Exchange (NSE) or BSE Ltd must have an operating profit of ₹1 crore for either two of the three previous financial years before filing for the IPO. NSE has an additional eligibility criterion of positive free cash flow to equity (FCFE) for at least two out of three financial years preceding the application.

In 2024, Sebi capped the offer for sale of shares by existing investors at 20% of the total issue size. Moreover, the selling shareholders cannot sell more than 50% of their holdings in an IPO.

The size of an average SME

IPO has risen by 18% since 2024, according to an analysis by Pantomath Capital Advisors, even as the metric shrank by 3% for the mainboard IPOs.

"Eligibility filters and exchange norms are increasingly steering the SME pipeline toward more business-ready issuers, which typically seek larger raises," said Jhaveri.

The total fundraising on the SME platform rose 31% year-on-year to ₹11,539 crore in 2025, according to Pantomath Capital. That compares with an 86% growth in 2024.

Improving quality SMEs going public has also narrowed the gap between the small-business IPO and the smallest mainboard offer over the years. According to Prime-

database.com, the biggest SME IPOs have been larger than the smallest mainboard issues over the past four years.

"The gap is clearly narrowing. The biggest SME IPO issue size in 2025 was ₹166 crore, while the issue size for the smallest IPO in the mainboard was ₹116 crore," said Pranav Haldea, managing director at Primedatabase.com.

Mahavir Lunawat, chairman and managing director at Pantomath Capital, said on the mainboard, an increasing proportion of funds is being deployed toward capacity expansion, balance sheet strengthening, debt reduction, and working capital requirements. In the SME segment, he said, fundraising is led by fresh issue, with capital largely directed toward capital expenditure, capacity augmentation, and working capital to scale up.

To be sure, the average size of SME IPOs has increased over the past decade as the Indian market matured.

However, since Sebi's restrictions, the type of companies looking to list on the SME platform has changed, said experts.

With tighter compliances, SME companies coming to the exchange today are far more prepared with proven operations, defined expansion plans, and long-term visibility, said Kresha Gupta, director and fund manager, Steptrade Capital, an alternative investment fund backing companies listed on SME exchanges.

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