

# NSE changes framework for SME listings, tweaks metric definition

**KHUSHBOO TIWARI**

Mumbai, 23 April

The National Stock Exchange (NSE) has changed the formula it uses to assess the financial health of small and medium enterprises seeking a listing on the SME platform NSE Emerge.

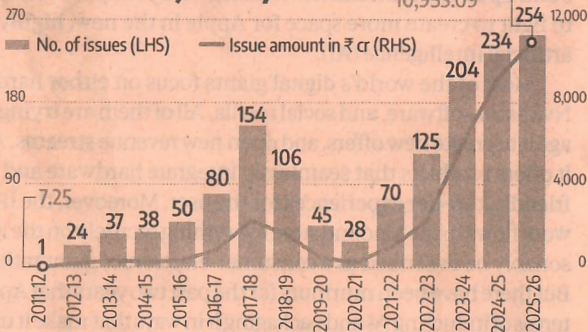
In a circular, NSE said it is revising the definition of free cash flow to equity (FCFE) — a metric it made mandatory for SME listing applicants in September 2024.

Under the new formula, proceeds from the issuance of share capital, including equity, preference shares and securities premium, will now be counted as a positive component in the FCFE calculation. The earlier formula did not include this line item.

The change is effective immediately for all draft red herring prospectuses (DRHPs) filed on NSE Emerge, the exchange said.

The FCFE criterion requires SMEs to demonstrate positive free cash flow to equity in at least two of the three financial years preceding their listing

## SME IPO trajectory



Source: primedatabase.com

application. The threshold was introduced to filter out companies with weak financial fundamentals from tapping the public markets.

Experts said by including equity issuance proceeds in the formula, the exchange is acknowledging that companies which have actively raised fresh capital — a common feature of growth-stage SMEs — should not be penalised for the resulting cash flows when their listing eligibility is assessed.

The revised formula reads: FCFE = Cash Flow from Oper-

ations - Purchase of Fixed Assets + Proceeds from Issuance of Capital + Net Borrowings - Interest × (1-t).

The exchange also clarified that for non-banking financial companies — where short-term borrowings and interest flow through operating cash flows rather than financing activities — net borrowings for the FCFE calculation will comprise only long-term borrowings, to avoid double-counting.

All other eligibility criteria for NSE Emerge listings remain unchanged, the circular said.