



## YOUR MONEY

# Assess your risk appetite before investing in SME IPOs

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Initial public offerings (IPOs) of small and medium enterprises (SMEs) have shown resilience even as the mainboard IPO market remains subdued. Twelve SME IPOs were listed in May, compared with seven in April.

### Understanding SME IPOs

These IPOs list on SME platforms such as the National Stock Exchange (NSE) Emerge and BSE SME. Their post-issue paid-up capital is capped at ₹25 crore.

"They undergo exchange scrutiny and have market makers to support basic post-listing liquidity," says Trivesh D, chief operating officer, Tradejini.

SME IPOs are different from mainboard IPOs. "They usually have thinner post-listing liquidity, higher volatility, and relatively lower analyst and institutional coverage," says Pranav Haldea, managing director, PRIME Database Group.

"Application sizes and trading lot sizes are larger than in mainboard IPOs, so investors may have to block more funds," adds Jyoti Prakash Gadia, managing

director, Resurgent India.

### Long growth runway

SME IPOs allow investors to back small businesses at an early stage of growth. "Many SMEs operate in niche industries with strong expansion potential, which can create the possibility of higher returns than established companies," says Piyush Jhunjhunwala, founder & chief executive officer, Stockify. A successful SME may eventually migrate to the mainboard. "This adds another leg of valuation for a successful SME," says Shouraya Khadgawat, lead strategist, equities, Centricity WealthTech.

Jhunjhunwala adds that smaller issue sizes and strong subscription demand create the possibility of short-term gains.

### Know their weaknesses

SME IPOs come with their own share of weaknesses and risks. "These companies are smaller, less established and more vulnerable to economic changes," says Jhunjhunwala.

Many have erratic cash flows and thin margins. If business fundamentals weaken, they may start making losses. "Business concen-

tration is common, so the loss of even one client can materially hurt earnings," says Trivesh.

Corporate governance needs close scrutiny. "Sebi has cautioned investors about promoters presenting an unrealistic picture of operations," says Gadia.

These promoter-driven businesses sometimes have weak internal controls and low transparency. "Related-party transactions and aggressive accounting practices can pose risks," says Vinit Bolinjar, head of research, Ventura. Many of them could be priced aggressively during bullish markets. "The subsequent correction can be sharp and durable," says Khadgawat.

### Be wary of liquidity risk

Low liquidity is among the biggest risks in SME investing. Their shares may have thin post-listing trading volumes. "This can lead to sharp price swings during volatile

## Key numbers

- **258** SME IPOs have listed over the past 12 months
- **154** or **59.7%** provided listing gains
- **19** or **7.4%** were flat
- **85** or **32.9%** listed at a loss
- While listing gains were as high as **90%**, listing loss was up to **100%**
- Currently, **45%** are trading at a gain since listing, **1.1%** are flat, **53.9%** are making a loss
- Gains since listing range from a high of **632.4%** to a low of **-83.1%**

Data as on May 29, 2026  
Source: Capitalline

market conditions," says Pooja Ghosh, executive director, ESGRisk.ai. "Thin trading also raises impact cost and makes it difficult to exit a meaningful position without moving the price sharply," says Khadgawat.

### Review finances

Examine the company's financial performance: revenue growth and profitability, debt levels, profit margins, cash flows, working-capital cycle, return on equity (ROE), and return on capital employed (ROCE).

Understand the firm's competitive edge and scope for scalability. The promoters' past ventures and litigation history must be reviewed. Get to know how funds will be utilised. "If the IPO offer has a high offer-for-sale component, ask why the promoters are cashing out," says Trivesh. Compare the company's valuation with listed peers. "Excessive pricing can increase downside risk," says Bolinjar.

### Listing gains don't come easily

SME IPOs attract more speculators than long-term investors. When most allottees rush to book listing-day gains, the stock may hit the lower circuit and freeze. Investors expecting instant profits may face losses or a delayed exit.

### Are they right for you?

SME IPOs are better suited to informed investors who can study financial statements, understand business models, and track companies. "They are for investors with a high risk appetite," says Ghosh. Investors must also have a long horizon.