SME IPOs struggle with negative returns as mainboard issues thrive

Shilpa Rangarajan

Explore why small and medium enterprise initial public offerings in India are significantly underperforming mainboard listings, with a majority trading below their issue price and negative median returns, despite a busy September for SME offerings.

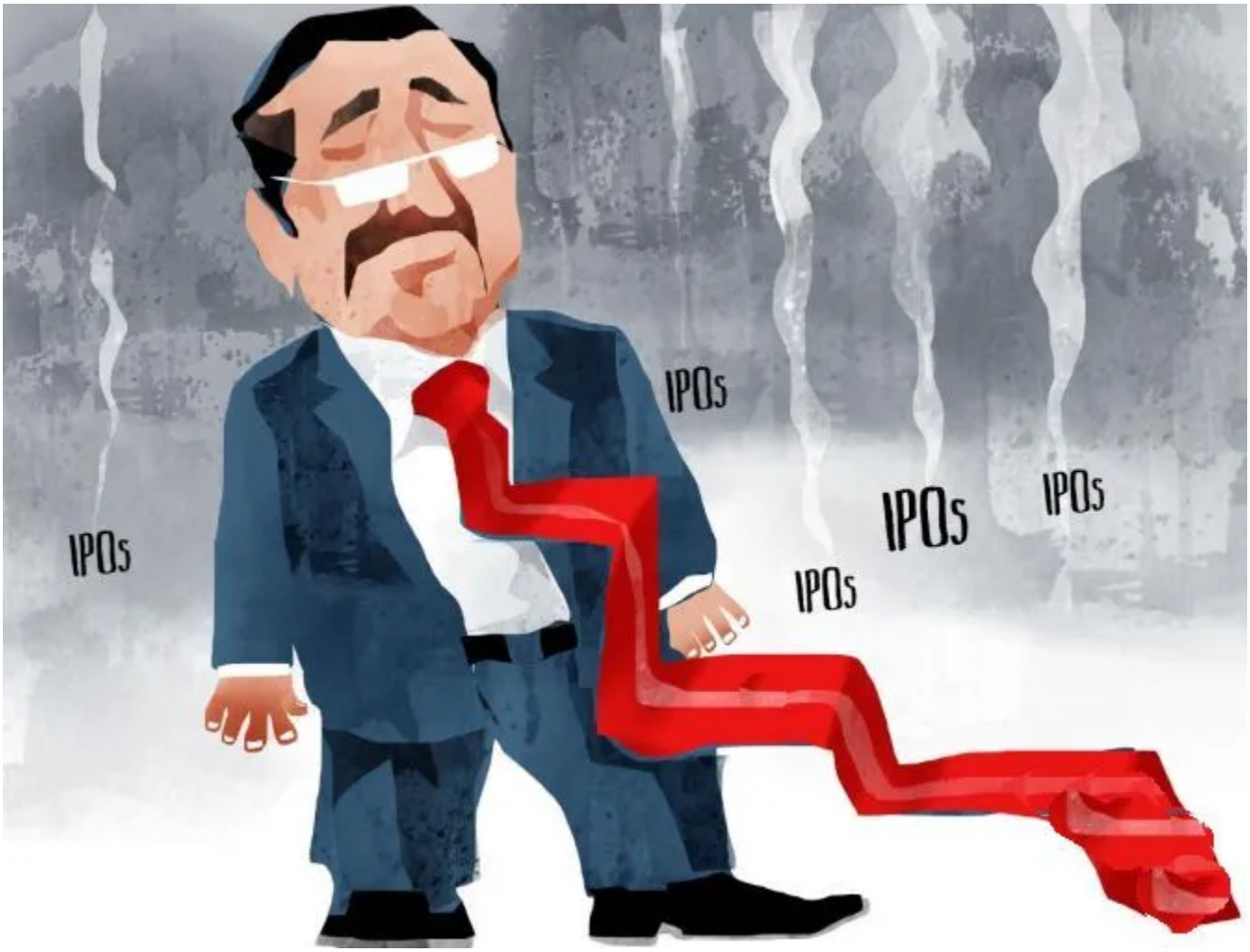


Illustration: Dominic Xavier/Rediff

Key Points

Of 161 SME IPOs listed this year, 81 are trading below their issue price, with 24 losing half or more of their value.

The median SME listing has seen a 0.2 per cent decline, while mainboard issues have delivered a 24

per cent gain.

The Nifty SME Emerge Index has declined 2.63 per cent over the past year, contrasting with a 10.5 per cent gain for the Nifty IPO Index.

Experts suggest that a strong mainboard pipeline diverts liquidity from SME stocks, and a bull market is generally more favourable for SME IPO investments.

The cost of an SME IPO has increased from 7 per cent to 10-12 per cent, adding pressure on smaller companies to command attractive valuations.

Of the 161 small and medium enterprise (SME) initial public offerings (IPOs) listed this year, which raised Rs 7,171.18 crore, 81 are trading below their issue price and 24 have lost half or more of their value.

The median SME listing is down 0.2 per cent, compared with a 24 per cent gain for mainboard issues. Half of SME stocks are trading below their issue price, against 32 per cent of mainboard issues.

SME Performance Trends

SME issues listed during July-September delivered a median return of -0.7 per cent as of October 5, with 52 per cent trading below their issue price, according to Prime Database and Bloomberg data.

The first half of the year showed a similar trend, with 49 per cent of the 76 SME issues listed during January-June trading below their offer price.

The median return for these issues was 0.9 per cent.

Over the past year, the Nifty SME Emerge Index has declined 2.63 per cent, while the Nifty IPO Index has gained 10.5 per cent, according to exchange data.

The Emerge Index comprises 539 stocks, with V Marc and Oriana Power among its top holdings, together accounting for 7 per cent of the index.

Market Dynamics and Expert Insights

Mainboard IPOs, particularly larger issues such as NSE, are generally considered less risky and more profitable than SME offerings.

Investors familiar with market trends said the strong mainboard pipeline has also resulted in some liquidity being diverted away from SME stocks.

They added that a bull market is generally more favourable for SME IPO investments.

Smaller companies trying to command attractive valuations are likely to face greater pressure on their market performance than larger companies, said Abhay Agarwal, founder and fund manager at Piper

Serica.

"Especially ones with SME merchant bankers, who are just trying to get the subscription done, make their money, because the cost of an SME IPO has also gone up.

"It used to be 7 per cent till 12 months ago. Now it's in the 10 to 12 per cent range," he said.

Future Outlook for SME IPOs

The pipeline, however, has not dried up. September saw 52 SME offerings worth Rs 2,078.55 crore, making it the second-busiest month since January 2020, after September 2025.

"I think September was a strange month because of that September 30 deadline.

"So everybody kind of piled in but there are still smaller IPOs. October we may not have too much of IPO activity (as) there is some fatigue," Agarwal said.

The weakness comes even as the Nifty 50 has declined 9.93 per cent over the past year, with investors remaining cautious in the SME segment even as risk-hungry investors continue to bet on smaller companies with positive growth prospects.

The Nifty IPO Index has 100 stocks, with Lenskart and Groww among its top holdings, together accounting for 20 per cent of the index.