Small firms struggle to raise capital

Despite buoyant IPO market, a number of issuances and amounts raised have fallen for small and medium enterprises

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Small and medium enterprises (SMEs) are finding it hard to raise money from the primary market even as larger companies have benefited from an influx of liquidity.

The SME segment raised ₹159.1 crore, falling 74.5 per cent over 2019, in 2020, shows the data from primary market tracker Prime Database. This translates into a 0.63 per cent share of the money raised through initial public offerings, shows the data till November.

This is the first time that their share of IPO funds has dropped below 1 per cent since a separate segment for such companies began in 2012. The previous low was in the year of inception, when it was 1.48 per cent. The number of SME issues has dropped from 51 in 2019 to 27 in 2020. The money raised by their larger peers more than doubled to ₹24,962.1 crore. The fall in the number of issues too was fewer than for the SME segment, from 16 to 12.

"... SMEs got infected by Covid," said Mahavir Lunawat, founder of Pantomath Capital Advisors, an investment banking firm that has helped bring SMEs to the stock market. Many companies are emerging stronger from the pandemic, and investor interest is slowly picking up, he said.

The outlook for the sector had been worse when the country was coming out of the lockdown in June. Micro, small, and medium enterprises (MSMEs) faced a steeper cut in revenue than larger companies did, according to a June 15 note by rating agency CRISIL. Corporate India was expected to see a 15 per cent fall in revenue. The decline was anticipated to be 17-21 per cent for MSMEs, which were expected to see their margin at the earnings before interest, taxes, depreciation, and amortisation (Ebitda) level, a key measure of profitability, fall to 5 per cent or lower.

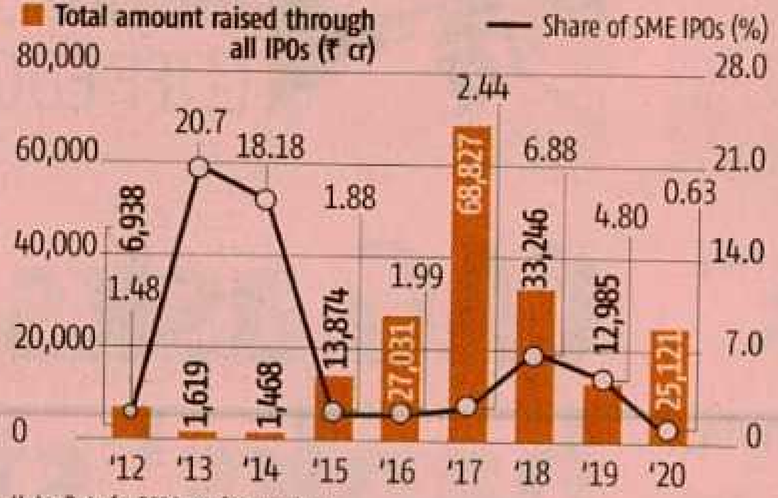
"A sharp decline at the operating level will also impact creditworthiness, aggravating the liquidity stretch these units have been grappling with, particularly on the working capital front. In the process, average interest service coverage ratio could slide to 1-1.5 times from 2.4 times seen between fiscals 2017 and 2020, even after factoring in the benefit of moratorium on interest payments announced by the Reserve Bank of India (RBI)," the CRISIL note had said.

"(The) SMEs have borne the brunt of the pandemic," said Pranav Haldea, managing director at Prime Database. Larger companies were less affected by the pandemic, he said. It may take some time before things return to normal, he added.

A December 2 Edelweiss Securities Economy report suggested some challenges ahead."... (The) government credit guarantee scheme has helped, but these businesses face balance sheet ... (constraints) ... as well as demand weakness. We do not see banks having much risk appetite to lend to MSMEs once the credit guarantee is over," said the report from authors Kapil Gupta, Prateek Parekh and Padmavati Udecha.

While debt remains a challenge, equity markets have been booming. Foreign portfolio investors invested ₹1.65 trillion in the Indian stock market in 2020. This has helped take the S&P BSE Sensex to an all-time high in excess of 47,000. The S&P BSE SME IPO index is still 33.3 per cent below its all-time high.

LOWEST SHARE SINCE INCEPTION



Note: Data for 2020 as of November
Source: PRIME Database, *Business Standard* calculations