Pandemic and risk-aversion halt SME juggernaut in FY21

Only 12 of 25 firms to go for listing are in the green

ASHLEY COUTINHO
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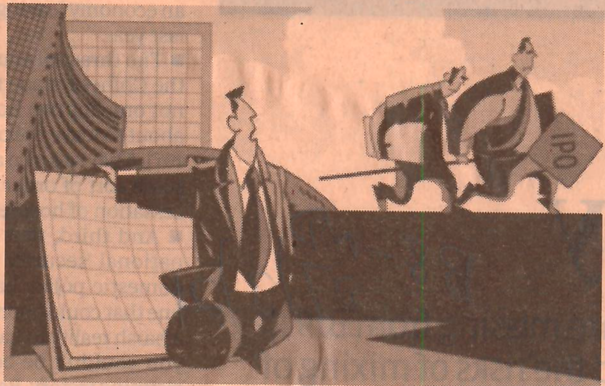


ILLUSTRATION BY BINAY SINHA

The pandemic and the resultant risk aversion among investors for lesser-known names seem to have put the brakes on initial public offerings (IPO) of small and medium enterprises (SME) this financial year.

This financial year (FY21) has seen 25 SME IPOs hitting the market and garnering ₹213 crore, the lowest in the last eight years.

The only other year when collection was lower was FY13. FY18 and FY19 were the best years for SME IPOs with collections of ₹2,213 crore and ₹1,620 crore, respectively.

Rangoli Tradecomm and Pavna Industries were the biggest offers in FY21, with an issue size of ₹42.8 crore and ₹28.1 crore, respectively.

To date, 560 SMEs have listed on the bourses and mopped up over ₹6,368 crore.

The performance of the companies that listed this financial year has been mixed. Twelve of the 25 companies that listed are in the green, with two gaining in excess of 100 per cent so far, while two have shed more than 50 per cent.

The average returns of these companies stood at 29 per cent compared to 42 per cent for the BSE SmallCap index.

"There were enough opportunities for investors on the main board to earn high double-digit returns. Also, given the pandemic, investors preferred larger companies that were deemed to be more resilient rather than risking their capital on smaller names," said Gaurav Jain, director, Hem Securities.

He added that micro and tiny caps were usually the last ones to benefit from a bull run and the number of SME issuances was likely to gain traction in the coming months.

Despite the possibility of high returns, experts said there was a chance of losing one's entire capital in SME stocks. Analysing these firms could be tough because they are not tracked by analysts and there is limited data in the public domain. Investors are left to themselves when it comes to gauging the credibility of promoters

The SME segment has been grappling with lack of liquidity and lacklustre institutional participation. According to experts, the need is to bring in priority investing from big institutional players and tweak the lot size to improve liquidity. The minimum lot size varies between ₹1 lakh and ₹1.5 lakh.

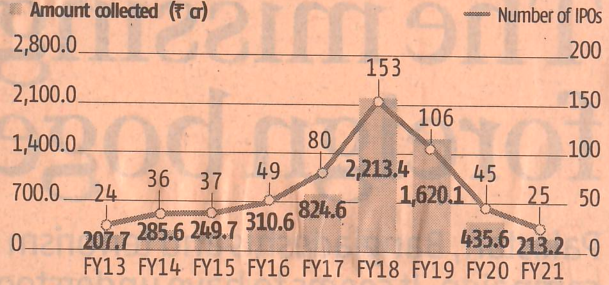
The BSE and the National Stock Exchange of India (NSE) had launched separate SME platforms in 2012 and 2013, after the Securities and Exchange Board of India (Sebi) came up with easier listing and disclosure guidelines to help small companies tap the capital market.

Besides improved transparency, an IPO route for SMEs reduces their dependence on debt financing and helps them maintain their debt-equity ratio efficiently, said experts.

Listed SMEs with good ratings are able to get loans at lower interest rates than the market.

TAKING A HIT

Amount raised this financial year lowest since FY13



Source : primedatabase.com