

FUNDING FOR SMES: WHY SMES SHOULD GO FOR FUNDING THROUGH SME CAPITAL MARKET

The Micro Small and Medium Enterprise (MSME) sector is essential in achieving the targeted growth rate of any nation. This sector gives birth to potential entrepreneurs. Despite of impressive potential, SME sector also faces a number of challenges to its growth story. One of the biggest challenge for SME market is financing.

Any business can not survive without finance, but problem for SME sector is limited ways of finance. SME funding is trapped in its traditional way of financing, like angel investors, debt funding, government grants.

Angel investor aka equity funding is seen as potential funding option for SME. But payment of 33% tax on capital raised from angel investor is a heavy burden. Discussions are going on for removing the same, but until then, it's burden for SMEs and makes investment less attractive for angel investors.

Now if we talk about the most traditional way of funding for SMEs i.e. banks, MSMEs suffer the high cost of credit which does not reach them on time. Not only that, raising finance through it self is a very big task. Complying with various condition of banks for availing loans such as mortgage or getting a guarantee is a very difficult task for SMEs.

Up till now, banks were seen as the only funding source for SMEs, but emergence of SME capital markets has shown a hopeful way. Coming to the topic, Why should SMEs should go for funding through capital market? following are the key benefits:

1. No interest/fix cost:

Unlike loans or any other way of debt funding, capital finance is your own equity. It solves the problem created due to liquidity.

2. Control over the company:

Funding from banks and financial institution comes with its own restrictive clause regarding management and capital structure of the company. Funding through capital market gives you relief from those restrictions. It is a myth that in the event of listing of the company, promoters lost their control over the company. Company's management remains in the hands of promoters only.

3. Visibility:

Not only listing of company on stock exchange increase visibility and reputation of company, but also makes further borrowings cheaper. A listed company can get loan from a financial institution at a cheaper rate than a non-listed company.

4. Lowest Listing Cost:

Listing expenses for small and medium enterprises in India is among the lowest worldwide- according to a report **from International Organization of Securities Commissions (IOSCO)** .

With regard to India, the report said listing cost for SMEs is as low as 0.49 per cent of the total offered amount. This proves that funding through SME capital market is the cheapest way of funding.

Wealth maximisation and succession planning are also one of the most highlighted benefits of funding through SME funding.

Conclusion:

In last three years, the SME Capital market in India has seen a flurry of activities in past 3 years. Capital markets also offered other funding alternatives, including equity financing via listing on alternative exchange boards, issuance of debt securities, securitisation and government initiatives that encourage private investment.

Capital Financing thus opens up as a colossal opportunity for capital markets, market intermediaries and professionals.