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SMEs take big strides on bourses

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SMEs ON A ROLL

Company	Stock Exchange	Issue Amount (Rs Cr)	No of times subscribed
Amrapali Fincap	BSE	40.35	1.01
Mornai Apparels	NSE	28.30	1.63
Kushal Tradelink	BSE	26.32	1.18
Amrapali Capital & Finance Services	BSE	24.48	1.36
Suncare Traders	BSE	22.99	NA
Mitcon Consultancy & Engineering Services	NSE	22.18	0.93
Veto Switchgears & Cables	NSE	20.83	1.57
SPS Finquest	BSE	19.97	1.09
Ashapura Intimates Fashion	BSE	19.94	1.32
Thejo Engineering	NSE	18.5	1.43
M D Inducto Cast	BSE	16.36	1.67
Tarini International	BSE	15.49	1.00
Aanchal Ispat	BSE	15.19	1.28
HPC Biosciences	BSE	15.15	1.02
Oyeeee Media	BSE	15.10	1.00

In 2012, the average size of an SME initial public offering (IPO) was Rs 7.33 crore, which fell to Rs 6.67 crore in 2014 and then to Rs 6.05 crore

SOURCE: PRIME DATABASE

Institutional entities such as banks and mutual funds are investing in SMEs

early four years after the equity exchanges launched trading platforms for small and medium enterprises (SMEs), the segment is showing signs of maturity, with institutional entities like banks and mutual funds investing in them.

Some of the bigger brokerages, once focussed only on the larger companies, are also showing interest in listed SMEs: a large portion of the subscription during public issues comes through them. According to participants in the segment, entities such as Motilal Oswal Financial Services, Edelweiss Financial Services, Sharekhan, Small Industries Development Bank of India, Bank of India, Bank of Maharashtra, Indian Overseas Bank, and CanBank Ventures, along with some leading mutual fund houses, have either invested or aided investments in SME initial public offerings (IPOs).

The Bombay Stock Exchange (BSE0 and the National Stock Exchange (NSE) unveiled separate SME platforms in 2012, and have since been aggressively pitching their segment to SMEs across the country.

While the BSE has more than 120 SMEs listed, the NSE has 12 on board so far.

According to Prime Database, a primary market tracker, 41 SMEs got listed on the bourses in 2015, as against 14 in 2012, 35 in 2013 and 40 in 2014.

Interestingly, the average size of an SME public issue has dipped. In 2012, the average size of an SME IPO was Rs 7.33 crore. This dropped to Rs 6.67 crore in 2014, and then to Rs 6.05 crore in 2015. The average number of investors also fell to 287 in 2014 from 365 in 2012, as per Prime Database.

According to market players, this is a good sign, since it reflects the growing trend of smaller companies having the confidence to list on stock exchanges.

Mahavir Lunawat, group managing director, Pantomath Capital Advisors, a merchant banker in the SME segment, says, “The funds raised on SME bourses in 2015 has dipped marginally as compared to 2014. Statistically, average issue sizes were also lower. This means smaller companies are coming forward and tapping capital markets. Smaller units are now gaining confidence in SME capital markets.”

In specific instances, SIDBI subscribed to 14 per cent of the IPO of Ashapura Fashion Intimates while Edelweiss accounted for approximately 4 per cent of the overall subscription in the IPO of SI VI Shipping Corporation.

Even non-resident Indians (NRIs), high net worth individuals and value investors have invested in some SME IPOs like MD Inducto Cast, Jet Infraventure, Women’s Next Loungeries, Ashapura Intimates and Majestic Research, among others.

Building awareness

Both the BSE and NSE have been working with participants — promoters of SMEs, merchant bankers, brokers and investors — to raise awareness of the benefits of listing on the SME platform.

An NSE spokesperson said, “The key challenge has been educating SMEs about the platform. While awareness has increased among stakeholders, we are yet to tap the investing fraternity in its entirety.” According to the exchange, some funds’ investment policies prevent them from investing in smaller IPOs, apart from other policy-level restraints regarding liquidity, sector and so on. NSE is of the view that deliberations will help improve investor participation in the SME market. “Given that NSE consciously listed credible and fast-growing SMEs with good governance standards, there have been instances of repeat investments from investors,” the spokesperson said.

The BSE, however, has raced ahead of the NSE in terms of the number of SMEs listed: there are 125 listed SMEs on the BSE platform, which have raised more than Rs 900 crore; the current cumulative market capitalisation is Rs 6,796 crore. Market capitalisation of the BSE SME segment had crossed Rs 10,000 crore on December 11, 2014.

A BSE spokesperson said, “New investors have started investing in the SME platform. There are many repeat investors. A few mutual funds and institutions are also getting active in the SME IPO space. A class of investors is coming up, which wants to invest in SME companies due to better growth prospects and reasonable prices.”

Gains for SMEs

On their part, SMEs have gained visibility from listing on the bourses.

However, some issues need ironing out. Like the minimum lot size, which is set at Rs 1 lakh (i.e., an investor needs to put in at least Rs 1 lakh to trade in SMEs). While the BSE is of the view that the current lot size of Rs 1 lakh should be retained, so that uninformed small investors are kept away, the NSE feels the segment has matured over the years and investor participation should be increased.

“SMEs with thin capital base, growing business and improving financials appear to be an attractive investment opportunity,” Lunawat of Pantomath Capital said. “Since SMEs are at the initial point of inflexion in the business cycle, they are a high-risk-high-return equity instrument”