SME IPO & Listing : RETAIL PARTICIPATION AND MINIMUM LOT SIZE IN SME CAPITAL MARKET

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Economic and financial liberalization in 1990s and emergence of SEBI in 1992 transformed the position of India's stock exchanges. Investor started feeling more protected after the emergence of SEBI. Corporatization of stock exchanges, simplify rules, reduced cost of retail investor participation, has encouraged more and more retail individuals capital markets.

In last two decades, India's two leading stock exchanges i.e. BSE and NSE, have seen astonishing development by retail and HNI investors. In 2012, both BSE and NSE, launched their platform for Small and Medium Enterprises. In SME Capital markets, the minimum lot size for the SME segment is fixed at Rs. 1 lakh, which means that an investor needs to put in at least that much to trade in the shares of SME companies.

This has been the reason of lower Retail and HNI participation in SME exchanges. It is understood that lot size of Rs. 1 Lakh is fixed, after considering the risk attached with investing in an SME company, which is said to be higher compared to the larger companies listed on the main board of the exchange and in order to keep away uninformed retail investors from the segment. Even country's two leading stock exchanges — the Bombay Stock Exchange and the National Stock Exchange — are unable to form a consensus on the issue of minimum trading lot size for the platform they have created for small and medium enterprises (SMEs).

There are always pros and cons of every matter, and lot size of Rs. 1 Lakh is not a exception. It is said that precaution is better than cure. Due to lot size of Rs. 1 lakh, uninformed retail investors stays away, and it is better for their own safety.

Both BSE and NSE launched their separate SME platforms in 2012. BSE has more than 120 companies listed on its SME segment, NSE has 11 entities on board so far. Now the SME platform is reaching its maturity, it is the time when more participation is required.

There are already measures like "Mandatory Market Making" for three years which solves the problem of low liquidity and gives safety to investors. A "market maker" is a firm that stands ready to buy and sell a particular stock on a regular and continuous basis at a publicly quoted price. A market-maker is responsible for enhancing the demand-supply situation in stocks.

Conclusion:

Apart from all the discussions going on, market seems to be very positive about SME markets. Momai Apparels Ltd.'s Rs. 43.33 crore IPO, Pantomath Capital Advisory Pvt. Ltd as lead manager to the issue, which came up during 25th to 30th September 2014 was oversubscribed by 1.84 times. It was biggest SME IPO for NSE Emerge Listing. Notably, the IPO received record participation with more than 2800 applications from retail & HNI investors.

Another SME IPO, Vidli Restaurants Limited, having Pantomath Capital Advisors Private Limited as lead manager, was oversubscribed by 6.82 times, having majority of application from retail participants.

In past, it is proven that SME companies gives good return on investment. Development of SME platform on both the exchange will be in favour of both the company and the investor. It is up to SEBI now whether to change the lot size of Rs. 1 Lacs or not.