

SME IPOs : Factors Affecting Investor Participation

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In last two decades, India's two leading nationwide stock exchanges i.e. BSE and NSE, have witnessed sharp changes in patterns of investment in capital markets. In 2012, both BSE and NSE, launched their platform for Small and Medium Enterprises viz BSE SME and NSE Emerge respectively.

It is to be noted that lot size of Rs. 1 Lakh is fixed by SEBI, after considering the risk attached with investing in SME stocks, in order to keep away uninformed retail investors from the segment. But current statistics are worth looking at. According to a study by World Federation of Exchange (WFE)s, retail investors have begun to dominate the BSE SME market. Today, retail participants have shown a great interest by subscribing to SME IPOs.

Let us look at factors affecting investor participation in SME capital markets. In a Fix price SME IPO, at least 50% of issue size must be allotted to retail participants. Factors like domestic propensity to save and invest, national policy environment and the extent of development of institutional base affects the participation of investors in the market.

The very basic factor which attracts retail participants in an SME IPO, is popularity of company in local markets. Initial investors in public offers can be the individuals who know the companies because they are from the same region or are involved in the companies in some way or the other eg. vendors or customers, dealers or distributors. However, as a company listed on SME platform becomes more established, investor base often gets broadened, including participation of institutional investors. Even China's markets are also dominated by retail investors (Accounting for up to 80% of the value traded). Although, ChiNext tends to have a higher Qualified Institutional Investors, than the other markets.

When we talk about participation of institutional investors, there are more than one factors. National policy environment such as permissible investments for institutional investors or development of more venture capital funds with specific focus on SMEs etc. needs to be tuned for SME capital markets.

Investor participation depends on domestic propensity to save and invest. Generally in India, savings in bank is always preferred over other investment options. But with increasing focus of stock exchanges, policy makers and market intermediaries, increasing participation from retail investors is being witnessed. In order to increase Development of more venture capital funds with specific focus on SME's is needed to increase participation of institutional investors.

SME exchanges dynamically changing the scenario of SME financing today. Exchanges and intermediaries such as merchant bankers have significant role to play for development of this source of financing for SMEs. Overwhelming participation by retail investors is a encouraging factor for growing SME capital markets of India. SME IPO, Vidli Restaurants Limited, having Pantomath Capital Advisors Private Limited as lead manager, was oversubscribed by more than 7 times in retail category.

In past, it is proven that SMEs provide good return on investment. What stops retail participants is concern of low liquidity in SME market. The concern of low liquidity, however, is addressed by the mechanism of mandatory market making, which provides a cushion in secondary market in the role of counter party. Till now, more than 135 companies have been listed collectively on SME platform. This platforms provides opportunity to SME entrepreneurs to raise equity capital for growth and expansion, apart from the traditional way of financing i.e. Banks. With increasing maturity of SME Capital Market, it

is believed that market will have versatile investor base, resulting in great opportunities for both company and investors.