

# MSMEs can be key contributors towards making India a \$5tn economy



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India is one of the fastest growing economies of the world. India is expected to grow by 7.1-7.6 per cent in 2022-23 and 6-6.7 per cent in 2023-24. This will ensure that India reigns as the world's fastest-growing economy over the next few years. In the last half-decade, the economic growth has steadily accelerated, driven by robust socio-economic policies of the government, an influx in the domestic and foreign capital and

rise in disposable income and consumption among many other positive attributes. One other major factor that is being touted as the backbone of India's economy growth is the transformation of Small and Medium Enterprises (SME) sector.

The Government of India has envisioned doubling the Indian economy to US\$ 5 trillion in five years. In order to achieve this goal, employment opportunities for the young population have been generated and MSMEs have served as a key contributor to employment generation. Therefore, the government has focused on promotion of MSMEs in order to create new jobs in the sector, enhance MSME's share in exports and its contribution to GDP.

Whether it is agriculture, manufacturing or service industry, SMEs are growing rapidly in a myriad of sectors across the country. There are about 6.3 Cr MSMEs in the country. Statistics show that SME accounts for 45% of industrial output and 40% of the total exports in India. It generates employment for 60 million people and creates 1.3 million jobs every year. Given that a majority of India's population lives in villages and Tier-1/Tier 2 cities, the SME sector has also emerged as a key factor for the growth & financial inclusion while urbanizing rural India.

However, in spite of its contribution to the socio-economic growth of India, SMEs face a number of challenges in their growth:

- Lack of capital due to inadequate access to finance and credit
- Inability to attract talented and tech-savvy manpower
- Poor infrastructure and utilities resulting in low production capacity
- Lack of innovation
- Technology and digital knowledge gap
- Lack of marketing know-how

Due to these challenges, the Indian SMEs are unable to scale to their full potential, rise up to the standards of their large Industry or International peers and become self-sustainable. On the positive side, these challenges should be perceived as untapped opportunities or focus areas of improvement for the SME sector. These challenges offer

a broad scope to strengthen the foundation of SMEs in India.

The SME sector has also gained recognition from the United Nations. According to the United Nations, this type of enterprises act as the first responders of the needs of the society, provide a safety net for inclusiveness and are a primary driver of poverty alleviation and development. Hence, the United Nations celebrates 'Micro-, Small and Medium-sized Enterprises Day' on 27th June every year to raise public awareness of this sector's contribution to sustainable development.

There are immense opportunities for the Indian SME sector to grow and thrive. All it needs to do is to adapt to the changing trends and embrace the tried and tested method of exponential growth in their business by utilizing the Multiplier Effect in their Valuations through the Capital Markets. In order to support and promote the SME Sector through the Capital markets, both BSE & NSE have setup separate dedicated SME platforms since 2012. Though the initial response from SMEs was not great, now there is tremendous spurt in the number of SME business listed or waiting to be listed on the dedicated SME Platforms. Here are a few reasons for this frantic rush amongst SMEs

## • Cultural Shift amongst SME businesses

Market has witnessed a big cultural shift in SMEs. A lot of things are being shown with greater levels of transparency in the books. The mindset shift has moved from tax-saving to Tax Paying/Profit-sharing. There is seen a clear emergence of the next generation involvement in family businesses, and in at least eight of every 10 entrepreneurs running family-owned businesses that we have met, the younger lot is very comfortable with Compliances and Transparency that comes with Listing. Technology comes easily to them; and many of them—in their late 20s or early 30s—have studied overseas before taking charge of their business.

We are seeing the formalization of the economy and the adoption of technology. This is not just in banking but investments are being made in sales, marketing and accounting as well, there has been a marked change in the way business is done by SMEs. Be it having an online presence, adopting cloud solutions, getting on to social media, data tracking with data and analytics tools, or manual operations being automated—the objective is to improve efficiency, productivity and keep up with competitors.

## • More States are participating in the Growth Story

It's a fact that more than half of the MSMEs come from the tier 2 and tier 3 cities. These small businesses are making a great name for themselves as stand out brands on the back of unique products and business models. Recent trends have shown participation from smaller cities and even across the length & breadth of the country. State Governments and regional SME associations are signing agreements with Exchanges with a common point agenda of promoting SME growth & development through Capital

Markets. The following table shows the participation across the length & breadth of the country. Prevest Denpro Ltd., an emerging Dental Supplies Company from Jammu, recently had a successful IPO listing. Major SME Industrial Hubs like MP, CG, Punjab, UP, AP have also seen increased awareness, acceptance and a desire for SME IPO Listings in recent days.

City	Company Listed	%
Maharashtra	201	31.36%
Gujarat	192	29.95%
Delhi	66	10.30%
West Bengal	35	5.46%
Rajasthan	28	4.37%
Madhya Pradesh	22	3.43%
Punjab	18	2.81%
Uttar Pradesh	13	2.03%
Telangana	13	2.03%
Tamil Nadu	12	1.87%
Karnataka	11	1.72%
Haryana	8	1.25%
Chhatisgarh	7	1.09%
Himachal Pradesh	2	0.31%
Uttarakhand	2	0.31%
Goa	2	0.31%
Andhra Pradesh	2	0.31%
Bihar	2	0.31%
J & K	2	0.31%
Jharkhand	1	0.16%
Kerala	2	0.31%
<b>Total</b>	<b>641</b>	<b>100%</b>

**• SME IPO is emerging as a new Favourite Wealth Creating asset class amongst Investors**

SME IPOs have drawn a lot of attention in the recent years. It is not only the retail investors who are now investing in these but also HNIs, Family Offices and numerous financial institutions. Promising SME businesses list themselves on the markets quite early and display great growth potential in the future. While the companies listed on the SME platform are becoming more influential, they are attracting more investors. Recent IPO of KN Agri Resources Ltd. saw participation of over 1 Lakh investors in its IPO.

**• Average IPO Size has Doubled in the last Decade**

Not only have the number of SME businesses opting for Listing has grown considerably over the years; we also see that the Average IPO size has more than doubled in the last decade.

**Average IPO Size Financial Year Wise (Rs. in Cr.) (\* 2022 data till Date)**

Year FY	Avg IPO Size	No.of Co.
2012	9.51	21
2013	9.29	38
2014	7.32	37
2015	6.79	46
2016	10.12	79
2017	14.56	147
2018	16.36	118
2019	11.74	43
2020	9.59	21
2021	14.32	64
2022*	20.53	12

**• Bolstering Wealth Creation – SME Market Cap ~75000 Cr.**

The Total market cap of companies listed till date on the BSE SME and the NSE Emerge is ~75000 Cr. It is commendable to see that such immense wealth creation has happened through this relatively newer asset class in just a decade.

**• Creating New Billionaires via Wealth Creation for SME Promoters**

The period of transformation for SMEs currently underway is throwing up huge business opportunities and going public is at the centre of it. Promoters of such businesses are acutely aware that this could lead to a huge upside for them as well. Contrary to Startup Funding, where the Promoter Stake at a late stage PE round is a mere ~25 – 30%, Businesses that list over the SME platform are more or less family owned with almost none to very little equity dilution before the Listing by the promoters. Businesses that have seen immense growth in their Market Cap post listing, say an EKI Energy that grew from 80Cr. MCap to about ~7500Cr. Mcap in January '22, ~75% of its shares were still owned by its promoters, positioning them amongst the top 1000 Richest in the Hurun List 2021.

**• Finance Experts as Growth Catalysts**

Nowadays growing businesses are not satiated by the run of the mill activities of taxation, Accounting or audits. As businesses have evolved, Finance professionals that act as Growth Experts for SMEs have also developed their offerings to play the role of a Virtual CXO or a Partner in SME Business Growth making these promising businesses fund worthy and define clear growth path towards Capital Market Listing.

With disruption being the name of the game, SMEs recognize the need to look at their own business differently and objectively. Going Public is a natural progression for the SME growth story. The window it opens up to the world that lies outside is too big to miss. It is left to the Promoters to make the most of it.