

SME IPO Market: Taking Newer Heights



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Small and Medium Enterprises (SMEs) have been acknowledged as the major driving force for Indian Economy with more than 64 million present in India today. Its been 5 years since the launch of SME Exchanges and currently Indian SME Exchanges are among the fastest growing exchanges globally. Flourishing amidst challenges, there has been a lot of positive changes throughout the journey. In the past few years, SME Exchanges witnessed tremendous growth in terms of subscription, investor classes, number of SMEs filing offer documents and getting listed, and the like. Looking at annual performance of the SME Capital Market, it is safe to say that the SME IPOs are catching up in record time.

Recent Developments in SME Capital Markets

While in the past the numbers increased steadily, but comparing the last 3 annual data we can see that the number of SMEs that have filed offer documents and got listed have doubled. This is because of the growing popularity of the SME Exchanges and increasing trust of the SMEs for raising not just capital but opening up more avenues to enter market and attain visibility among the stakeholders and customers.

Indian SME Bourses witnessed remarkable activities during FY16-17 in terms of filing draft offer documents as well as number of listings. Year 2016 witnessed several developments in this format of alternative capital markets and proved out to be a spectacular period for SME Capital Markets with more than Rs. 22,000 Cr of market capitalization.

Increasing SMEs tapping Capital Market

79 SMEs got listed in FY16-17 as compared to 46 in the previous fiscal year. 94 SMEs filed draft offer documents in FY16-17 while in FY15-16, 64. This significant increase in number bears proof that the SME Exchanges have provided a better platform for SMEs.

251 companies have been listed till date and have collectively raised a total capital of more than Rs. 2,200 crores. SMEs collectively raised Rs. 811 crores in FY16-17 as compared to Rs.

PARAMETERS	FY14-15	FY15-16	FY16-17	Apr – Jun 17
No. of SMEs Listed	37	46	79	24
No. of Filed Documents	46	64	94	31
Funds Raised (Rs. In Cr.)	271	304	811	309
Avg. IPO Size (Rs. In Cr.)	7.32	6.59	10.12	12.9

304 crores and Rs. 271 crores respectively in FY15-16 and FY14-15, respectively.

186 SMEs have been listed on SME Platform of BSE (29 SMEs got migrated to Mainboard) and 66 on NSE Emerge (2 SMEs migrated to Main Board). These SMEs represent diverse industry base such as manufacturing, agriculture, aquaculture, food and processing, real estate and infrastructure, media and entertainment, IT services, etc. based out of more than 45 cities.

Institutional Participation on SME Stocks

There is a growing interest in investor base for SME IPOs. Institutions have gradually started showing interest in the SME companies by investing in a few of them. SME IPO of Bohra Industries Limited became the first one to receive investment from Foreign Institutional Investor on NSE Emerge, Blackrock Mutual Funds took blocks of shares in Momai Apparels Limited, Union Bank participated in Agrophos India Limited, Reliance Mutual Fund invested in Valiant Organics Limited, large brokerage house(s) participated in IPOs such as MRSS Limited, MD Inducto Cast Limited, Maheshwari Logistics Limited and Nandini Creation Limited. This is also an indication of growing popularity of SME Capital Market in India.

Biggest IPOs launched in FY16-17

Euro India Fresh Foods Limited, a company based out of Surat, Gujarat; debuted on SME Exchange Platform with an issue size of Rs. 51.25 crores and got listed on 31st March, 2017. This record was surpassed by Zota Healthcare Limited with an issue size of Rs. 58.50 crores on 10th May, 2017. Not only did it set a record of the biggest SME but it also received maximum number of applications. A very few would have imagined that SME bourses could be tapped for an IPO of more than Rs. 50 crores. Back to back IPOs of more than Rs. 50 crores are trend setting IPOs defying many apprehensions across.

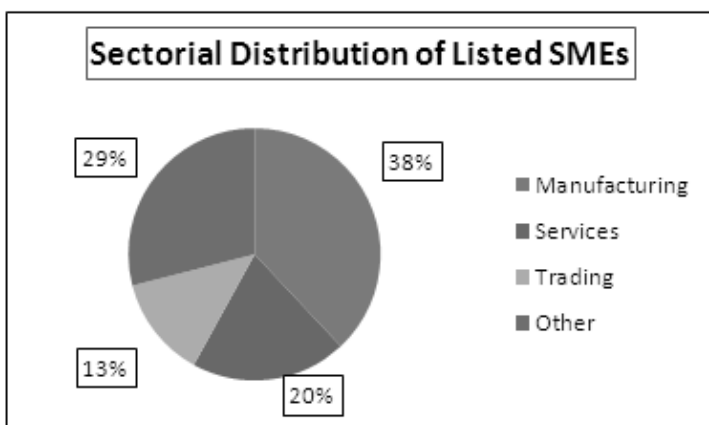
First Ever Further Public Offering (FPO) on Indian SME Bourses

Since its launch, SME Capital Market witnessed its First Further Public Offer (FPO) during FY16-17. MRSS successfully raised Rs. 10 crores via book-built SME FPO. Various companies listed on Indian SME Bourses has done private placement in the past after their IPO. But this was the very first time when a company listed on SME Bourses had come up with an FPO. SME stocks, on average have clocked highest returns. Instances of SME companies raising funds at enhanced valuations lend nothing but desired confidence and credence to this platform and valuation of stocks housed therein.

SME Listing Trends in India

Geographically, maximum number of SMEs listed are from Gujarat (76) followed by Maharashtra (70) and Delhi (33). 19 SMEs are from West Bengal and 17 from Rajasthan; Telangan, Andhra Pradesh and Chattisgarh also contributed.

Key Trends:	
•	Avg. IPO Size: Rs. 10-13 Crores
•	Biggest IPO: Rs. 58.50 Crores
•	Biggest T/O Co.: Rs. 600 Crore
•	Maximum no. of applications: – 56,000 Applications
•	Gradually increasing investor participation - Retail, HNI and Financial Institutions
•	Fastest growing globally
•	Oversubscription in almost all the IPOs



States	No. of SMEs Listed
Gujarat	76
Maharashtra	70
Delhi	33
West Bengal	19
Rajasthan	17
Tamil Nadu	8
Karnataka	7
Madhya Pradesh	5
Uttar Pradesh	4
Punjab	3
Union Territory	2
Bihar	2
Telangana	2
Chandigarh	1
Andhra Pradesh	1
Chattisgarh	1
Total	251

New Age Businesses

In the recent times, we have witnessed a flurry of activities in the capital market across sectors unlike earlier years where fund raising was concentrated in particular sectors. Moreover within the past few years there are a number of SMEs that have brought potential IPOs on the avenue. Investors are attracted to new concepts and emerging innovation in a business and its productions. To name a few – Panache DigiLife Limited is an SME engaged in manufacturing of varied range of IT infrastructure products, embedded solutions and electronic designs; Jiya Eco Products Limited is into non-conventional bio-fuel; DRA Consultants is into providing infrastructure consultancy; Mangalam Seeds Limited is an SME engaged in producing improved and hybrid seeds, Majestic Research Services and Solutions Limited provides market research services. These SMEs brought new types of industries to the platforms and these entrepreneurs are bringing new and innovative products based on the changing era and consumer taste which is why these businesses possess huge potential and are garnering better response on the SME Capital Market.

SME IPOs churning better returns irrespective of size

SMEs having a paid up capital of Rs. 1 crore can seek listing its shares on NSE Emerge and a company having Rs. 3 crores can seek listing on BSE SME Exchange. And there are SMEs with a turnover less than Rs. 10 Crores but are providing handsome returns to the investors. A classic case is MRSS India. With turnover less than Rs. 5 crore, the company came out with an IPO of Rs. 1.4 crore at the rate of Rs. 12.75 per share and got listed on 16th July, 2015. The market price of the company currently hovers around Rs. 405/- per share. It came up with an FPO in December, 2016 at a price of Rs. 114 per share. SME companies as Ambition Mica Limited, MD Inducto Cast Limited,

Ultracab India Limited, Vidli Restaurants Limited, Lancer Container Lines Limited, DRA Consultants Limited have also rewarded investors with fruitful return. This goes to show that the size of the business doesn't matter, but the quality and potential does.

Particulars	AIFL	MRSS	Yidli Restaurants	Mangalam Seeds	Ultra Cab	Patdiam Jewellery	MD Inducto Cast	Comsyn	Sysco	Ambition Mica	Maheshwari Logistics Limited
City	Mumbai	Bengaluru	Mumbai	Ahmedabad	Rajkot	Mumbai	Bhavnagar	Indore	Surat	Ahmedabad	Vapi
Industry	Textile	Research	Hotel	Seeds	Cables	Jewellery	Steel	Packaging	Textile	Paper Products	Logistics
Issue Statistics (Rs in Cr)											
Pre Issue Networth	11	3	3	5	6	25	25	27	24	6.56	59.43
Issue Size	21	1	2	6	8	5	17	8	2	4	27
Market Capitalisation	955	228	81	117	202	55	356	94	45	93	302
Price Pattern											
Issue Price	40	13	10	50	36	38	27	24	10	45	68
Market Price (Highest)	481	455	187	213	158	127	148	80	57	77.80	204.35

Encouragement and subsidies from Government for SMEs

Finance is probably the most sensitive area relating to MSME sector. Emergence of SME Exchanges in India has proved out to be a boon for the SMEs who wished to raise funds in the form of equity capital.

Gujarat Government has been promoting SME Capital Markets and encouraging its SME units to raise funds thereon. The Government subsidizes 20% of total expenditure incurred on SME IPO, limited maximum upto Rs. 5 Lakhs. The Government reimburses this amount post successful completion of IPO and listing of the SME Company on Stock Exchange Platform. The Government also organizes entrepreneurial skill development program for SMEs.

This scheme encouraged SMEs to opt for raising finance through SME Platforms, which provides an easy access to raise capital ensuring increase in the company's credibility in the market. Government of Gujarat was the first state to have come out with such a scheme for encouraging its SME units to raise growth capital and list on stock exchanges.

Mangalam Seeds Limited (MSL) was the first company to successfully take benefit of this scheme of Government of Gujarat. Following the example of MSL, today Gujarat has contributed significantly to the SME Capital Markets. Total funds raised by Gujarat SMEs on SME Exchanges exceed Rs. 770 crores out of total funds of approximately Rs. 2200 crores raised. Rajasthan Government has also announced a similar policy, to reimburse up to Rs 2.5 lakh towards IPO expenses for SMEs there. Bihar, Maharashtra and West Bengal have reportedly come up with funding schemes for investing into profitable business with growth potential.

Migration Trend

It has been observed that while there is an option to migrate to main board, many companies have chosen not to do so. As out of these 251 SMEs, 31 companies have already migrated and there are many more that are eligible for migration but have stayed on SME Exchange Platform still. More than 50% of listed SMEs which are eligible for migration onto Main Board have preferred to continue being on SME Platforms. This patronage of emerging companies for SME Platforms, is quite healthy and constructive trend, defying a notion that SME Platforms are conduits for easy Mainframe entry. This goes to show that SME Exchange Platforms have as much potential as the Main Board in terms of value.

Conclusion

The outlook for the year 2017 appears to be quite promising and path breaking for SME Capital Market. SME IPOs and listings have picked up pace in first half of 2017 itself with listing of 56 companies and is expected to stay strong in the second half as well. SME capital market is anticipated to be bullish and continue to show an upward trend in number of IPO listings as well. Companies and Promoters across various spectrum of industries and sectors are now willing to get their company open to public at large and adopt transparent governance and business practices and bag multifarious benefits of listing. This is aided by increasing interest of investors in SME companies which can be seen as there are over subscriptions in almost all SME IPOs. We can categorically say that larger area of this segment is still untapped. The journey of SME capital market so far has been quite vibrant and is expected to grow at faster pace in near future.