

SME Listing Platform: Bridging gap between Private Investments & Main Board Listing



Gaurav Jain
Director
Hem Securities Ltd.

India is Land of SME's with contribution of almost 8 % to GDP , 45% to total manufacturing output and 40 % of exports. Every month more and more Indians are taking up Entrepreneurship and setting up startups being funded by Bootstrapping, Angel Investors, VC Funds, Private HNI individuals etc. Most of these investors are trying to identify companies at

early stage before there acceleration to growth and later to go Public. Many investments comes with Buy back clauses and other restrictions/ compulsions / Do's & Don't's with written agreement binding Promoters/ Entrepreneur & Entity.

SME exchange was unique concept which allowed companies in there growth stage to directly raise capital from general masses including Retail , HNI's & Institutions.

SME Segment Evolving: Last 6 years, since when SME Exchanges were set up we have seen significant changes in attitude of investors applying in SME companies. New breed of investors have developed who have appetite to invest in growing companies which are also listed and given them option to invest even in low amount.

Liquidity far better then Private Equity Space: Most of time SME Exchange listed companies are being mis-compared with companies listed on Main Board. As in Private Equity whereby investments are done keeping long term into consideration companies listed on SME Exchange are similar instrument for investing for long term and waiting for companies to grow and Migrate to Main Board. Still being instrument for long term it provides reasonable liquidity by being traded daily on Exchange Trading Platform.

Recent Development: One of the Exchange has changed its eligibility criteria recently which in simplified terms now make every SME eligible for listing if it has existence of 3 years, positive net worth and capital is not more than 25 crores.

Rising Institutional Participation & Launch of SME oriented funds: SME which were earlier perceived as Exchange with smaller companies are now being perceived as Exchange with Growing companies and have seen interest from many Institution including PMS funds, Family offices, AIF funds and Mutual Funds. Also many AIF's are now being created specifically to invest in SME Exchange Listed companies.

Need of Hour: With the rising number of SME IPO's every month, what is eminently required is coverage of existing listed companies on the exchange by Research houses and recommendations on ongoing IPO's. Distribution of these product have to be cautiously planned to reach investors with high risk appetite rather then to small retail investors because of inherited nature of SME companies. Growth also comes with challenges, companies & management which have capability of growing despite every challenge have to be pushed for deeper financial inclusion.

Rising Self-Corporate Governance : Many companies listed on SME segment are now option of giving quarterly results rather then half yearly as required by law and are now pro actively holding investor conferences for providing better insights to existing & potential investors.

Rising Average Issue Size: Average issue size which used to be earlier 7-8 crore have now doubled to 16-18 crore and will move further. We expect this to further increase in near future.

Success stories in the segment : Large number of companies which were listed 3 years back have been shifted to Main Board already giving multi fold returns to investors. These sort of cases will further enhance visibility of the segment and will bring more credible investors in coming future.

Caution before Investing: As mentioned SME companies along with growth also brings with them uncertainty and risk associated. Investors have to carefully evaluate each proposal before investing looking into Promoters track record, Valuation at which shares are being offered, Sector growth etc. as at this point not much companies are covered by research agencies its important for the investor himself to assess a good company.

High impact of Macro Markets: As SME company's lies at the bottom of pyramids with Large cap on the top then Midcap followed by Small Caps. These are

companies in micro cap are largely impacted for share price, liquidity and investments in case of a Bull & Bear Market. Bull market may bring large number of investors even at higher valuation and a bear market will ensure low buyers even at dirt-cheap valuation. Investor's patience and strong conviction on investee companies over long term will help yield best returns.

Investor community should keep in mind that SME companies with quality management and with proven track record will eventually become bigger, they should

try to keep a small portion of their total portfolio in these micro caps which are like pickle in your plate which may taste good along with entire food rather than having entire food with it.

We have seen more than 420 listings since inception and figure is bulging every year. India is one of the fastest Nations to add up Listed companies in this segment and another decade may see India as Nation with highest listed companies on SME Exchange globally.
