

Small and Medium Enterprises – Superpowers of Indian Economy



Radha Kirthivasan
Head-Listing & SME
BSE Ltd.

Introduction

With a gross domestic product (GDP) of nearly USD 4.3 trillion, India is now the fourth largest economy in the world, overtaking Japan and is expected soon to take over Germany as the third largest economy in the 2-3 years. A good measure of this growth for this economy has come from the over 7.34 crore micro, small and medium enterprises (MSME), which account for nearly 30% of the country's GDP, 41% of manufacturing gross value add (GVA) and a mammoth 44% of the country's exports. Further segment also contributes largely to the employment of the country, accounting for over 25 crore individuals and approx. 60% of its workforce¹.

Globally MSMEs have played an important part in development of economies; for instance, in the US, they account for 99.5% of all businesses as per the US Chamber of Commerce, generating 44% of the country's GDP and employing 60% of the workforce. Meanwhile, closer to us, in China, the MSME account for 98.5% of businesses, generating 60% of their GDP and employing 75% of their workforce.

MSMEs have manifold benefit in contribution of any economy.



Source: BSE SME

The government of India has taken a lot of initiatives to develop this ecosystem including revised classification criteria for MSMEs; registration of MSMEs through Udyam portal for ease of doing business; Rs 50,000 crores equity infusion through Self Reliant India Fund; no global tenders for procurement up to Rs 200 crores; Rs 5 lakh crores Emergency Credit Line Guarantee Scheme; Rs 20,000 crore Subordinate Debt for stressed MSMEs; etc.

Apart from these there are numerous programs that are being undertaken for promoting the growth of the MSMEs viz., Raising & Accelerating MSME Performance (RAMP) scheme; Infrastructure & Capacity Building program; MSME Champions scheme; PM Vishwakarma; etc. The efforts taken towards Indian MSMEs will lead bringing in sustainable economic growth by focusing on targeted interventions, building stronger institutional collaborations and enhancing global competitiveness.

Capital market participation enhances this ecosystem

While the government of India continues with its efforts to develop the ecosystem through the formal credit system, it is also important that this important component of the economic story also benefits from the thriving capital market of the country. MSMEs can generate capital for development infrastructure and next level of growth while also augmenting wealth creation in the country.

For MSMEs to transition & transform, raising of money from the capital market through initial public offerings (IPO) is a potent tool since it enables sizeable fund raising at an optimal valuation.

Beyond capital raising, the money raised through the capital market can help MSMEs become global manufacturing

& service provider with top class infrastructure and delivery platform. It also provides the company and its stakeholders with the much-needed liquidity. It is also an important step in corporatising the company, have a strong compliance & governance framework. Listing of securities on the SME platform has provided a new pathway to the SMEs wherein they are able to plan their growth story and ultimately strengthen their business models with nimble capital management strategy. Further, IPOs is just one step, companies can go additional rounds of fund raising based on their capital requirement. There have been instances wherein the quantum of such fund raise has been higher than the entire market capital of the company at the time of listing.

Strong performance and growth can also enable SMES to achieve the big dream of playing with the larger corporates and listing on the mainboard platform. There are numerous examples of MSMEs that have listed on the SME platform and have gone on to become successful corporations thereby creating jobs, allied business opportunities, sector upgradation, capital formation and wealth creation.

BSE SME Platform

BSE SME platform which was introduced in March 2012 is a platform which helps MSMEs to raise funds from the primary capital markets. The BSE SME platform has emerged as a major gateway for small and medium enterprises to access institutional and public capital. Since the inception of the platform, the exchange has helped entrepreneurs transition from the unorganised sector into the regulated fold.

A JOURNEY OF GROWTH, GRIT AND PROGRESS

600 SMEs listed! 10,650 Cr+ raised!



Source: BSE SME

The average size of SME IPOs has increased in last 10 years from around Rs 9 crores in FY14 to Rs 35 crores in FY25 indicating market appetite for larger issuances.

GROWTH THAT SPEAKS FOR ITSELF

Bigger raises. Higher issue sizes. More main board moves.

PERIOD	13 th March 2012 to 31 st March 2017	1 st April 2017 to 31 st March 2022	1 st April 2022 to 4 th August 2025
Companies Listed (Nos.)	175	192	233
Fund Raised (Rs Crs)	1382	2516	6754
growth in fund raise (%)		82%	168%
Average Issue Size (Rs Crs)	8	13	29
growth in average issue size (%)		66%	121%
196 companies from the BSE SME platform have migrated to the Main Board			

Source: BSE SME

BSE SME DRIVING PROGRESS ACROSS INDUSTRIES

Each company, each sector needs growth capital.



Source: BSE SME

Governance, outreach and technology initiatives by BSE

At BSE, we believe that improving investor education and creating a supportive ecosystem can help foster a thriving SME IPO market. The exchange has consistently worked with the regulator to enhance the governance in the ecosystem. Measures by the regulatory to amend listing requirements such as mandating a minimum of Rs. 1 crore operating profits, limiting the offer for sale (OFS) Component to 20%, restricting utilisation of funds for repayment of loans taken from promoter/ promoter group entities, and capping of general corporate purposes to the lower of %10 crore or 15 per cent of the total issue size were immediately made effective.

Meanwhile, the exchange has been engaging with the Merchant Bankers to spread awareness about recent regulatory amendments. Jointly in consultation with the other exchange, guidelines have been issued to the Merchant Bankers highlighting key concern areas which need to be addressed at the time of filing of the Draft Offer Documents. BSE has also been conducting various seminars across cities (Including tier 2 and tier 3 cities) in collaboration with various industry associations and other government bodies and meeting promoters of SME companies to educate them on the benefits of listing. The exchange has also strengthened the due diligence process to ensure that only sound companies enter the market.

Further, BSE has recently launched a generative artificial intelligence (AI) tool to for a preliminary scrutiny of the SME IPO document. Merchant Bankers have been provided a precheck facility for self-validation of the draft offer document to the Merchant Bankers through use of Gen AI technology. The AI would analyse the document and generate a report highlighting areas where the merchant bankers need to focus to make the draft offer document ready for formal filing.

Investor sentiment

The significant growth potential envisaged in SME companies and to tap it at an early stage has seen strong support from the investor community in the country including retail investors. But since these companies are small, they are riskier than the mainboard companies especially for retail investors who might not have the wherewithal or risk appetite. In this regard, the recent regulatory move to amend investment category 'Retail Individual Investor' to 'Individual Investor' and the minimum size of application is . at least X2 lakh (i.e for two lots) is a welcome move.

Investors in the segment need to make an informed decision before making any investment. Some of the factors that may be taken into consideration would be understanding the nuances of the business, the ability of the promoters to scale up the business, study the industry in which the company is operating etc.

The Road Ahead

India's per capita income which stood at around USD 2,700 in 2024 is expected to add another USD 2,000 per capita in the next five years. India's large population and rising per capita income is expected to increase investments in the capital markets. This will also enable sophistication of investors and have a stronger financial ecosystem thereby attracting more companies to the primary capital markets.

SMEs are the backbone of our economy, strong government support along with regulatory push can help in capital formation and growth of the segment, helping the country achieve Viksit Bharat. SME platforms such as BSE SME offer companies in the MSME segment to unlock their growth potential, and this initiative can contribute significantly to the economic development of the nation. SME entrepreneurs can use this facility to achieve next level of growth helping achieve the dream of Viksit Bharat.