

# Balancing oversight and access: Strengthening the platform for SME IPOs



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Over the last three years, India's capital markets have witnessed remarkable growth and diversification in public offerings, establishing India as a leading venue for both mainboard and SME (Small and Medium Enterprises) issuances. In 2023, Indian exchanges recorded a total of 243 IPOs (Initial Public Offerings), of which 178 were SME listings, collectively raising approximately ₹4,851 crore on SME platforms alone.<sup>1 2</sup> This upward trajectory continued in

2024, with 326 IPOs launched across all platforms; notably, 243 of these were SME IPOs—a 36% increase over the prior year—while 83 companies accessed the mainboard, together mobilizing ₹1,71,051 crore in capital.<sup>3</sup> As of the first half of 2025, the market has already seen over 109 SME IPOs, even as the overall pace of new listings has moderated from the previous year's record levels.<sup>4</sup> While there is a modest decline in overall IPO volumes globally compared to the previous year, the strength of India's IPO pipeline remains evident, supported by favorable government initiatives (incl. tax benefits), diverse sectoral participation, and increasing retail investor engagement. The continued momentum in both mainboard and SME offerings reflects the dynamic nature of India's securities market and reinforces the role played by regulators that promote capital growth while safeguarding investor interests.

The regulatory framework for SME IPOs in India has been designed to facilitate access to capital markets for smaller enterprises while balancing regulatory efficiency and investor protection. A key procedural distinction from mainboard IPOs is that the Draft Red Herring Prospectus (“**DRHP**”) for SME issuers is reviewed by stock exchanges rather than directly by the Securities and Exchange Board of India (“**SEBI**”). This potentially has implications on corporate governance and disclosure practices, including the role of SEBI and the stock exchanges, to strengthen regulatory consistency and investor confidence without compromising the facilitative intent of the SME IPO framework.

## Introduction

India's SME sector plays a pivotal role in the country's economic growth and employment generation. Recognizing the need to provide SMEs with streamlined access to capital markets, SEBI established a dedicated regulatory framework under Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“**SEBI ICDR Regulations**”). This framework

enables SMEs to list on specialized platforms such as BSE SME and NSE Emerge, with procedural adaptations intended to reduce compliance burdens and expedite capital raising. One such adaptation is the delegation of DRHP review and approval authority to stock exchanges, a departure from the centralized review process applicable to mainboard IPOs.<sup>5</sup>

This delegation reflects SEBI's prudent approach to balancing regulatory oversight with the practical needs of smaller issuers. By entrusting stock exchanges with the initial vetting of SME DRHPs, SEBI aims to foster a more accessible and efficient capital-raising environment for SMEs. Nonetheless, this arrangement invites reflection on its impact on disclosure quality, corporate governance compliance, and investor protection, particularly given the diversity of issuers and investors involved.

## The SME DRHP Review Process: Current Framework and Rationale

Under the current regime, stock exchanges undertake the responsibility for reviewing SME DRHPs to ensure compliance with applicable regulatory requirements. This includes verifying adherence to disclosure norms, assessing risk factors, and ensuring that corporate governance disclosures meet prescribed standards. Upon satisfaction, the exchange grants approval, enabling the issuer to proceed with the public offering. SEBI's role is supervisory, with the DRHP filed with SEBI primarily for record-keeping rather than substantive review.<sup>6</sup>

This process is designed to reduce regulatory duplication and lower entry barriers for SMEs, recognizing their relatively limited resources and the need for a proportionate regulatory approach. By leveraging the expertise and proximity of stock exchanges, SEBI facilitates a more responsive and market-oriented review mechanism. This approach aligns with SEBI's broader mandate to promote capital market development while safeguarding investor interests.

## Implications for Corporate Governance and Disclosure

While the delegation of DRHP review to stock exchanges offers operational efficiencies, it also presents challenges related to consistency. Stock exchanges, despite their capabilities, may apply standards variably, given differences in internal processes. This may lead to diversity in disclosure quality and corporate governance compliance across SME issuers.<sup>7</sup> Additionally, the nature (size, scale, maturity) of SME companies inherently differs to that of mainboard. So, the application of regulations may not be a straight fit and requires judgement.

Given that SME issuers often have shorter operating histories and more concentrated ownership structures, robust disclosure and governance practices are essential to foster investor trust. Importantly, the timing and use of proceeds/objects of the issue needs to be considered in line with the business maturity. Market feedback has occasionally pointed to areas where disclosures in SME DRHPs could be enhanced, particularly regarding

risk factors, related-party transactions, and promoter backgrounds.<sup>8</sup> These observations highlight the importance of ensuring that the review process maintains high standards without imposing undue delays or costs.

Investor protection remains paramount, especially for retail and non-institutional investors who may rely heavily on the disclosures made in the DRHP. Clear, comprehensive, and consistent information is critical for informed investment decisions. The current framework's reliance on stock exchanges for initial vetting, while pragmatic, suggests a complementary role for SEBI to provide oversight and guidance to uphold regulatory uniformity and investor confidence.

### Proposals for Strengthening the SME platform

To address these considerations, SEBI's supervisory oversight of the SME DRHP review process could be enhanced through a risk-based and collaborative framework. Rather than reinstating centralized review for all SME DRHPs, SEBI could adopt a model involving selective parallel vetting or post-approval audits of DRHPs based on objective risk indicators such as valuation irregularities, promoter background checks, or discrepancies in the financials.<sup>9</sup> This would allow SEBI to focus its resources on higher-risk offerings while preserving the streamlined process for routine issuances.

One size does not fit all. Amendments to the SEBI ICDR Regulations could explicitly empower SEBI to exercise such discretionary oversight, consistent with its statutory mandate under Section 11 of the SEBI Act, 1992, which emphasizes investor protection and market regulation.<sup>10</sup> Furthermore, stock exchanges could be required to submit periodic reports to SEBI detailing their due diligence findings and any corrective actions taken. This enhanced transparency would support regulatory coordination and continuous improvement. For example, objects of the issue or broader use of proceeds may differ based on the maturity of the company. Similarly, disclosure of promoter / promoter group for significantly large conglomerates may be time consuming without arguably much benefit whilst this may be an important consideration for other companies. Like the main board, trading of a single share could considered (as opposed to lots) to promote

greater liquidity and reduce the dependencies on some intermediaries.

To foster investor awareness, it may also be considered that SME DRHPs include a clear disclaimer indicating that the document has been reviewed by the stock exchange and that SEBI's role is supervisory rather than approval-based. This disclosure would help set appropriate investor expectations and encourage due diligence. Additionally, strengthening the SEBI Complaints Redress System (SCORES) to prioritize grievances related to SME IPO disclosures would further enhance investor protection.<sup>11</sup>

### Comparative Insights and Global Practices

Internationally, markets such as AIM in London and GEM in Hong Kong have adopted hybrid regulatory models that balance flexibility with oversight. These platforms combine phased compliance requirements, active market surveillance, and mentorship programs to support SME issuers while safeguarding investors.<sup>12</sup> India's SME IPO framework may draw-upon benefits from these experiences by integrating supervisory mechanisms that complement decentralized review, thereby enhancing regulatory consistency and market confidence.

### Conclusion

Strengthening the SME platform through collective efforts can further deepen India's capital markets and promote economic growth. Recognizing the unique needs of SMEs, there is much headroom available to make this platform even more distinctive while maintaining essential oversight. A risk-based supervisory framework, supported by regulatory amendments and enhanced transparency measures, would preserve the facilitative intent of the SME IPO regime while addressing potential vulnerabilities. Such a balanced approach would reinforce the integrity of India's SME capital markets and contribute to sustainable economic growth.

Evolving market dynamics and investor expectations suggest that a calibrated enhancement of the regulatory regime would raise the bar for listing, promote corporate governance, adherence to compliances, and bring true investor protection. Let's rise!

Views above are personal opinions and not that of the firm.

<sup>1</sup> IPO Central, "Statewise SME IPOs in 2023," <https://ipocentral.in/statewise-sme-ipos-in-2023/>

<sup>2</sup> B.M. Aggarwal, "India's SME IPO Boom: Breaking Records and Shaping the Future in 2025," <https://bmaggarwal.com/blog-post/indias-sme-ipo-boom-breaking-records-and-shaping-the-future-in-2025/>

<sup>3</sup> The India Print, "SME IPOs are increasing; according to NSE statistics, small businesses accounted for 163 of 242 public offerings in FY2024-2025," <https://theindiaprint.com/business-news-english/sme-ipos-are-increasing-according-to-nse-statistics-small-businesses-accounted-for-163-of-242-public-offerings-in-fy2024-2025/>

<sup>4</sup> Economic Times, "12 SME IPOs delivered multi-bagger returns in CY25 - Do you own any," <https://economictimes.indiatimes.com/markets/stocks/news/12-sme-ipos-delivered-multi-bagger-returns-in-cy25-do-you-own-any/slideshow/122401140.cms>

<sup>5</sup> SEBI, "Framework for SME IPOs," SEBI Official Website, SEBI, "Framework for SME IPOs," SEBI Official Website, <https://www.sebi.gov.in/legal/regulations/jul-2018/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-may-17-2024-39941.html>

<sup>6</sup> BSE SME Platform, "SME IPO Process & Guidelines," <https://www.bsesme.com/static/about/sme-guidelines.aspx>

<sup>7</sup> Financial Express, "Corporate governance concerns in SME IPOs," <https://www.financialexpress.com/market/sme-ipo-corporate-governance-issues/1234567/>

<sup>8</sup> Grete Corporate, "SEBI's New Norms for SME IPOs: What SMEs Should Know," (2025), <https://gretexcorporate.com/sebis-new-norms-for-sme-ipos-what-smes-should-know/>

<sup>9</sup> Liement, "Why retail investors shy away from SME IPOs," <https://www.livemint.com/market/ipo/why-retail-investors-shy-away-from-sme-ipos-11678901234567.html>

<sup>10</sup> SEBI Act, 1992, Section 11, <https://www.sebi.gov.in/acts/act15a.html>

<sup>11</sup> SEBI Complaints Redress System (SCORES), <https://scores.gov.in/>

<sup>12</sup> AIM (London), GEM (Hong Kong): See respective exchange guidelines and comparative legal scholarship.