



Introduction

Since its launch in March 2012, the SME Exchange¹ has grown significantly and evolved to become a major force driving the growth of Small and Medium Enterprises (SMEs). The market capitalization of listed firms ranged from US\$239,000 to US\$107.5 million with a median of US\$2.6 million, and total market capitalization for the SME Platform was just over US\$1 billion.²

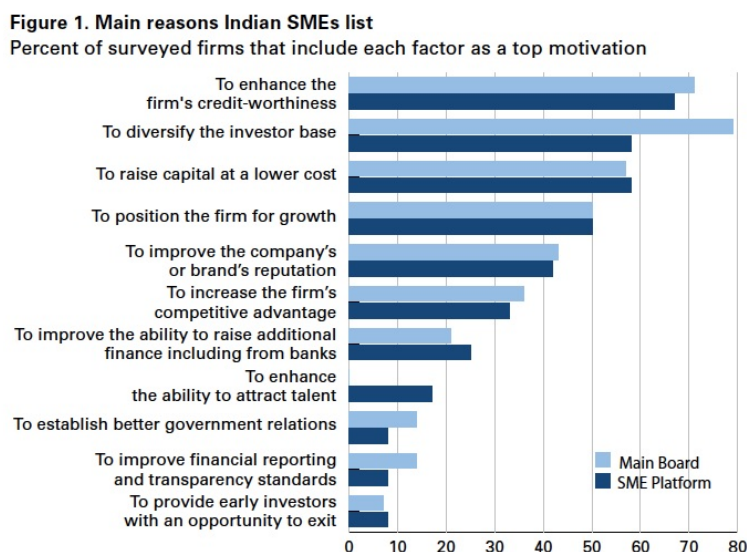
In this article, we will discuss its significant growth in just over 5 years.



Number of SME IPOs

As of February 2017, over 160 SMEs have listed on the BSE-SME platform. Manufacturing and utilities companies make up more than half of the current listings.³ Meanwhile, over 60 SMEs have listed on NSE Emerge, which has seen a significant growth with over 75% of these listings taking place in 2017 itself. This increase in number of IPOs shows that SMEs are now seeing the benefits of listing.

A report by the Milken Institute Center for Financial Markets explains that the SMEs they surveyed cited improved access to finance as their primary reason to list. Listing not only enhancing their creditworthiness but also enabled them to raise lower-cost capital and made it easier to raise additional finance including from banks. Figure 1 shows the main reasons why SMEs list.



Source: Milken Institute Center for Financial Markets (CFM) survey of SMEs in India

¹ <http://www.keynoteindia.net/the-sme-exchange-a-primer/>

² Jacqueline Irving et al., "Can Stock Exchanges Support the Growth of Small and Medium-Sized Enterprises?", Report by the Milken Institute Center for Financial Markets.

³ Jacqueline Irving et al., "Can Stock Exchanges Support the Growth of Small and Medium-Sized Enterprises?", Report by the Milken Institute Center for Financial Markets.



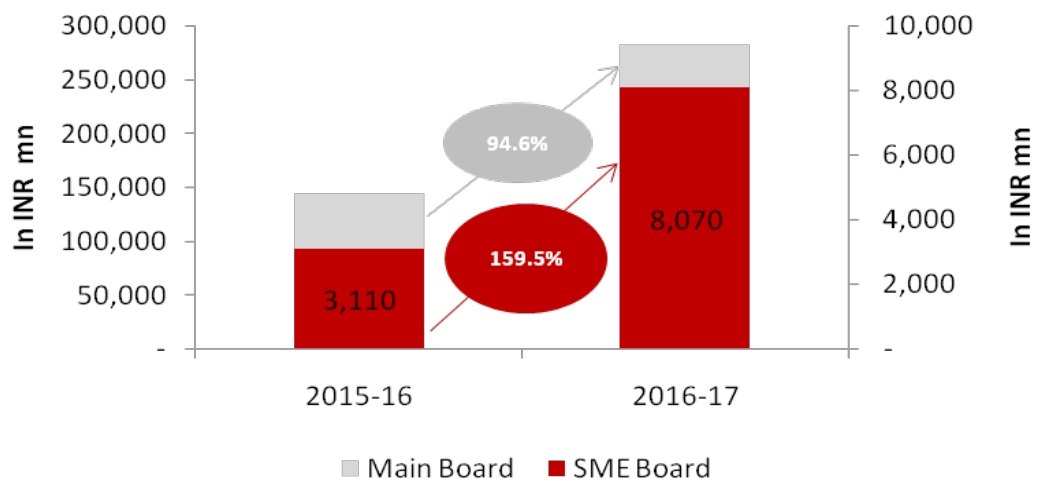
Increased Issue Size

Since its launch, the SME Exchanges have not only become larger in terms of issue size but are also attracting more investor appetite (Table 1). In fact, growth of the amount raised by SME IPOs has surpassed the growth of the Main Board IPOs by nearly 65%. (Table 2)

Table 1

| Sr.No | Company | Issue Size (Rs. Cr) | No. of Times Subscribed | Issuance Date |
|-------|---|---------------------|-------------------------|---------------|
| 1 | Veto Switchgears and Cables Limited (*) | 25.00 | 1.54 | 13-Dec-12 |
| 2 | Mitcon Consultancy | 25.01 | 0.93 | 01-Nov-13 |
| 3 | Momai Apparels Limited | 30.00 | 1.62 | 16-Oct-14 |
| 4 | Maheshwari Logistics Limited | 27.17 | 4.37 | 16-Jan-17 |
| 5 | Steel City Securities Limited | 26.99 | 4.88 | 17-Feb-17 |
| 6 | Akash Infra Projects Limited | 25.50 | 1.85 | 15-Mar-17 |
| 7 | Euro India Fresh Foods Limited | 51.25 | 1.09 | 31-Mar-17 |
| 8 | Bohra Industries Limited | 25.15 | 3.23 | 05-Apr-17 |
| 9 | InfoBeans Technologies Limited | 36.78 | 31.17 | 02-May-17 |

Table 2



Positive Experience

Companies who have listed on the SME Exchanges have generally reported a better listing experience than they expected. In fact SMEs listed on the SME Exchanges report a higher level of satisfaction than their peers on the main board.⁴

⁴ Jacqueline Irving et al., "Can Stock Exchanges Support the Growth of Small and Medium-Sized Enterprises?", Report by the Milken Institute Center for Financial Markets.

Similarly while 20% of the SMEs listed on the main board were unhappy with the impact of listing on financial performance and profitability, no company on the SME exchange reported this kind of dissatisfaction.⁵

Compared to 50% of the SMEs on the main board, only 18% of companies on the SME board reported that the reality of being listed as a public company and the loss of control that comes with it was worse than they expected. One third of companies on the SME exchange even found the experience to be better than expected.⁶



Increased Investor Interest

Companies on the SME Exchange have been satisfied with their liquidity level as opposed to less than 80% on the main board. Similarly, the interest from institutional investors met or exceeded expectations on the SME platform, while nearly 30% of the SMEs on the main board were disappointed with the interest garnered.⁷



The Way Forward

The main challenge before the SME Exchanges is to create awareness about listing on the platform, and the process for the same. There are many misconceptions surrounding the aftermath of listing and unless these myths are dispelled, SMEs will shy away from listing. The Exchanges must conduct awareness workshops and disseminate information regarding the benefits of listing and how it is not as cumbersome as the main board listing. They must also make efforts to streamline the process and reduce costs.

Creating investor awareness is also critical to the success of SME Exchanges. Investors must be made to understand why investing in SMEs is to their benefit and that the SME Exchange is a good platform to trade on. Investors' concerns such as the minimum lot size of INR 1 lakh should also be addressed to make the platform less risky.



Conclusion

The SME Exchange has come a long way since its launch with more SMEs listing on the exchange and subsequently migrating to the main board. In just a little over 5 years, both the BSE-SME and NSE Emerge platforms have proven their value to SMEs and their contribution to India's growth.

*Keynote has successfully listed companies on the SME Exchanges with great success.
Contact us for more information on how you can have your company listed*

⁵ Jacqueline Irving et al., "Can Stock Exchanges Support the Growth of Small and Medium-Sized Enterprises?", Report by the Milken Institute Center for Financial Markets.

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