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Scope and Development Strategies of SME IPOs in Indian Capital Market

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Abstract: This paper attempts a theoretical approach to know and understand the scope of small and medium enterprises IPOs in the Indian capital market under BSE SME and NSE 'Emerge' platform. Further, it identifies the need for the developmental strategies of SME IPOs for better growth and sustainability, in the long run, to boost these sectors, for the overall economic development of the nation. It also tries to find out the impact of SME IPOs in the development of MSME sectors as well as to classify and understand the significant role of the SME exchanges.

Key Words: SME IPOs, MSME, NSE Emerge, BSE SME, economic development

Indian Capital market is a vital platform for the SME IPOs growth and sustainability in the long run performance. Small and Medium Size Enterprises 'Emerge' platform helps for the growth of startup small-scale industries to reach the global arena by exporting eminence goods demanded worldwide. The development of this market segment would promote investment on SMEs, it becomes an alternative asset class and the best way of investments.

As per the MSME ministry data, (2021) SMEs sector had silently contributed to GDP from 45% to 49% out of total GDP, even though most of the small and medium enterprises falls under unorganized sector. Government of India has recognized and initiated so many schemes after understanding the survival patten of MSME which plays as crucial drivers of the economic development.

Major capital markets have recognized the role and importance of the SMEs in the economic development of every nation. It drives the economy by funding with free access of capital requirement from the security market. It offers a new fund source and allow companies to list with comparatively lower compliance. Investors have found this as a great opportunity to maximize their investment returns.

I. OBJECTIVES OF THE PAPER

This paper aims:

- To know the scope of the SME IPOs in Indian capital market
- To identify the needs for development strategies of SME IPOs
- To find the impact of the SME IPOs in the development of MSME sector
- To classify the significant variance between traditional exchange and SME exchange

II. RESEARCH METHODOLOGY

A theoretical research methodology had been chosen to write this paper with the help of information available in the NSE, BSE, newspaper articles, journals and share brokers.

III. THEORETICAL APPROACH OF SME IPO IN THE INDIAN CAPITAL MARKET

A. NEED FOR DEVELOPING STRATEGIES OF SME IPOs

Raising Capital

BSE SME and NSE Emerge is the finest platform to raise the optimum capital by the SME startups and emerging companies to utilize the accessibility of easy funds at a relatively cheaper cost. Equity capital is inevitable for financial balancing reason for any company

such as repayment obligation, cost of capital, restriction on follow-up capital raise, collateral requirements, etc. Initial public offering provides with huge capital and enhancement market presence.

Opportunities in Export

Free floating of funds makes the companies to act independently to meet out global competitors in the globalization pattern. Companies need not to be dependent for government schemes for their survival and growth. These exchanges provide the courage to strengthen themselves by investing deeply in modernization, technological upgradation and infrastructure development in the years ahead.

Equity Dilution

Equity funds generated from the capital market is not a liability and there is no compulsion to repay it while comparing to funds procured from banks and financial institutions. Raised funds can be utilized for business development and growth. The investors will get a return by capital appreciation.

Enhanced Reliability and Visibility

The companies have become familiar and visible to the common public by listing the companies under BSE and NSE platforms. It enhances companies to present by themselves and be able to meet their competitors globally. Increasing public awareness through press and social media coverage leads to higher reliability for the companies.

Bottom Stroke

The listed SME companies are comparatively increasing in the capital market for the last ten years as per the statistics revealed by BSE SME data from Rs. 3,630 crores to 36,005 crores. It has paved an excessive way for growth for the small and medium enterprises to emerge and sustain in the long run market segment.

No Cash Outflow

A healthy balance sheet leads capital via equity funds, and there will be no cash outflow as it is not paid by the company. The companies may use these funds for the development, acquisition and diversification of the company.

Migration to Main Board

After competition of two years from the date of SME listing, the listed companies whose post issue capital face value is more than Rs 10 crore and up to Rs 25 crores can migrate from SME platform to main board. On an average about 32 % of the MSME companies listed in the SME IPOs could get migrated to the BSE and NSE main board.

IV. IMPACT OF THE SME IPOs IN THE DEVELOPMENT OF MSME SECTOR

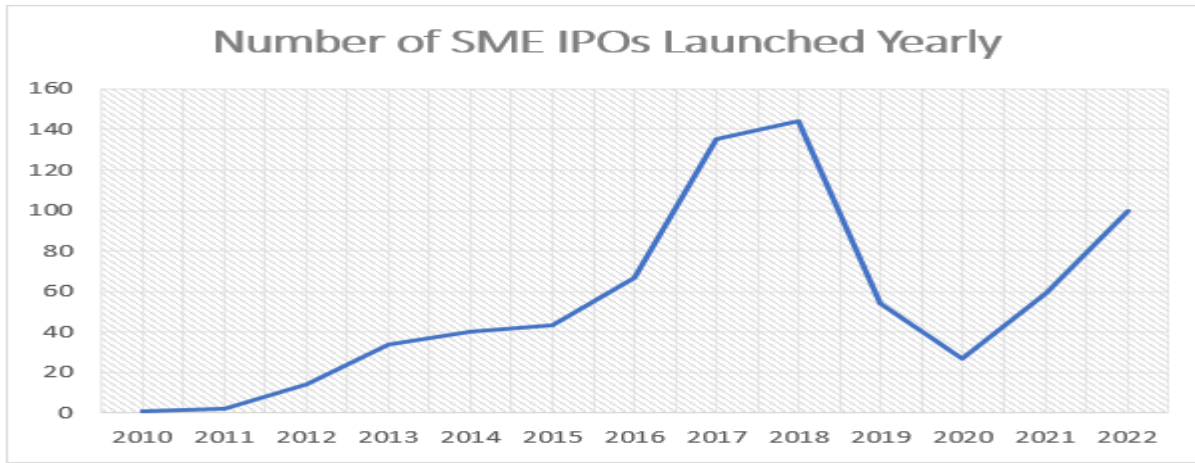
Small and Medium enterprises drive the Indian economy to the remarkable position in the universal arena through BSE and NSE 'Emerge' platform for SME IPOs. As evidence, the number of IPOs came from the year 2012 to 2022 (Nov) have been listed below as **table 1** with number of IPOs and amount raised during these years. It also depicts the number of successful and failed IPOs as an overview to support the impact of the SME IPOs in the development of MSME sector. It shows a better sign for increasing IPOs in the current year comparatively during the Covid pandemic period.

Table 1: Shows the Year Wise Number of IPOs, Amount Raised, Successful and Failed IPOs.

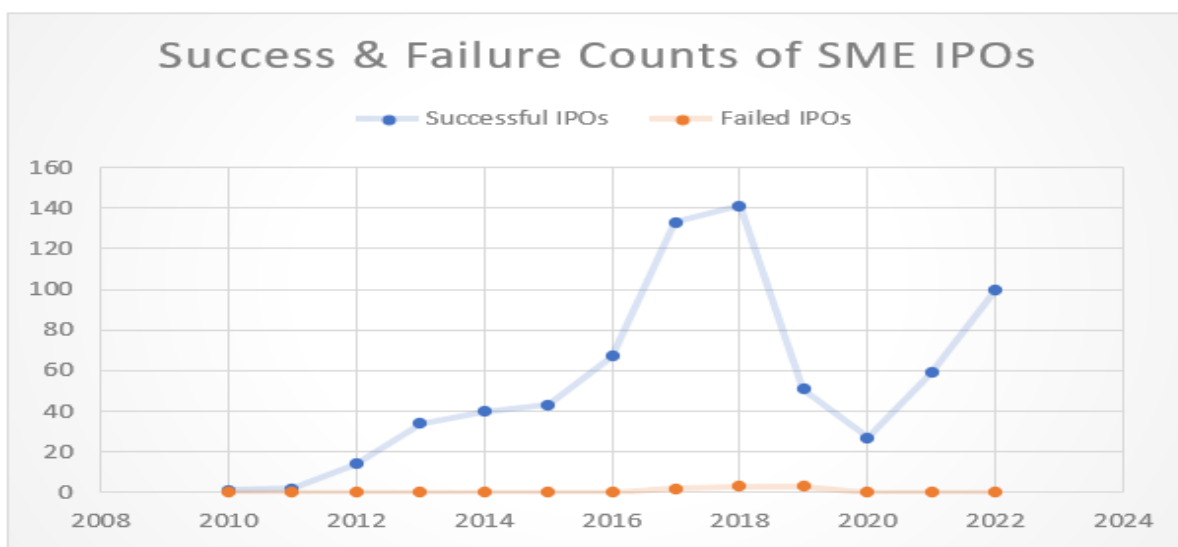
Year	Number of IPOs	Amount Raised (Rs Cr)	Successful IPOs	Failed IPOs
2022	100	1853	100	0
2021	59	787	59	0
2020	27	168	27	0
2019	54	657	51	3
2018	144	2409	141	3
2017	135	1738	133	2
2016	67	555	67	0
2015	43	275	43	0
2014	40	289	40	0
2013	34	362	34	0
2012	14	127	14	0

Source: <https://www.chittorgarh.com>

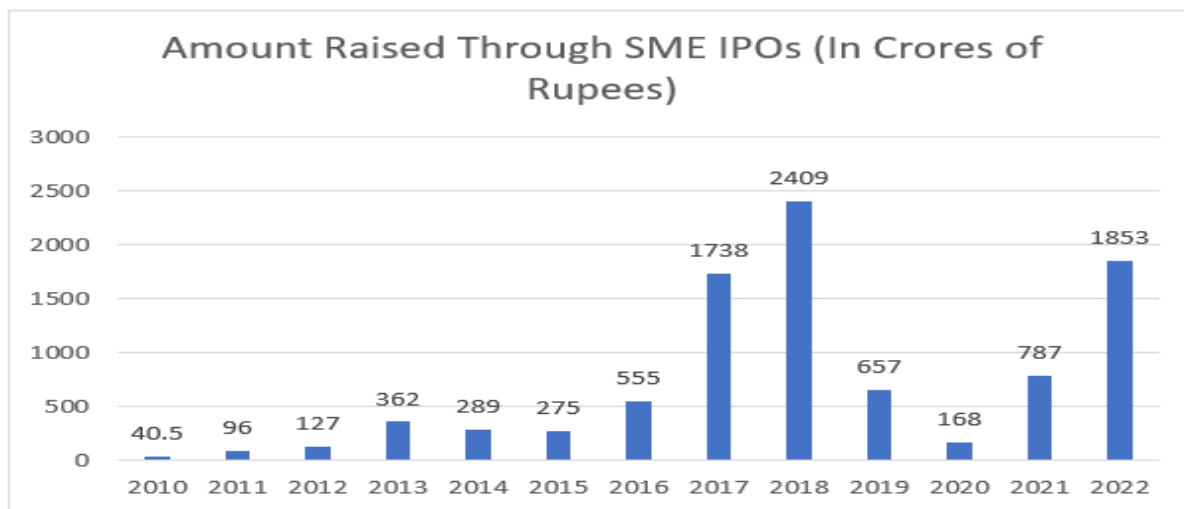
Graph 1: Shows number of IPOs listed in year wise



Graph 2: Shows amount raised through IPOs in year wise



Graph 3: Shows success and failure counts of SME IPOs



The top 10 best performing small and medium enterprises IPOs in the year 2022 sector wise have been listed below in **table 2** with Company name, listing date, issue price and lot size under BSE and NSE SME ‘Emerge’ platform. It becomes familiar among the public through various channel of social media to know more and grow more by investing their hard-earned money to multiply and enhance return on investments. SME Companies are also mutually utilizing these opportunities to meet their financial requirement and compete with global competitors.

Table 2: Shows Top 10 SME companies best performing IPOs in the Year 2022.

Company Name	Listing Date	Issue Price	Lot Size (Shares)	BSE (Current Price)	NSE (Current Price)	Sector
Rachana Infrastructure Limited	10.06.22	135	1000		1102.40	Infrastructure and Civil construction services
Empyrean Cashews Limited	31.03.22	37	3000		266.15	Food and Nutrition
Varanium Cloud LTD	27.09.22	122	1000		812.75	Software Solutions
Cool Caps Industries LTD	24.03.22	38	3000		235.40	Plastics and Polyethylene
Jayant Infratech LTD	13.07.22	67	2000	410		Infrastructure and Civil construction services
Jay Jalaram Technologies LTD	08.09.22	36	3000		196.80	Electrical and Electronics
Rhetan TMT LTD	05.09.22	70	2000	381.60		Iron and Steel
Containe Technology LDT	30.09.22	15	8000	78.65		Automobile
Concord Control System LTD	10.10.22	55	2000	223		Electrical and Electronics
Krishna Defence and allied Industries LTD	06.04.22	39	3000	147.15		Defence Sector

Source: <https://www.chittorgarh.com>

(III) Significant Variance Between Traditional Exchange and SME Exchange

All the companies' stocks are listed in the Capital market under the Main board or the SME platform. Companies normally listing their securities in the primary market under BSE and NSE are known as the Main board. Whereas, securities of SMEs are issued in NSE Emerge and BSE SME are known as the SME Platform. The below **table 3** shows the significant variance between main board and SME 'Emerge' platform.

Table 3: Shows Top 10 SME Companies Best Performing IPOs in the Year 2022.

Particulars	Main Board	SME Platform
Post-issue paid up capital	Not less than Rs. 100,000,000	Less than Rs. 2,500, 000
Underwriting	Compulsory, except where 75% is allotted QIBs	100 % underwriting
Minimum Application Value	Rs. 100,000	Between Rs.10,000 to Rs.14,000
Minimum Allottees	1000	50
Market Making	NA	Compulsory for 3 years
Offer Document	SEBI	Stock Exchanges

Source: <https://www.bsesme.com/>

Conclusion

In today's trend, small and medium enterprises have huge opportunities and a potential for tremendous growth in the Indian economy. This in turn results in the overall economic development of the country as well as in the development of world economy. More than 50 to 55 percent contribution of the world's GDP is contributed by the SME sectors. The majority of the job market is also dependent upon the SME sectors growth and sustainability throughout the world. Hence, SME IPOs not only lift the SME sectors from the grassroot level to reach the global economy by producing quality products, modernized infrastructure and technological advancements but they also contribute in the socio-economic developments of a nation and the world in general.

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