

## SMEs can benefit from IPO surge but must tread cautiously, say experts

By Shariq Khan, ET Online • Last Updated: Dec 15, 2023, 11:15:22 AM IST

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### Synopsis

Before embarking on the IPO journey, SMEs should prepare their financial statements, balance sheets, receivables, and key financial ratios, according to experts.



NSE and BSE have dedicated platforms for SMEs to raise equity capital but awareness about them remains low, said experts.

Mumbai: At a time when the interest rate on bank loans have risen considerably, small and medium enterprises (SMEs) can leverage the current boom in the primary [IPO](#) market to meet the [capital requirement](#), but they need to streamline their financial books first, stressed industry experts yesterday in [Mumbai](#).

The session on 'Raising equity through SME IPO' was organised by the [World Trade Center Mumbai \(WTC Mumbai\)](#) and the All India Association of Industries (AIAI).

CA Sumeet Mehta, CEO of Paradigm Advisors stressed SMEs to improve their debt-equity ratio, strengthen their balance sheet and enhance their credit rating by raising equity capital on the dedicated SME platforms of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). He said 464 SMEs have so far raised Rs. 5727 crore equity capital on the [BSE](#) platform, while their overall market capitalization has grown to Rs. 97,488 crores. Similarly, around 234 SMEs have raised Rs. 3,100 crores on the NSE platform and their market capitalization has exceeded Rs. 8,000 crores because of strong investor interest in SMEs with promising business prospects. "SMEs generating profit at least in the last two years can go for IPO to dilute the shares of promoters, reduce debt, invest in new projects or build a war chest for mergers and acquisition," he added.

Elaborating on the benefits of listing shares on stock exchanges, Mehta highlighted SMEs can enhance their credit rating, corporate governance, financial discipline, branding, and market perception by getting listed. This reduces their risk perception and allows them to raise debt at a reasonable interest cost. The IPO process also sets the stage for future capital raising through follow-on public offers (FPOs), enabling SMEs to grow their business. Additionally, listing shares allows SMEs to pledge them as collateral for securing fresh loans, offer stock options to employees, and create shareholder wealth. While the minimum IPO size for SMEs to list on a stock exchange is Rs. 10 crore, Mehta suggests that companies should ideally raise at least Rs. 25 crores to justify the higher costs associated with merchant bankers and other expenses involved in going public.

As a word of caution, he added SMEs need to streamline their financial statements, balance sheets, receivables, and key financial ratios to attract investors. "They should also maintain consistency of numbers across different financial statements, engage the professional team to manage business operations, create a professional Board of Directors and decide on whether to include all its business segments under the listed entity at the IPO stage or keep some of them separate for inclusion at a future date. They should also decide on the appropriate valuation in consultation with merchant bankers, investment analysts and peer-review of competitors."

Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai and President- All India Association of Industries (AIAI) pointed out that SMEs are the key drivers of economic growth and they will play a major role in attaining the \$30 trillion economy by 2030. But our SMEs face a funding gap of upto Rs. 25 lakh crores, as per the UK Sinha Committee Report of the [RBI](#). SMEs face challenge in raising collateral-free bank credit even though their contribution to the non-performing assets (NPAs) of banks is low.

"SMEs can raise equity capital to meet their funding requirement as this is the boom time for IPOs. We need simpler compliance norms for SMEs to list their shares on the stock exchanges." Kalantri said. He further highlighted the importance of capacity building and affordable capital for small and medium-sized enterprises (SMEs) to expand their businesses. India has a huge consumer market and MSMEs need capital to grow their manufacturing capacity to meet the growing domestic consumption, he added.

Rupa Naik, Executive Director, MVIRDC WTC, said, “Exports and entrepreneurship are key drivers of economic growth. In recent years, we have seen growth in the share of women-owned enterprises in the MSME sector from 15% (under the erst-while UAM portal) to 30% (under the new Udyami registration portal). There are around 600 schemes at the level of central and state governments, including the schemes of NABARD and SIDBI, to promote entrepreneurship, especially for women entrepreneurs. We need to create awareness about this plethora of schemes to support small-scale entrepreneurs. NSE and BSE have dedicated platforms for SMEs to raise equity capital and the objective of this session is to create awareness about these platforms for the benefit of small-scale enterprises.”