

SMEs Funding Gap Of Rs 25 Trillion Can Be Solved Through IPOs, Says Expert

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SMEs face a funding gap of upto Rs 25 trillion, as per UK Sinha Committee Report of the RBI. SMEs can raise equity capital to meet their funding requirement

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16 December, 2023
by BW Online Bureau

Print this article
Font size 16

In the current year, 2023, initial public offerings (IPOs) in the Indian market have remained consistent throughout the year. The SME Emerge platform by the National Stock Exchange (NSE) has allowed small and medium enterprises (SMEs) to raise money through IPOs in the equity market.

So far, 464 SMEs have raised Rs 5727 crore in equity capital on the Bombay Stock Exchange (BSE) platform, while their overall market capitalization has grown to Rs 97,488 crore. Similarly, around 234 SMEs have raised Rs 3,100 crore on the NSE platform, and their market capitalization has exceeded Rs 8,000 crore due to strong investor interest in SMEs with promising business prospects.

“At a time when interest rates on bank loans have risen considerably, small and medium enterprises (SMEs) can leverage the current boom in the primary IPO market to meet capital requirements. By listing their shares on stock exchanges, SMEs can improve their credit rating, corporate governance, financial discipline, branding, and market perception, which reduces their risk perception and helps them raise debt at a reasonable interest cost,” said CA Sumeet Mehta, CEO, Paradigm Advisors.

SMEs generating a profit for at least the last two years can go for an IPO to dilute the shares of promoters, reduce debt, invest in new projects, or build a war chest for mergers and acquisitions. SMEs can pledge their listed shares to raise fresh loans, offer stock options to employees, and create shareholder wealth, added Mehta.

The minimum IPO size for SMEs to list on the stock exchange is Rs 10 crore; however, companies can ideally raise at least Rs 25 crore to justify the high cost of merchant bankers and other expenses involved in going public.

“SMEs are the key drivers of economic growth, and they will play a major role in attaining the USD 30 trillion economy by 2030. But our SMEs face a funding gap of up to Rs 25 lakh crore, as per the UK Sinha Committee Report of the Reserve Bank of India (RBI). SMEs can raise equity capital to meet their funding requirements, as this is the boom time for IPOs,” said Vijay Kalantri, Chairman, MVIRDC World Trade Centre Mumbai and President, All India Association of Industries (AIAI).