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Abhishek Sharma | Feb 20, 2025

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Few MSMEs tap public markets, but IPOs offer interest-free capital, while a credit gap hinders growth, requiring policy support and funding solutions



India's micro, small, and medium enterprises (MSMEs) are crucial to the country's economic growth, yet access to capital remains a major challenge. With only a fraction of MSMEs tapping into public markets, initial public offerings (IPOs) present a significant opportunity for businesses to raise long-term capital without an interest burden.

According to experts, strong branding, financial discipline, and strategic marketing play a vital role in scaling operations and attracting investors. However, a persistent credit gap continues to hinder the sector's expansion, highlighting the need for policy support and innovative funding solutions. As MSMEs navigate these challenges, adopting modern financial and branding strategies can unlock new growth avenues and strengthen their market position.

While speaking at an event, experts noted that strategic planning and focused execution can transform MSMEs into industry leaders. MSMEs with a profitable and scalable business model can raise capital for their growth without incurring an interest burden by launching an IPO.

They noted that by raising capital through IPOs, MSMEs can reduce debt, improve their financial ratios, enhance company visibility, and increase the valuation of promoters' stakes while retaining ownership of their business. By listing their enterprise, MSMEs can also improve corporate governance and incentivise employees through ESOPs.

"In India, there are around 6 crore MSMEs, of which hardly around 1,000 MSMEs have raised capital through IPOs. More and more MSMEs can consider IPO as an option to raise long-term capital for business expansion, debt reduction and working capital needs," said Vivek Chechani, Financial Consultant and MSME Funding Specialist and Founder, Croissance Financial Services.

Sebi Regulations IPO Related Expenses

Chechani explained the Securities and Exchange Board of India (Sebi) regulations and procedures involved in launching IPOs for MSMEs. He said, "The conditions for listing on NSE and BSE are largely the same. The entrepreneur needs to convert her business from a proprietor or LLP into a limited company, generate profit for at least three years and have tangible assets. The promoter group should have a clean track record and a good CIBIL score."

CA Chechani also informed about other conditions such as the maximum limit for paid-up capital after IPO and the regulations on usage of IPO proceeds. He said, "The maximum post-issue paid-up capital should not exceed Rs 25 crore in the SME platform of stock exchanges. SMEs can use up to 15 per cent of the IPO proceeds for general corporate purposes such as marketing and team building. The remaining amount can be used for repaying debt, capital investment and other purposes. There are restrictions on the use of the IPO funds for repaying promoter loans or loans of related parties, while 20 per cent of the IPO fund can be used for the exit of existing investors."

When planning an IPO, experts stated that companies should anticipate allocating a portion of the raised capital to cover associated expenses, including fees for merchant bankers, marketing efforts, and regulatory compliance. Traditionally, these costs have ranged between 1 to 3 per cent of the total funds raised.

However, recent investigations by the Sebi have revealed instances where investment banks charged fees as high as 15 per cent for small business IPOs, prompting regulatory scrutiny. Chechani suggested the ideal amount to be spent on IPO-related expenses such as hiring merchant bankers, and marketing and regulatory compliances. For an IPO size of Rs 10 to Rs. 20 crore, an SME can spend upto 5 per cent of the IPO size on these expenses, he informed.

Apart from IPO, Chechani also explained modes of raising debt funding and supply chain finance for MSMEs such as the TREDIS platform, Invoice Discounting, loans under various government schemes, namely PMEGP, CMEGP, CGTMSE, Mutual Credit Guarantee Scheme and so on.

Adopting Branding And Marketing Strategies For Expansion

In 2024, India's IPO landscape witnessed unprecedented growth, with over 300 companies going public across mainboard and SME platforms, collectively raising more than Rs 1.6 lakh crore, a media report stated. To ensure a successful IPO, MSMEs must adopt comprehensive branding and marketing strategies that enhance brand awareness, foster customer loyalty, and drive revenue growth.

Industry leaders stated that effective marketing not only differentiates a company in a crowded marketplace but also builds investor confidence, which is crucial during an IPO. By strategically investing in marketing efforts, MSMEs can position themselves favourably, attract a broader investor base, and maximise their IPO's success potential.

Mayank Mehta, Branding Expert and founder, Balanced Chemistry explained how MSMEs can adopt branding and marketing strategies for expanding their business and launching a successful IPO. He remarked, "Branding and Marketing are not optional, but essential for MSMEs to scale up. Collaborations amplify reach, reduce risks, enhance credibility, while a strong branding strategy is the backbone of a successful IPO or expansion plan."

Mehta explained how companies such as Boat grew their business through digital & influencer marketing, while companies such as Paper Boat earned brand loyalty through storytelling and emotional connection and how brands such as Chumbak and Jaipur Rugs strengthened their business through strategic collaboration.

Mehta suggested that companies with less than Rs 1 crore turnover may ideally spend 5 to 8 per cent of their gross revenue on marketing, while companies with upto Rs. 10 crore turnover may invest 10 per cent of their gross revenue on marketing. According to him, companies that are going for IPOs or that are at a rapid growth stage may devote 10 to 15 per cent of their gross revenue to marketing.

Mehta pointed out that companies may spend 50 to 60 per cent of their marketing budget on digital marketing or branding, 15 to 20 per cent of the budget on content generation, 5 to 10 per cent on traditional marketing and the remaining 5 to 10 per cent on customer retention.

He also explained key marketing strategies such as digital advertising, influencer marketing, and performance marketing, which are deployed by companies across different sectors to increase returns on marketing investments.

Apart from branding and marketing, Mehta suggested several other ways through which MSMEs can enhance their brand and market credibility. Specifically, he emphasised on importance of maintaining transparent financial records, securing high credit ratings, complying with all government regulations, adopting a customer-first approach, enhancing customer experience, inviting customer reviews and investing in customer loyalty programs.

Viksit Bharat Vision And MSMEs

Indian MSMEs are pivotal to India's economic development, contributing approximately 30 per cent to the nation's gross domestic product (GDP) and accounting for 40 per cent of exports. Employing over 110 million individuals, MSMEs are instrumental in fostering entrepreneurship and generating employment opportunities.

The Indian government's 'Viksit Bharat 2047' vision aims to transform India into a developed nation by 2047, with MSMEs playing a crucial role in this journey. To support this vision, the Union Budget 2025 increased the MSME credit guarantee cover from Rs 5 crore to Rs 10 crore, facilitating easier access to credit for small businesses.

Vijay Kalantri, Chairman, World Trade Center (WTC) Mumbai and President, All India Association of Industries (AIAI) pointed out, "If India has to attain the Viksit Bharat vision of USD 40 trillion economy by 2047 or USD 5 trillion economy by 2027, it has to bridge the credit gap of MSME sector, which faces credit gap of Rs. 25 lakh crore. The government has taken various measures such as increased loan limits under the credit guarantee scheme, established corpus for providing equity capital to MSMEs and so on. Still, MSMEs face genuine difficulty in accessing credit."

Kalantri pointed out that many MSMEs in Maharashtra have become sick because of a lack of access to credit. He suggested the state government strengthen the financial institution SICOM to enhance the flow of credit to MSMEs at a reasonable cost. He also proposed the idea of establishing a task force to devise an action plan to bridge the credit gap of MSMEs.

Experts were speaking at the 'Workshop on Modern Funding Options for MSMEs' organised by WTC Mumbai and the All India Association of Industries (AIAI).