

BIG RISE IN NUMBER OF ISSUES OVER THE LAST FEW YEARS

Stricter process, higher ticket size for SME IPOs in the offing

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THE OVER-A DECADE-OLD SME platform, which has seen a notable exuberance over the past few years, may need to undergo significant changes in regulations to deal with manipulation and liquidity issues. The recent NSE circular capping the opening price of SME IPOs at 90% of the issue price may just be the beginning of a slew of changes that may be on the way, according to experts.

In fact, this is not the first time that the exchanges have tightened the screws on the SME platform. In September 2023, additional surveillance measures and trade-for-trade frameworks were extended to the SME segment to discourage speculative trading.

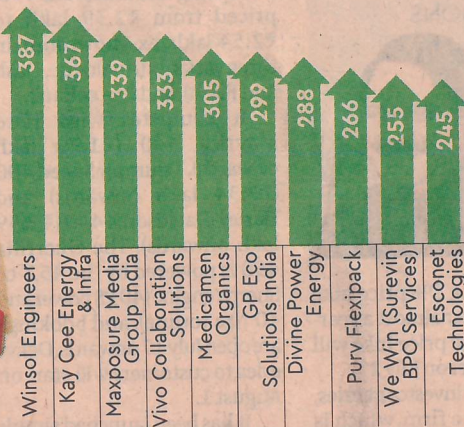
The SME segment has seen a tremendous growth in the last few years. The number of issues has risen from 59 in 2021 to 182 in 2023, and 117 in just over six months this year, according to PRIME Database. However, there

TOP SME IPOs BY LISTING GAINS

(in %)



Source: Bloomberg



have also been allegations of price manipulation, with a number of stocks getting listed at unimaginable returns of 300-400%.

“As far as governance measures are concerned, there is a need for more in-depth checks of the companies which are launching public issues. I think, right now there are gaps here as promoters or companies with questionable antecedents

are also able to get through,” said Ambareesh Baliga, an independent market analyst.

The NSE and BSE introduced separate platforms for SME companies in 2012, and they act as regulators for this market. These companies have fewer disclosure norms and lower issue size requirement compared to mainboard IPOs.

Apart from the tighter approval

process, some other measures that experts believe could be considered include raising the minimum ticket size for trading in SME, increasing the issue size and imposing a minimum lock-in period for promoter holding.

The founder of an IPO advisory firm, which has been active in the SME market, said the reform measures are much needed as many showcase the multi-bagger listing returns to get more retail money. This has been leading to formation of a bubble where the money might be flowing in looking at past returns, rather than company fundamentals.

Baliga believes the SME platform could be very helpful in India where there are many smaller firms which may not be able to qualify for mainboard listing.

There is a need to find the middle ground between irrational exuberance and the lack of interest that was seen prior to COVID in order to ensure that genuine companies get a platform to raise funds and expand, an expert said.