

From Delhi bike dealer to Kolhapur saree depot, small IPOs lift mood in the market — and raise eyebrows

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WHAT'S COMMON between a two-wheeler dealership in Delhi, a saree depot based in Kolhapur and a 25-bed hospital in Bharuch? The companies behind each of these entities are part of a market boom that has seen small and medium enterprises making a beeline for the bourses — and retail investors lining up to lap up their shares.

At a time when the main-board IPO market is quite active, market experts view the listing of SMEs on the NSE and BSE as a

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**Why it is
raising
red flags**

OF 108 SME IPOs that hit the market till date since April 1 and raised Rs 3,903 crore, 99 listed at a premium. Market regulator SEBI has raised red flags that post listing, some listed SMEs project an unrealistic picture, create a positive sentiment, and luring investors to buy their stocks in the process.

spillover of investor frenzy. But with some of these primary market offerings getting oversubscribed by up to 900 times, they are also raising regulatory concerns.

The key worry, according to them: These offerings are from relatively smaller entities in a small market, and hence may be open to manipulation at the IPO and trading levels. Moreover, these small IPOs are not directly regulated by SEBI but by the NSE and the BSE.

Market regulator SEBI on Wednesday said that, post listing, some of the SME companies and/or their promoters have

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been resorting to certain means that project an unrealistic picture of their operations. Such companies/promoters have been seen to make public announcements that create a positive picture of their operations. These announcements are typically followed up with various corporate actions such as bonus issues, stock splits, preferential allotments, etc, it said in a statement.

Cautioning investors, it said actions like these create a positive sentiment amongst investors, inducing them into purchasing such securities. Simultaneously, this also presents an easy opportunity to the promoters to off-load their holdings in such companies at elevated prices, it said.

SEBI asked investors to be careful and watchful of the aforesaid patterns and exercise caution while investing in such securities. "Further, investors are advised to not rely on unverified social media posts and not to invest based on tips/rumours," the regulator said.

According to listing norms for SMEs, companies with minimum post-issue capital of Rs 1 crore and a maximum of Rs 25 crore are eligible for an SME IPO. These companies are allowed to raise funds and get listed at the exchange by the BSE SME and NSE Emerge platforms.

Some of the recent high-profile entries on these platforms:

■ Delhi-based Resourceful Automobiles came out with an IPO of Rs 11.99 crore with the issue getting oversubscribed 418-fold, drawing bids for close to Rs 5,000 crore on Monday. The bike dealership has just eight employees and two showrooms under "Sawhney Automobile". The company made a profit of Rs 1.52 crore on a turnover of Rs 17.23 crore for the period ended February 2024.

■ Kolhapur-based Saraswati Saree Depot, manufacturers and wholesalers of women's apparel, came out with a Rs 160-crore IPO which was oversubscribed 107 times in August 2024. Against the IPO issue price of Rs 160, its shares were listed at a premium of 21.25 per cent at Rs 194.

In the issue prospectus, the company listed transactions and balances outstanding with 37 entities, including directors and key managerial personnel. It said 34 entities form part of the promoter group. Moreover, it said, 17 people related to chairman Shankar Dulhani, 11 persons related to MD Vinod Dulhani and 10 persons related to Executive Director Rajesh Dulhani are among the promoters. The company made a revenue of Rs 603 crore and a net profit of Rs 22.9 crore for fiscal year 2023, as per the offer document.

■ Broach Lifecare Hospital recently came out with a Rs 4.02 crore IPO at a price of Rs 25 per share. The firm's Bharuch hospital has 25 ultra-luxury in-patient beds and is equipped with diagnostic devices for various tests. The firm reported a turnover of Rs 2.60 crore and a net profit of Rs 69.76 lakh for the year ended March 2024. Its share is now quoting at Rs 47.

■ Earlier this month, West Bengal-based Aesthetik Engineers came with an IPO of Rs 26.47 crore and received 705-fold subscription. It got bids worth over Rs 18,000 crore. The company is engaged in planning, designing, manufacturing and installing facade systems, aluminium doors and windows, railings and stairs, and glass fibre reinforced concrete. The share was listed at Rs 110.20 as against the IPO price of Rs 58. The company made a net profit of Rs 5.02 crore and a turnover of Rs 60.79 crore for the year

ended March 2024.

■ Vadodara-based Magenta Lifecare's Rs 7-crore IPO in June was subscribed 983-fold. Incorporated in 2015, Magenta Lifecare manufactures mattresses and pillows. It is currently quoted at around Rs 33 as against the IPO price of Rs 35.

■ In August, Delhi-based Brace Port Logistics came out with a Rs 24.41-crore IPO. The issue was subscribed 657 times, getting bids worth Rs 16,000 crore. The service-oriented logistics company primarily offers sea freight logistics services for various industries. The share was listed at Rs 152 as against the IPO price of Rs 80. In FY24, the company reported a net profit of Rs 4.89 crore and its revenue from services stood at Rs 55 crore.

■ QVC Exports' IPO of Rs 24.07 crore came out last week at a price of Rs 86 per share. The IPO received bids worth Rs 12,800 crore, an oversubscription of 535-fold. The Kolkata-based company's net profit and revenue from services stood at Rs 3.92 crore and Rs 446 crore, respectively, in FY24. Apart from these at least six IPOs are slated to hit the SME listing platform in the coming week.

Since April 1 this year, as many as 108 SME IPOs have hit the market, mobilising around Rs 3,903 crore, according to data from the NSE and BSE. Of these, 99 were listed at a premium and only six at a discount. In 2023-24, NSE data shows, there were 138 SME listings that raised Rs 4,622 crore through the Exchange's platform. At same time, the mainboard IPO market was also quite active with companies raising Rs 29,609 crore in the calendar year 2024, according to PRIME Database. Market analysts, however, feel that the massive oversubscription witnessed in some of the SME IPOs is "suspicious" as "they are unknown

entities with weak governance structure". "Why would retail investors lap up shares of companies which are unknown and with weak fundamentals?" said an analyst with an investment firm.

"SME IPOs need to be closely monitored in terms of who are the participants. Is a close-knit group bidding and causing frenzy in terms of subscription figures and listing, and then eventually selling the shares to gullible retail investors?" said Pranav Haldea, managing director, PRIME Database Group. A significant number of them are first time entrants to the capital market, he said.

SEBI has already raised the red flag on the possibility of price manipulation in SME IPOs and trading. "In terms of actual price manipulation (in the SME segment), both at the IPO level and the trading level, we are working to evidence that, and we do see signs. The reality is that these (SMEs) are relatively small entities, the market is small, the free float is small, it is relatively easy to manipulate both at the IPO level and the trading level." Sebi Chairperson Madhabi Puri Buch had said in March.

Last week, amid a jump in the number of SMEs raising funds through IPOs, the NSE introduced additional eligibility criteria for listing on NSE EMERGE. "The company/entity should have positive Free Cash Flow to Equity (FCFE) for at least 2 out of 3 financial years preceding the application," the NSE said in a circular. The new additional criteria will be applicable for all draft red herring prospectus filed on or after September 1, 2024.

FCFE is a measure of equity cash usage, and calculates how much cash is available to the equity shareholders of a company after all expenses, reinvestment and debt are paid.