**QUALITY MATTERS** Steps include tighter free cash requirement, auditor's certificate to ensure proper use of funds

# Bourses Raise the Bar for SME Offers

**Kairavi Lukka**

**Mumbai:** Stock exchanges have raised the entry barrier for small and medium enterprises (SMEs) to list on their platforms, prompted by a barrage of criticism over the quality of the recent market debutants in the segment, said people familiar with the matter. These stricter requirements have resulted in a slowdown in the initial public offerings (IPOs) in recent weeks, said these people.

The National Stock Exchange (NSE), the country's largest bourse, is asking IPO-bound SMEs to have free cash for at least two out of the three years preceding their IPO and provide a utilisation certificate from the statutory auditor to ensure proper use of funds raised through the IPO, said a person with direct knowledge of the matter. The new criteria are in addition to the existing requirements to launch an SME IPO.

"Merchant bankers of SME IPOs are being monitored to ensure adherence to these guidelines," the person quoted above said.

NSE and BSE did not respond to requests for comment.

Some of these steps have been implemented before the finalisation of the new rules by the Securities and Exchange Board of India on SME initial public offerings (IPOs).

**Facing an overflow, exchanges by default are taking almost 60 days to review a DRHP**

Exchanges are asking merchant bankers to be cautious about the kind of SME IPO they bring to the market, forcing these intermediaries to go easy on such offerings till the new rules are in place.

"In recent discussions with key merchant banks involved in the upcoming IPOs where I am a stakeholder and board advisor, it is evident that exchanges are deftly managing the surge in new SME IPO filings," said Tarun Singh founder and MD, Highbrow Securities. "Facing an overflow, exchanges by default are taking almost 60 days to review a DRHP. It has been observed that this process now also includes a discerning tactic of subtly discouraging robust IPO filings."

## A Big Haul

| | 2023 | 2024 |
|---|---|---|
| Total Number of SME Issues | 182 | 230 |
| Total Amount Raised (₹Crore) | 4,686.18 | 8,414.09 |
| Average Bids Received (no. of times) | 86.03 | 178.75 |

Source: primedatabase.com

Sebi is also cracking down on SME IPOs where it suspects wrongdoings. The regulator late in November directed C2C Advanced Systems to appoint independent auditors to evaluate its financials and asked NSE to appoint a firm to oversee the utilisation of the IPO proceeds. Earlier in November, Rosmerta Digital Services, which planned the biggest-ever SME IPO of ₹206 crore, postponed its issue.

The clampdown by Sebi and exchanges follows a flurry of complaints from various quarters in the market alleging various wrongdoings in these IPOs and stock price rigging post listing.

These days, exchanges are rejecting SME IPOs where the details of the offer do not match with the core business, or those with corporate governance issues. Unlike the mainboard IPOs, SME IPOs are cleared by stock exchanges.

"Standards of governance in these companies are weak compared to mainboard issues and market hopes these will improve after the implementation of Sebi's guidelines," said another person with direct knowledge of the issue.

In 2024, 230 small and medium companies have raised Rs 8,414 crore through IPOs — a new record, according to primedatabase.com. Out of the 227 companies that have been listed, 126 IPOs received over 100 times subscriptions, it said, underscoring their popularity among retail investors looking to make a quick buck from a listing pop.

"Recent objections after the opening of the public issue of some companies have put the merchant bankers on edge as the risk of not getting approval for listing or delay in listing has become a big concern," said Ajay Thakur, CEO, TGI SME Capital Advisors and former head of BSE's SME platform. "Any delay in the listing because of compliance or other issues jeopardises the whole process and the credibility of the merchant bankers and the issuers are at stake."

Thakur says that's why the merchant bankers have become very cautious and put more time in ensuring that there should not be any leniency in the due diligence process at their end.