

How to tap the financial market for funds? (All about SME IPO)

Introduction

We all have dreams, and most of us hope that our aspirations will come true someday soon. Like major corporations, a lot of small firms aspire to be publicly traded, but they typically do not fulfill the qualifying criteria for listing on BSE and NSE. The SME IPO is an offering that allows companies to raise money for operating capital, debt repayment, and other purposes.

For investors in the past, SME Initial Public Offerings (IPOs) have provided enormous profits, and SME Initial Public Offerings represent a significant part of industrial operations in any country. A small and medium-sized company, all of which are involved in the open IPO, makes it relatively tiny compared to IPOs listed on the main BSE and NSE trading platforms. As of now, more than 20 nations operate SME bourses.

Recognizing this gap, and the fact that SMEs account for the majority of a country's industrial activity, the BSE and NSE introduced it for small and medium companies to list on the BSE and NSE and eventually migrate to the main board of the BSE and NSE without the requirement for an initial public offering.

The BSE and NSE

Presently, there are two SME exchanges in India: the PME BSE platform (BSE) and the EMERGE platform (NSE). In addition to the rules provided by SEBI for listing, each has its own qualifying requirements for listing SME listings.

In 2012, both the BSE and the NSE established the Small and Medium Business Listing and Exchange. The BSE now has about 342 businesses listed, and the NSE Emerge has about 200 companies.

The BSE SME and NSE Emerge are new sources for SME IPOs, offering SMEs a listing option with fewer compliances and costs than the mainboard. EEB SME Platform (BSE) and EMERGE Platform are currently the only two SME exchanges in India (NSE).

The importance of SME IPO

SMEs play an essential role at the worldwide level since they are a significant portion of the market. They influence a country's economic and social growth to some extent.

In India, we have numerous government-supported programs such as Skill India, Make in India, Startup India, Pradhan Mantri MUDRA Yojana, Public Procurement Policy that supports general growth and development in this sector, and SME SOPs have increased funding options for these firms.

These efforts are also game-changers for several agricultural and manufacturing enterprises.

How SME IPO is different from regular IPO

S. No	Criteria	Regular IPO	SME IPO
1.	Minimum Investment	Rs 12,000 - Rs 15,000	Rs 1,20,000 - Rs 1,50,000
2.	Minimum beneficiaries	100	50
3.	IPO size	Rs 10,000 to Rs 15,000.	Should not be less than Rs 100,000
4.	Profit report declaration	Quarterly	Every 6 months

Criteria for an SME to Go Public

An SME has to satisfy specific essential criteria before it can go public. Some of those criteria include:

1. The company must have a documented track record of operation for at least three years and an up-to-date website.
2. The firm's promoters shall not have changed in the preceding year from the date of application to ESB or ESN for registration in the SME category.
3. According to the most recent financial reports, net tangible assets must be at least Rs 3 million. In addition, the net worth should be comparable at Rs. 3 crore.
4. Before claiming, the company must have positive operational cash flow for at least two years in a row and positive net worth.
5. The post-issuance paid-up capital of the corporation should not exceed Rs 25 crore.
6. The firm is not permitted to file a petition for liquidation with the appropriate court.

Problems in the SME sector

Despite its significant contribution to the economy of the country, the SME sector faces serious challenges in India. Some of them include:

- Shortage of capital due to lack of access to credit and finance.
- Inability to attract skilled and technology-driven manpower
- Owing to poor infrastructure and utilities, they are faced with low production capacity
- Poor innovation due to a lack of finance and credit
- Abysmal use of technology
- Scarce use of latest marketing techniques

Owing to these problems, SMEs frequently don't function to their full potential and hence are unable to meet international quality standards.

The government, however, is striving to address these issues with schemes such as Make in India, Skill India, Start-up India, Public Procurement Policy, Pradhan Mantri MUDRA Yojana. These schemes have resulted in an uptrend in this sector, especially in the service, agriculture, and manufacturing industry.

What lies in the future?

The year 2021 seems like an IPO year, with around 35 small and medium-sized firms going public. According to the media, we may expect a large number of SME IPOs in 2021. When SMEs enter primary markets, they are often in their early phases of development. This implies that investors may choose prospective multi-baggers very early in SME IPOs, but this apparent advantage comes with the inherent risk of losing money in offerings where fundamentals are weak, or business deteriorates in the future.

While SME IPOs benefit from some exemptions, it is essential to remember that these firms will seek to go to the main market in two years. These firms must ensure that their disclosure, diligence, and prospectus are as compliant as the mainboard IPO, and attorneys and merchant bankers must assist them in accomplishing this goal.

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