# Equity Financing for SMEs-The Road Ahead

**Gaurav Jain**
*Director*
Hem Securities Ltd.

For India to gear in full thruster speed to reach the $5 trillion economy there is a dark horse in plain sight which has managed to pull off its mantle, which is none other the SMEs of India. SMEs constitute the lifeblood of most economies around the world. SME companies revolve around data driven decisions.

Now gauging on the source of capital that is available for SMEs to raise funds. The typical way to start a business barring the situation where a individual has deep pockets is approaching a bank or NBFC to raise funds and then it is like paying a car loan or a house loan over a period of time. In other situations where a company requires high end technology investment, high end employees i.e. high end capital, obtaining funding from a bank might be possible because there might not be collaterals or cash to pay off with. The Companies who manage to get funding from banks have over a period of time exhaust their option and cannot infuse more debt in the business. In the recent times SME Exchanges have emerged as robust capital raising platforms.

Over a period of time we have seen over 500 companies listed on the NSE and BSE SME platforms via the Initial Public offer route. There remains a myth circumventing the Equity financing route when it comes to IPOs people tend to depend on what people are telling rather than what the markets are telling. It is not necessary to be a unicorn to come up with an IPO , profit generating companies can still come up with an IPO, this is the convenience that the SME platforms provide to the companies. These companies then tend to grow at a missile growth rate which is underpinned by the fact that Seventy per cent stocks have posted a revenue jump where revenue has increased two fold in comparison to the previous year and sixty five percent stocks have shown an increase in their profit figures. Twenty five percent stocks posts revenue above 100 crores and Twenty five percent post profit above 5 crores which shows uproar in the revenue and profit parameters in the SME Segment. Companies have moved from just Networth calculations to Market Cap valuation, would that be in case you take loan from a bank? Well no!. In case of a bank loan the SME companies also get burdened by the interest to be paid on bank loans which further adds on to the expense weighing down the business.

These small scale companies generally take loans to meet their business requirements but later the business revolves around paying back these loans. Besides this banks have stringent norms whereby not every company gets their loan sanctioned and sometimes the nature of your requirements might not fit the glove of taking a loan. Besides this for the fast evolving SMEs getting funds is not the only sole expectation, the businesses also need a trampoline to jump and gain visibility and value addition. Being the alligator in the river we have seen SME exchanges in place which meet the funding requirement and help the companies to grow. Equity financing enables liquidity for shareholders providing growth opportunities like expansion, mergers and acquisitions, thus being a cost effective and tax efficient mode. This also provides an incentive for Venture Capital Funds by creating an Exit Route and thus reducing their lock in period. In the recent times equity has been gaining traction amongst SME companies as a source of capital to raise funds where Market capitalization in the SME markets has climbed to 23000 crore over the years.

The eligibility norms for SMEs are also relaxed providing a cushion to go ahead for listing. The minimum compliance that would foster is 1 crore of post Issue capital, Profit track record in 2 out of 3 years, half yearly financial reporting, induction of a company secretary in the company and Independent Directors in Board. The bright side to this would be that the deliverables promised by the company is disclosed in the half yearly financials inducing confidence in the investors. Publicity is also one key advantage one gets on the way of equity financing. Apart from this SEBI has always come up with supportive measures to aid SME companies to list through the SME platform, since the beginning of the year 2019 itself close to 43 companies have filed their draft offer documents to list on the SME platforms.

One of the major attractions of Equity funding for SMEs remains the provision of migration to the main exchanges. Any company listed at the SME platform can now migrate easily as now the process is simplified by giving a cushion to the companies' migrating within 2 years, so far over 72 companies have been migrated to the main board platform.

Equity financing has been seen as a tool aiding companies to meet its liquidity requirement and diversify its business.