

Alternate Capital Markets - Strengthening MSMEs Ecosystem



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MSMEs play crucial role in growth and transformation of India with their maximum contribution towards sustainable growth, employment and social stability.

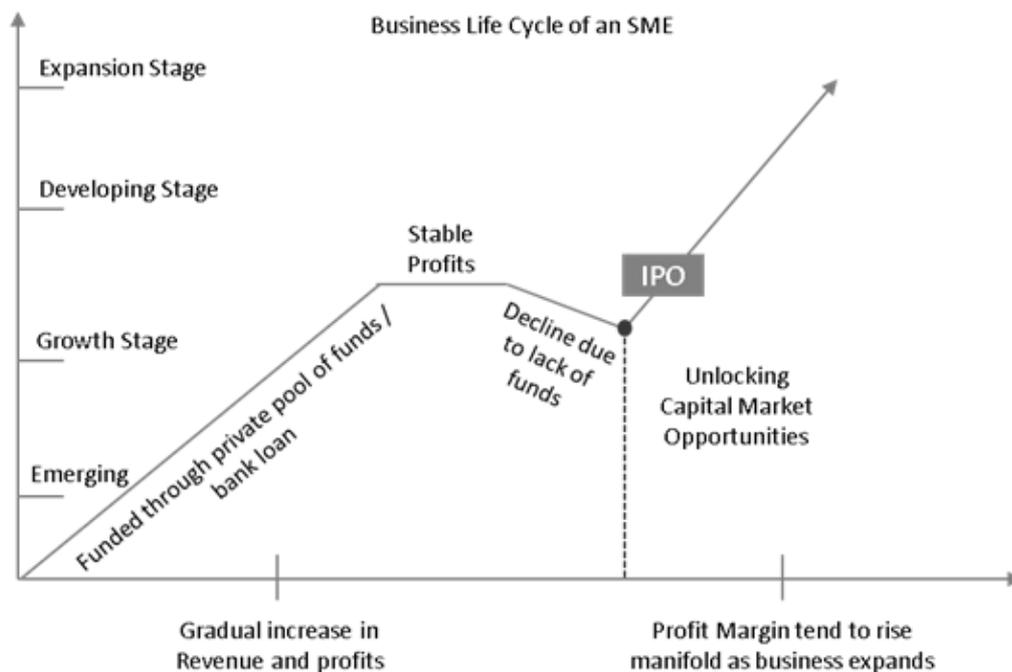
Despite the important role and their strategic importance in the context of industrial development and economic growth, the Indian MSMEs experience several constraints and challenges.

Common Challenges

- **Limited Means of Finance**
 - Non-availability of adequate and timely credit and high cost of credit
 - Limited awareness of avenues for fund mobilisation
- **Lack of Exposure and Visibility**
 - Access to global markets
 - Visibility
 - Recognition and benchmarking
 - Marketing and branding
- **Lack of Growth / Knowledge Platform**
 - Skill development workshop
 - Manpower strengthening
 - Awareness of policies / incentives

Several key issues remain to be addressed properly and measures yet to be taken in the interest of sustainable economic development.

MSMEs are deeply constrained by their issue of finance. Equity as a source of financing is underutilized and the prevalence of investment by institutions, mutual fund, venture capital and angel investors is low. The government and regulators have time and again attempted to address concerns of MSMEs and introduced various policy measures to help MSMEs grow.



In order to address finance constraints and bring avenues for fund raising for SMEs, a dedicated Stock Exchange or a trading platform for SMEs is set up by BSE (BSE SME) and NSE (NSE EMERGE).

Indian SME Capital Market is growing at lightning speed

Globally more than 30 exchanges provide equity financing facility to SMEs through Alternate Capital Market.

Market capitalization of SME stocks on BSE & NSE platforms in India is ~INR 33,000 crores. While, UK's SME market capitalization is INR ~10 lakh crores, while it's GDP is ~0.96 times that of India and China's SME market capitalization is INR ~100 lakh crores, while it's GDP is ~4.5 times that of India. Growth opportunity is massive.

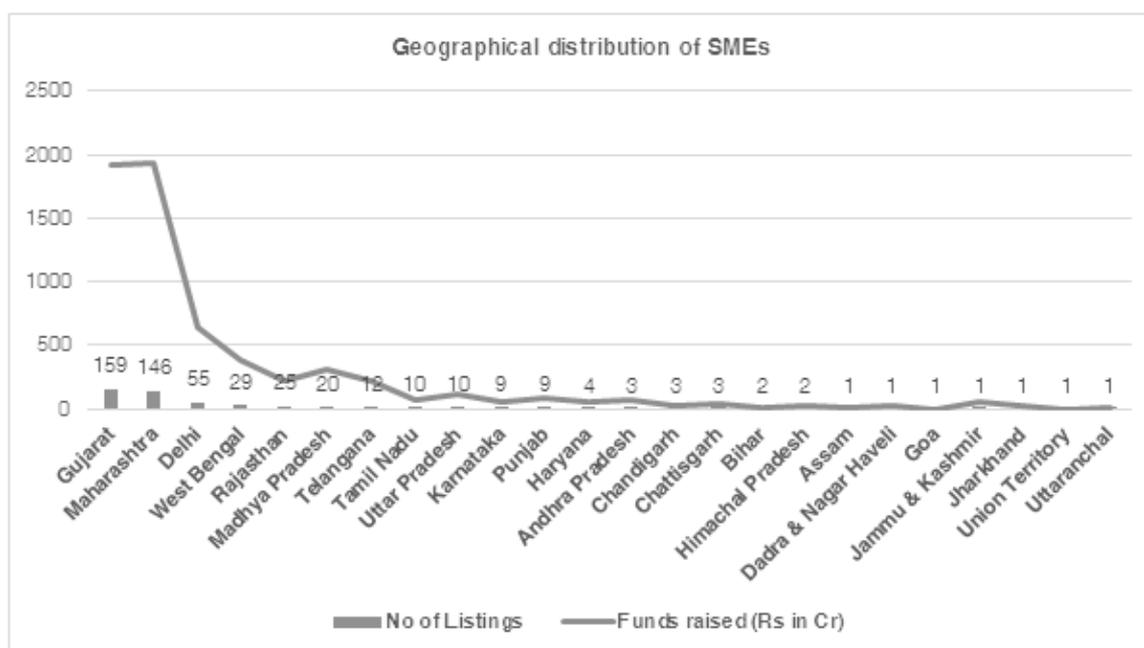
In short time span, Indian SME Capital Market is crowned to be fastest growing surpassing many of its global peers.

India's Alternate SME Capital Market Current Scenario:

India's Alternate SME Capital Market have been in existence for 6-7 years now and has witnessed over 500 SME IPOs collectively raising INR 6,256 Crores. Geographically, Maharashtra tops in terms of funds raising and Gujarat leads in number terms.

We now see many non-traditional businesses like bio-fuel, agri resources, engineering & technology, integrated food distribution platform, supply chain logistics, waste management, construction materials, robotics, etc. mobilising public funding through SME Capital Markets.

Financial Year	No of SMEs seeking listing	Total funds raised (INR in Cr)	Average IPO size (INR in Cr)	No of SMEs migrated
FY20	20	322	16	30
FY19	118	1,936	16	22
FY18	148	2,155	15	10
FY17	80	810	10	17
FY16	46	303	7	0
FY15	37	271	7	0
FY14	39	358	9	0
FY13	19	185	10	0
FY12	1	9	9	0
Total	508	6350	13	79





Recent trends and updates:

- Marginal decline in number of listings, however **fund raising at record high**
- **Increase in average IPO size** depicting companies being able to raise higher amount of funds
- **Exit to Private Equity and Venture Capital funds** through SME IPO route
- **Anchor investor participation** seen in top IPOs. Regulator also **reduced minimum anchor allocation** size from INR 10 Cr to **INR 2 Cr** for SME IPOs
- **Migration** trend continues with **increasing** number of companies opting to migrate to main board. Now migration is possible even before completing 2 years of listing

Number of entrepreneurs bringing their companies to market remain high due to positive investor sentiment and growing popularity amongst fund houses and institutional investors.

Positive post-IPO price performance and attractive valuation is keeping investors engaged

Indices Performance

SME investing is definitely difficult and there could be more landmines than goldmines, but to say that these issues are specific only to SMEs and not to companies on other platforms would be unfair.

Given market volatilities and corporate governance irregularities, investors have become more selective. To balance the risk and return matrix, portfolio allocation to SMEs is the best way to maximise returns. A comparative analysis show SMEs have provided superior risk adjusted returns across all asset classes.

Anchor Investor Participation in SME IPOs		
Name of Company	Issue Size (INR in Cr)	Subscribe Times
MMP Industries Ltd	84.60	1.13
Sirca Paints India Ltd	77.91	10.59
Sinteroom India Ltd	42.55	36.93
Innovators Facade Systems Ltd	40.76	22.54
Macpower CNC Machines Ltd	36.61	3.54
South West Pinnacle Exploration Ltd	35.86	37.61
Accuracy Shipping Ltd	35.76	1.29
Rajshree Polypack Ltd	35.52	3.78
AVG Logistics Ltd	33.06	2.05

Index	Dec, 2013	March, 2019	CAGR (%)
BSE Sensex	20,716	38,673	13%
Nifty 50	6,168	11,624	13%
BSE Small Cap	6,131	15,027	19%
Nifty SmallCap 50	1,664	3,248	14%
BSE SME IPO	451	1,758	30%
Pantomath SMEX-30	100	892	51%

How Alternate Capital Market helps nation building

Informal enterprises shift to the formal economy

Most of Indian businesses are closely held family run outfits characterised by challenges like scattered operations, multiple entities involving cost inefficiencies, leakages, tax avoidance etc. These businesses form part of “unorganised” economy and are located through industrial clusters across small towns and villages. Post public offerings, public accountability makes it imperative for these unorganised businesses to inculcate high governance standards.

Move beyond tax savings based valuation strategies to wealth creation strategies for SMEs

There is a long drawn practice of saving more by aggressive planning for reduced post-tax profits, which needs to be addressed. The choice is between two alternatives: save 1/3rd of pie or raise business valuation to, say, 10 times. The cost of tax planning could be huge in comparison to the incremental valuation foregone. Progressive businesses, who appreciate the wealth creation and business valuation, are able to raise the valuation to desired levels without bothering incremental tax outgo. This also benefits the exchequer and the shareholders at large.

India in long term is MSME story

Almost all developed countries across world have a strong MSME sector. To unlock the true potential of MSMEs and strengthening MSME ecosystem, developing favourable access to finance is most essential. Along with Government, private organisations, banks, market intermediaries and like need to contribute towards broad-basing capital market initiatives for MSMEs.

Apart from financial assistance, MSMEs require well timed handholding and mentoring at crucial stages of business life cycle. Wide spread awareness programs, skill development, recognition, peer learning and getting Indian MSMEs visible on global map should be part of MSME growth agenda adding up to formalisation and leading to inclusive growth of Indian Economy.
