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A study to understand the process of listing of SME on stock exchange

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Abstract:

SME Exchange and NSE Emerge are two of the most talked-about stock exchanges right now because they provide small and medium-sized businesses access to a unified funding platform. Chapter XA of the Regulations of the Securities and Exchange Board of India deals with the issuance of capital and the disclosure requirements for such capital. The Main Board is not considered a SME exchange, but rather any other trading platform of a recognized stock exchange or specialized exchange that has been granted permission by SEBI to list securities issued in line with Chapter XA of SEBI (ICDR) Regulations (which is in turn is defined as a recognized stock exchange having nationwide trading terminals, other than SME exchange). If a company is too small or medium-sized to be listed on the major stock markets, it may turn to the SME exchange, which is only devoted to trading the shares of these companies. This paper uses secondary data to analyze BSE SME Exchange's performance during fiscal years 2012–13 and 2018–19. Benefiting from an IPO financing market is a huge step forward for small and medium-sized enterprises listed on the SME Exchange.

Key words : Financing, IPO, SME Exchange, Underpricing.

Introduction

The micro, small, and medium-sized enterprise (MSME) sector has been crucial to India's economic growth narrative since independence. When it comes to production elements, the SME sector has a low capital need but uses a large amount of labor. Its potential for creating jobs ensures that it remains at the center of policy debates. It gives employment opportunity to over 8 crore people and contributes 8% towards GDP and 40% of county's export. Due to the smaller size of the businesses in this area, they are particularly vulnerable to the effects of a lack of capital. Beck and Demirg identify access to capital as a "major growth restriction for MSMEs." The SME Exchange was proposed by the prime minister's task group to increase the profile of small and medium-sized enterprises (SMEs) and, by extension, their access to capital. The Small and Medium Enterprises (SME) Exchange is defined as "a trading platform of a recognized stock exchange with countrywide trading terminals allowed by the SEBI to list the relevant securities issued in line with ICDR rules." In addition to helping SMEs, this platform also serves as a meeting place for savvy investors looking to increase their returns at the expense of some of the inherent risk in new businesses. Both the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) have recognized the potential of this market and have launched SME-specific platforms (the BSE MSE Platform and the NSE EMERGE, respectively) to capitalize on it. Over-the-counter Exchange of India (OTCEI) was founded in 1990 for the same reason. This system served as the gateway for the introduction of electronic trading in India. Without any evidence of its viability, this platform was shut down in 2015. Nearly two hundred businesses will be traded on these markets by the end of 2016. Following the SEBI regulations, firms listed on the SME platform may move up to the main stock market. However, for at least two years, the enterprises must have been publicly traded on the SME market. The Securities and Exchange Board of India (SEBI), the Bombay Stock Exchange (BSE), and the National Stock Exchange (NSE) have all developed a set of laws that issuers must follow with the assistance of merchant bankers in order to create good corporate governance standards.

Indian Economy & Role of SMEs

Above the course of the previous several years, the Indian economy has seen GDP growth of over 8%. Nonetheless, Moody's has reduced its forecast for India's GDP growth for 2013-14 from 5.5 percent to 4.5 percent. An additional 7-9% growth rate for the Indian economy is seen to be possible with the implementation of certain reforms. In this light, it is important to recognize the impact that small and medium-sized enterprises (SMEs) have had on local GDP development and global socioeconomic growth. There are over 26.1 million SMEs operating today. The manufacturing sector accounts over 45% of SME production and approximately 8% of GDP. Nearly 59.7 million people have found work because of it, and it accounts for close to 40% of exports. Small and medium-sized enterprises (SMEs) are an important means through which the wealth of the nation may be spread among its citizens. Studies show that by 2013–14, a majority of SMEs (i.e., an increase from 31% to 56%) would be involved in foreign trade. Small and medium-sized enterprises (SMEs) offer tremendous expansion potential in terms of output, export, employment, and other economic indicators. Businesses of all sizes, from micro to multinational conglomerates, have begun spending money on innovation. As a result, the availability of financial market access will allow for the necessary massive investments to be made.

SME listing in India

There are SME platforms in over twenty-four countries, including the United Kingdom's Alternate Investment Market, Canada's TSX Venture Exchange, Hong Kong's Growth Enterprise Market, Japan's MOTHERS, and South Africa's JSE. But until recently, the industry in India lacked access to direct public investment through financial markets. Now that SEBI has lifted its ban, SMEs may access capital market funding. Among other things, this should help the economy expand by around 7% to 8%. After the collapse of the OTCEI, the Prime Minister formed a task force that ultimately suggested the establishment of a stock exchange for small and medium-sized enterprises. By announcement dated April 13, 2010, SEBI has updated the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 to reflect international best practices. It is now possible for SMEs to get money from the market. We believe that small and medium-sized enterprise (SME) listings on stock markets will contribute considerably to the production and distribution of wealth in the economy. Increasing small and medium-sized enterprises (SMEs) creates chances for micro-level savings and investment possibilities that foster financial inclusion.

Definition of SME

Small and medium-sized businesses are defined in Section 2 Clause 2 of the Micro, Small, and Medium-Sized Enterprises Development Act of 2006. This small or medium-sized business must be involved in delivering or supplying some kind of service. The primary requirement for registering a business as a small or medium-sized company (SME) is the amount of investment in plant and equipment, whether the business is a manufacturer or a service provider. Micro-, Small-, and Medium-Sized Businesses (MSMBs) are defined by their total investment size. Small and medium-sized enterprises (SMEs) face a number of restrictions when it comes to going public.

Small and medium-sized businesses (SMEs) are an important aspect of the American economy due to the contributions they provide to key economic indicators including gross domestic product (GDP), industrial growth, employment, and exports. Given that the SME sector is like insulin to the world's rising economies, its function and contribution has grown to be on par with that of a huge firm. Despite its critical importance, it faces a number of obstacles. These include a dearth of resources, finance, and equality. The majority of their day-to-day cash needs have been satisfied by bank loans. Although Small Industries Development Bank of India (SIDBI) provides some assistance in the form of equity financing. This aid is more of a bandage than a lasting answer to money problems. A centralized meeting place for those seeking funding and those offering it would be helpful in this situation. When it comes to financing, large organizations have more opportunities than small and medium-sized enterprises (SMEs), including initial public offerings (IPOs), follow-on offerings (FPOs), private placements, debt financing, and so on. There is sufficient evidence from past eras to suggest that SMEs have always had difficulty securing enough funding. Over the Counter Exchange of India (OTCEI) was founded in 1990, and the BSE's INDO NEXT Platform was launched in 2005 as two examples of alternative financing techniques that ultimately failed to achieve their goals (SEBI 2008). As a result, in March 2012, BSE launched its Small and Medium Enterprise (SME) platform, and in September 2012, NSE launched its SME platform, 'Emerge.

This research seeks to answer the question, "Is IPO a successful path of funding for small and medium-sized enterprises?" by examining the performance of SME markets in India. This paper sheds light on the current state of small and medium-sized enterprise (SME) exchanges around the world, as well as regulatory guidelines for the public offering (IPO) of shares by SMEs, the significance of the primary and secondary markets for these platforms, and an overview of listed companies' finances.

Review of literature

(Tripathi et al., 2017) studied "SME IPOs in Indian Capital Market" discovered, and This research aims to analyze the effectiveness of initial public offerings (IPOs) that were distributed through the BSE SME and NSE EMERGE exchanges. The report concludes that the platform is gaining traction as the number of issues listed on it grows and as the average issue size of an IPO rises to an encouraging 8 crore. It is also confirmed that, on average, small and medium-sized enterprise initial public offerings (IPOs) are underpriced by 10.60%. This result accords with the widely held belief that prices tend to be first set too low. The authors discover that the size of underpricing shows a decreasing tendency throughout the time period under research, but that the difference is not statistically significant as shown by the ANOVA result. Finally, the findings of the correlation study show that the amount of underpricing is significantly correlated with the subscription rate, suggesting that the two variables tend to follow the same trajectory. Investors, small company owners, investment bankers, and government agencies may all benefit from this research.

(Kulkarni & Chirputkar, 2014) studied "Impact of SME Listing on Capital Structure Decisions" discovered, and Traditional capital structures have been used by Indian SMEs up to this point. In the past, there have been limits on how much money may be raised in total, including how much stock the owners can privately raise. Loans from financial institutions and money from personal savings have been the major sources of funding. Short-term financing has been subject to "maximum allowable bank finance," while long-term debt has been capped by debt equity ratio and readily marketable securities (MPBF). Despite the industry's promise, it hasn't been able to reach its full potential due to a number of obstacles. These include a lack of professional management, a difficulty to attract and retain top people, and a shortage of capital. While small and medium-sized enterprises (SMEs) in a select number of other nations have had access to public financing through capital markets, this has not been the case in India. There is now a stock exchange platform specifically for small and medium sized enterprises (SMEs) to access the equity market and raise capital (BSE & NSE). The listing of equity shares of small and medium-sized businesses has just been legalized. Small and medium-sized enterprises (SMEs) would be able to expand and succeed if they are listed on stock exchanges.

(Mandali, 2015) studied "issues and challenges in promoting sme exchanges amongst" discovered that SMEs in India account for about 40% of the country's total industrial value added and 95% of the country's industrial units. About 34% of exports and 7% of India's GDP may be attributed to this industry. To the tune of 20 million people, there are 3.6 million officially recognized SMEs in the workforce. Compared to other countries, India scores badly when it comes to the ease with which small and medium-sized enterprises may get access to foreign funding. Many small and medium-sized enterprises (SMEs) in India have shut down owing to a lack of finance, while others have finally secured financing after many failed attempts. The same institutions that exist to lend money to budding business owners are either not providing any assistance at all or are asking unfathomably high interest rates that would destroy the profit margins of any startup. The Small and Medium-Sized Enterprise Exchange (SME Exchange) was set up to help such businesses gain visibility and streamline operations. For the purpose of listing and trading in the securities of small and medium-sized enterprises (SMEs), some major exchanges throughout the world have formed a distinct SME Exchange. In India, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) both operate their own small and medium-sized enterprise (SME) exchanges known as BSE SME and EMERGE, respectively.

(2015) studied "New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments" discovered, and Many small and medium-sized enterprises (SMEs) and entrepreneurs rely largely on conventional loans to meet their initial capital, working capital, and investment requirements. While conventional bank financing is widely utilized by SMEs, it may be difficult to get for certain enterprises, especially those that are more high-risk but also more promising. Small and medium-sized enterprises (SMEs) looking to de-leverage and enhance their capital structures, as well as organizations undergoing significant transitions in their operations, such as changes in ownership and control, face financial gaps. Many businesses were forced to raise leverage in order to survive the current economic and financial crises, heightening the urgency of the need to improve capital structures and reduce dependency on borrowing. Indeed, governmental responses to the crisis may have worsened the issue of SME over-leveraging by focusing on systems that allowed enterprises to grow their debt loads (e.g. direct lending, loan guarantees). As a result of stricter prudential regulations, banks in several OECD nations have been shrinking their balance sheets. Despite the continued importance of bank funding, there is widespread worry that SMEs and entrepreneurs may learn to accept credit limits as the "new normal." So as to ensure that small and medium-sized enterprises (SMEs) and entrepreneurs can continue to play a role in investment, development, innovation, and employment, it is vital to increase the variety of financing instruments at their disposal.

(Sharma & Gupta, 2018) studied "SME Financing: ipo issue and post-ipo analysis" discovered that SMEs (Small and Medium-Sized Enterprises) constitute the backbone of economic development in every country. The World Bank estimates that formal SMEs generate between 45 and 33% of national income (GDP) in developing nations. If the contribution of unofficial SMEs is included in, this estimate might rise much higher. Employment opportunities for the world's expanding workforce, especially in Asia and Sub-Saharan Africa, are projected to exceed 600 million over the next 15 years. The vast majority of formal employment opportunities in developing economies are created by small and medium-sized enterprises (SMEs). Consequently, lack of access to capital is a major barrier to the development of SMEs. Recently, action was taken to help small and medium-sized enterprises (SMEs) raise money via initial public offerings (IPOs), and the results have been quite promising. The secondary market's response to SME IPOs has been strong as well. Unfortunately, the procedure is dangerous for investors because to the limited liquidity and turnover. Because of this, the Securities and Exchange Board of India (SEBI) has established guidelines prohibiting small investors from participating in initial public offerings (IPOs) from small and medium-sized enterprises. For at least three years, SEBI stresses that merchant bankers play the role of investors in these businesses. On the opposite hand, if the company takes longer than three years to settle the whole operation, the shareholders' enthusiasm may wane and they may decide to get out of the venture. Again, this will cause a shortage of cash. This study examines the efficacy of IPO funding for SMEs and the track record of success achieved by enterprises after

IPO funding. Consider how stock markets, on which these firms are listed, may play a role in providing steady support to the companies' management teams.

Conclusion:

Businesses with less than 500 employees are called SMEs in India. Over the last several years, small and medium-sized enterprises (SMEs) have seen consistent expansion. SMBs are becoming more important in the manufacturing industry, and here is where future expansion is being focused. The Indian economy is flourishing, and a wide range of industries—including production, food processing, textiles and garments, retail, precision engineering, information technology, pharmaceuticals, and agriculture and services—are making significant strides. There are possibilities and threats facing SMEs in the current economic climate. When it comes to helping small and medium-sized enterprises (SMEs), neither the federal nor state governments provide enough assistance. The private sector has great potential, but this can only be realized if entrepreneurs and the government work together to make it happen. It is quite clear that fostering this industry is critical to the nation's economic health. SME The function of the stock market in supplying small and medium-sized businesses with capital is crucial. A growing number of small and medium-sized enterprises (SMEs) are choosing to list on SME platforms, demonstrating the enthusiastic reception SME exchanges have received. There will likely be a continuation of this trend's upward trajectory. Potential investors in the market have made it apparent that they are open to investigating investment opportunities outside of the status quo. Factors like returns on investment, management trust, professionalism, etc. have shown to be of lower value in making investment decisions, however SME Investments are seen as a viable consideration for investment opportunities. The aversion to investing in SMEs may be traced back in large part to the risk that is inherent in such ventures. Such investments have great promise, though, if stock exchanges can find a method to reduce the volatility associated with them.

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