

# Capital Market Access to Small and Medium Enterprises (SMEs): Evidence from Indian Stock Market

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## Abstract

The aim of this research paper is to analyse the growth and development of the SME Platform in India. Lack of adequate and timely credit to SMEs is a major hurdle in SME growth trajectory. To resort this perennial issue various measures has introduced, but they fail to produce the desired result. The idea to provide capital market access to SME ended with the establishment of a dedicated stock exchange. SME Platform is the emerging financial source for small business entities after premature death of OTCEI. An emerging economy, like India must have a platform for a more enhanced equity market for SMEs. The new initiative of capital financing of SMEs through capital market has been quite encouraging and would be supplemented to the banking credit. SEBI's guidelines and the development progress of SME platform is similar to the successful international experiment in particular to AIM, MOTHER and NASDAQ. This paper fortifies the potential growth for SME Platform in India by analyzing the performance of SME Exchange of BSE and relaxed trade norms of SME Platform.

**Keywords:** SME Platform, Credit Crunch, Small and Medium Enterprises, Dedicated Stock Exchange, IPO, SEBI's regulations

## Introduction

The Small and Medium Enterprises (SME) sector constitutes an important segment of any economy; they significantly contribute in socio economic development of India by way of GDP, industrial growth, employment and exports. As per the quick estimates of fourth All-India, Census of MSMEs, the number of enterprises is estimated to be about 26 million, providing employment to an estimated 60 million persons. The MSME sector is accounted to contribute about 45% of the total manufactured output and nearly 40% to India's exports. Although MSMEs contribute significantly to the overall economic growth of the country, they suffer from several disadvantages. Of all the problems faced by the micro and small enterprises (MSEs), issues relating to credit are the most critical. The financial crunch is a general trend of the economy, particularly in the SME sector. They face financial shortage due to Non-availability of adequate and timely credit, High cost of credit, Collateral requirements, Access to equity capital, and Rehabilitation of sick enterprises, etc... Since independence onward, Indian financial system witnessed for a number of reforms, including major and minor, but financial reforms have failed to meet credit requirements in completely, particularly the demand of small

segments. Generally, SMEs have relied on bank loans for financing rather than alternative sources. Credit access became more critical to SMEs due to the prudential regulations imposed by banks after the financial crisis (2008), as well as the introduction of more stringent capital requirements associated with Basel III. For prolonged years, SMEs have no alternative sources of equity funding other than promoters' contribution and the scheme of SIDBI under the Growth Capital and Equity Assistance Schemes for MSMEs (GEMS). Most of the cases, the equity capital is far below than marginal requirements. Therefore, SME often fails to explore the growth opportunities. The dependence of SMEs on bank loan is only for meeting their working capital requirements, not for expansion. Recognizing the severe credit crunch in the segment, prime minister's task force on MSME (2010) strongly recommended for setting up for SME Exchange. In order to provide a market based solution for equity resource mobilization by SMEs, Securities and Exchange Board of India (SEBI) has expedited the process of setting up a separate exchange. The SEBI has formulated a framework for SME Platform by considering the recommendations of various reports including the reports of prime ministers' task force (2010), RBI 2008, earlier efforts such as OTCEI 1990, and the INDONEXT Platform of the BSE 2005. The annual conference of IOSCO 2007 held at Mumbai, also discussed the need for having a separate exchange/platform for SMEs. The same would be necessary for the focused development of the SME sector. It also felt that a sound SME capital market would address the chronic lack of long-term credit available to SMEs. SEBI has taken the initiative by relaxing various trades and listing norms. Based on the guideline issued by SEBI for setting up of dedicated stock exchange BSE and NSE have submitted their proposal for starting a stock exchange for SMEs. Finally, with the approval of SEBI, efforts to provide an alternative source of equity funding to SMEs has fructified with launch of 'SME Platform' by BSE on March 2012 and 'Emerge' by NSE on September 2012. These SME Exchanges are separate from main stock exchanges (Main Exchanges), and targeted towards the issue, listing and trading of securities by SMEs and easier access to equity capital for the purpose of growth and expansion. Since SME Exchange is separated from main exchange, common regulations are not applicable in trading. Its relaxed norms attracted SMEs to mobilize equity capital. More than 4000 SME entities are eligible to list, for the last five years; the SME Platform has facilitated to mobilize more than 1,474.10 crore with the market capitalization of more than 17,743.41 crore. The BSE SME Exchange covers 89% of the market share and leading among SME Platforms. The initiative is quite workable and would be one basket solution for SME financial crunch in the future.

This paper attempts to review the development and performance of SME Platform in India. So this Discussion has been organized into four sections, section first gives

conceptual clarification. Section second highlight the development of SME Exchange in India and selected countries. Section third covers the policy framework for establishing SME Platform and make comparison of SME Exchange with main board and lastly, this paper analyses the performance of BSE SME Exchange for last five years.

## **Conceptual Clarification**

### **A. Capital Market**

Capital market refers to the organization and the mechanism through which the companies, other institutions and the government raise long-term funds. They raise finance by issuing various securities such as shares, debentures, bonds, etc. For trading of securities, there are two different segments in the capital market. One is primary market and the other is, secondary market. The primary market deals with new or fresh issue (IPO) of securities and is, therefore, known as new issue market. The secondary market on the other hand, provides a place for purchase and sale of existing securities and is known as stock market or stock exchange. The companies usually issue those securities at the initial stages of their formation and so also later on for expansion and/or modernization of their activities in the primary market. However, the selling of securities is not an easy task, as the companies have to fulfill various legal requirements and decide upon the appropriate timing and the method of issue. Hence, they seek the assistance of various intermediaries such as merchant bankers, underwriters, etc. to look after all these aspects.

### **B. Small and Medium Enterprises (SMEs)**

A business may be described as either small, or medium or large scale depending the yardstick used to measure its size. Therefore, the important question is what type of yardstick used to describe. There is no universally acceptable yardstick or definition for Small and Medium Enterprises (SMEs), the definition of Small and Medium Enterprises (SMEs) varies from country to country. For instance, in India SME defines based on investment in plant and machinery, while The International Financial Corporation (2004) defines SMEs as firms with less than 300 employees and total assets less than \$ one million. In India, The MSMED Act 2006 give an exhaustive description about small business, Micro, Small and Medium Enterprise are classified into two broad categories, namely Manufacturing and Services; Manufacturing enterprise is those entities which are engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act 1951. The manufacturing enterprise is defined in terms of investment level in plant and machinery. Service enterprise is those entities, which engaged in providing or rendering of services and categorized based on investment in equipment. The detailed classification has given in table 1

**Table 1; Classification of MSMEs according to MSMED Act 2006**

<b>Enterprises</b>	<b>Manufacturing sector (Investment in plant and machinery)</b>	<b>Service sector (Investment in equipment)</b>
Micro	An enterprise where the investment does not exceed Rs. 25 lakh	An enterprise where the investment does not exceed Rs. 10 lakh
Small	An enterprise where the investment is more than Rs. 25 lakh but does not exceed Rs. 5 crore.	An enterprise where the investment is more than Rs.10 lakh but does not exceed Rs. 2 crore.
Medium	An enterprise where the investment is more than Rs.5 crore but does not exceed Rs.10 crore.	An enterprise where the investment is more than Rs. 2 crore but does not exceed Rs. 5 crore

Source: MSMED Act 2006

SMEs play catalytic role in the growth and development process of an economy. In India, the MSME sector is the second largest employer after agriculture and expedite the economic activity.

#### C.SME Platform/Stock Exchange

SME Dedicated stock exchange or SME Platform is an extension of the stock exchange and it acts as an incubator, by facilitating SMEs to rise equity capital through IPOs and latter migrate them to the main board of the stock exchange. The SME Platform, shall be open to SMEs whose post issue paid up capital is less than or equal to 25crores. Financial accesses have been a perennial issue and remain a challenge to small business segment. So the government has taken various initiatives to resolve the long lasting credit crunch of the segment, but the movement doesn't bring the desired results and failed to give due diligence to ensure the adequate credit to the segment. In a bid to address this issue, the Prime Minister's Task Force recommended the establishment of a dedicated Stock Exchange/ Platform for SMEs in January 2010, various studies also recommended establishing a separate platform for wide accessibility of equity capital to the segment. SEBI has put a framework for setting up of new exchange or separate platform of existing stock exchange having nationwide terminals for SME. SEBI has approved the proposal of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) on establishing dedicated SME Exchange and launched their SME trading platform in 2012. Now there are two dedicated SME Platforms are functioning in India financial market.

#### Literature Review

The literature reviews focus to fortify the shortage in SME financing and the need of a platform for small business.

The prudential regulation in the banking sector has the effect of reducing the intermediation capacity of the banking system, as banks become more risk averse when extending loans, especially to the SME sector. Therefore, it has become crucial to examine possible alternative financing. SME Platform one of such initiative to provide more relaxed source of finance, the literature reviews mainly fortifies the need of SME financing through capital markets. Also

considered the literature related shortcoming of the prevailing credit structure of SMEs. (C.B.Bhave2010), former chairman of SEBI point out that, the MSME's are a catalyst in most of the economies and constitute a major part of the industrial activity, MSME's generally face financial crisis. He foresees that the SME Stock Exchange will be a great boon to this sector, as it will provide a wide pool of capital, increased status and credibility and other benefits. (Bhatendra Kumar Gupta 2008)In India, the MSME sector is the second largest employer after agriculture. With the growth in the Indian Economy, it is of need for the MSME to raise capital is becoming increasingly critical. He says that there is a need for the dedicated Stock Exchange for the MSME sector to cater to their needs better which are different from the large industries.(Paul & Ramanathan, 1991) over viewed the financial market, Capital market constitutes primary (new issues market) and secondary (stock) market. The primary market helps the public and private sector companies in raising finance mainly for their new projects, expansion, modernization, acquisition etc. The secondary market provides liquidity for the financial instruments (equity, preference shares and debentures /bonds) through adequate marketability and price continuity. The array of financial institutions also have played crucial role in meeting long-term credit needs of the industrial sector.(The Growth and Emerging Markets Committee, 2015) The strengthening channels for SMEs. Raising funds by way of an organized, transparent, orderly functioning and reliable capital market could provide an important alternative source of finance for SMEs. In addition, the emergence of alternative markets where, on the one hand, SMEs can raise funds and, on the other, investors have access to a wider array of investment opportunities, are important to foster the development of capital markets. (Sestanovic Aljosa)The majority of the prime stock market operators today increasingly target SME sector by developing specific platforms under the legislative framework of the multilateral trade facilities with lesser admission requirements than regulated market. Generally known as SME-focused stock exchanges. Development of such SME dedicated exchanges may enable SMEs easier access to equity capital. There are additional advantages for

enterprises raising funds through stock exchange such as the diversification of funding sources, access to broader base of potential investors' base, access to equity capital. It generally enables carrying more debt in balance sheet, and may bring brand recognition and reputation. (Yoo, 2007) Merely creating a new board within the exchange does not ensure a vibrant exchange for SMEs. A successful SME stock market system enabling varied small companies to grow and varied investors to stake their capital. Such a market can not only benefit selected SMEs by allowing them access to public equity but also help nurture a larger population of new entrepreneurs by creating a more vibrant environment for equity financing. Further, to face inherent challenges, such exchange should be in independent structure, promote both local venture and foreign venture as well, and ensure transparency and coordination. According to International Labour Organization (ILO) (2000), SMEs are necessary engines for achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation, strengthening the industrial base and local production structure. However, the ability of SMEs to realize these economic and social objectives depend on the regulatory and policy environment within which they operate. Capital Market plays a crucial role in mobilizing domestic resources and in channeling these efficiently to the most productive investment. (Oteh, 2011) Access to finance for SMEs is a key challenge to supporting sustainable growth in Africa. Many policymakers agree that in order to increase SME access to finance, alternative sources of funding must be explored. Capital markets are a viable way of increasing financing options for SMEs and would ultimately serve to develop both the SMEs as well as the capital markets. The financial support that capital markets could provide them will increase economic development in the continent (World Federation of Exchanges, 2015) the development of a vibrant SME sector is considered necessary to restore global growth. However, lack of finance is a central impediment to the growth of SMEs. So it is necessary to improve both bank financing and on alternative sources of financing such as capital market financing. Stock exchanges play an important role in the financing ecosystem though markets in different jurisdictions have had variable levels of success in developing a viable market for SME funding.

Although SMEs play an important role in economic growth and employment, most of them are denied any access to the formal financial system, from the view of SME; it is the need of the hour to have more relaxed finance for explore the growth potential. Therefore, SME Exchange is better solutions for financing SMEs.

### Objectives of the study

This paper attempts to analyse the growth and development of SME Stock exchange in Indian context. Following are the

objectives of the study.

- To analyse the development of SME stock exchange in India and selected countries
- To compare the Policy framework related to listing on SME Platform and Main Stock Exchange
- To analyse the performance of SME Platform functioning in Bombay Stock Exchange.

### Scope of the study

India is a one of the emerging country with a stable economic indices and the economic environment. The economy provides ample scope to small businesses for growth and development. However, they are failing to address the growth opportunities, because Indian SMEs has faced the difficulties to access the adequate finance for their working capital and investment. The Government, banks and other promotional agencies have taken deliberate actions to resort the financial hurdle, but the financial gap increases year to year. So it was the responsibility of SMEs promotional agencies to establish a common financial pool which can help the SMEs to grow without any such hurdle. The SME stock exchange provides a common pool facility for raise fund. BSE has taken the initiative to give such a platform to the SMEs wherein the entrepreneurs can raise equity capital for their expansion and give them the chance for the wealth creation.

### Methodology

The data structure for the study is based on the official publication of annual reports, and other reports like daily trading reports, financial reports of the companies listed on the exchanges and other various official websites. Graphical analysis has mainly used for discussion.

### Growth and Development of SME Capital Market

Even though SMEs has been playing a catalytic role in national growth and development, they face numerous challenges; the most prominent among them is non availability of adequate finance. All other issues could be managed if the SMEs would run with a sound financial background. To meet this challenge and bring SME into the corporate financing platform, a number of countries have endeavored a capital market that is specifically meant for SMEs. The highest number of such programs is seen in Europe, Asia, North America, Australia and Africa. For the last few years, stock exchanges has witnessed for a heap of reforms, particularly in emerging markets, initiation for SME Platform in India was out of the financial shortage of the SME sector. This platform performs two functions simultaneously, provide new invest avenues for investors similarly help to mitigate the credit shortage of SMEs. In other words, SME Platform was result of emerging market trend.



### A. Evolution of SME Platform in India

SME in India has relied on banks as well as state financial institutions for external finance. The overall financing of SME sector has been inadequate, moreover, there is no arrangement for equity capital other than owners' contribution or from SIDBI's special scheme, these financial constraints lead to SMEs to approach unregulated lenders, obviously, the exorbitant credit rate impedes the SME to channel further finance from unregulated market. As a result of this credit crunch, SMEs have failed to explore the growth potentiality, as well as they are struggling to survive with limited financial sources. To mitigate the financial hurdles of the sector, various studies and reports on the credit crunch of SMEs has recommended for capital market accessibility for the sector (Task force 2010, RBI 2008). As a follow up to the recommendations of various reports and recognizing the need of dedicated stock exchange for small businesses, SEBI has taken the initiative to collect suggestions from various stakeholders to shape the SME Exchange. During the course of discussion, SEBI has considered the prevailing structure of SME financing and their shortcoming. Such as, cost of compliance on raising capital under the existing guidelines, eligible conditions, listing requirements and disclosure standards. In view of the previously mentioned concerns raised by various stakeholders, it felt the need of dedicated stock exchange for SMEs with minimum regulations. SEBI has amended various acts and relaxed its various trading norms for establishing SME Exchange, on May 2010 SEBI has issued a circular on Setting up of a Stock exchange/ a trading platform by a recognized stock exchange having nationwide trading terminals for SME. BSE has taken a bold initiative to form the first SME Exchange, and they studied various stock exchanges across the world, like AIM (London), Canada (TSXV), Hong Kong (GEM), Japan (Mothers), Korea (KOSDAQ) and US (NASDAQ) the study, analyzed their salient features, best practices and their business model. Learnings from the OTCEI, the capital market realities, considering the earlier attempt, i.e., INDONEXT (2005), and difficulties faced by SMEs have been taken into account while formulating the BSE SME Exchange in the Indian context. On the basis of above analysis BSE submitted a proposal for establishing SME Exchange, the same has been approved by SEBI on September 27, 2011. Finally, efforts to provide an alternative source of equity funding to SMEs fructified with launch of 'SME Platform' by BSE on March 2012. Meanwhile, following in the footsteps of BSE, NSE also submitted its proposal for a dedicated stock exchange for SME 'Emerge'. SEBI also approved the same and it started functioning on September 2012. The concept of a dedicated stock exchange for small business has been discussed earlier to globalization. In the mid-1990's Over The Counter Exchange of India (OTCEI) started to function and facilitate small firms to raise finance. Unfortunately, the initiative met with premature death as it could not get the support

needed at that time and the concept was introduced far ahead. The Stock Exchanges are continuously working towards making the platform most suitable for companies to become big from small by raising funds from Capital Market. Now the SME platform works on the new concept of screen based trading. In BSE around 188 scrips have listed in last five years and 31 companies migrated to the main exchange (until 29.07.2017). NSE too followed the footsteps of BSE, but 44 scrips have listed yet and only two companies migrated to the main exchange.

### B. International Framework for SME Platform

The ability of the MSMEs to grow depends on their ability to raise funds for investing in technology, expansion, innovation and research. This is the biggest challenge MSMEs face all over the world, whether they are in developed or in developing nations. Once they have tapped the resources of family, friends and well-wishers, they are unable to raise additional funds as easily as larger and more established businesses. This was the biggest challenge for SME promotional agencies; they introduced many measures to time-to-time, but failed to meet the credit need of the segment. It has felt the need of separate stock exchange arrangement for SME financing, at present more than 24 dedicated stock exchanges are functioning (Yoo 2007). The market gave the success to stock exchanges like; the London Stock Exchange (LSE) formed Alternative Investment Market (AIM) in 1995 as a market for smaller emerging companies to raise capital. It has started functioning with 10 companies valued collectively at £82.2 million. A large number of SMEs has been attracted to this stock exchange due to its features like easy entry, low regulatory burden. So far, over one thousand companies listed, with an average market cap of £80 million per listing. Similarly, the Tokyo Stock Exchange (TSE) established the new market MOTHERS in November 1999, in order to provide venture companies with access to funds at an early stage of their development. TSE functions with two separated sections, first section for large companies while second, namely, MOTHERS (Market of the high-growth and emerging stocks) dedicated to mid-sized companies and their 240 companies are listed till the date. Growth Enterprise Market (GEM) is another SME Platform setup by the Stock Exchange of Hong Kong in 1999. It operates on the philosophy of 'buyers beware' and let the market decide based on strong disclosure regime. The rules and requirements are designed for the line of self-compliance by listed issuers in the discharge of their respective responsibility. Since 1999, more than 267 companies have raised more than HKD 40 Billion in this market. Similarly, in South Africa, the JSE securities exchange introduced AltX – an alternative public equity exchange for SMEs. The exchange launched in 2003, as of July 2008 more than 80 companies were listed. In Egypt, The Egyptian Exchange hosts Nilex (Nile stock exchange) on October 2007. Nilex provides relaxed listing & disclosure

requirements as well as lower listing and trading fees. TSX Venture Exchange (TSX-V) in Canada came into operation in 2009. As of November 2010, the Venture Exchange had 2,364 listed companies. KOSDAQ (Korean Securities Dealers Automated Quotations) is a trading board of Korea Exchange(KRX) launched in 1996. It operates as a dedicated exchange for SME under the purview of KEX As of 19 February 2008, 1029 companies had listed for trading. Similarly, MOSDAQ (Malaysian Exchange of Securities Dealing and Automated Quotation) was launched in 1997, acts as separate securities exchange market, mostly for listing technology based companies. The Alternative Securities Market (ASeM) is a specialized board for emerging business in Nigeria. The Nigerian Stock Exchange introduced separate security board in 2013, it gives SMEs the opportunity to raise long-term capital from the capital market at relatively low cost, allowing them to grow and institutionalize.

### Policy Framework For SME Platform and Main Board

Security Exchange Board of India(SEBI) has put in a framework for setting up of new exchange or separate platform of existing stock exchange having nationwide terminals for SMEs, and the circulated on 26 April 2010. Earlier, the SMEs was governed by the standard equity listing agreement required to be entered into with the Main Exchanges on which companies propose to list their securities. SEBI took a step towards establishing a separate platform for the listing and trading of securities of SMEs with the introduction of the SME Model Listing Agreement.

In order to facilitate more relaxed exchange equity mobilization SEBI has molded a framework with minimum requirements. Policies has formulated after taking concern of industry stakeholders, leaning from the global experience, domestic market realities, fate of OTCEI. In order to lay down the policy for issue, listing and trading of securities to be issued by SMEs, necessary amendments have been made in the SEBI ICDR Regulations. Consequent amendments have been made into various other regulations such as, SEBI (Merchant Bankers) Regulations 1992, SEBI (Foreign Institutional Investors) Regulations, 1995, SEBI (Venture Capital Funds) Regulations, 1996, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations and SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. In continuations of earlier initiatives, SEBI had amended the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (SEBI (ICDR) Regulations) by inserting a specific chapter 'Chapter XB' under the head "Issue of Specified Securities by Small and Medium Enterprises" (i.e., Chapter XA, which was later re numbered as Chapter X-B) for the issue of specified securities by SMEs. The regulations emphasized simplified norms. A further circular was also issued on 18 May 2010 after taking into account the suggestions from market participants for the SME platform. The necessary provisions for listing of specified securities under the SME Platform vide the above regulations. Due to intensive efforts of SEBI, SME Exchange has a winning edge over Main Board. The table 2 shows the major regulations for listing companies in exchange.

**Table 2. Regulations for Listing Main Board and SME Exchange**

Parameters	Main Board	SME Platform/ Exchange
Post – issue paid up capital	Min INR 10 crore Min	Min INR 3 crore on BSE SME; Max INR 25 crore
Minimum number of Allotees in IPO	1000	50
IPO Application Size	INR 10000 – INR 15000	Min. INR 1 lac
IPO underwriting	Non Mandatory (Under 50% compulsory subscription to QIB's)	Mandatory (100% underwritten with MB underwriting 15%)
Offer Document vetting	By SEBI	By Exchange
Track record	Stringent track record norms like Operating Profit of 15 Cr	Relaxed track record norms
IPO Time frame	6 months – 1 year	2 – 3 Months
IPO grading	Mandatory	Non mandatory
Market making	Non mandatory	Mandatory
Corporate governance requirements	Clause 49	Clause 52
Reporting Requirements	Quarterly	Half yearly

Source :BSE

### Performance of SME Platform in BSE

Indian capital markets took a big leap with the launch of two platforms for new small and medium enterprises (SMEs) by

the BSE and the NSE. It was a major landmark for the SME sector to have a new avenue for raising capital in an efficient manner. India has high entrepreneurial potential and the

SME sector has been a key engine of economic growth, job creation, wealth distribution, and effective mobilization of resources (capital and skills). Till the date two SME Platforms namely BSE SME Exchange and NSE EMERGE, these Platform has the potential to revolutionize the way in which companies get access to public equity at an early stage of their development. With the shortest period, both platforms are performed well and SME sector mobilized a good amount of equity. Here, analyse BSE SME Exchange' IPO index only, because it covers 89% of the total market share.

### BSE SME Exchange

For enabling equity resource mobilization through market participation, BSE launched BSE SME Platform so called 'BSE SME Exchange' on March 12, 2012 with the approval of SEBI. The BSE SME Exchange fast emerged as the preferred destination of the SME segment to list and grow. As on 29 July 2017 it has, helped 188 SME entities to raise equity in a cost effective manner. It also allayed some of the common fears of the entrepreneurs with respect to listing on a stock exchanges.

**Table 3. Overall performance of BSE SME Exchange**

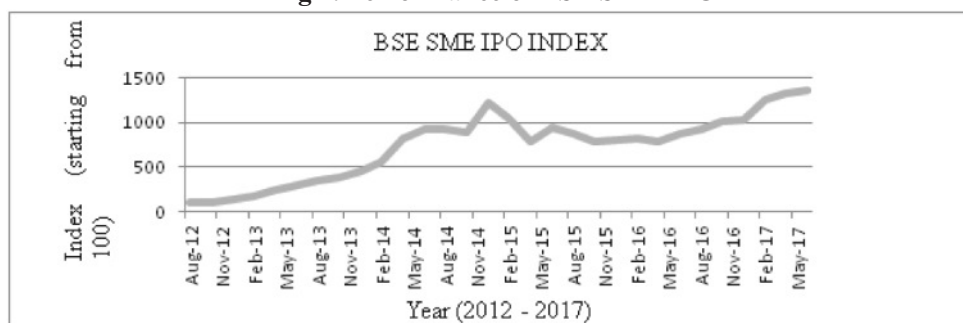
Statistics of BSE SME Exchange	
No of companies listed still date	188
No of companies migrated to the main board (Cr.)	31
Number of ITP companies	21
Market capitalization of listed companies till the date (Cr.)	17864.67
Total amount of money raised till date(Cr.)	1468.39
No of market makers registered	99
IPO index performance	10 times since its launch
Market share	Leading on the market with 89% of market share

Source: BSE SME

BSE provides two modes to list securities, (a) SME Platform through Initial Public Offer (IPO), (b) Direct listing on Institutional Trading Platform (ITP) without IPOs. For ensuring investors' confidence In SME equity, BSE has introduced research coverage for listed SMEs with the help

independent research team. The research information available for the benefit of investors. The S&P BSE SME IPO index (FIG 1), consists of all the IPO listed on BSE platform. The given chart shows the movement of IPOs for last five years. The index has grown 13 times till the date.

**Fig 1. Performance of BSE SME IPO**



Source: BSE SME Exchange

The BSE SME IPO Index is calculated in line BSE indices. The number of scrips included in the index are variable. However, at any point of time a minimum of 10 companies should be maintained in the index. The index started in 12 august 2012 with 100 index, the index up to may 2017 shows a clear growth trend and it reached an index of 1387. If the face value of the issued capital exceeds 10 crore, such SME entities have the potential benefit to migrate main board. Migration to the main board gives the company greater visibility and access to a wider investor base. As of 29 July 2017, 31 companies migrated from SME Exchange to the main board. BSEs focus has always to be encouraging listing from stronger growth oriented companies such as

manufacturing, logistics, IT and service oriented companies that are employment generator. The BSE SME IPO Index was launched on December 14, 2012 with 100 as the base. On March 31, 2016 the value of this index reached 767.86. Additionally, the total market capitalization of all the 127 companies listed on BSE SME Platform reached 9,356.68 Crore. During FY 2015-16 the SME platform continued to be a front-runner with a market share of over 90%. 38 companies raised 237.24 Crore from the market (BSE 2016). The International Organization of Securities Commissions ("IOSCO") has commended on its report July 2015 BSE's SME platform for being the most cost effective platform for SME listing in the world.



### The way to move forward

Performance of SME Exchange satisfactory, but the participation of SMEs is very poor. There are 4000 SMEs are eligible to list in SME Exchange, but mere 188 companies are listed yet. In order to seize the potential market necessary action plans should be followed.

1. A comprehensive policy frame required for enhancing market literacy among existing and potential entrepreneurs
2. Viable and feasible financial instruments should be developed on the perspective of both investors and SMEs.
3. Since SME Exchange function with the most relaxed and liberal norms, so regulating authority should ensure the interest of investors.
4. SME Exchange should be adequately developed in terms of depth and liquidity, so that automatic Demand Creation and trade will happen.
5. Building a Credible SME Information Sharing System, there exists severe information asymmetry in this segment of enterprises. SMEs' corporate information is often nonexistent, or comes with very high access costs in many economies in the region.

### Conclusion

SMEs are strategically important segment of the nation's economy; they significantly contribute to the growth indices of the economy as well as they play a balancing role in economic development. Despite all these, SME face a number of hurdles that prevent them to reach their full potential. Economic environment provides growth trajectory to SMEs but often they fail to explore the growth opportunities and sometime they are critical to survive. The major obstacle in SME growth trajectory is financial crunch, lack of adequate and timely credit often a bottleneck to SME growth. The government and promotional agencies have given at most care to mitigate the financial crunch, but they credit gap increased from year to year. The traditional source fails to meet the credit requirements, because SMEs are heterogeneous in nature single basket solution is not possible to resort the financial crunch. SME Platform/listing program is emerging trend in SME financing, recent years, various stock exchanges across the world have taken the initiative to establish SME Exchanges. They are separated from the main exchange and working with relaxed norms. The AIM (Alternative Investment Market) of London stock exchange has witnessed for high volume of trade and listing. SME exchange in India is also shown promising and satisfactory trend in its growth in a short period. Yet two SME Platforms formed with relaxed norms, For encouraging SMEs, the regulator has lent relief in compliance, but it needs to ensure that interest of

participants must not be hurt. The BSE SME Exchange witnessed for remarkable performance within a shortest period, its IPO Index reached 1367 points in May 2017. BSE SME exchange leading in all terms like market share, number of companies registered, and market capitalization. SME Exchange is quite workable in Indian context and has potential market to grow. The participation is questionable, there are 4000 companies eligible to list, but mere 200 companies listed yet. Regulators and policymakers should organise more promotional campaigns, public seminars, and conferences explain the benefits of capital markets and to increase public awareness of the need for SME financing. To conclude, SEBI's initiative to provide a separate platform for listing and trading of SMEs securities is laudable. It gives hope of ray that it will supplement to banking finance and mitigate the credit gap in the SME sector. The worst fate of OTCEI should not be happen to this new framework, SME Exchange formed with relaxed legal/regulation norms which are help SMEs for escalate in growth, in another point, Reliant trade norms will create concern among investors, so the SEBI should balance the interest of both SMEs and investors.

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