

SME



**SME
MARKET
SUMMARY**

December 2024

Executive Summary:

The month of December 2024 presented a slightly flat to positive outlook for SME companies and IPOs in India. On the positive side, almost all the **SME IPOs** witnessed strong listing gains, reflecting investor confidence in the key sector companies. Additionally, government initiatives and favorable policies continued to support SME growth. However, global economic uncertainties and rising interest rates posed challenges for some SMEs and concerns over Non-compliance of certain SME companies, impacting their profitability, expansion plans and market outlook. The overall performance of SME IPOs in December 2024 was influenced by a combination of these factors, with some companies experiencing success while others faced headwinds.

Recent Economic Developments :

India:

- The RBI maintained the repo rate at **6.5%** for the eleventh consecutive meeting, indicating a continued focus on managing inflation while supporting growth. Additionally, The Reserve Bank of India's **Monetary Policy Committee (MPC)** has reduced the cash **reserve ratio (CRR)** to **4%** from **4.5%** to address liquidity woes, announced Governor Shaktikanta Das.
- The government appointed **Sanjay Malhotra as new Governor** of the Reserve Bank of India, marking a change in leadership at the central bank.
- The Indian Rupee depreciated significantly against the US Dollar in **December 2024**, reaching a record low of approximately **₹85.27** per USD. This depreciation was driven by a combination of factors, including a strengthening US Dollar due to the Federal Reserve's monetary tightening, increased import demand in India, and global economic uncertainties.
- India actively participated in the COP28 climate summit in Dubai, reiterating its commitment to sustainable development and climate action.
- The Indian stock market witnessed increased volatility in **December 2024**, with benchmark indices like the Sensex and Nifty **50** experiencing both gains and losses. This volatility was primarily driven by a combination of global factors, such as uncertainties surrounding the **US Federal Reserve's monetary policy** and concerns about the global economic outlook, as well as domestic factors, including the impact of the depreciating Rupee on the Indian economy.
- In **December 2024**, SEBI (Securities and Exchange Board of India) **tightened** the regulations for **Small and Medium Enterprises (SMEs)** seeking to raise capital through **Initial Public Offerings (IPOs)**. These stricter norms were aimed at enhancing investor protection and improving the quality of SME IPOs. Key changes include, increased Profitability Requirement, Limits on Promoter Selling, and Enhanced Disclosure Requirements.

Global:

- Global economic growth slowed down in **December 2024**, with concerns mounting over a potential recession in several major economies. This slowdown was attributed to a combination of factors, including persistent inflation, rising interest rates, and geopolitical uncertainties.

- The European Union implemented stricter regulations on cryptocurrency trading in **December 2024**. These new regulations aimed to enhance consumer protection by increasing transparency and reducing the risks associated with crypto trading, such as market manipulation and money laundering.
- Global stock markets experienced a period of heightened volatility in **December 2024**. Concerns about rising interest rates, the potential for a global economic slowdown, and geopolitical tensions created a climate of uncertainty, leading to significant swings in stock prices across major markets.
- The United Nations released a report in **December 2024** highlighting the urgent need for increased global cooperation to address the climate crisis. The report emphasized the need for rapid decarbonization of the global economy, including a significant shift towards renewable energy sources and a reduction in greenhouse gas emissions.
- Global stock markets experienced a period of heightened volatility in **December 2024**. Concerns about rising interest rates, the potential for a global economic slowdown, and geopolitical tensions created a climate of uncertainty, leading to significant swings in stock prices across major markets.
- The US stock market experienced a significant correction in **December 2024**, with major indices like the Dow Jones Industrial Average and the S&P 500 experiencing substantial losses. This correction was driven by a combination of factors, including concerns about the Federal Reserve's monetary policy, worries about a potential recession, and disappointing corporate earnings.

Old Vs. New SME IPO Regulations by SEBI:

The Securities and Exchange Board of India (SEBI) has recently implemented stricter regulations for Small and Medium Enterprises (SMEs) seeking to raise funds through Initial Public Offerings (IPOs). These new norms aim to enhance investor protection and ensure the quality of listed companies.

Here's a comparison of the old and new regulations:

Feature	Old Regulations	New Regulations
Profitability Requirement	No specific profitability requirement	Must have an operating profit (EBITDA) of at least Rs 1 crore in two out of the last three financial years.
Offer for Sale (OFS) Limit	No specific limit	OFS cannot exceed 20% of the total issue size.
Promoter Shareholding Lock-in	Less stringent lock-in periods	Phased lock-in for promoter holdings in excess of the minimum promoter contribution (MPC). 50% can be released after one year and the remaining 50% after two years.

Use of Issue Proceeds	No specific restrictions	Proceeds cannot be used to repay loans to promoters, promoter groups, or related parties.
Related Party Transactions (RPTs)	Less stringent RPT norms	RPT norms applicable to main board listed companies will be extended to SME listed entities, with a lower threshold of 10% of annual consolidated turnover or Rs 50 crore, whichever is lower.
Public Consultation Period	Shorter public consultation period	21-day public consultation period for DRHPs.






Performance Of SME-Listed Companies:

- The **BSE SME IPO index** had a mixed performance in **December 2024**. While it experienced some volatility both sides throughout the month, it ultimately closed higher than its opening level. The index saw a fall in second half of the December month. Notably, the monthly rise stood at **1.96%** and annual return for the index remained strong at **48.96%**.
- The NSE Emerge index followed suit, rising by **2.50%** in December and delivering **52.57%** annual return.
- Decent growth Defence and Water Infrastructure sectors continued to fuel the positive performance and steep fall in some renewable energy, Engineering and Manufacturing continue to dent performance of SME-listed companies but the recovery is strong in the sectors mentioned above.
- Valuations remained stagnant, with median **P/E and P/B ratios** at **27.5x** and **7.36x**, respectively, highlighting investor confidence in the prospects of SME stocks.

Investor Enthusiasm Drives Oversubscription in December 2024 SME IPOs

Investor confidence in India's SME sector remained robust in December 2024, as highlighted by exceptional oversubscription levels in recent IPOs. Here are the key takeaways:

Top 5 Oversubscribed SME IPOs of December 2024:

	<p>The most oversubscribed SME IPO in December 2024, with a subscription of 2209.76 times the issue size.</p>
	<p>The second most oversubscribed SME IPO in December 2024, with a subscription of 1507.00 times the issue size.</p>
	<p>The third most oversubscribed SME IPO in December 2024, with a subscription of 1025.76 times the issue size.</p>
	<p>The fourth most oversubscribed SME IPO in December 2024, with a subscription of 555.83 times the issue size.</p>
	<p>The fifth most oversubscribed SME IPO in December 2024, with a subscription of 544.28 times the issue size.</p>

Other Notable Oversubscribed SME IPOs In December 2024:






			
<p>530.59 times</p>	<p>494.58 times</p>	<p>439.80 times</p>	<p>335.35 times</p>

Overall, December 2024 shown a comeback on subscriptions compared to last two months for SME IPOs. The momentum and subscriptions overall in the month of December remained very positive showing faith of Investors in SME IPOs. This is a positive sign for the Indian economy, as it shows that there is strong investor appetite for small and medium-sized businesses. However, it is important to note that not all oversubscribed IPOs go on to perform well in the long term. Investors should carefully consider the risks involved before investing in any IPO.

December 2024 SME IPO Listing Day Gains/Loss:

December marked a strong revival in the SME IPO market after a quiet November, with 19 listings showcasing significant investor interest. Impressively, 11 companies achieved listing-day gains of 99% or more, reflecting growing confidence in India's SME growth story.

The remarkable performance was driven by the quality of businesses, favourable market conditions, and positive investor sentiment throughout the month. This resurgence highlights the SME sector's potential as a key contributor to India's economic growth and sets a positive tone for future IPO activity. The details are as below:

	<p>The highest listing day gain, with a gain of 99.49%. The company's shares listed at Rs 450.58, which was significantly higher than the issue price of Rs226.00.</p>
	<p>The highest listing day gain, with a gain of 99.49%. The company's shares listed at Rs 668.00, which was significantly higher than the issue price of Rs335.00.</p>
	<p>The highest listing day gain, with a gain of 99.49%. The company's shares listed at Rs 69.82, which was significantly higher than the issue price of Rs35.00.</p>
	<p>The highest listing day gain, with a gain of 99.47%. The company's shares listed at Rs 189.50, which was significantly higher than the issue price of Rs 95.00.</p>
	<p>The highest listing day gain, with a gain of 99.46%. The company's shares listed at Rs 101.74, which was significantly higher than the issue price of Rs 51.00.</p>

December 2024 was a comeback month for SME IPO Listing gains, with most of the companies listing on the highest listing gains cap Listing Day performance. This is a positive sign for the SME sector able to sustain the market and as the sentiments revived in December month with Strong FII inflows coming in again it suggests that investors belief is strong in growth of SME sector. However, it is important to remember that listing day gains are not always an indicator of long-term performance. Investors should carefully consider the risks involved before investing in any IPO.

Outlook for SME IPOs in 2024-2025:

The outlook for SME IPOs in 2024-2025 is expected to be positive, building on the strong performance of 2023 and continuing trends of investor confidence. Here's a breakdown of the factors contributing to this optimism:

- **Momentum from 2023:** 2023 saw a record number of SME IPOs, and experts predict this positive trend will likely hold for the next 3-4 years.
- **Investor Confidence:** There's continued confidence from retail investors, high net-worth individuals (HNIs) and institutional investors in the SME market, signifying a robust and resilient market.

The economic outlook by the end of 2024 remains clouded by global uncertainties and domestic sentiments as well. However, India's gradual deceleration in inflation and resilience of the SME sector provide grounds for cautious optimism. Continued government support and easing supply chain issues could further bolster domestic growth. Global factors, particularly the trajectory of major economies and their monetary policies, will play a crucial role in shaping the domestic market performance.

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