

SME



**SME
MARKET
SUMMARY**

February 2025

Executive Summary:

The month of February 2025 presented a significant fall and negative outlook for SME companies and IPOs in India. Additionally, positive government initiatives and favorable policies for MSME continues 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 February 2025 was influenced by a combination of these factors, with some companies experiencing success while others faced headwinds.

Market Outlook Going forward :

Although we have seen broader market indices and SME indices correcting heavily in past couple of months. Here are some interesting data to look at for long-term wealth creation:

- In June 2014, NIFTY50 surpassed P/E of 20 after a long time and it never looked back until it was June 2022 again. Broader market has again come down to valuations of 8 years ago with so huge growth prospects for the country.
- Everytime the valuations become cheaper like this the liquidity has been infused and markets have outperformed the world. With SME Companies company into big businesses and being OEM to large businesses they are making a footprint even bringing liquidity to the market with smart business practices.
- Q3FY2025 shown average earning of more than 4500 stocks of just 5.8% whereas SMEs grew their revenue on an average by 22% in Q3FY2025. This alone proves out performance of SME stocks against large companies and market.
- These data articulates very well that we have reached lucrative valuations at this stage which seems to be very positive outlook after next quarter.

Recent Economic Developments :

India:

- The **Reserve Bank of India (RBI)** projected India's **GDP growth at 6.2%** for the **October-December 2024 quarter**, driven by strong domestic consumption and improved rural demand. The central bank also hinted at a possible **rate cut** in the upcoming monetary policy review, citing easing inflationary pressures.
- The **Government of India imposed a six-month restriction** on the import of low-ash metallurgical coke starting **February 1, 2025**. This move aimed to **protect domestic manufacturers** as imports had surged over **61%** in the past four years, impacting local producers.
- The **RBI conducted a \$5 billion dollar-rupee buy/sell swap auction**, which was **oversubscribed five times**, receiving bids worth **\$25.59 billion** from **253 participants**. This step aimed to inject rupee liquidity into the banking system and stabilize the currency.
- The **Indian government announced the setup of the country's second Gene Bank for Crop Germplasm**, which will **preserve 10 million germplasm lines**. This initiative aims to **secure India's food and nutritional security** by conserving genetic diversity in crops.

- In February 2025, **foreign investors withdrew a net \$9.04 billion from Indian equities**, marking one of the highest monthly outflows. The financial sector was the worst hit, with over **\$3 billion in sales**, as concerns over **U.S. monetary policies and potential trade tariffs** impacted market sentiment.

Major Changes in Regulatory Bodies :

- **Leadership Changes in Financial Regulatory Bodies:** The Indian government appointed new leaders to key financial regulatory positions, signaling a strategic shift towards accelerated economic growth. Tuhin Kanta Pandey assumed the role of Chairman of the Securities and Exchange Board of India (SEBI), succeeding Madhabi Puri Buch. Additionally, Sanjay Malhotra was appointed as the Governor of the Reserve Bank of India (RBI), with his predecessor, Shaktikanta Das, transitioning to a role within Prime Minister Narendra Modi's team. These appointments raised discussions regarding the autonomy and accountability of India's regulatory institutions.
- SEBI announced the creation of a new category known as Specialized Investment Funds (SIFs), effective from April 1, 2025. These funds are tailored for high-net-worth individuals, requiring a minimum investment of ₹1 million (approximately \$11,479). SIFs offer diverse strategies, including equity long-short and debt long-short options, and can be structured as open-ended or close-ended funds. Asset management companies with a proven track record are eligible to offer these funds, which are designed to provide sophisticated investment avenues for wealthier investors.

Global:

- **European Central Bank Cuts Interest Rates:** In response to economic slowdowns exacerbated by U.S. tariffs on EU goods, the **European Central Bank (ECB)** reduced its benchmark deposit rate by a quarter percentage point to **2.5%**. ECB President Christine Lagarde emphasized the detrimental impact of trade wars on investment and employment, noting moderating inflationary pressures.
- **U.S.-Russia Summit in Saudi Arabia:** On **February 18, 2025**, delegations from the **United States** and **Russia** met in Riyadh to discuss improving bilateral relations and strategies to end the ongoing conflict in Ukraine. Notably, neither Ukrainian nor European representatives were invited to the summit, marking a significant development in international diplomatic efforts.
- **Slowdown in Private-Equity Buyout Activity:** Early **2025** witnessed a decline in private-equity buyout activity, raising concerns for investment banks like Goldman Sachs, Morgan Stanley, and JPMorgan Chase. Economic uncertainties related to jobs, inflation, and tariffs contributed to a cautious investment environment, leading to notable decreases in these banks' share prices.
- **China's Trade Performance Affected by Global Uncertainty:** China's exports grew by **2.3%** in February and **February 2025**, falling short of the anticipated **5%** growth, while imports dropped by over **8%**. This weakening is attributed to global trade uncertainties, including U.S. tariffs, impacting China's overall trade surplus, which reached **\$170.52 billion** for the first two months.
- **Global Shares Slip Amid Tariff Concerns:** Global stock markets experienced declines due to apprehensions about tariffs and anticipation of the U.S. jobs report. Major indices

in Tokyo, Europe, and the U.S. saw downturns, with technology stocks notably affected. Additionally, fluctuations in currency and commodity markets reflected investor caution during this period.

These events collectively highlight a month marked by significant economic policy adjustments, diplomatic initiatives, financial market fluctuations, environmental trade impacts, and stock market volatility.

SME Stock Exchange Activities :

February 2025 saw robust activity in the SME segment:

- **BSE SME IPOs:** 13 companies filed their Draft Red Herring Prospectus (DRHP) with the BSE SME exchange. Notable listings included **Solarium Green Energy Limited**, securing ₹105.04 crore.
- **NSE SME Emerge IPOs:** 14 companies filed DRHPs with the NSE Emerge platform. Significant listings comprised **Chamunda Electrical Limited**, which raised ₹107.36 crore,

These developments underscore a dynamic month for India's economy, marked by regulatory changes, financial strategies, environmental initiatives, and active participation in the SME sector.

Performance Of SME-Listed Companies:

- The **BSE SME IPO** index had a significant fall in **February 2025**. While it experienced some volatility on lower sliding **-11.99%** during the month, it ultimately closing negatively **-11.01%** this month. Notably, the monthly fall stood at **-11.01%** and annual return for the index finally turned negative this month making it Year-On-Year loss of **-2.23%**.
- The NSE Emerge index followed suit, demonstrating fall by **-15.74%** in February and delivering **2.61%** annual return.
- We witnessed significant fall in almost all the sectors and industries particularly in manufacturing companies, with this fall we have witnessed Nifty at the one of the lowest valuations. Additionally, the liquidity in SME companies have dried out completely and there's lack of volume and participation from investors in these times of panic.
- Valuations have seen significant correction as well, with median **P/E and P/B** ratios at **42.39x** and **5.39x**, respectively, highlighting investor confidence in the prospects of SME stocks.

Investor Enthusiasm Drives Oversubscription in February 2025 SME IPOs

Investor confidence in India's SME sector remained robust in February 2025, as highlighted by exceptional oversubscription levels in recent IPOs. Here are the key takeaways:

Top 5 Oversubscribed SME IPOs of February 2025:

| | |
|---|--|
|  | <p>The most oversubscribed SME IPO in February 2025, with a subscription of 737.97 times the issue size.</p> |
|  | <p>The second most oversubscribed SME IPO in February 2025, with a subscription of 44.57 times the issue size.</p> |
|  | <p>The third most oversubscribed SME IPO in February 2025, with a subscription of 30.65 times the issue size.</p> |
|  | <p>The fourth most oversubscribed SME IPO in February 2025, with a subscription of 13.62 times the issue size.</p> |
|  | <p>The fifth most oversubscribed SME IPO in February 2025, with a subscription of 9.82 times the issue size.</p> |

Other Notable Oversubscribed SME IPOs In February 2025:

| | | | |
|---|---|--|---|
|  |  |  |  |
| <p>8.83 times</p> | <p>7.83 times</p> | <p>7.04 times</p> | <p>5.73 times</p> |

Overall, February 2025 witnessed significant downturn on subscriptions compared to last month for SME IPOs. The momentum and subscriptions overall in the month of February remained considerably low and dried up liquidity in the market shows weakness but still a very positive and lucrative positioning for SME companies and in SME IPOs. 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.

February 2025 SME IPO Listing Day Gains/Loss:

February marked a strong revival in the SME IPO market after a quiet November, with 17 listings showcasing moderate investor interest. Out of which 9 companies listed with flat to positive gain highest listing gain being just 33%; and rest 8 companies listed negatively with highest loss on listing day being -15.99%, reflecting panic among investors' for this month. The details are as below:

| | |
|---|--|
|  | <p>The highest listing day gain, with a gain of 33.00%. The company's shares listed at Rs 66.5, which was significantly higher than the issue price of Rs 50.00.</p> |
|  | <p>The 2nd highest listing day gain, with a gain of 10.94%. The company's shares listed at Rs 211.90, which was significantly higher than the issue price of Rs191.00.</p> |
|  | <p>The 3rd highest listing day gain, with a gain of 9.03%. The company's shares listed at Rs 173.35, which was significantly higher than the issue price of Rs 159.00.</p> |
|  | <p>The 4th highest listing day gain, with a gain of 7.57%. The company's shares listed at Rs 150.60, which was significantly higher than the issue price of Rs 140.00.</p> |
|  | <p>The 5th highest listing day gain, with a gain of 6.53%. The company's shares listed at Rs 115.05, which was significantly higher than the issue price of Rs115.05.</p> |

February 2025 was a very slow and negative month for SME IPO Listing gains, with most of the companies listing on the highest listing gains cap Listing Day performance. Although. February month wasn't positive overall some fundamentally strong companies have significantly outperformed the broader market outlook showing Investors' confidence in Fundamental strong SME companies. 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 2025-2026:

The outlook for SME IPOs in 2025-2026 is expected to be positive, building on the strong performance of 2024 and continuing trends of investor confidence. However, with the February month beginning with negative trend this calendar year, the SME market is tend to slow down in the first quarter on this year. Here's a breakdown of the factors contributing to this optimism:

- **Momentum from 2024:** 2024 saw a record number of SME IPOs, and experts predict this positive trend will likely hold for the next 2-3 years. However, markets are subject to correct we might see a consolidation in SME market for few months. Following this the trend will be strongly backed by higher earning and results of SME companies.
- **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 2025 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.

Disclaimer:

The information in this report is not intended for persons located or resident in jurisdictions where the distribution/marketing of such information is restricted or unauthorized. No action has been taken to authorize, register or qualify any of the funds managed by StepTrade Fund or its affiliates, or otherwise permit a public offering of any StepTrade Fund managed funds in any jurisdiction, or to permit the distribution of information in relation to any of the StepTrade Fund managed funds in any jurisdiction.

To the best of its knowledge and belief, StepTrade Fund considers the information contained here in as accurate as at the date of publication. All information and opinions in this presentation are subject to change without notice. No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided in the presentation or by third parties. The materials in this presentation could include technical inaccuracies or typographical errors and could be come in accurate as a result of developments occurring after the respective dates. StepTrade Fund undertakes no obligation to maintain the currency of such information. Neither StepTrade Fund (including any of its directors/s or principal officer/s or employees) nor its affiliates and their respective shareholders, partners, officers and employees assume any liabilities in respect of any errors or omissions in this presentation, or any and all responsibility for any direct or consequential loss or damage of any kind resulting directly or indirectly from the use of information in this presentation. Unless otherwise agreed with StepTrade Fund, any use, disclosure, reproduction, modification or distribution of the contents of this presentation, or any part thereof, is strictly prohibited. StepTrade Fund expressly disclaims any liability, whether in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential, punitive or special damages arising out of, or in any way connected with your use of this presentation.

This monthly report is not an advertisement and is not intended for public use or distribution. This presentation has been prepared for the purpose of providing general information only without taking account of any investor's objectives, financial situation or needs and does not amount to an investment recommendation. It does not purport to contain all the information that the prospective investor may require. An investor should, before making any investment decision, consider the appropriateness of the information in this presentation, and seek professional advice, having regard to the investor's objectives, financial situation, needs and regulatory requirements of jurisdiction of the investor. In all cases, any one proposing to rely on or use the information contained in the presentation should independently verify and check the accuracy, completeness, reliability and suitability of the information. The information contained in this presentation does not constitute financial, investment, legal, accounting, tax or other professional advice or a solicitation for investment in StepTrade Fund, nor does it constitute an offer, solicitation, marketing, publication for sale of interests / units issued by funds that are managed or advised by StepTrade Fund. Any offer can only be made by the relevant offering documents, together with the relevant forms / agreements, all of which must be read and understood in their entirety, and only in jurisdictions where such an offer is in compliance with relevant laws and regulatory requirements.