

SME



SME MARKET SUMMARY

April 2025

Executive Summary:

The month of **April 2025** witnessed a slight stabilization in the Indian markets after persistent corrections in previous months. However, broader market sentiment remained cautious, particularly in the SME segment, which continued to face low liquidity and subdued investor participation. The IPO pipeline stayed active, but with increased scrutiny on compliance and disclosures, leading to a more selective approach from both investors and underwriters.

Global uncertainties, including sustained high interest rates and volatile commodity prices, continued to influence domestic market behavior. Despite these headwinds, **government-backed initiatives for MSMEs**—including enhancements to digital payment infrastructure and credit access—helped maintain structural support for the sector.

On the flip side, **regulatory tightening** by SEBI, including stricter ESG reporting mandates and enhanced scrutiny on market intermediaries, further reinforced a climate of compliance. While these changes aim to strengthen market transparency, they also posed short-term challenges for smaller firms grappling with capacity and reporting constraints.

Overall, **April 2025** reflected a cautiously optimistic tone, with **stronger SMEs with robust business models and clean governance continuing to attract investor interest**, even as others lagged behind in a consolidating market environment.

Market Outlook Going forward :

Although we have seen broader market indices and SME indices correcting heavily in the past couple of months, here are some interesting data points to consider for long-term wealth creation:

- **Valuations across the SME space have undergone significant correction**, with the NSE SME Emerge P/E ratio dropping from lofty highs of over 140x in December 2024 to nearly 31.81x by April-end 2025, indicating a return to rational pricing driven by both improved earnings and market correction.
- **Investor focus has visibly shifted towards profitability, compliance, and business resilience**, allowing fundamentally strong companies with solid governance and operational strength to stand out amid the noise. This realignment is a healthy development for sustainable capital formation in the SME ecosystem.
- **The divergence in earnings performance remains notable**: While large-cap and mid-cap companies reported flattish or weak earnings due to margin pressures and global headwinds, many SME companies in niche manufacturing, B2B tech, and specialty chemicals segments posted 20%+ YoY revenue growth, demonstrating adaptability and demand resilience.
- With the **RBI maintaining its cautious policy stance**, and the government continuing its support for MSMEs through credit enhancement and procurement schemes, the environment is conducive for selective accumulation.

In essence, April 2025 may mark the start of a structural rotation, where long-term investors begin re-entering fundamentally sound SME names at attractive valuations. The coming quarters will likely reward businesses that combine operational efficiency with transparent disclosures and prudent capital allocation.

Recent Economic Developments :

India:

- India's economy demonstrated resilience in **April 2025**, with the Asian Development Bank projecting a GDP growth rate of **6.7%** for **FY2025**. This positive outlook is supported by robust domestic demand, easing inflation, and accommodative monetary policies. The **Reserve Bank of India (RBI)** cut the policy **repo rate** by **25 basis points** to **6%**, marking the second consecutive rate reduction, aiming to bolster economic activity amidst global uncertainties.
- Effective **April 1, 2025**, several significant financial policy changes were enacted in India. The income tax structure was revised, with the highest tax rate of **30%** now applicable to incomes above **₹24 lakh**. Additionally, the threshold for **Tax Deducted at Source (TDS)** on dividend and mutual fund income was increased from ₹5,000 to ₹10,000 per financial year. These measures aim to simplify the tax regime and enhance taxpayer compliance.
- April witnessed a significant uptick in foreign portfolio investments (FPIs) into India's financial sector, with inflows amounting to **₹184.09 billion (\$2.18 billion)**, marking the third-highest monthly investment in the sector. Concurrently, Indian corporations increasingly turned to domestic bond markets for financing, raising a record **₹987 billion (\$11.68 billion)** in April, as global borrowing costs remained elevated and investor appetite subdued.
- In **April 2025**, northern India experienced an intense heatwave, with temperatures soaring above **46°C** in regions like Gujarat. Studies attribute this extreme weather event to climate change, emphasizing the increasing frequency and severity of such occurrences. The heatwave strained public health systems and underscored the urgent need for climate resilience and adaptive infrastructure.
- The Indian stock markets exhibited volatility in **April 2025**, influenced by global trade tensions and domestic economic indicators. While the **Nifty 50** index rose by **3.5%** during the month, investor sentiment remained cautious. Notably, the Nifty Financial Services index outperformed, driven by strong earnings reports from major banks and increased foreign investment.

Major Changes in Regulatory Bodies :

- **SEBI Strengthens ESG Disclosures and Investor Transparency:**
The **Securities and Exchange Board of India (SEBI)** introduced enhanced **Environmental, Social, and Governance (ESG)** disclosure norms for the top **250** listed entities under the **Business Responsibility and Sustainability Reporting (BRSR)** framework. Effective from **FY2025-26**, companies must now include Scope 3 emission disclosures and provide granular ESG data. Additionally, SEBI mandated quarterly ESG assurance from **FY2026** to build long-term investor trust and improve sustainability benchmarks. This aims to bring India's ESG standards closer to global practices.
- **RBI Launches Digital Payment Infrastructure Fund (DPIF):**
On **April 8, 2025**, the Reserve Bank of India announced the operationalization of the **₹500 crore** DPIF to expand digital payment acceptance in tier-3 to tier-6 cities and North-Eastern states. The fund will subsidize deployment of physical and digital acceptance infrastructure

and promote UPI Lite, QR codes, and interoperable digital payment systems. This is in line with RBI's broader push for a "Less Cash" economy and financial inclusion in semi-urban and rural India.

- **IRDAI Finalizes Regulatory Sandbox Framework 2.0:**

In **April**, the **Insurance Regulatory and Development Authority of India (IRDAI)** finalized the guidelines for "**Regulatory Sandbox 2.0**" with the aim of promoting innovation in insurance products and distribution. The new framework allows longer experimentation timelines (up to 24 months), broader participation from InsurTechs, and faster approval mechanisms. This change is expected to pave the way for digital-first microinsurance models and technology-driven customer engagement strategies, particularly in underserved markets.

Global:

- On **April 2, 2025**, U.S. President Donald Trump declared "**Liberation Day**," announcing sweeping tariffs: a universal **10%** levy on all imports and additional country-specific tariffs targeting **90 nations**, including a **54%** rate on **Chinese goods**. These measures, justified under a national emergency declaration, aimed to address persistent U.S. trade deficits. The abrupt policy shift disrupted global trade flows, prompting retaliatory tariffs from key partners like **China and the European Union**, and raised concerns about a potential global recession.
- Amid escalating trade tensions, the **U.S. and China reached a 90-day agreement in April** to pause further tariff increases. The truce included reciprocal tariff reductions, lowering U.S. duties on Chinese goods to **30%** and Chinese tariffs on U.S. goods to **10%**. However, a separate **20% U.S. tariff** related to China's alleged role in the fentanyl crisis remained in place. While markets responded positively to the temporary de-escalation, underlying structural issues between the two economies remained unresolved.
- The imposition of new **U.S. tariffs in April** significantly hindered **private equity (PE)** dealmaking. With **\$3.6 trillion** in unsold companies, PE firms faced challenges in executing exits and new deals due to market uncertainty and valuation mismatches. Despite a **13%** drop in financial sponsor-related fees, investment banks like Citigroup and JPMorgan expanded their financial sponsors teams, anticipating a rebound and shifting focus toward private credit and infrastructure sectors.
- The trade war-induced market turmoil in **April** led to significant declines in global commodity prices. Crude oil prices fell to their lowest levels **since 2021**, with West Texas Intermediate dropping below **\$60 per barrel**. Base metals like copper and agricultural commodities such as coffee also experienced price drops, reflecting decreased demand expectations and heightened recession fears.
- Following the announcement of the **U.S. tariffs on April 2**, global stock markets suffered significant losses. The **S&P 500** and Dow Jones Industrial Average each fell over 10% in the subsequent days, marking the most substantial declines **since the 2020** pandemic-induced crash. International markets mirrored this downturn, with indices in Europe and Asia experiencing similar sharp declines, driven by investor concerns over escalating trade tensions and potential economic slowdown.

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

Robust & Attractive SME Stocks Valuations:

- **Valuation Reset Creating Attractive Entry Points:** In April 2025, the NSE SME Emerge index showed early signs of **stabilization**, following a sharp decline in valuations over the previous months. The index P/E, which had fallen from 148.76x in December 2024 to 31.81x by April 2025, began to consolidate in this lower range, indicating that valuation reset may have bottomed out. This suggests a more balanced market environment, where pricing is increasingly aligned with company fundamentals rather than sentiment-driven excess.
- **Earnings-Driven Re-Rating Potential:** The earnings momentum among SMEs remained strong, with several niche and export-oriented companies reporting solid top-line growth in early Q4 results. This continued operational resilience supports the case for selective re-rating of quality SME stocks, especially those with clean corporate governance, scalable business models, and margin protection despite macro headwinds.
- **Shift from Overheated Sentiment to Sustainable Valuations:** The valuation landscape in April reflects a **shift towards risk-adjusted investing**, with institutional and HNI interest gradually returning to fundamentally sound SME counters. The current environment offers a rare window for long-term investors to enter high-growth SME businesses at **rational, earnings-backed valuations**, setting the stage for potential multi-year wealth creation as market sentiment normalizes and liquidity improves.

SME Stock Exchange Activities:

April 2025 saw robust activity in the SME segment:

- **BSE SME IPOs:** 12 companies filed their Draft Red Herring Prospectus (DRHP) with the BSE SME exchange.
- **NSE SME Emerge IPOs:** 8 companies filed DRHPs with the NSE Emerge platform. Notably, very few companies got listed in April due to uncertainty in Markets.

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** revived from its downtrend in **April 2025**, though the intensity of the fall moderated compared to April. The index gained by **11.64%** during the month, reflecting continued weakness and cautious sentiment in SME counters. This second consecutive monthly decline pulled the index further into negative territory, with the **Year-On-Year return** worsening to **29.01%**, indicating broader concerns over valuations and liquidity in the SME segment.
- The **NSE Emerge Index** also posted a negative performance in **April 2025**, falling by **+5.25%**. While the annual return remained in the green, it narrowed down to **+5.26%**, signaling a decline in investor confidence and increased selectivity in SME stock picking. Persistent global headwinds and localized compliance concerns contributed to the subdued outlook.

- Despite persistent concerns regarding **global economic headwinds and regulatory compliance** among certain SME companies, the **April rally demonstrated a shift in investor behavior**—from fear-driven exits to value-based accumulation. Liquidity, while still tight in secondary markets, began showing early signs of returning, especially for companies with strong earnings visibility and clean governance.
- **Valuation multiples** for SME stocks also underwent notable correction. The **median P/E ratio** stood at **31.81x**, while the **median P/B ratio** was recorded at **5.78x** in April 2025. Despite the decline, these valuations continue to reflect **investor belief in the long-term growth story** of quality SME businesses, though short-term challenges remain evident.

Outlook for SME IPOs in 2025-2026:

The outlook for SME IPOs in 2025–2026 remains broadly positive, buoyed by strong structural momentum from 2024, despite a cautious start to the current calendar year. While the market experienced a significant slowdown in April and April 2025, largely due to correction in valuations and broader market volatility, the medium- to long-term narrative for SME listings continues to hold promise.

- **Momentum from 2024:** The year **2024 marked a record high** in SME IPO activity, both in terms of volumes and successful listings. While **2025 began with a phase of consolidation**, market experts anticipate this to be temporary. As corporate earnings stabilize and the broader indices find footing, **SME IPO activity is expected to rebound in the latter half of the year**, driven by strong financial results and business expansion by emerging enterprises.
- **Investor Confidence:** **Retail investors, HNIs, and institutional participants** continue to show interest in the SME space, recognizing its potential for superior growth and diversification. Even amid market corrections, quality SME companies with solid fundamentals and governance are expected to attract capital, especially those positioned as OEMs or enablers for large sectors like manufacturing, defense, and renewables.
- **Macro-Economic and Policy Tailwinds:** Despite a clouded global macro outlook, India's gradual cooling of inflation, stable interest rate environment, and targeted government support to MSMEs and start-ups are key enablers. Incentives like PLI schemes, digital infrastructure upgrades, and access to credit are setting the stage for sustained SME growth.
- **Global & Domestic Influences:** Going forward, global monetary policies, geopolitical risks, and capital flow trends will influence the pace and volume of SME IPOs. Domestically, continued focus on regulatory compliance and corporate governance among SME issuers will be vital for maintaining investor trust and market vibrancy.

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.

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