

SME



SME MARKET SUMMARY

March 2025

Executive Summary:

The month of **March 2025** continued to reflect the pressure on Broader Markets and IPOs in India, with many stocks consolidating at lower levels due to lingering market corrections and cautious investor sentiment. While challenges remained due to global economic uncertainties, rising interest rates, and compliance-related issues among certain SME companies, the broader policy environment stayed favorable. **Government initiatives and support for MSMEs** continued to provide a cushion for growth and stability, encouraging digitalization, easier access to credit, and inclusion in public procurement schemes.

However, concerns over regulatory non-compliance, especially in financial reporting and disclosures, hampered the performance and investor trust in a few SME listings. The overall sentiment remained mixed, with selective SME IPOs performing well due to strong fundamentals and niche business models, while others struggled with weak demand and muted listings.

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**:

- In **June 2014**, NIFTY50 surpassed a **P/E of 20** after a long time and it never looked back until **June 2022**. The broader market has again come down to valuations last seen **8 years ago**, despite **robust economic growth prospects** for the country.
- Historically, whenever valuations become **this attractive**, it has been followed by **liquidity inflows** and strong market outperformance. SME companies, many of which are now evolving into **OEMs to large businesses**, are bringing **efficiency, innovation, and market liquidity** through smart business strategies.
- For **Q3FY2025**, while the average earnings growth of over **4,500 listed stocks** stood at just **5.8%**, SME companies clocked an impressive **average revenue growth of 22%**, underlining their resilience and strong operational performance.
- These indicators clearly suggest that the market has reached **lucrative valuation zones**, providing a **compelling long-term investment opportunity**, particularly in **well-governed and growth-oriented SME stocks**, as we head into the next quarter with cautious optimism.

Recent Economic Developments :

India:

- India's trade deficit with China widened to a record **\$99.2 billion** in the fiscal year **2024-25**, driven by a surge in imports of electronics, electric batteries, and solar cells, which increased over **25%** year-on-year in March. Meanwhile, India's exports to China declined by **14.5%** in March, totaling just **\$14.3 billion** for the fiscal year. The growing reliance on Chinese components in sectors like electronics and pharmaceuticals has deepened economic dependency. In response, the Indian government plans to establish a monitoring unit to oversee the influx of low-cost imports and discourage domestic firms from aiding in the circumvention of U.S. tariffs.

- Moody's Analytics reduced India's 2025 GDP growth forecast by **30** basis points to **6.1%**, citing potential economic effects of U.S. tariffs. Key Indian export sectors such as gems and jewellery, medical devices, and textiles are expected to be most negatively impacted. Despite this, Moody's suggests that overall growth may remain relatively stable since India's economy is not heavily reliant on external demand. In response to these developments, the **Reserve Bank of India (RBI)** has lowered its key repo rate for a second consecutive time and shifted its stance to "accommodative" to stimulate the economy. The RBI anticipates further rate cuts, potentially reaching **5.75%** by year-end.
- India's retail inflation slowed to **3.34%** in **March 2025**, the lowest rate in over five years, driven primarily by easing food prices, particularly in vegetables, eggs, and pulses. This figure is below February's **3.61%** and under economists' forecast of **3.60%**. Analysts attribute the decline to strong agricultural output and support from high-frequency price data. Core inflation rose modestly due to increased costs of gold, transport, and education but remains near historic lows, indicating moderate underlying price pressures.
- India hosted significant environmental events in **March 2025**. The **World Sustainable Development Summit (WSDS)** took place from **March 5–7** in New Delhi, focusing on partnerships for accelerating sustainable development and climate solutions. Later in the month, from **March 19–22**, the '**India 2047: Building a Climate Resilient Future**' conference was held, addressing the effects of extreme climatic events and emphasizing the need for urgent, evidence-based solutions. Additionally, on **March 29**, President Droupadi Murmu inaugurated the **National Conference on 'Environment – 2025'**, highlighting the moral responsibility to provide a clean environment for future generations.
- India's stock markets rebounded in **March 2025**, with the **Nifty 50** index rising **6.3%** and the BSE Sensex advancing **5.1%**, contributing to annual gains of **5.34%** and **4.7%** respectively for the fiscal year ending **March 31**. The benchmarks were in the red as recently as **March 4**, but the March gains helped them close the fiscal year on a positive note.

Major Changes in Regulatory Bodies :

- In **March 2025**, India witnessed several key regulatory changes, with three standing out as particularly impactful. The Securities and Exchange Board of India (SEBI) enforced a new mandate from **March 21** requiring all market intermediaries—such as brokers and advisors—to register their official contact information before publishing advertisements on social media platforms. Social media companies must now verify these registrations before allowing ads to go live, a move aimed at curbing fraudulent promotions and enhancing investor protection online.
- The **Reserve Bank of India (RBI)** revised its **Priority Sector Lending (PSL)** guidelines, effective from **April 1**. The updated norms increased loan limits for affordable housing, expanded coverage for renewable energy projects, and mandated urban cooperative banks to allocate 60% of their credit to priority sectors. This reform is expected to improve credit flow to underserved sectors, particularly green energy and housing.
- The **Insurance Regulatory and Development Authority of India (IRDAI)** took major steps to prepare for the rollout of the **Insurance Amendment Bill**. A high-level committee was formed to design a new regulatory framework focused on enhanced digitalization, robust data protection (in line with the Digital Personal Data Protection Act), and simplified

operational processes. This initiative marks a significant modernization drive within India's insurance sector, aiming to make it more agile and customer-centric.

Global:

- In **March 2025**, escalating trade tensions, particularly due to the U.S. imposing sweeping tariffs on multiple countries, led to a significant downgrade in global economic growth projections. The **United Nations Conference on Trade and Development (UNCTAD)** revised its global growth forecast for 2025 down to **2.3%**, citing the disruptive impact of these trade policies on international commerce and supply chains. Similarly, Fitch Ratings projected global growth to fall below **2%**, marking the weakest expansion since 2009 outside the pandemic period.
- On **March 21, 2025**, the U.S. administration announced a new round of tariffs, dubbed "Liberation Day" tariffs, imposing levies on imports from various countries, including a **54%** rate on Chinese goods. These measures intensified the ongoing trade war, leading to retaliatory actions from affected nations and raising concerns about a potential global recession.
- **Investor Sentiment Hits 30-Year Low Amid Economic Uncertainty:** A Bank of America survey in **March 2025** revealed that investor confidence had plummeted to its lowest point in three decades. The primary concerns were the expansive U.S. tariffs and the resulting trade conflicts, which investors feared could lead to stagflation—a combination of stagnant economic growth and high inflation. Approximately **80%** of surveyed fund managers identified the trade war as the most significant risk to markets.
- **Record Low Arctic Sea Ice and Surge in Tropical Storms:** **March 2025** witnessed alarming environmental developments. The Arctic Sea ice extent reached its lowest level on record for March, indicating accelerated polar warming. Additionally, eight named tropical storms occurred globally during the month, surpassing the average and highlighting the increasing volatility in global weather patterns.
- **Markets Volatile Amid Trade Policy Shifts:** Global stock markets experienced significant volatility in **March 2025** due to the newly imposed U.S. tariffs. Major indices, including the **S&P 500**, saw sharp declines, with the index dropping over **10%** by mid-March. Although a temporary 90-day suspension of some tariffs led to a brief market rebound, investor confidence remained shaky. Gold prices surged to record highs above **\$3,300** per ounce as investors sought safe-haven assets amid the uncertainty.

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:** The P/E ratio of NSE SME Emerge has declined sharply from 148.76x in December 2024 to 33.41x in March 2025, reflecting a significant valuation reset. This correction has primarily been driven by recent broad-based market selloffs, which have also impacted SME stocks, bringing valuations back to more reasonable and fundamentally justified levels.
- **Strong Business Performance Supporting Valuations:** Despite the decline in valuation multiples, SME companies have reported **robust growth in revenues and profitability**

over recent quarters. This outperformance in financials, particularly in Q3FY25 where SMEs outpaced large-cap peers in earnings growth, underscores the strength of underlying businesses and justifies continued investor interest at these revised valuation levels.

- **Shift from Overheated Sentiment to Sustainable Valuations:** The steep drop in P/E indicates a transition from an overheated market sentiment to a more sustainable valuation environment. While the earlier high multiples were driven by speculative enthusiasm, the current scenario is rooted in **earnings-driven fundamentals**, offering long-term investors a more credible and risk-adjusted opportunity to participate in SME growth stories.

SME Stock Exchange Activities:

March 2025 saw robust activity in the SME segment:

- **BSE SME IPOs:** 33 companies filed their **Draft Red Herring Prospectus (DRHP)** with the BSE SME exchange.
- **NSE SME Emerge IPOs:** 20 companies filed DRHPs with the NSE Emerge platform. Notably, very few companies got listed in March 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 extended its downward trend in **March 2025**, though the intensity of the fall moderated compared to March. The index slipped by **-4.83%** 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 **-5.12%**, indicating broader concerns over valuations and liquidity in the SME segment.
- The **NSE Emerge Index** also posted a negative performance in **March 2025**, falling by **-6.35%**. While the annual return remained in the green, it narrowed down to **+1.08%**, 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.
- We continued to witness a broad-based decline across sectors in **March 2025**, with manufacturing companies facing the brunt of the sell-off. The correction deepened as concerns over global economic outlook, trade disruptions, and compliance issues weighed heavily on investor sentiment. The **Nifty index** hovered near one of its lowest valuation zones in recent years, reinforcing the sense of caution and risk aversion among market participants. In the SME space, liquidity dried up further, with extremely low volumes and minimal investor participation, particularly in secondary market trading, as panic and uncertainty persisted.
- **Valuation multiples** for SME stocks also underwent notable correction. The **median P/E ratio** stood at **39.84x**, while the **median P/B ratio** was recorded at **4.92x** in **March 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 **March and March 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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