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**STEPTRADE**  
SHARE SERVICES PRIVATE LIMITED

**May 2025**



# SME MARKET SUMMARY

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## Executive Summary:

Indian markets showed tentative signs of recovery in May 2025, with sentiment in the SME segment slowly stabilizing after months of correction. Liquidity remained tight, but selective interest returned to fundamentally strong SME stocks—particularly those with solid Q4 results and clean governance.

The IPO pipeline stayed active, though with greater scrutiny on compliance and disclosures, leading to a more cautious and quality-focused approach from both investors and underwriters.

Global pressures—like high interest rates and commodity volatility—continued to weigh on markets. However, government support for MSMEs through credit schemes and digital initiatives provided a cushion.

Meanwhile, SEBI's tightening of ESG and compliance norms posed short-term challenges for smaller firms but reinforced long-term transparency.

Overall, May reflected cautious optimism, with strong, well-managed SMEs starting to regain investor confidence in a consolidating market.

## Market Outlook Going forward:

As we move deeper into FY2025, the Indian equity markets—particularly the broader and SME segments—are transitioning through a critical consolidation phase, marked by early signs of stabilization and selective optimism. While benchmark indices continue to face intermittent volatility amid global uncertainties, undercurrents within the SME space indicate the formation of a new base, offering compelling opportunities for long-term investors.

- **Valuations across the SME segment remained rational through May 2025**, with the NSE SME Emerge P/E ratio holding steady around 32x, down sharply from its December 2024 peak of over 140x. This correction has re-aligned market expectations with company fundamentals, as improved Q4 earnings and prudent investor sentiment drive a more sustainable pricing environment.
- **May reinforced the ongoing investor shift towards quality**—favoring SME businesses that exhibit profitability, compliance strength, and consistent cash flows. Companies with clean audit trails, independent governance practices, and clear growth strategies continued to attract institutional and HNI interest, especially in sectors like industrial automation, precision manufacturing, renewables, and niche IT services.
- **While larger corporates reported flat or pressured margins in Q4 FY24**, many SME players—particularly in B2B technology, engineering exports, and specialty chemicals—posted 20–30% YoY revenue growth, underlining their adaptability to macro challenges and superior demand visibility. This earnings divergence is enhancing investor conviction in select SME counters.

- With the **RBI maintaining a cautious yet supportive monetary policy** and the government continuing to strengthen MSME access to credit and public procurement, the macro backdrop remains favorable. Additionally, early signs of liquidity returning to the SME secondary market—driven by improving sentiment and steady results—are setting the stage for sustained re-rating in quality names.

May 2025 may well represent the inflection point in India's SME equity story—a transition from excess and correction to normalization and opportunity. As earnings visibility improves and valuations settle at fundamentally justifiable levels, the coming quarters are poised to reward investors who selectively back transparent, well-managed, and growth-oriented SMEs. The groundwork for long-term capital formation is being laid now—favoring patient, disciplined equity participation.

## Recent Economic Developments:

### India:

- **India Retains Fastest-Growing Major Economy Status:**

In May 2025, the Reserve Bank of India's annual bulletin highlighted that India remained the fastest-growing major economy, with inflation well-contained below the 4% target for the third consecutive month and growth projected to stay robust into FY2025-26.

- **RBI Tightens Liberalised Remittance Scheme (LRS):**

The RBI proposed reforms to the LRS, notably banning resident Indians from parking funds in foreign-currency time deposits. The change aims to curb passive wealth outflows and better manage the capital account.

- **Record Foreign Inflows and Domestic Bond Funding:**

In May, foreign portfolio investors pumped ₹184 billion (~US \$2.18 billion) into India's financial stocks, marking one of the highest monthly inflows. Meanwhile, domestic companies issued ₹987 billion (~US \$11.7 billion) in bonds, filling a financing gap amid elevated global borrowing costs.

- **Surge in Palm Oil Imports Highlights Market Response:**

India's palm oil imports soared 84% month-on-month to 593,000 tons in May, the highest since November 2024. Combined vegetable oil imports hit 1.19 million tons, driven by low prices and depleted domestic stocks, highlighting supply chain adjustments in the edible oils market.

- **Market Edges Higher on Policy Support and Global Optimism:**

Benchmark indices advanced for the third consecutive month, with the Nifty 50 rising 1.7% to end May at 24,750 and Sensex up 1.5% to 81,451, supported by FII inflows and encouraging earnings. Small- and mid-cap segments also turned positive for the year.

## Major Changes in Regulatory Bodies:

- **SEBI Mandates Verified UPI IDs & Launches “SEBI Check” Tool:**

The Securities and Exchange Board of India (SEBI) introduced a new framework requiring all registered market intermediaries—including brokers and mutual fund houses—to collect investor funds using verified UPI payment IDs. To further protect investors, SEBI also unveiled the “SEBI Check” tool, enabling investors to verify the authenticity of payment IDs before transferring funds. This measure aims to curb fraud and enhance trust in digital transactions

- **RBI Overhauls Digital Lending & Promotes Consumer-Friendly KYC:**

The Reserve Bank of India (RBI) implemented its **Digital Lending Directions, 2025** (issued May 8), streamlining and consolidating prior guidelines to better regulate digital lending platforms and fintech-driven credit products. In addition, RBI approved simplified KYC norms—e-KYC via Aadhaar, Video KYC, and DigiLocker, along with offline completion through Business Correspondents—to ease onboarding for low-risk customers and welfare beneficiaries.

- **Formation of Payments Regulatory Board (PRB):**

On May 7, RBI introduced a **formal impact analysis and public consultation framework** for major regulatory changes. Under the new process, draft regulations will be published online for a minimum **21-day consultation period**, ensuring stakeholder feedback is incorporated before finalization.

- **SEBI Proposes Easier FPI Participation in Government Bonds:**

SEBI released a consultation paper (May 13) proposing to ease regulatory norms for **Foreign Portfolio Investors (FPIs)** investing solely in Indian government bonds. Potential changes include removing investor-group disclosures and expanding eligibility to resident Indians and OCIs, with the aim of increasing foreign inflows in government securities.

## Global:

- **Global Growth Outlook Slashed:**

In May, the **IMF trimmed its 2025 global growth forecast** to approximately **2.8%**, citing the impact of trade tensions, tightened monetary policies, and ongoing geopolitical uncertainty. Similarly, the **World Bank warned** that the current decade may become



the **weakest growth period since the 1960s**, with the global economy facing trade-related headwinds and structural challenges.

- **U.S.–China Tariff Truce & Trade Framework:**

During May, the U.S. and China extended their **90-day tariff truce**, maintaining reduced tariff levels while discussions continued on broader trade and export easing. Markets reviewed the agreement as a modest pivot rather than a breakthrough

- **U.S. & Global Stock Rally Amid Tariff Relief:**

The **S&P 500 surged 6.2%**, and the **Nasdaq climbed 9.6%** in May, fueled by optimism around the U.S.–China tariff pauses and upbeat earnings among large-cap tech firms—the best monthly performance since November 2023. Global equity markets also rallied, with developed markets' gains led by small-cap strength tied to growth forecasts.

- **Markets React to Mixed Trade & Inflation Signals:**

While U.S. and global stocks rallied on tariff news, markets remained cautious. The **U.S. dollar tumbled**, touching new lows for the year, and **Treasury yields spiked** due to rising deficit concerns and sticky inflation. Markets also braced for renewed volatility, with **TSX futures moderating** amid geopolitical and trade uncertainties

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:**

- **Valuations Stabilizing with Earnings Tailwind:** By May 2025, the NSE SME Emerge index continued its consolidation phase, maintaining its P/E around the 32x level after the sharp correction from its December 2024 peak of 148.76x. This sustained stability, combined with the onset of Q4 earnings season, reflects a valuation floor forming across the broader SME space. Investor sentiment appears to be shifting from caution to calculated optimism, driven by improving earnings visibility and a return to fundamentals-led pricing.
- **Q4 Earnings Boosting Investor Confidence:** Early earnings reports for Q4 FY24 have revealed resilient performance among high-quality SME companies, particularly in export-driven, technology-led, and specialty manufacturing segments. Many of these businesses have not only sustained topline growth but also preserved margins despite persistent cost pressures. This earnings momentum is expected to drive a selective re-rating of fundamentally strong SMEs throughout the remainder of Q2 FY25, especially those demonstrating governance strength, scalability, and operational efficiency.
- **Favourable Risk-Reward for Long-Term Investors:** The May landscape marks a critical juncture for long-term investors. With excessive valuations now behind and earnings

traction supporting forward multiples, SME stocks present a compelling risk-adjusted opportunity. Institutional and HNI flows are gradually picking up, favoring quality over momentum. As liquidity conditions normalize and broader market volatility subsides, fundamentally strong SMEs are well-positioned for multi-year rerating, offering potential for significant alpha generation.

May 2025 presents an attractive entry window for investors to accumulate select SME counters trading at realistic valuations, backed by strong Q4 earnings. With the valuation reset largely complete and fundamentals driving stock selection, the stage is set for a steady, earnings-led recovery in the SME segment over the coming quarters.

## SME Stock Exchange Activities:

May 2025 saw robust activity in the SME segment:

- BSE SME IPOs: 22 companies filed their Draft Red Herring Prospectus (DRHP) with the BSE SME exchange.
- NSE SME Emerge IPOs: 2 companies filed DRHPs with the NSE Emerge platform. Notably, there was an increase in the number of IPOs getting listed in May which was 12 versus just 4 in May

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 **May 2025**, though the intensity of the fall moderated compared to May. The index gained by **11.25%** 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** stabilizing to **29.09%**, indicating broader concerns over earnings and liquidity in the SME segment.
- The **NSE Emerge Index** also posted a negative performance in **May 2025**, falling by **+5.62%**. While the annual return remained in the green, it widened to **+8.05%**, signalling a regaining confidence amongst investors amid decline in broader markets in past few months. Persistent global headwinds and localized compliance concerns contributed to the subdued outlook.
- Investors increasingly favoured SMEs with solid Q4 results, stable order books, and healthy balance sheets. Despite ongoing global uncertainties and compliance scrutiny in certain pockets, May reflected a broader shift from panic-led exits to disciplined, valuation-conscious accumulation. This trend was especially visible in segments like precision engineering, renewables, and export-oriented IT/ITES services.

- **Valuation multiples** for SME stocks also underwent notable correction. The **median P/E ratio** stood at **33.52x**, while the **median P/B ratio** was recorded at **6.08x** in May 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 **May and May 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.

## Executive Summary:

The month of **May 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 FY2024–25, driven by a surge in imports of electronics, electric batteries, and solar cells, which increased



over 25% year-on-year in May. Meanwhile, India's exports to China declined by 14.5% in May, totaling just \$14.3 billion for the fiscal year. The government announced the launch of a monitoring unit to oversee imports and curb indirect circumvention of U.S. tariffs.

- **Moody's Analytics** further reduced India's GDP growth forecast for 2025 to 6.1%, citing tariff impacts on exports. The RBI responded with a second repo rate cut and shifted its stance to "accommodative," anticipating a rate of 5.75% by year-end.
- **Retail inflation** in India slowed further to **3.12% in May 2025**, marking a six-year low, as food prices continued to ease. Strong agricultural output and falling costs in pulses and vegetables were major contributors. However, slight upward pressures remained in gold, education, and transport categories.
- India hosted several **climate and sustainability-focused events** in May. Notably, the follow-up conference to the WSDS 2025 was held in Bengaluru from May 12–15, focusing on actionable climate adaptation strategies for urban India. Additionally, May 26 saw the launch of the Green Urban India Plan 2035.
- India's stock markets maintained their upward momentum in **May 2025**, with the Nifty 50 index rising **2.7%** and the BSE Sensex climbing **2.2%**, building on the May recovery and driven by renewed buying in mid-cap and SME segments.

## Major Changes in Regulatory Bodies:

- **SEBI's social media mandate** for market intermediaries came into full enforcement in May 2025, leading to a crackdown on unregistered investment advisors using social media platforms for promotional purposes.
- **RBI's updated PSL norms** officially came into effect from May 1. The increased emphasis on green energy and affordable housing loans began to reflect in bank credit disbursements, particularly in semi-urban zones.
- **IRDAI's modernization initiative** picked up pace with the announcement of a draft for public consultation on May 20, proposing a single-window portal for insurance product approvals and integrated grievance redressal mechanisms.

## Global:

- **Global economic forecasts** were downgraded again in May 2025. UNCTAD revised its 2025 global growth estimate to **2.1%**, while Fitch Ratings lowered it to below 1.9%, citing continued trade disruptions from U.S. tariffs.
- The **U.S. "Liberation Day" tariffs** announced in May triggered retaliatory actions in May, with China and the EU imposing counter-tariffs. This trade escalation led to another sharp decline in global equity markets mid-month.

- **Investor sentiment** remained weak. A second Bank of America survey conducted in May 2025 showed investor confidence hovering near a 30-year low, with 82% of fund managers calling the trade war the biggest market risk.
- **Environmental red flags** escalated further. Arctic sea ice remained at record lows in May, while 11 tropical storms were recorded globally, well above the long-term average for the month.
- **Gold prices** continued to surge, hitting **\$3,410 per ounce** by late May as investors fled equities in favor of safe-haven assets amid global trade instability.

## Robust & Attractive SME Stock Valuations:

- **Valuation Reset Creating Entry Points:** The P/E ratio of NSE SME Emerge dropped further to **30.12x** in May 2025 from **33.41x** in May, reflecting continued valuation moderation amid volatility.
- **Strong Business Fundamentals:** SME companies maintained strong revenue and profit growth in May, backed by resilient demand and better-than-expected quarterly performance in sectors like electronics, green tech, and logistics.
- **Sustainable Valuation Levels:** This shift from speculative excess to fundamentals-based pricing offers a healthier entry point for long-term investors seeking stability and growth in the SME sector.

## SME Stock Exchange Activities:

May 2025 saw continued activity despite market headwinds:

- **BSE SME:** 29 companies filed DRHPs in May.
- **NSE Emerge:** 17 companies submitted DRHPs. Listing activity remained subdued, with only a handful of IPOs hitting the market due to valuation uncertainty and investor caution.

## Performance of SME-Listed Companies:

- The **BSE SME IPO Index** declined by **-3.21%** in May 2025, showing signs of stabilization after a sharper fall in May. The YoY return remained negative at **-4.88%**.
- The **NSE Emerge Index** fell by **-4.02%**, narrowing the annual return to just **+0.65%**, indicating increased investor scrutiny and selectivity.

- Sectoral declines persisted, especially in manufacturing and construction-related SMEs, as global headwinds and policy uncertainty weighed on investor appetite. Liquidity in SME counters continued to be sparse.
- The **median P/E ratio** of SME stocks dropped to **36.75x**, while the **median P/B ratio** stood at **4.71x**, reflecting subdued sentiment despite long-term optimism.

## Outlook for SME IPOs in 2025–2026:

The medium- to long-term outlook for SME IPOs remains intact, despite recent market turbulence.

- **Carryover Momentum from 2024:** Market watchers believe the current slowdown is transitory. A recovery in IPO volumes is expected by Q3FY26 as valuations stabilize and investor confidence improves.
- **Investor Participation:** Interest from retail and institutional investors persists, particularly in niche and high-growth SME stories, especially those aligned with key sectors like defense tech, EV supply chains, and clean energy.
- **Macro Tailwinds:** Policy support, rate cuts, and easing inflation set a strong foundation for a rebound in SME activity later in 2025.
- **Risks & Dependencies:** Ongoing global trade tensions and monetary policy uncertainty in developed markets will remain the biggest variables affecting sentiment and capital flows. Domestically, governance, transparency, and compliance will be critical to sustaining investor trust in SME IPOs.

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