

Business Standard

Now, institutions dwarf retail investors in SME IPOs, reveals data

Handful of domestic, foreign institutions show large activity in SME segment: Report

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Institutional investors are increasingly becoming active in a stock market segment dedicated to small and medium enterprises (SMEs), marking a significant shift in the dynamics of IPO participation. Historically, this segment was dominated by individual (retail) investors due to the smaller amounts raised, typically below Rs 50 crore, which were considered minuscule for institutional players.

Recent data reveals that the institutional share in SME initial public offers (IPOs) has neared 50 per cent in December 2024, from a low single-digit share less than three years ago, according to a *Business Standard* analysis of data collated from primedatabase.com.

Correspondingly, the share of retail investors has come down.

By the end of 2024, their share had dropped to 34.9 per cent. This shift may be indicative of a larger pool of institutional capital available for smaller

companies, and retail investors, whose application size is typically below Rs 2 lakh, are now taking a smaller portion of the pie.

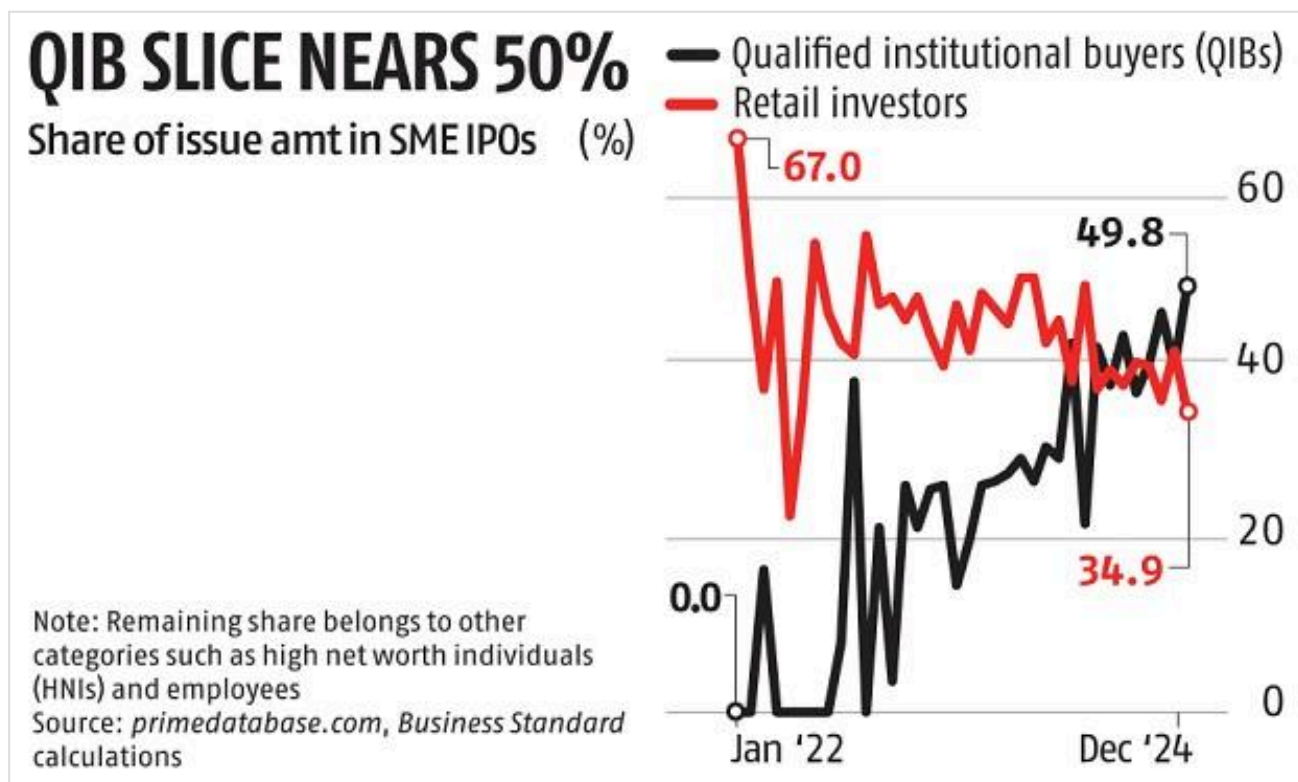
Institutions are playing a bigger role in SME IPOs, according to Pavan Kumar Vijay, founder of legal and financial consulting firm Corporate Professionals, which has a merchant banking division catering to SMEs.

“The liquidity pool in the Indian markets has undergone a sea change with increased investor sophistication,” said Mehul Savla, partner at boutique investment bank RippleWave Equity Advisors.

“Alternative investment funds, family offices and portfolio management service providers can take longer term bets in smaller firms unlike most mutual funds, which have minimum liquidity and market capitalisation requirements. This will continue to drive growth for SME IPOs,” Savla added. “Family offices are among the institutions that are showing interest,” he said.

A few institutional investors reportedly show unusually large activity in the SME segment. This includes a handful of domestic and foreign institutions, according to a report.

Stock market regulator Securities and Exchange Board of India (Sebi) has increased scrutiny of SME IPOs over other alleged irregularities.



Earlier this month, Sebi asked Trafiksol ITS Technologies to refund IPO money to investors. It came amid allegations that a third-party vendor, payments to whom was to account for 40 per cent of the money raised, was potentially a shell entity.

The company got an interim stay from the Securities Appellate Tribunal, which hears appeals against the regulator's decisions, after the order was passed. The regulator has sought to restrict retail participation through a higher minimum investment amid a surge in the number of SME IPOs and detection of wrongdoing among some companies. There were around 200 SME IPOs in 2023-24, which collectively raised over Rs 6,000 crore, according to Prime.

Savla said credibility of the SME IPO space would improve with the regulator moving to tighten the norms.

“SME IPO growth is likely to continue as the segment has now been firmly established. There was a credibility issue during the early days due to high volatility, low liquidity and poor performance of quite a few companies post listing. However, the trend has been changing with many companies moving to the main board as they have scaled up in business as well as in market cap. With Sebi tightening the norms, the quality of SME IPOs is likely to improve, making it difficult for dodgy companies to be listed,” he added.

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