

Performance Evaluation of Small and Medium Enterprises' IPOs: A Study of Firms Listed on NSE Emerge

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Abstract: Indian capital markets took a big jump with the launch of NSE-Emerge platform for new small and medium enterprises (SME's). It was a major milestone for the SME sector to have a new way for raising capital in an efficient manner. With the emergence of NSE EMERGE, the problem of raising funds has minimized and investors also benefited from SME's IPO's. The study attempts the potential of capital market financing for SME, status of some existing companies listed on NSE EMERGE and analyzed the return according to their issue size. The study shows that this platform has fetched decent average Maximum returns of 49.1%. More and more number of companies listing would increase the retail participation.

Keywords: NSE Emerge, IPO, SMEs

I. INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) are considered as the nerve system of economic development in terms of employment and income generation in India. Like large scale industry, MSME sector is also facing the challenge of financial scarcity and problem here is even more serious given the size of entities operating in this sector. To improve the visibility of SMEs and thereby opening more financing avenues, the prime minister task force recommended establishing a platform where IPOs of SMEs can be floated and traded; these are known as SME Exchange. SME Exchange means a trading platform of a recognized stock exchange having nationwide trading terminals permitted by the SEBI to list the specified securities issued in accordance with ICDR regulations, (2009), and includes a stock exchange granted recognition for this purpose but does not include the Main Board. This platform is beneficial not only for SMEs but also provides a juncture for informed investors to earn better return by taking enhanced risk of investing in emerging ventures. Tapping this opportunity, both the leading stock exchanges, BSE and NSE established separate platforms for SMEs, called BSE MSE Platform and NSE EMERGE respectively. BSE MSE Platform and NSE Emerge platform provides an opportunity for risk investors to invest during initial public offerings of SMEs. Small companies have potential to grow fast in multifold and add wealth to shareholders. Investors look at high return even there is high risk involved. NSE has established a third-party due diligence of company to increase the confidence of the customer in the SME exchange. NSE also encourages SME's to get graded by the rating agencies. Being a new platform, in the last five years it is able to attract good number of participants.

II. REVIEW OF LITERATURE

Seguin and Smoller (1997) provide evidence that an inverse relationship exists between the offering price of an IPO and subsequent market performance. Specifically, they find that lower priced stocks have higher mortality rates. **Chairman: Sh. T.K.A. Nair, (2010)** given the Report of the Task Force on MSME set up by the Government of India, though Indian MSMEs are a diverse and heterogeneous group, they face some common problems related to finance such as lack of availability of adequate and timely credit, high cost of credit, collateral requirements, limited access to equity capital, etc. Bank credit constraints force them to look for alternative sources of finance especially trade finance. As alternative sources of finance are also involves higher cost in comparison to bank financing, it is a great matter of concern for growth of SMEs. **Bagga, Khurana & Singh (2012)** discussed with some strategies for investors when investing in an IPO – they advised that Sell all the allotment on listing day itself, Partial profit booking on listing and rest holding for long term and holding for a period of more than 5 years. **Bhatia and Singh (2012)** shown that India IPOs perform better than international evidence. Initial returns and market return significantly affect the share price performance for all five years after the IPO. Young and smaller firms associated with small sized IPOs perform better in long run than older and more established firms. **Bhattacharya (2017)** examines 106 SME IPOs listed BSE SME between 2012-15 and finds that IPOs that either are timed to market or have larger allocations to market makers tend to show higher initial performance; that IPO allocation to market makers and IPO demand from retail individual investors increase liquidity in the IPO aftermarket; and that IPO timing and underwriter reputation significantly predict the long-term performance of SMEs IPOs.

Objectives

- To analyze the current scenario of SMEs equity financing at NSE-Emerge platform.
- To estimate the Listing gain of some listed IPO's in NSE-Emerge platform.
- To analyze the returns of IPO's listed on in NSE-Emerge platform

III. RESEARCH METHODOLOGY

Data sources

Data has been collected from MSME and NSE-Emerge websites for study purpose. Sample size and period: To study pricing performance and status of SME IPO market, 67 companies who have floated their IPO from NSE-Emerge platform since Feb 2017 to Dec 2017, has been taken for study.

IV. ANALYSIS OF SME's IPOs PERFORMANCE

Table1: Calculated return of NSE Emerge stocks as on listing date and 31st December 2017

| S.No. | Company | Listing Return | Current Return | S.No. | Company | Listing Return | Current Return |
|-------|---|----------------|----------------|-------|--|----------------|----------------|
| 1 | Aarvi Encon Limited | 0.93 | 105.56 | 35 | Madhav Copper Limited | 15.80 | 255.56 |
| 2 | Accord Synergy Limited | 20.00 | -0.33 | 36 | Madhya Pradesh Today Media Limited | 20.00 | 81.44 |
| 3 | Ace Integrated Solutions Limited | -1.13 | -15.00 | 37 | Manav infra projects limited | -20.00 | -39.67 |
| 4 | Airan Ltd | 19.67 | 354.11 | 38 | Milton Industries Limited | 1.03 | -13.68 |
| 5 | Airo Lam Limited | 20.00 | 20.92 | 39 | Nitiraj Engineers Limited | -5.50 | -33.75 |
| 6 | Akash Infra Projects Ltd | 2.52 | -41.60 | 40 | Omfurn India Limited | -0.65 | 4.35 |
| 7 | ANI Integrated Services Limited | 20.00 | 76.95 | 41 | Panache Digilife Limited | 5.86 | 18.52 |
| 8 | ASL Industries Limited | 0.14 | -1.43 | 42 | Pashupati Cotspin Limited | 0.00 | -2.00 |
| 9 | Bansal Multiflex Limited | 44.03 | 285.16 | 43 | Pulz Electronics Limited | 18.61 | -1.85 |
| 10 | Beta Drugs Limited | 19.94 | 108.06 | 44 | Pushpanjali Realms and Infratech Limited | 0.82 | 36.36 |
| 11 | Bohra Industries Limited | 5.18 | -34.91 | 45 | R M Drip and Sprinklers System Limited | 3.16 | 21.40 |
| 12 | Cadsys (India) Limited | 20.00 | 49.64 | 46 | Reliable Data Services Limited | 20.00 | 5.00 |
| 13 | CKP Products Limited | 0.30 | 13.50 | 47 | RKEC Projects Limited | 20.00 | 184.44 |
| 14 | CMM Infraprojects Limited | 5.63 | 107.63 | 48 | Sanginita Chemicals Limited | 4.09 | 150.00 |
| 15 | Creative Peripherals and Distribution Limited | 11.00 | 30.67 | 49 | Secur Credentials Limited | -3.12 | 11.76 |
| 16 | D P Wires Limited | 0.00 | 1.00 | 50 | Servotech Power Systems Limited | 2.74 | 19.35 |
| 17 | D.P. ABHUSHAN LIMITED | 20.00 | 98.57 | 51 | Shanti Overseas (India) Limited | -14.20 | -20.00 |
| 18 | Dev Information Technology Limited | 20.00 | 87.86 | 52 | Shree Tirupati Balajee FIBC Limited | 7.62 | 55.00 |
| 19 | Euro India Fresh Foods Limited | 15.19 | 78.59 | 53 | Shrenik Limited | 49.13 | 945.00 |
| 20 | Felix Industries Limited | 2.29 | 5.71 | 54 | Shri Ram Switchgears Limited | 20.00 | 11.32 |
| 21 | Focus Lighting And Fixtures Limited | 20.00 | 231.11 | 55 | Sikko Industries Limited | 10.00 | 20.00 |
| 22 | Geekay Wires Limited | 0.76 | 12.12 | 56 | Sri Krishna Metcom Limited | -10.91 | -14.55 |
| 23 | Global Education | 20.00 | 46.67 | 57 | Steel City Securities | -8.91 | 141.00 |

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|----|-------------------------------------|-------|--------|----|--|-------|--------|
| | limited | | | | Limited | | |
| 24 | Globe Textiles (India) Limited | -1.67 | -9.80 | 58 | Surevin BPO Services Limited | 0.50 | 107.88 |
| 25 | Goldstar Power Limited | 5.20 | 52.20 | 59 | Tirupati Forge Limited | 17.59 | 135.00 |
| 26 | InfoBeans Technologies Limited | 20.00 | 27.59 | 60 | Total Transport Systems Limited | 20.00 | 6.11 |
| 27 | Innovative Tyres and Tubes Limited | 4.78 | -12.11 | 61 | TRANSWIND INFRASTRUCTURES LIMITED | 20.00 | 22.22 |
| 28 | Jalan Transolutions (India) Limited | -8.80 | -18.48 | 62 | Univastu India Limited | 0.50 | 27.75 |
| 29 | Jash Engineering Limited | 20.00 | 69.17 | 63 | Vadivarhe Speciality Chemicals Limited | 20.00 | 158.45 |
| 30 | Keerti Knowledge And Skills Limited | -1.44 | -18.85 | 64 | Vaishali Pharma Limited | -2.29 | -26.25 |
| 31 | Krishana Phoschem Limited | 20.00 | 19.33 | 65 | Vertoz Advertising Limited | 20.00 | 82.64 |
| 32 | Laxmi Cotspin Limited | -0.50 | -19.50 | 66 | Worth Peripherals Limited | 20.00 | 131.40 |
| 33 | Lexus Granito (India) Limited | 20.00 | 166.67 | 67 | Zota Health Care Limited | 0.48 | 75.52 |
| 34 | M K Proteins Limited | 2.86 | 7.21 | | | | |

Table2: investment performance of SME's IPO

| Listing Return | | Current Return | |
|-----------------------|-------------|-----------------------|-------------|
| Mean | 9.242033471 | Mean | 66.26425047 |
| Median | 5.625 | Median | 21.40350877 |
| Standard Deviation | 12.52834765 | Standard Deviation | 135.6852818 |
| Sample Variance | 156.9594948 | Sample Variance | 18410.4957 |
| Kurtosis | 0.867245555 | Kurtosis | 26.68017249 |
| Skewness | 0.449774777 | Skewness | 4.470850518 |
| Range | 69.125 | Range | 986.6 |
| Minimum | -20 | Minimum | -41.6 |
| Maximum | 49.125 | Maximum | 945 |
| Sum | 619.2162426 | Sum | 4439.704782 |
| Count | 67 | Count | 67 |

V. RESULTS AND DISCUSSIONS

The empirical results of investment performance of SME's IPO are shown in Table 2. It is evident from the table that the average listing day return comes out as 9.24 per cent of a sample of 67 SMEs' initial public offerings which is a significant number for retail individual investors in India. It is curious to note that the minimum return of these offerings is – 20 per cent and maximum return is 49 per cent. Another interesting feature to mention that the variability of these returns measured in terms of standard deviation is 12.53 per cent which is very reasonable as compared to offerings of large companies in Indian equity market.

It is marked from the table that the average current holding period return comes out as 66.26 per cent of a sample of 67 SMEs' initial public offerings which is a significant number for retail individual investors in India. It is interesting to know that the minimum return of these offerings is – 41.6 per cent and maximum return is 945 per cent. This variability reflects the upper side of the variations in the returns. Overall, the empirical results revealed a superior performance of SMEs IPOs which may be a vital factor to induce all types of investors specially households to be a part of NSE Emerge platform for their asset allocation decisions.

IPOs Size and Performance

In order to further analyze the IPOs performance of SMEs to root out the causes of superior performance, the empirical results also presented in terms of Size of IPOs in Table 3 & 4.

Table3: Calculated cumulative return based on their IPO Issue size

| Issue size(Cr) | Listing Return | Current Return |
|----------------|----------------|----------------|
| 1.54-11.54 | 215.5296575 | 1433.389319 |
| 11.54-21.54 | 243.9407236 | 1351.005838 |
| 21.54-31.54 | 104.0735538 | 1404.447007 |
| 31.54-41.54 | 20 | 27.5862069 |
| 41.54-51.54 | 35.19230769 | 147.7564103 |
| 51.54-61.54 | 0.48 | 75.52 |

Table4: Calculated average return based on their IPO Issue size

| Issue size(Cr) | Average of Listing Return | Average of Current Return |
|----------------|---------------------------|---------------------------|
| 1.54-11.54 | 7.432057154 | 49.42721791 |
| 11.54-21.54 | 10.60611842 | 58.73938427 |
| 21.54-31.54 | 9.461232166 | 127.6770006 |
| 31.54-41.54 | 20 | 27.5862069 |
| 41.54-51.54 | 17.59615385 | 73.87820513 |
| 51.54-61.54 | 0.48 | 75.52 |

Out of total 67 IPOs 29 were of Rs 1.54cr to 11.54cr and the cumulative listing return of these SMEs was 215.52 per cent and cumulative current holding period return was 1433 per cent, similarly the average listing return on these IPOs was 7.43 per cent while the average current return was 49.42 per cent.

24 SMEs IPOs were of Rs 11.54cr to 21.54cr and the cumulative listing return of these SMEs was 243.94 per cent and cumulative current holding period return was 1351 per cent, similarly the average listing return on these IPOs was 10.60 per cent while the average current return was 58.73 per cent.

Out of total 67 IPOs 11 were of Rs 21.54cr to 31.54cr and the cumulative listing return of these SMEs was 104.07 per cent and cumulative current holding period return was 1404 per cent, similarly the average listing return on these IPOs was 9.46 per cent while the average current return was 127.67 per cent.

One IPO from total 67 IPOs were of Rs 31.54cr to 41.54cr and the cumulative listing return of these SMEs was 20 per cent and cumulative current holding period return was 27.58 per cent, similarly the average listing return on these IPOs was 20 per cent while the average current return was 27.58 per cent.

Two SMEs IPOs from total 67 IPOs were of Rs 41.54cr to 51.54cr and the cumulative listing return of these SMEs was 35.19 per cent and cumulative current holding period return was 147.75 per cent, similarly the average listing return on these IPOs was 17.59 per cent while the average current return was 73.87 per cent.

Out of total 67 IPOs 1 were of Rs 51.54cr to 61.54cr and the cumulative listing return of these SMEs was 0.48 per cent and cumulative current holding period return was 75.52 per cent, similarly the average listing return on these IPOs was 0.48 per cent while the average current return was 75.52 per cent.

VI. CONCLUSIONS

This study attempts to analyze the listing and investment performance of 67 SMEs IPOs which were issued and listed on NSE EMERGE during the year of 2017. The study finds that with the passage of time, this platform is gaining momentum as number of issues listed on such platforms is increasing with-in a short span of time. The empirical results revealed a superior listing performance of sample IPOs as they generated average listing day return of 9.24 per cent. On the other hand results also displayed average current holding period return as 66.26 per cent. Furthermore, the results indicated that as the size of IPO increased, its performance also increased. On the whole, this platform offers a good investment avenue for household as well as institutional investors.

VII. REFERENCES

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