THINK INDIA JOURNAL

ISSN:0971-1260
Vol-22- Issue-14-December-2019

SME Exchange In India : A Performance Evaluation

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Abstract: Small and medium enterprise (SME) plays a vital role in the development of any economy. SMEs financing is one of the important constrain for its growth. Equity finance through SME exchange platform is a panacea for small companies. Many countries established the dedicated SME exchange as the subsidiary exchange to main exchange so that the SMEs could easily use the public finance and get the company listed on the exchange with less compliance requirement and listing fees. SME Exchanges are growing trend in developing and newly developed countries to increase economic and business growth. In India, Bombay stock exchange and National Stock exchange had established BSE SME exchange and NSE Emerge respectively in the year 2012. As the listing of Indian SMEs increased significantly in shore the short duration. The study did comparative study of Asia Pacific (APAC), America and Europe, Middle East Africa (EMEA) regional SME exchanges and Indian SME exchange.

Keywords – Indian SME Exchange, Market Capitalization, Alternative Markets
JEL- D53, G15, P34

I. INTRODUCTION

SMEs (Small medium enterprises) are a salient factor for economic growth. SMEs plays a prominent role in providing support to large industries. SME's are instrumental for socio-economic development of country. SMEs not only plays as ancillary industry role to large industry and provide employment by helping industrialization of rural and least developed area, which help to reduce regional imbalance and equal distribution of wealth.

In emerging countries, SMEs provide more than half of total employment and contribute almost 40% to countries' national income. As per the world bank report for better economies and socially sustainable development 600 million jobs will be required in the coming decades. And in developing economies out of five new positions SMEs contributing four (Harwood, World Bank,2015). But the main constraint for the growth of SMEs is its access to finance. Because of high-risk factors and low collateral banks hesitate to provide

ISSN:0971-1260
Vol-22- Issue-14-December-2019

capital to small enterprises, which results in many SMEs projects stagnate. The demand for capital funding are as high as 2.6 USD trillion for formal SME[1].The quench of SMEs thrust for finance can be satiated by equity capital through securities markets. But listing procedure and public offer expenses are a costly affair for SMEs and become one of the limitations to go public.

There is two main type of SMEs exchanges, one standalone exchange for SMEs and second SMEs exchange patron and mentor by main exchange. There are total of 33 SME bourses are in operation in the world. Among 33 SME exchange, 3 is in America, 14 in APAC region and 16 belongs to Europe, Middle east and Africa. (Kenix Lee, 2018). In India, BSE SME exchange and NSE emerge has been established in the year 2012. The process of listing is made less expensive and only essential compliance requirement. For this purpose, SME exchange follows the five Ps process. First Planning, where issuer company is assisted by a merchant for initial plannings. The second phase is Preparation phase, where merchant banker do all documental formalities by preparing a prospectus and taking all approval from regulators and government agencies. This phase completed by doing all due diligence for listing. At Process phase merchant banker file prospectus to regulators. Regulator call promotors for an interview to know about companies in details. After the site visit regulator gives permission for IPO and listing, the liquidity issue has been solved by the concept of a compulsory market maker. As compare to mainboard anonymous trading by maintaining central order book, SME exchange market maker maintains the inventory of share and provide two-way quote to buyer and seller.

II. LITERATURE

Those countries which does not have dedicated SME exchanges, researchers suggested a better model for exchanges. The most effective model for exchanges is a model of the market maker which. Market makers' models have been followed by LSE AIM exchange and China's Chinext (Šestanović, A. 2016). Charan singh et.al. (singh, 2016) did a study of 85 small businesses and conclude that sources of finance for SMEs are very limited to personal loans, money lenders and banks. Major challenge for the startups to take loans is collateral, which they have kept with the banks. To give a solution to this problem, In India OTCEI (Over the counter exchange of India) was established in 1990 for small enterprises for

[1] World federation of exchange report

ISSN:0971-1260
Vol-22- Issue-14-December-2019

equity funding, but not become successful. Inamdar (2016) studied the evolution of SME exchanges in India and reason for success and failure of it. The author concluded that the liquidity is main concern for success, so attempt by BSE SME exchange and NSE Emerge through market maker is an effective tool to boost the liquidity. For listed companies on SME exchange, the study done by Praveen K (2018) for evaluating the performance of listed companies. The initial public offer price and listed day price has been studied for NSE emerge listed SME for one-year duration. The study concludes that the holding period is abnormally high and listed day return is also positive.

Prasanna et.al (2014) studied the impact of SME listing on capital structure and cost of capital. The study was done on BSE SME exchange companies secondary data and the result of the study was As a result, equity financing will improve the capital structure of the company and management will also try to make the right decisions. There has, however been research into the difference between the BSE and NSE SME Exchanges such as, Thakur (2016). The comparison between them is framed to give stakeholders in the process more information on the differences between the two exchanges. The data is somewhat dated due to the fast-changing nature of these exchanges. Sanjay Dhamija, (2017) has a relevant analysis of Indian SME IPOs and their subsequent market performance to determine whether they are consistently under or overpriced. It is determined that the IPOs are underpriced but less so than on the main market, this is reflected in the relatively low oversubscription rate of 1.35 times.

A broader examination of SME Exchanges is given by Alison Harwood (2015). An analysis of the use of these exchanges in emerging markets gives rise to some recommendations for a successful exchange introduction. These include: Giving tax Incentives to Investors, legally relating the SME Exchange to the Main Exchange, and the importance of trusted and regulated advisors for issues.

III. RESEARCH METHODOLOGY

The exploratory research has been done by collecting data from various exchange websites. World federation exchanges also provide data related to the performance of various exchanges. The market capitalization has been calculated by closing price of the year to issued shares by company. All the values has been normalize in US dollar terms for comparative study. Various Strata have been made for market capitalisation and exchanges is categorised in it.

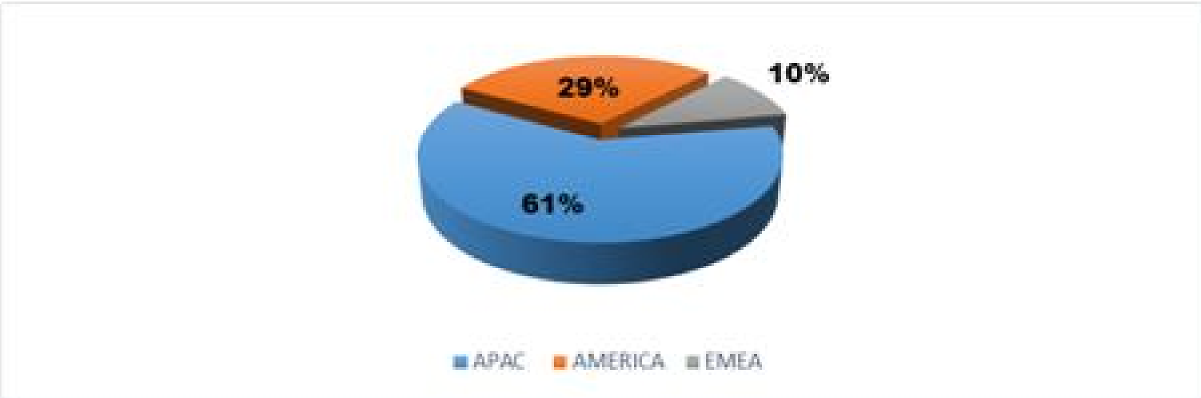
ISSN:0971-1260
Vol-22- Issue-14-December-2019

IV. RESULTS & CONCLUSION

At the end of 2017, 6807, companies with a market capitalization of over USD 1.3 trillion, were listed on the 33 SME exchanges across the globe.

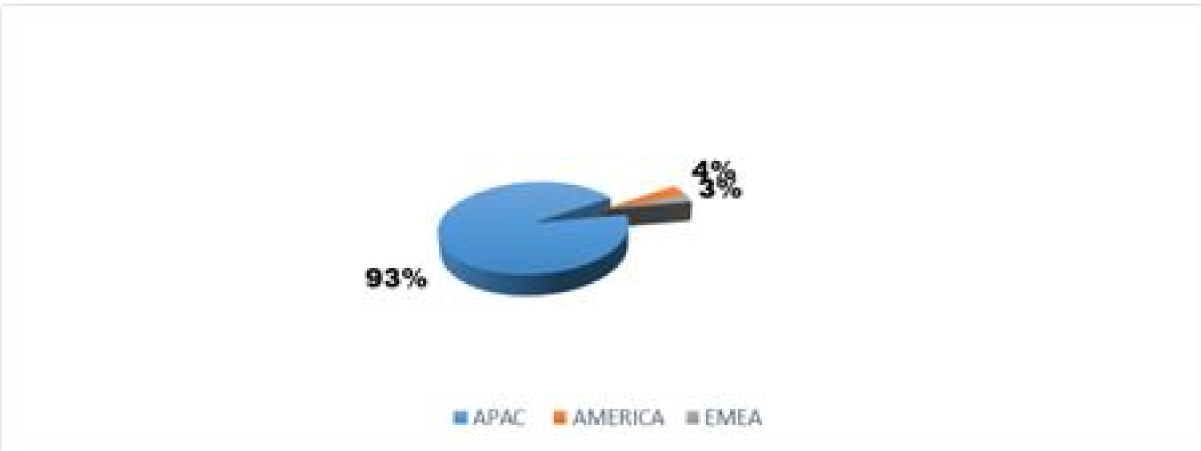
Sixty-one percent of these (4,112 companies) were listed on markets in the Asia Pacific (APAC) region, followed by 29% in the Americas (1,998 companies) and 10% in EMEA (697 companies).The market capitalization is distributed as follows: APAC accounted for 93% of the overall market capitalization, amounting to USD 1.26 trillion as of end-2017. EMEA SME exchanges' market capitalization stood at USD 46.97 billion (4% of total), closely followed by the Americas with a value of USD 43.43 billion (3% of total).

Figure 1: Number of Listed Companies by Region



Source: 1 World federation of exchange

Figure 2 Market Capitalization by Region

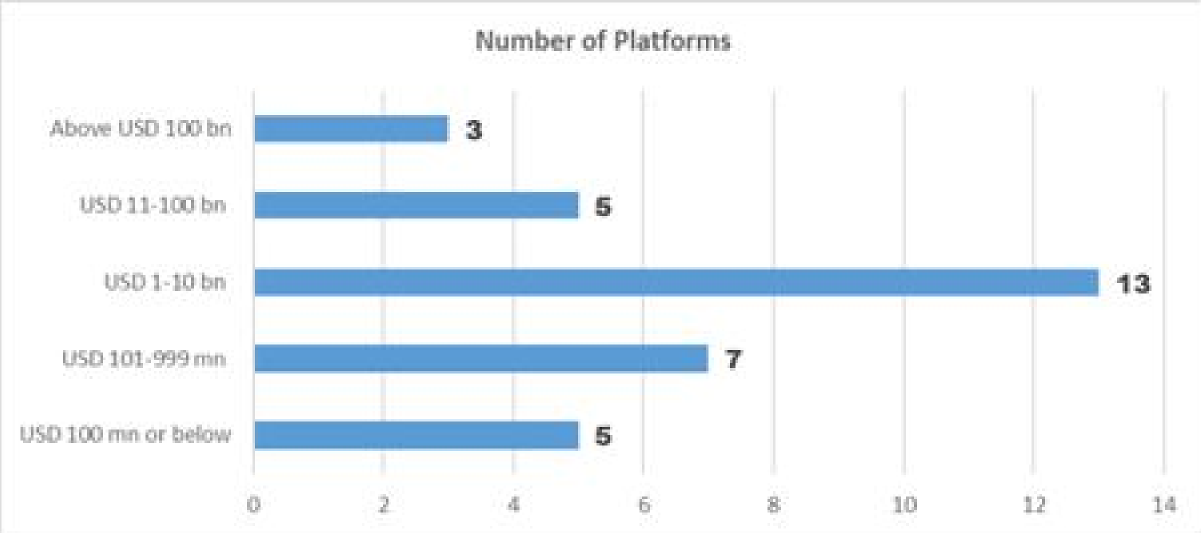


Source: 2 World federation of exchange

ISSN:0971-1260
Vol-22- Issue-14-December-2019

Market capitalization: 3 SME platforms having the listed companies posing the market capitalization of above USD 100 billion; 13/33 platforms having 1-10 billion USD companies; five platforms had a market capitalization of less than USD 100 million, while on the other side of the scale, three SME exchanges were over USD 100 billion in size. All the exchanges in this latter group are in Asia-Pacific (*JASDAQ, KOSDAQ* and *Chi Next*). It is worth noting that *Chi Next* does not allow graduation to another board. Thus, companies listed on this board will remain there, even if they have grown into companies of significant size. (Kenix Lee, 2018)

Figure 3 Distribution of Market Capitalization - end 2017



Source: 3: World Federation of Exchanges

1.1. SME exchange in the context

SME exchanges are small compare to their main board counterparts in liquidity, volumes and price fluctuation. 22/33 SME exchanges have less 1% market capitalization to its main board exchanges. 7 SME exchanges have 1%-5% market capitalization of their main board. Remaining 4 have the 15%-30% market capitalization of its main board.

50% i.e. 17/33 SME exchanges, have the listed companies, which is 10% of the main board listed companies. In seven markets, however, the ratio of SME board listed companies as a proportion of the total was over 30%. On the *KOSDAQ* market, the number of SME board listed companies was 62% of the Korea Exchange's total. (Kenix Lee, 2018)

SME sector play a vibrant role in the growth history of Indian economy over the past five decades. The government of India launched the various programs for the growth of SME industries. Market regulator, SEBI also came up with relaxation in norms for the SME sector so that it is easy for these industries to get the funds from the market.

As long as the growth trajectory of the SME sector increase, demand for financing the operations are also increasing. So it is need of the hours to promote SME exchange among small enterprises. Government and regulators should arrange awareness conferences and seminars for SME industries.

ISSN:0971-1260
Vol-22- Issue-14-December-2019

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