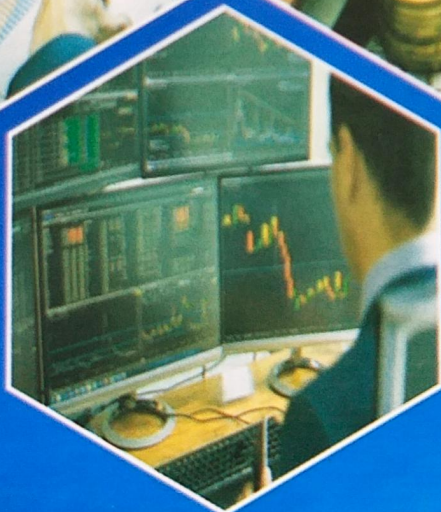
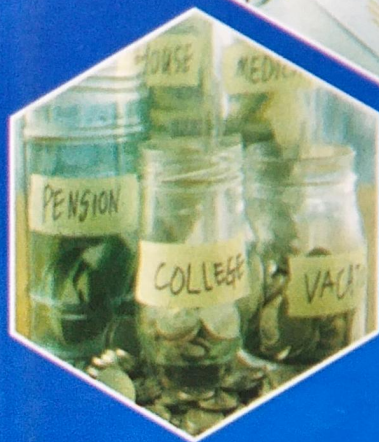


# Application of Econometric Models for Research in Social Science



Edited by

**Paramita Chakravarty**

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## SME Exchange: A New Avenue for Fund Raising – An Analysis

Sorima Halder\*

### Abstract

Access of proper finance has always been a challenge to small and medium sized business enterprises. SME Stock Exchanges, launched in 2012, has partially addressed the financing issues to selected small and medium enterprises. Since then, two SME Exchanges, BSE SME and NSE Emerge, have made significant progress. As many as 491 companies have raised capital using their platforms. The study attempts to evaluate the progress of fundraising through the SME platforms in India and to find out whether they have really emerged as an important medium of raising capital for small and medium enterprises. The study has also analysed the response of investor community and tried to conclude whether the method will survive and become a vibrant part of the fund raising ecosystem form small and medium enterprises in the future or not.

**Keywords:** SME, SME IPO, SME finance, SME exchanges

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### Introduction

Small and medium enterprises (SMEs) are the backbone of the Indian economy. SMEs with their micro version, collectively known as MSMEs, account for 80% of India's total business enterprises and employ approximately 12 crore people. Unlike the past, many SME sectors are well organised today. In the selected manufacturing domain, SMEs are operating through a cluster approach, which is a powerful tool to act collectively and such clusters have become leading producers in their respective industries. Clusters such as Panipat, Tirupur, Agra and Ludhiana are famous for blankets, hosiery, footwear and woollen knitwear respectively and account for a lion's share of production in their fields.

In spite of their contribution to the nation's economy, SMEs face multiple challenges, primarily lack of access to proper finance. Until date, bank credit is the single largest source of finance for SMEs in India. Lending to MSMEs come under the ambit of priority sector lending by banks. However, banks go through a stringent appraisal process before disbursing credits to SMEs and many of them are unable to fulfil the criteria. Thus, bank finance remains largely inaccessible.

For equity capital needs, venture capital (VC) and private equity (PE) are key source but again accessing these funds is very difficult for a majority of SMEs. VC and PE funds generally screen numerous companies before selecting a few for investment. In this backdrop, SME exchanges hold significance for a country like India. SME exchange is a new avenue through which small and medium-sized companies can raise equity capital, which was not available before 2012.

The capital market regulator SEBI first propagated the idea of a SME exchange in 2008. In 2010, the Prime Minister's Task Force recommended for setting up a dedicated stock exchange for SME and accordingly SEBI laid down the regulatory structure for the governance of the SME exchanges (SEBI modified ICDR Regulations, 2009). Both the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) began their SME exchange