

Covid Impact on IPO_s in SME Platforms in India: Before and After the Lock Down

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Abstract

Small and Medium Enterprises (SME) are very important for the economic development of a country through their contribution in business innovations and generating employment. They play a crucial role in the economic development of any country. Onslaught of COVID 19 has brought misery to many sectors more so in the case of small and medium enterprises. MSME sector had to face lot of problems like difficulty in procurement of raw materials, reduction in production, difficulty in delivery of finished products and absence of employees on account of movement restrictions. All this resulted in reduction of revenue. The Ministry of MSME has a number of schemes and programmes to assist small businesses. However, many companies were not able to avail the benefits during this period. At the same time, mainboard IPOs were able to perform very well during the COVID lockdown period. Number of SME IPOs showed a decline during this period and the return generated by these IPOs was also low. The present study aims to study the IPOs in SME platform issued after the lockdown was announced that is in 2020-21 and compare it with the previous year, that is 2019-20.

Keywords: COVID19, Mainboard IPOs, MSME, SME IPOs

Introduction:

Small scale enterprises are vital for the overall development of the economy. They are all the more important for an emerging economy like India since their contributions are immense for a country whose population growth and providing employment to its population has always been a challenge. This sector provides huge employment and contributes to regional balance by industrialization of backward areas.

India has around 6.3 crore MSMEs as per data provided by MSME Ministry, covers 80% of industries in the country, contributes about 29% towards GDP and accounts for nearly 50% of exports. This sector employs around 106 million i.e., 40% of Indian workforce (according to MSME Ministry data released on May 16, 2021).

However, this sector has been facing many challenges related to availability of required finance. Though Government has come out with various schemes and measures to promote and provide institutional support in respect of credit facilities, it was not sufficient to cater to the increasing needs of capital. As a source of equity, Government established Over-the-Counter Exchange of India (OTCEI) in 1990 and INDO Next Platform of BSE in 2005. However, these initiatives were not that successful and the problems of SME segment continued. To solve the issue, Bombay Stock Exchange came out with an exclusive SME Platform in March 2012 and NSE was not left behind and they started NSE Emerge platform for SME segment in September 2012.

When these SME platforms were launched, many stakeholders were not comfortable and didn't have confidence on its success due to the failure of OTCEI which was also started for SME segment. But gradually from 2015 onwards, SME platform was surging and many companies are getting listed in these platforms. Over the past 9 years, nearly 336 SMEs has been able to get listed on SME BSE Platform and 221 SMEs have been listed on NSE Emerge Platform.

The MSME sector was one of the most affected sectors during pandemic mainly on account of its limited scale of business and scarce financial resources. Various studies conducted have showed that approximately 95% of the firms were negatively impacted due to nationwide lockdown imposed in 2020. Reports suggest that 40% businesses remained disrupted till February 2021. There was a decline in business volume of MSME by 11% because of 2021 lockdown in comparison to 46% decline in 2020 nationwide lockdown (survey conducted by Fintech start-up Khatabook). One of the major barriers faced by MSMEs is getting access to more finances.

To support MSMEs during pandemic, Government has come forward with various schemes which provide soft loans with longer term for repayment and increased credit limit. However, MSMEs need to access their financial status and security since banks perceive MSMEs as risky clients due to absence of good credit score. Many MSMEs face crunch of capital since they do not get the mandatory

credit score and this results in not getting the required amount of loans from banks and financial institutions.

COVID period have been very difficult for SME and the new equity issues have also taken a hit. The pandemic has put a break on the IPOs of the SME segment, after witnessing a positive trend in the previous years. The number of SME IPOs during this period can be compared during that of financial year 2013 when SME listing platforms were started. The present paper aims to study the IPOs which went on board before the nationwide lockdown due to COVID 19 i.e., from April 1st 2019 to March 31st 2020 and the IPOs which went on board after the pan India lockdown was announced by the Government i.e., from April 1st 2020 to March 31st 2021.

Literature Review

Pardhasaradhi Madasu (2017), in his paper attempted to study the progress of SME platform of BSE from its inception. It is revealed from the study that there has been a steady increase in the number of listings and amount raised from 2012 to 2017. The study also revealed that many companies have migrated from SME board to Main board and are also performing well. When the performance of SME IPO Index and Broad Market IPO index of BSE was compared, it was revealed that in most cases SME IPO Index generated better returns than Main Board IPO Index.

A. R. Tripathi, Gautam Pratap Pradhan and Shri Narayan Pandey (2017) in their paper examined the performance of IPOs listed in SME platforms of BSE and NSE. The study finds that there is an increase in the number of issues made through these platforms and also the issue size. Further the study was also done on the magnitude of underpricing and study also revealed that underpricing and subscription rate move in the same direction.

Dhamija, Sanjay & Arora, Ravinder (2017), examines the SME IPOs listed on BSE SME Platform. It is understood from the study that there is low level of underpricing in the IPOs listed in BSE SME Platform compared to mainboard IPOs.

Dr. P. Roopa (2016) in her paper studied the listing day performance of the IPOs issued through book building mode and fixed price mode in the financial year 2015-16. It

was revealed from the study that around 36% of the issues were made through book building mode during that period, but money raised was around 98% of the issue size.

KaousarNassr, I. and G. Wehinger (2016) in their paper identified a number of important impediments to use of equity as a source of finance for SMEs such as listing requirements, illiquidity, knowledge level of the promoters, limited ecosystem and tax treatment.

R. K. Jain, Avdhesh Kumar Shukla and Kaushiki Singh (2015) The authors indicated that in order to make SME equity market liquid, SEBI has stated that merchant bankers must act as market makers for three years, but after three years many companies listed in SME platform face liquidity problems. Hence it was suggested in the paper that this scenario can be reversed through more transparency and increased institutional participation in companies listed in SME platform.

Need For The Study:

Lockdown was announced in India on March 20 due to COVID 19 pandemic and markets loomed under fear because of uncertainty. COVID 19 has affected not only Indian Stock markets but has sent markets around the world crashing. Indian stock markets were also affected by this lockdown especially small and medium enterprises were very badly affected by this pandemic mainly due to its size and limited financial resources. A new avenue for raising money was opened up for this sector in the year 2012 with the introduction of SME platforms by both BSE and NSE. There was an improvement in the number of IPOs issued through this platform over the years. In this paper an attempt is being made to study the IPOs which were issued by Small and Medium Enterprises during the financial years 2019-20 (before COVID19 lockdown was announced) and 2020-21 (after COVID 19 Lockdown was announced).

Objectives:

1. To evaluate the IPOs issued through SME Platforms before (2019-20) and after (2020-21) the pan India lockdown announced by the Government.
2. To evaluate whether there is any sufficient difference in the raw returns of the SME IPOs before and after the

pan India lockdown announced by the Government.

3. To understand whether is any significant difference in the market adjusted raw returns of the SME IPOs before and after the pan India lockdown was announced by the Government.
4. To analyse if there is any significant relationship between dependent variable under pricing and independent variables namely subscription times and market volatility before and after the nationwide lockdown was announced by the Government.

Hypothesis:

1. H1: There is substantial difference in the Raw Returns of SME IPOs before and after the pan India lockdown announced by the Government.
2. H2: There is significant difference in the Market Adjusted Raw Returns of SME IPOs before and after the pan India lockdown announced by the Government.
3. H3: There is substantial relationship between dependent variable under pricing and independent variables namely subscription times and market in the year 2019-20.
4. H4: There is substantial relationship between dependent variable underpricing and independent variables namely subscription times and market volatility in the year 2020-21

Research Methodology

This study is descriptive in nature and is based on secondary data. The required data was collected from websites like chittorgarh.com, bseindia.com and financial express.com. The study focuses on performance of SME IPOs during 2 periods, that is, IPOs issued before the lockdown was announced in the country, that is financial year 2019-20 and IPOs issued after lockdown was announced, that is financial year 2020-21. Thus, the paper studies the performance of 76 IPOs issued during the period which were listed in BSE SME Platform and NSE Emerge. To study the performance both financial and statistical tools were used.

Financial Tools: To determine the magnitude of deviations between the market price on the listing day and the issue

price of the IPOs, listing day returns have been calculated using the following formula:

$$\text{Listing day returns} = [(\text{Closing price on listing day} - \text{Issue Price}) / \text{Issue price}] * 100$$

Since the stock market was in different prices during the study period, the return calculated using the above equation was adjusted using the returns of S&P BSE SME IPO Index for the corresponding period.

$$\text{BSE Sensex Return} = [(\text{Closing price of S\&P BSE SME IPO Index on listing day} - \text{Closing price of S\&P BSE SME IPO Index on closing issue date}) / \text{Closing price of S\&P BSE SME IPO Index on closing issue date}] * 100$$

$$\text{Market adjusted listing day return} = \text{Listing Day return} - \text{S\&P BSE SME IPO Index}$$

Statistical tools: Statistical tools like simple averages, percentages, paired t test and regression analysis was used to analyse the data and get meaningful interpretations. S&P BSE SME IPO Index is taken to calculate the market index return.

Analysis And Interpretation:

The table below gives a brief account of the performance of SME IPOs during 2019-20 and 2020-21.

Table 1

Particulars	2019-20 (Before Nationwide lockdown was announced)	2020-21 (After Nationwide Lockdown was announced)
Number of IPOs	47	29
Method of Issue	Fixed Mode: 41	Fixed Mode: 27
	Book Building Mode: 6	Book Building Mode: 2
Exchange Listed	BSE SME Platform: 34	BSE SME Platform: 20
	NSE Emerge: 13	NSE Emerge: 9
Raw Returns	Underpricing: 33	Underpricing: 18
	Overpricing: 08	Overpricing: 10
	No Change: 06	No Change: 01
Market Adjusted Raw Returns	Underpricing: 36	Underpricing: 17
	Overpricing: 11	Overpricing: 12
Average Returns	Raw Returns: 2.45	Raw Returns: 1.48
	Market Adjusted Raw Returns: 2.97	Market Adjusted Raw Returns: 1.09

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

Interpretation: It is evident from the above table that before COVID 19 pandemic, that in the financial year 2019-20, 47 companies went for public issues in the SME Platforms of both NSE and BSE. Out of these 34 IPOs were listed in BSE SME Platform as against 13 IPOs in the NSE Emerge. On the other hand, after the lockdown was announced, that is in the financial year 2020-21, nearly 29 companies went for public issue. Out of this 20 IPOs were

listed in BSE SME Platform and 9 IPOs were listed in NSE Emerge. It is understood from this that more small and medium enterprises prefer BSE SME Platform than NSE Emerge.

With regard to the method of issue nearly 41 IPOs were issued through Fixed price mode in the year 2019-20 as against 6 IPOs issued through Book building mode. On the other hand, in the year 2019-20, 20 IPOs were issued

through fixed price mode as against 2 IPOs in the book building mode. It clearly shows that Small and Medium Enterprises prefer fixed price method of public issue than book building method of public issue.

It is also understood from the above table that 33 IPOs were underpriced on the listing day in the financial year 2019-20 as against 18 companies in the financial year 2020-21. It means that nearly 70% of the companies listed in the year 2019-20 were able to generate positive return on the listing day, whereas this ratio decreased to 62% in the year 2020-21.

When the raw returns were adjusted to the market index namely S&P BSE SME IPO, it was found that 36 i.e., 76% of the IPOs showed positive returns on the listing day in the year 2019-20 as against 17 i.e., 58% of IPOs in the year 2020-21.

Similarly, the average raw returns and market adjusted raw returns for the year 2019-20 was 2.45 and 2.97 whereas the average raw returns and market adjusted raw returns for the year 2020-21 was 1.48 and 1.09 respectively. It shows that the return generated during the COVID period showed a decline in comparison to the pre COVID period.

Paired Sample T Test:

Paired Sample t test was used to test whether there is any significant difference in the raw returns and market adjusted raw returns which went into market during 2019-20 (Before COVID Lockdown was announced) and 2020-21 (after COVID Lockdown was announced).

Table 2-Paired Samples Test

		Paired Differences					t	Df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Raw Return 2020-21 - Raw Return 2019-20	-1.53	9.89992	1.838	-5.298	2.234	-.833	28	.412
Pair 2	Market Adjusted Return 2020-21 - Market Adjusted Return 2019-20	-2.07	11.51374	2.138	-6.452	2.307	-.969	28	.341

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

Interpretation: The above table shows the results of t test to check the hypothesis to know if there is any significant difference in the raw returns and market adjusted returns generated by the IPOs before the lockdown was announced (2019-20) and after the lockdown was announced (2020-21).

Pair 1 show the paired comparison of Raw Returns earned 2019-20 and 2020-21 and it is clear from the table that p value of 0.412 is more than the significance level of 0.05. It implies that the Null Hypothesis is accepted and alternate hypothesis is rejected (H1). It implies that there is

significant difference is the raw returns earned before COVID lockdown is announced (2019-20) and after COVID lockdown is announced (2020-21).

Pair 2 shows the paired comparison of Market Adjusted Raw Returns earned 2019-20 and 2020-21 and it is understood from the table that p value of 0.341 is more than the significance level of 0.05. It implies that the Null Hypothesis is accepted and alternate hypothesis is rejected (H2). It implies that there is significant difference is the market adjusted raw returns earned before COVID lockdown is announced (2019-20) and after COVID lockdown is announced (2020-21).

Multiple Regression Analysis:

In order to study the relationship between the dependent variable and the independent variables, multiple regression analysis was used in this study. In the present study, underpricing is considered as a dependent variable and subscription times and market volatility is considered as independent variables.

Underpricing is the when percentage change in the price of the share on the listing day in comparison to its issue price is positive. When the demand for shares issued in an IPO is more than the supply it leads to oversubscription. Market volatility is the performance of the market index on the listing day and the issue day of the IPO.

Before the announcement of COVID lockdown (2019-20)

Table 3- Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.254 ^a	.064	.002	4.65764	.064	1.031	2	30	.369

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

The above table shows the strength of the relationship between dependent variable underpricing and independent variables subscription times and market volatility. R which measures correlation between dependent and independent variable is 0.254. It implies that there is low positive

correlation between dependent and independent variable in the year 2019-20. Coefficient of determination i.e., R square is 0.064 which implies that only 6.4% of variation in dependent variable that is underpricing is explained by independent variables namely subscription times and market volatility.

Table 4- Anova^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.750	2	22.375	1.031	.369 ^b
	Residual	650.809	30	21.694		
	Total	695.559	32			

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

It is evident from the above table that the p value of 0.369 is more than the significance level of 0.05 and it explains that the model is not statistically significant.

Table 5- Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.830	1.848		.990	.330	-1.945	5.605
	Subscription	1.442	1.040	.255	1.387	.176	-.682	3.566
	Volatility	.250	.332	.138	.751	.458	-.429	.928

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

It is evident from the above table that the p value both the independent variables i.e., Subscription times (0.176) and Market Volatility (0.458) is more than the significance level of 0.05. This shows that there is no relationship difference between dependent variable and independent variable.

Hence it is clear that there is no significant relationship between dependent variable underwriting and independent variables subscription times and market volatility in the year 2019-20. Hence out null hypothesis is accepted and alternative hypothesis (H3) is rejected.

After the announcement of COVID lockdown (2020-21)

Table 6- Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.603 ^a	.363	.278	9.11653	.363	4.279	2	15	.034

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

The above model shows the strength of the relationship between dependent variable underpricing and independent variables subscription times and market volatility. R which measures correlation between dependent and independent variable is 0.603. It implies that there is moderate positive correlation between dependent and independent variable in

the year 2020-21. Coefficient of determination i.e., R square is 0.363 which implies that only 36.3% of variation in dependent variable that is underpricing is explained by independent variables namely subscription times and market volatility.

Table 7-Anova^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	711.279	2	355.640	4.279	.034 ^b
	Residual	1246.668	15	83.111		
	Total	1957.947	17			

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

It is evident from the above table that the p value of 0.034 is less than the significance level of 0.05 and it explains that the model is statistically significant.

Table 8-Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	4.405	4.390		1.004	.332	-4.951	13.762
	Subscription	1.849	1.710	.223	1.081	.297	-1.796	5.493
	Volatility	1.828	.670	.562	2.729	.016	.400	3.255

Source: Calculations based on data collected from chittorgarh.com and bseindia.com

Market Volatility has a p value of 0.016 which is less than the significance level of 0.05, it implies that there is significant relationship between underpricing and market volatility. Subscription times on the other hand has a p value of 0.297 which is more than the significance level of 0.05, it implies that there is no significant relationship between underpricing and subscription times.

Empirical Findings

The main objective of the study was to know the impact of COVID 19 on the public issues made small and medium enterprises. For this the SME IPOs during the financial year prior the announcement of lockdown i.e., 2019-20 and financial year after the announcement of lockdown i.e., 2020-21 was considered for the study.

It is evident from the study the 47 IPOs were floated by the SME sector in the financial year 2019-20 but this came down to 29 IPOs in the year 2020-21, a decline of 38%. It is also evident from the study that most of the small and medium enterprises are preferring BSE SME Platform in comparison to NSE Emerge.

It is also understood from the study that 41 IPOs followed fixed price method of pricing as against 6 IPOs which followed book building method in the year 2019-20. In the financial year 2020-21, 27 IPOs followed fixed price method of pricing as against 2 IPOs which followed book building mode. It is clear that small and medium enterprises are preferring fixed price mechanism in comparison to fixed price mode.

As far as raw returns underwriting is concerned nearly 70% (33 out of 47 IPOs) are underpriced in the year 2019-21 whereas only 62% (18 out of 29 IPOs) are underpriced in the year 2020-21. But when these raw returns are adjusted to market nearly 36% of IPOs are underpriced in the year 2019-20 and 58% of IPOs are underpriced in the year 2020-21. It is understood from the study that the number of IPOs which are underpriced have also showed a decline in the year 2020-21 due to COVID 19 pandemic.

When we compare the average returns – both raw returns and market adjusted raw returns, it is very clear that both have drastically declined in the year 2020-21 in comparison

to the previous year. This shows that the returns from IPOs of small and medium enterprises have in fact been badly affected due to COVID 19 lockdown.

It is evident from the t test that there is significant difference in the raw returns and market adjusted raw returns earned before COVID lockdown is announced (2019-20) and after COVID lockdown is announced (2020-21).

Regression analysis was used to measure the strength of relationship between dependent variable underpricing and independent variables subscription times and market volatility. It is understood from the analysis that there is no significant relationship between dependent variable underwriting and independent variables subscription times and market volatility in the year 2019-20.

However, in the year 2020-21 there is significant relationship between dependent variable underpricing and independent variable market volatility but there is no significant relationship between dependent variable underpricing and independent variable subscription times.

Conclusion:

The Government of India has envisioned doubling the Indian economy to US\$ 5 trillion in five years. In order to achieve this goal, it is necessary to support MSME since it is considered as the backbone of Indian economy. This sector has a lot of potential in creating more employment, developing innovative skills, ensuring regional development, developing backward areas, making the economy self-reliant and making aiding the nation's economic development. But COVID19 has made this sector struggle for survival mainly because of small scale of business and limited financial resources. Adequate finance is necessary for the survival of any business. Equity finance is a good source of finance which they can raise through these SME platforms. Though many SME companies have issued IPOs through these platforms in the previous years, outbreak of COVID19 has put a break on IPOs. Hence Government and regulatory authorities must take initiative in educating the promoters of small and medium enterprises, the advantages of accessing capital market for equity financing and make them confident enough to approach these SME platforms for raising equity capital.

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