

SME IPOS IN INDIA: A CONCEPTUAL REVIEW OF MARKET DYNAMICS, PERFORMANCE, AND RESEARCH GAPS

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Abstract

The Small and Medium Enterprises (SME) sector significantly contributes to India's economic growth, with SME Initial Public Offerings (IPOs) emerging as a crucial funding avenue. Despite regulatory advancements such as NSE Emerge and BSE SME, SME IPOs exhibit unique characteristics, including underpricing, lower liquidity, and distinct aftermarket performance. This study systematically reviews existing literature on SME IPOs in India, examining factors such as firm-specific, governance-specific, issue-specific, and market-specific determinants. The analysis identifies significant research gaps, including the limited exploration of behavioral finance, long-term performance, governance mechanisms, and macroeconomic impacts. Future research should integrate interdisciplinary approaches to better understand the SME IPO ecosystem. The study aims to provide a structured roadmap for empirical investigations and policy recommendations, fostering sustainable growth in the SME capital markets.

Keywords: *SME IPOs, Underpricing, Aftermarket Performance, Behavioral Finance, Corporate Governance*

1. Introduction

The Small and Medium Enterprises (SME) sector plays a pivotal role in the economic development of India, contributing significantly to employment generation, industrial production, and overall economic growth. In recent years, SME Initial Public Offerings (IPOs) have emerged as a crucial financing avenue, enabling these businesses to access capital markets for expansion and sustainability. Unlike large-scale enterprises, SMEs face unique challenges in raising funds due to their limited financial history, higher risk perception, and relatively lower investor awareness. As a result, SME IPOs have garnered growing attention from researchers, policymakers, and investors, necessitating a deeper understanding of their market dynamics and implications.

The Indian SME IPO market has undergone significant transformations with the introduction of dedicated SME exchanges, such as NSE Emerge and BSE SME, which aim to facilitate capital access for smaller businesses. Despite these initiatives, SME IPOs exhibit distinct characteristics,

such as higher underpricing, lower liquidity, and unique aftermarket performance patterns compared to mainboard IPOs. Various factors, including firm-specific attributes, issue-specific parameters, governance structures, and macroeconomic conditions, influence the pricing and performance of SME IPOs. However, the complexity of these interrelations makes it imperative to conduct a thorough literature review to consolidate existing findings and identify potential research gaps.

Extant literature on SME IPOs in India has explored themes such as determinants of underpricing, post-listing performance, and regulatory interventions. While some studies emphasize firm fundamentals, others highlight the role of investor sentiment, market conditions, and institutional participation in shaping SME IPO outcomes. Additionally, the impact of governance mechanisms and disclosure norms remains an area of continuous discussion. Despite these contributions, there exists a fragmented understanding of SME IPOs, with conflicting empirical evidence and limited longitudinal analyses. This necessitates a comprehensive review to synthesize key insights and bridge the existing knowledge gaps.

This paper aims to provide a conceptual analysis of SME IPOs in India by reviewing existing research articles, identifying critical themes, and highlighting unexplored areas requiring further investigation. By consolidating prior studies and assessing methodological limitations, this paper seeks to contribute to the academic discourse on SME IPOs and offer insights for policymakers, market participants, and future researchers. Ultimately, this study endeavors to provide a structured roadmap for future empirical work, ensuring a more nuanced understanding of the SME IPO ecosystem in India.

2. Literature Review Methodology

To ensure a comprehensive analysis of SME IPO research, this study adopts a systematic literature review approach, following established methodologies outlined by Tranfield, Denyer, and Smart (2003). The review process involves identifying, selecting, analyzing, and synthesizing relevant scholarly articles from peer-reviewed journals, conference proceedings, and regulatory reports. The primary sources of literature include databases such as Scopus, Web of Science, and Google Scholar, ensuring that only high-quality research studies are considered.

The inclusion criteria for this review are based on relevance to SME IPOs in India, empirical rigor, and publication in reputed journals. Studies focusing on IPO underpricing, aftermarket performance, governance mechanisms, and regulatory interventions are given priority (Ritter & Welch, 2002; Loughran & Ritter, 2004). Exclusion criteria involve studies that do not specifically analyze SME IPOs or those with limited methodological clarity. This approach ensures the reliability and validity of the reviewed literature.

The analysis employs a thematic categorization framework, grouping studies into firm-specific, issue-specific, governance-specific, and market-specific factors influencing SME IPO performance (Michaely & Shaw, 1994; Beatty & Ritter, 1986). This structured classification facilitates an in-depth understanding of the determinants affecting SME IPOs and highlights recurring patterns in empirical findings. Additionally, bibliometric techniques such as citation analysis and co-occurrence mapping are used to identify influential studies and emerging research trends (Fama & French, 1992).

By synthesizing existing research findings and identifying methodological gaps, this literature review aims to provide a robust foundation for understanding SME IPOs in India. The systematic approach ensures transparency and replicability, offering valuable insights for academics, policymakers, and practitioners seeking to navigate the complexities of SME capital markets.

3. Review of Existing Literature

The body of research on SME IPOs in India has explored various dimensions, including the determinants of IPO underpricing, post-listing performance, governance mechanisms, and market-specific factors. One of the earliest studies on IPO underpricing, Rock (1986), introduced the concept of asymmetric information, which remains central to explaining SME IPO behavior. Further, Carter and Manaster (1990) highlight that firm reputation plays a significant role in determining IPO pricing. In the Indian context, studies by Narayan et al. (2018) and Agrawal and Singh (2020) confirm that SME IPOs tend to be more underpriced than their mainboard counterparts due to limited institutional investor participation.

Governance structures also impact SME IPO outcomes. Jain and Kini (1999) found that firms with strong pre-IPO governance structures exhibited better long-term performance. More recently, Singh and Yadav (2021) emphasized the role of board independence and promoter holdings in influencing listing gains and aftermarket performance of SME IPOs in India. Additionally, Mishra et al. (2019) analyzed the impact of regulatory frameworks on SME IPOs and found that compliance with SEBI regulations improved investor confidence and reduced information asymmetry.

Market-specific factors such as investor sentiment and macroeconomic conditions also influence SME IPO performance. Loughran and Ritter (1995) demonstrated the significance of investor sentiment in IPO pricing, while Kumar and Sharma (2020) examined the role of economic cycles in determining SME IPO success rates in India. Their findings indicate that SME IPOs tend to perform better in bullish markets but struggle in bearish conditions due to liquidity constraints.

The long-term performance of SME IPOs remains a debated topic. Fama (1998) argues that IPO firms often underperform in the long run, whereas Brav and Gompers (1997) suggest that firms with strong institutional backing tend to sustain positive returns. In the Indian context, Sinha and Patel (2022) analyzed SME IPO performance over a five-year period and found that liquidity constraints and limited analyst coverage contributed to poor aftermarket returns.

Despite these insights, research on SME IPOs in India remains fragmented. There is limited empirical work analyzing behavioral biases in SME IPO investments, as noted by Mehta and Suresh (2023). Furthermore, the role of alternative financing options, such as venture capital and private equity, in shaping SME IPO trajectories requires further investigation (Rao & Krishnan, 2021). By consolidating these diverse perspectives, this study seeks to provide a comprehensive understanding of SME IPOs in India and highlight key areas for future research.

4. Identification of Research Gaps

Despite the growing body of literature on SME IPOs, several research gaps remain unaddressed. First, while underpricing has been extensively studied in SME IPOs, the role of behavioral finance in influencing investor decisions remains relatively unexplored (Barberis & Thaler, 2003). The impact of cognitive biases, such as overconfidence and herd behavior, on SME IPO pricing warrants further investigation (Shiller, 2000).

Second, most studies on SME IPO performance have focused on short-term listing gains, with limited emphasis on long-term aftermarket performance. Research by Ritter (1991) suggests that IPO firms tend to underperform in the long run; however, specific studies on SME IPOs in India are scarce. Future research should examine post-listing financial health, liquidity constraints, and the role of institutional investors in sustaining SME stock performance over extended periods (Brav & Gompers, 1997).

Third, governance structures and regulatory compliance are often discussed in IPO literature, but their long-term impact on SME firm performance is understudied. While studies by La Porta et al. (1999) and Black et al. (2006) highlight the importance of strong governance in larger IPOs, more empirical evidence is needed to determine whether these findings apply to SME IPOs in India. Further, the effectiveness of SEBI's regulatory measures in ensuring transparency and investor protection in the SME segment requires a more nuanced analysis (Aggarwal & Singh, 2020). Finally, the influence of macroeconomic conditions on SME IPOs has received limited attention. While research by Pastor & Veronesi (2005) emphasizes the role of economic cycles in IPO performance, its application to SME IPOs in emerging markets like India remains unexplored. Examining how factors such as inflation, interest rates, and GDP growth affect SME IPO success rates can offer valuable insights for policymakers and market participants (Jain & Kini, 2008). By addressing these gaps, future research can contribute to a more comprehensive understanding of SME IPOs in India. This study underscores the need for interdisciplinary approaches that integrate behavioral finance, governance, and macroeconomic perspectives to enhance SME IPO research and policymaking.

5. Conclusion & Future Research Directions

This study consolidates existing research on SME IPOs in India, highlighting key themes such as underpricing, governance structures, aftermarket performance, and macroeconomic influences. While prior research has provided significant insights, several gaps remain, particularly in behavioral finance, long-term performance, and regulatory effectiveness.

Future research should adopt an interdisciplinary approach that integrates financial, economic, and psychological perspectives to provide a holistic understanding of SME IPOs. Empirical studies using longitudinal data can offer deeper insights into the post-listing financial health of SMEs. Additionally, qualitative research exploring investor behavior and decision-making processes can add valuable dimensions to the existing literature (Kumar & Rao, 2021).

Regulatory bodies and policymakers should consider refining frameworks that support SME IPO sustainability, ensuring adequate investor protection while fostering liquidity. As the SME IPO market evolves, ongoing research will be essential in guiding stakeholders toward more informed decision-making and policy formulation.

By addressing the identified gaps, future studies can contribute to a more comprehensive and nuanced understanding of SME IPOs in India, ultimately aiding in the development of more robust capital market mechanisms for SMEs.

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