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INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

Article DOI:10.21474/IJAR01/12581
DOI URL: <http://dx.doi.org/10.21474/IJAR01/12581>



RESEARCH ARTICLE

DOES ACCESS TO STOCK MARKET IMPACT THE FINANCIAL PERFORMANCE OF SMALL ENTERPRISES? EVIDENCE FROM SMES LISTED IN BOMBAY STOCK EXCHANGE

Dr. Sanjeeb Kumar Dey¹ and Debabrata Sharma²

1. Assistant Professor, Department of Commerce, Ravenshaw University, Odisha, India.
2. Research Scholar, Department of Commerce, Ravenshaw University, Odisha, India.

Manuscript Info

Manuscript History

Received: 10 January 2021

Final Accepted: 14 February 2021

Published: March 2021

Key words:-

MSMEs, BSE SME, Financial Performance, ROA, ROE

Abstract

SMEs are the backbone of any country as they grow at the grass root level which increase the earnings of the country and reduce unemployment problem too. It is one of the dynamic and most vibrant sectors of Indian economy. Over the last few decades, SMEs have played a crucial role in mobilising the local resources effectively. However, among the many difficulties, access to finance is widely recognized as one of the main hurdles in the growth and development path of the SMEs. After 2012, SMEs are allowed to float their shares through stock exchanges i.e., NSE EMERGE and BSE SME. The present paper attempts to study the impact of stock market accessibility by SMEs on various parameters of financial performance. In this paper, we tried to study whether getting listed on the stock exchange have improved the performance of selected SMEs or not. For this purpose, we considered the SME units who have issued IPOs during the year 2015 and the economic performance of the selected enterprises are measured with the help of ROA, ROE, NPM, CR, DE and EPS. We found that getting listed on the stock exchange did not improve the performance of selected SMEs.

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Introduction:-

Small and medium-sized enterprises (SMEs) have long been viewed as an important source of job creation and output growth. Ever since the onset of the financial crisis, the global economy has been struggling to revive itself and achieve a healthy growth rate. Without any dispute, SMEs are one of the key drivers behind the growth of Indian economy. This sector, comprising of manufacturing, infrastructure, service industry, food processing, packaging, chemicals, and IT, has emerged as the most vibrant and dynamic engine of growth of Indian economy over the past few decades. The traditional village and cottage industries as distinguished from modern SMEs are mostly unorganized and located in rural areas and semi urban areas. They normally do not use power operated machines/appliances & use relatively lower levels of investment & technology. But they provide part time employment to a very large number of poorer sections of the society. They also supply essential products for mass consumption & exports. The modern SMEs are mostly defined in terms of the size of investment & labour force. The industries (Development & Regulation) define, SMEs having less than 50 workers with the aid of power or less than 50 workers with the aid of power.

Government is extending various steps towards SMEs. In addition, the SMEs has been supported and encouraged by various government policies for infrastructure support, technology up-gradation, preferential access to credit,

Corresponding Author:-Dr. Sanjeeb Kumar Dey

Address:-Assistant Professor, Department of Commerce, Ravenshaw University, Odisha, India.

preferential policy support, etc. Micro, Small and Medium Enterprises (MSMEs) are amongst the strongest drivers of economic development, innovation and employment. The MSME sector also contributes in a significant way to the growth of the Indian economy with a vast network of about 63.38 million enterprises. The sector contributes about 45% to manufacturing output, more than 40% of exports, over 28% of the GDP while creating employment for about 111 million people, which in terms of volume stands next to agricultural sector. The MSME sector in India is exceedingly heterogeneous in terms of size of the enterprises and variety of products and services, and levels of technology employed.

The MSME sector is universally regarded as an engine of economic growth and for promoting equitable development. The sector also helps the economy by promoting a balanced development of industries across all regions of the nation. The major advantage of the sector is its employment potential at low capital cost. Small and Medium enterprises (SMEs) account for about 90 percent of businesses and more than 50 percent of employment worldwide. They are key engines of job creation and economic growth in developing countries.

SMEs play a key role in national economies around the world, generating employment and value added and contributing to innovation. SMEs are central to the efforts to achieve environmental sustainability and more inclusive growth. However, these contributions vary widely across firms and across countries and sectors. Better access to global markets and knowledge networks can strengthen SMEs' contributions, but trade and investment barriers undermine SME participation, and poor physical and ICT infrastructure prevents SMEs from operating efficiently and accessing international markets at competitive costs. Digitalisation offers new opportunities for SMEs to participate in the global economy, but SMEs are lagging behind in the digital transition and disruptive effects need to be considered.

Review of Literature:-

The following are some of the works done relating to SMEs around the world. Banerjee (2006) studied the significance of SMEs, the need to setup capital market access for SMEs and delves particularly into the case for equity market access. He sought a solution to reinvent the equity market access for SMEs. He advocates in favor of an equity platform for SMEs which will result in wealth creation and employment for the nation. He concluded that the fiscal benefits meted out to various parties and the initial investments into the project will be a cost to the economy, it is deemed that in the net it will be a benefit since a successful equity platform for SMEs, will help SMEs to prosper which in turn will result in wealth creation and employment for the nation. Subramanian & Nehru (2012) stated that SMEs can generate innumerable opportunities for their growth and ensure the industry gain recognition with all the sectors and country's overall GDP growth will be guaranteed and the country can grow in line with international level. Equity infusion can generate more employment opportunities, more revenue & exports and therefore, good return on investment to the investor in the long run. SME industry will get better mileage out of this opportunity. Bang (2012) emphasized that the ability of the MSMEs to grow depends on their ability to raise funds for investing in technology, expansion, innovation and research. This is the biggest challenge MSMEs face all over the world, whether they are in developed nations such as the US or in developing nations such as India or China. Once they have tapped the resources of family, friends and well-wishers, they are unable to raise additional funds as easily as larger and more established businesses.

Dey (2014) studied the growth of employment, output, and promotion of exports of MSMEs in India, key challenges faced by the MSMEs sector and performance of MSMEs in India & future prospects. He conducted an exploratory study based on secondary data. He concluded that Small and Medium Enterprises (SMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. SMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non-availability of skilled manpower. Dey (2015) studied the context of Microfinance and MFIs, challenges faced by the MFIs, sustainable development through microfinance. His study was a descriptive study and was mainly based on secondary data which was collected from various sources like journals, magazines and reports. He concluded that sustainable rural microfinance requires local initiative and careful donor support for the development of institutions, enabling them to offer both savings and credit services, mobilise their own resources, have their loans repaid, cover their costs from their operational income, and finance their expansion to the poor and non-poor from their profits. Kaur (2015) emphasized that Small and Medium Enterprises (SMEs) play a crucial part in the growth and development of an economy. They form the backbone of the manufacturing sector and have become the engine of economic growth in

India. But one of the major factors which are hindering their growth is the non-availability of funding on reasonable provisions. Therefore, SMEs are resorting towards the securities market to strengthen their financial status, expanding corporate profile and also for the better allocation of capital and risk. Love and Roper (2015) summarised and synthesised the evidence on SME innovation, exporting and growth, paying particular attention to internal and external (eco-system) enablers, and for the interplay between innovation and exporting in SME growth. They highlighted those areas for which the evidence base is secure and where the evidence base remains limited, and develop policy suggestions and an agenda for further research.

Shroff & Sengupta (2016) emphasized that the launching of SME platforms on NSE and BSE, currently the SME platforms have been successful with 18 out of 24 companies listed on BSE SME and 1 out of 3 companies listed on NSE EMERGE trading at a premium on Issue Price. The success can be attributed mainly to the well thought out policy of the government to allow only informed investors to venture into this market while keeping the minimum application lot size to Rs.1 lakhs and making 100% underwriting compulsory for all the companies who wish to get listed. These regulations were not applicable to the earlier exchanges, OTCEI and BSE Indexed. Nanda & Dey (2016) studied the nature of financial assistance provided by banks to MSME sector in India, the extent of importance of MSMEs in India and problem faced by MSMEs, outstanding credit provided by all Scheduled Commercial Banks (SCBs) to the MSME sector and the major constraints faced by MSMEs in India and position of sick small and micro enterprises. Based on secondary data analysis they concluded that MSMEs are the best vehicle for inclusive growth, to create local demand and consumption. The MSMEs of yesterday are the large corporate of today and could be MNCs of tomorrow. Thus, the banks and other agencies should take pride while servicing the MSMEs as they are playing an instrumental role in the formation of MNCs of tomorrow.

Tripathi et al. (2017) emphasized that the performance of IPOs which were issued through and listed on BSE SME and NSE EMERGE platforms. The study finds that with the passage of time, this platform is gaining momentum as number of issues listed on such platforms is increasing over the years and average issue size of the individual IPO stands around 8 crore which is encouraging. Further, it is validated that, on an average SME IPOs are underpriced to the extent of 10.60%. Bhattacharya (2017) examined the determinants of IPO underpricing in the BSE SME Exchange and how IPO allocation to market makers and timing of SME IPOs are associated with the degree of IPO underpricing. He also investigated how IPO allocation to market makers and IPO demand from retail individual investors affect the development of IPO aftermarket liquidity, the determinants of long-run performance of SME IPOs, and test the ability of SME IPO timing and IPO underwriter reputation to predict that long-run performance. He found that IPOs that either are timed to market or have larger allocations to market makers tend to exhibit 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 SME IPOs. Dhamija and Arora (2017) examined the initial and after-market performance of the initial public offerings (IPOs) listed on the recently launched platform for small and medium enterprises (SMEs) by BSE and NSE). The study did find evidence of underpricing of IPOs by SMEs in line with other studies internationally. However, the level of underpricing found to be lower than that of IPOs listed on the main board stock exchanges in India, reported by earlier studies.

Ibrahim (2018) analysed the growth and development of the SME Platform in India and also tried to fortify the potential growth for SME Platform in India by analyzing the performance of SME Exchange of BSE and relaxed trade norms of SME Platform. He found that during the period of his study SME exchange in India has shown promising trend and the Development of the Small and Medium Scale industries is very satisfactory. He concluded that SEBI's initiative to provide a separate platform for listing and trading of SMEs securities is laudable and it should balance the interest of both SMEs and investors. Khatri (2019) studied the role of the MSME sector in the Indian economy and the issues and challenges faced by Indian MSMEs. He suggested that enhancement of awareness regarding existing support system and facilities, availability of credit for the different type of needs, best international practices, EDPs, employee engagement practices, a culture of research and development can help to solve some problems of the very important sector. The government should control existing corrupt practices, come up with need-based supportive interventions, simple taxation policies and labor laws, promote E-procurement, enter into trade preferential agreements with potential export markets, etc. large enterprises should be encouraged to help MSMEs as part of their social responsibility. Low-cost innovative methods should be promoted to improve the quality and competitiveness of production and service rendering.

We did not find any particular literature which addressed the issue of pre and post listing performance appraisal of Indian SMEs. Therefore, we choose to examine whether there is a difference in the financial performance of SMEs after they got listed in the stock exchanges particularly in BSE.

Objectives of the Study:-

The present study has the following objectives:

1. To study the degree of association between pre and post listing performance of Indian SMEs.
2. To study the impact of listing on the financial performance of SMEs.

Hypothesis:-

Based on the objectives, we propose the following hypotheses for our study:

H₀1: There is no significant difference in the earning capacity (EPS) of the firms after listing.

H₀2: There is no significant difference in the profitability (ROA, ROE, NPM) of the firms after listing.

H₀3: There is no significant difference in the capital structure (DE ratio) of the firms after listing.

H₀4: There is no significant difference in the liquidity (CR) of the firms after listing.

Methodology:-

Our study is based on secondary sources of data collected from the annual reports of the SMEs and the money control website. For this purpose, we considered the SME units who have issued IPOs during the year 2015 and the final sample consisted of 25 companies after excluding those whose complete data were not available. The economic performance of the selected enterprises are measured with the help of ROA (return on assets), ROE (return on equity), NPM (net profit margin), CR (current ratio), DE (debt-equity ratio) and EPS (earnings per share). These measures are compared for four years of pre and post listing. Paired t test is used to test the hypotheses. We took the help of MS Excel 2013 and SPSS for analysing the data.

Results and Discussion:-

Descriptive Statistics:-

Table 1 contains the descriptive statistics of all the performance measures used in the study. It is clear from the table that the average EPS is 13.32 with SD 63.525. It ranges from -11.30 to 317.68. The results indicated that EPS showed both positive and negative results during the period of study. NPM seems to be having highest variation among all the performance variables. Among all the variables the debt-equity ratio is having the lowest variance. The results also showed that SMEs are having more current assets and less current liabilities.

Table 1:- Descriptive Statistics.

	Mean	Median	SD	Kurtosis	Skewness	Minimum	Maximum	N
EPS	13.323	0.576	63.525	24.795	4.970	-11.300	317.686	25
NPM	21.779	1.956	89.704	21.979	4.544	-63.895	440.223	25
ROE	5.052	3.556	10.556	4.572	1.559	-11.114	40.655	25
ROA	-2.063	1.181	14.257	10.174	-3.177	-56.311	11.225	25
DE	1.442	0.561	3.395	21.467	4.513	0.000	17.204	25
CR	25.240	4.453	49.749	6.664	2.653	1.331	198.650	25

Correlation Analysis:

Table 2 shows the correlation analysis of our study. It clearly shows that only ROE has a significant association with ROA and current ratio and both of these associations are negative. It means that earnings from equity reduced the earnings from the total assets and the amount of current assets.

Table 2:- Correlation Analysis.

	EPS	NPM	ROE	ROA	DE	CR
EPS	1					
NPM	-0.012	1				
ROE	0.199	-0.012	1			
ROA	0.233	0.117	-0.471*	1		
DE	-0.050	0.007	0.299	0.135	1	
CR	-0.100	-0.065	-0.439*	0.083	-0.059	1

*Correlation is significant at the 0.05 level (2-tailed).

Hypothesis Testing:-

Table 3:- T-test Results.

Pair	T value	df	P-value
PreEPS - PostEPS	1.004	24	0.325
PreNPM - PostNPM	-1.135	24	0.268
PreROE - PostROE	1.001	24	0.327
PreROA - PostROA	0.275	24	0.786
PreDE - PostDE	1.482	24	0.151
PreCR - PostCR	1.322	24	0.199

The results of the t test are showed in table 3. It is clear that none of the pairs have significant p value and therefore we fail to reject the null hypotheses. So, we conclude that there is no significant difference in the liquidity, profitability, capital structure and owners' earnings of SMEs after being listed in BSE.

Conclusion:-

SMEs are critical to the nation's economy. Despite their economic significance, SMEs face a number of bottlenecks that prevent them from achieving their full potential. A major obstacle in SME development is its inability to access timely and adequate finance. There are several reasons for low SME credit penetration, key among them being insufficient credit information on SMEs, low market credibility of SMEs and longtime involved in SMEs investments and constraints in analysis. This leads reduction in optimal delivery of credit and services to the sector. In this study we tried to see whether accessibility to stock market had any significant impact on the financial performance of SMEs. We did not find evidence that access to stock markets or getting listed on the stock exchange improved the performance of SMEs.

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