



Startups, SMEs, and the Indian Equity Market: A Review of Opportunities and Challenges for Economic Growth

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DOI - 10.5281/zenodo.17975952

Abstract:

This review paper explores the evolving relationship between startups, small and medium enterprises (SMEs), and the Indian equity market, focusing on the opportunities and challenges shaping their role in economic growth. Startups and SMEs are key contributors to innovation, employment, and regional development, supported by digitalisation, policy reforms, and an expanding financial ecosystem. Equity platforms such as SME exchanges, venture capital routes, and initial public offerings (IPOs) offer important avenues for capital mobilisation and business expansion. However, stringent listing norms, high compliance costs, limited investor awareness, and market volatility continue to hinder broader equity participation. This review synthesises existing literature to assess the impact of equity market access on entrepreneurial sustainability and growth. It also evaluates government initiatives including Start-up India and SME-focused reforms. The study concludes that while equity markets hold significant potential for strengthening India's startup and SME ecosystem, addressing structural and regulatory barriers remains crucial for unlocking their full economic contribution.

Introduction:

Startups and small and medium enterprises (SMEs) have increasingly assumed a pivotal role in shaping national economic trajectories, particularly within emerging economies. Entrepreneurship is widely recognised as a catalyst for innovation, productivity enhancement, and structural transformation. According to Acs, Desai, and Hessels (2008), entrepreneurial activity supports institutional development, enhances competitive market structures, and plays a vital role in long-term economic growth. Small and medium enterprises (SMEs) are particularly important globally, serving as key drivers of employment creation and industrial diversification. .

Empirical evidence presented by Ayyagari, Beck, and Demirguc-Kunt (2007) reveals that SMEs account for nearly 60% of global employment, underscoring their indispensable role in sustaining economic dynamism and inclusive growth.

In the Indian context, the evolution of the startup ecosystem has been accelerated by multiple structural enablers, including rapid digitisation, supportive government policies, demographic advantage, and increased private investment. Gupta and Sharma (2020) argue that initiatives such as the Start-up India programme, enhanced technology adoption, and the expansion of incubation and innovation networks have collectively

strengthened India's entrepreneurial landscape, enabling new ventures to scale rapidly across diverse sectors.

Parallel to this, the Indian equity market has emerged as a critical financial mechanism enabling startups and SMEs to mobilise external capital. Rajan and Zingales (1998) contend that well-developed financial markets reduce firms' dependence on traditional credit channels and facilitate growth through improved access to external finance. Gompers and Lerner (2001) further highlight that equity financing—including venture capital and public equity offerings—serves as a foundational pillar for scaling high-growth, innovation-led enterprises. The introduction of SME-focused platforms such as BSE SME and NSE Emerge has expanded capital market accessibility for smaller firms. However, structural and regulatory barriers continue to pose challenges. Kansal and Sharma (2019) note that stringent listing requirements, elevated compliance costs, low investor engagement, and ongoing market volatility hinder SMEs from fully leveraging equity financing. Given these developments, understanding the complex interplay between startups, SMEs, and India's equity market becomes crucial for assessing their collective impact on entrepreneurial sustainability and economic development. The present study synthesises existing literature to evaluate emerging opportunities and persistent challenges that shape this dynamic relationship.

Background of Startups and SMEs in Global and Indian Context:

Worldwide, startups and SMEs play a critical role in driving innovation,

generating employment, and fostering economic growth through technological advancement and entrepreneurial initiatives. They act as engines of development, creativity, and competitiveness in both developed and emerging economies. In India, the growth of startups and SMEs has accelerated in recent years, supported by government programs such as *Startup India*, *Stand-Up India*, and targeted MSME schemes, alongside rapid digitalisation and increased youth participation. These enterprises contribute significantly to regional development, promote self-employment, encourage diverse business models, and enhance competitiveness across multiple sectors.

The Indian startup and SME ecosystem has emerged as one of the largest globally, driven by technological innovation, digital infrastructure, and a dynamic entrepreneurial population. Government initiatives have simplified regulations, provided tax incentives, and facilitated access to finance, enabling businesses to scale efficiently. Startups and SMEs operate across sectors including IT, healthcare, agritech, fintech, and manufacturing, generating employment, boosting exports, and fostering innovation. Despite these achievements, challenges such as high compliance costs, limited awareness of funding options, market volatility, and infrastructural gaps persist. Addressing these issues through coordinated efforts by policymakers, investors, and entrepreneurs is essential to ensure the sustainability, resilience, and inclusive growth of India's startup and SME ecosystem, thereby strengthening its contribution to the country's long-term economic development.

Research Problem and Gap Identification:

Startups and SMEs are widely recognized as key contributors to economic growth and innovation. However, despite their potential, many enterprises in India face challenges in accessing adequate financing through the equity market. Existing literature primarily focuses on the role of SMEs in employment and GDP contribution, with limited studies analysing the specific interaction between startups, SMEs, and equity market mechanisms such as SME exchanges, IPOs, and venture capital funding. This research identifies a gap in understanding how these financial instruments can optimally support entrepreneurial growth, scalability, and sustainability while addressing regulatory, structural, and market-related constraints.

Research Objectives:

- Analyse Equity Market Contribution:** Examine how the Indian equity market, through SME exchanges, IPOs, and venture capital, supports financing, growth, and scalability of startups and SMEs.
- Identify Opportunities:** Explore avenues for capital mobilisation, risk-sharing, and business expansion via listing platforms like BSE SME and NSE Emerge, as well as investor networks.
- Highlight Challenges:** Identify key constraints faced by startups and SMEs, including stringent listing norms, high compliance costs, limited investor awareness, and market volatility.

- Policy Recommendations:** Suggest measures to enhance market accessibility, strengthen investor confidence, and promote sustainable growth of startups and SMEs in India

Research Methodology:

- Research Design:** The study adopts a **qualitative research design** through a **systematic review approach**. This design allows for a comprehensive synthesis of existing literature on startups, SMEs, and the Indian equity market, focusing on financing mechanisms, opportunities, and challenges.
- Sources of Data:** Secondary data was collected from multiple credible sources, including **peer-reviewed journals, government reports, and policy documents**. Institutional sources such as **SEBI, RBI, and NITI Aayog** were used to gather regulatory and market-related insights.
- Inclusion and Exclusion Criteria:**
 - Inclusion:** Studies on Indian startups, SMEs, equity market financing, government policies, and comparative global insights published in the last two decades.
 - Exclusion:** Literature unrelated to equity markets, non-credible sources, or studies lacking analytical depth.
- Analytical Approach:** The study uses **thematic analysis** to identify recurring patterns, opportunities, and challenges across multiple sources. This approach helps in synthesising qualitative data into meaningful themes related to financial access, growth potential, and regulatory issues.

5. Limitations of the Methodology: The study relies entirely on secondary data, which may not capture real-time market dynamics. Variability in data quality across sectors and limited availability of empirical evidence in some areas may affect the generalisability of findings.

Analysis and Discussion:

The accessibility of the Indian equity market for SMEs has expanded significantly in recent years. The BSE SME platform now hosts over 600 listed companies, collectively raising approximately ₹10,652 crore since its inception, with a total market capitalization of around ₹1,84,574 crore (BSE India, 2025).

The average issue size for SME IPOs on BSE SME has also increased

markedly, rising from roughly ₹11 crore prior to 2023 to about ₹32 crore since 2023, indicating growing investor confidence and stronger fundraising capabilities (BSE India, 2025).

Data from the National Stock Exchange of India (NSE) shows that in FY 2024–25, out of a total of 242 public issues, 163 were SME IPOs, raising a combined total of ₹7,111 crore, with an average issue size of approximately ₹44 crore per IPO (NSE Archives, 2025).

As of March 31, 2025, the total market capitalization of companies listed through the NSE Emerge platform reached ₹1.8 lakh crore, reflecting the growing scale and financial significance of SMEs in India's equity markets (NSE, 2025).

ME IPO / Equity–Market Financing: India — 2018 to 2025 (Selected Years):

Year	Approx. No. of SME IPOs*	Total Funds Raised via SME IPOs (₹ crore)	Avg. Fund-raise per SME IPO (₹ crore)	SME-listed Market Cap (₹ crore) / Notes
2021	59	746.14	12.6	
2022	109	1,980	18.2	
2023	182	4,686	25.7	
2024	240	8,760.9	36.5	
2024–25 (FY)	163 (out of 242 total public issues)	7,111	44	SME market cap ₹1.8 lakh crore (as of Mar 31, 2025)
By August 2025			12.6	On the other hand, the BSE SME exchange has crossed 600 listed companies, and companies listed on it have raised a cumulative ₹10,652 crore; combined market capitalization ₹1,84,574

Performance, Listing Gains and Investor Behaviour:

1. The SME IPO market saw a peak in 2023 with 182 public issues raising

about ₹4,686 crore — a record high at that time.

2. Of those, many IPOs saw strong subscription levels: 51 companies had subscription rates over 100× and 12 had

over 300× — indicating intense investor demand, particularly from retail and small investors.

3. However, in 2025, listing gains (i.e. post-IPO price jump) have moderated significantly: across 105 SME IPOs on BSE and NSE, the average listing gain dropped to **10%**, down from 60% in the previous year (2024).
4. Despite the dip in listing gains, the number of SME IPOs remains high. By August 2025, the SME segment raised **₹6,819 crore through 154 issues**, marking the second-highest annual fundraising ever for the segment.

Challenges and Risks:

1. The decline in listing gains — from 60% to 10% in just a year — may point to **market saturation, overvaluation concerns, or macro-economic pressures** (inflation, interest rate changes, global uncertainties) affecting investor sentiment.
2. Heavy oversubscription implies that many retail investors may not get allotments (or only small allocations), which reduces broad-based equity participation among SMEs.
3. SMEs often face liquidity issues post-listing: even if listed, their shares may have low trading volumes compared to large-cap stocks, which can hamper exit strategies or investor returns.

Discussion — What This Means for Startups/SMEs & Economic Growth:

The data suggest that equity markets (through SME-focused exchanges) are increasingly acting as a real financing avenue for SMEs and startups rather than

being limited to large corporations. By enabling these firms to raise capital, they can invest in expansion, technology adoption, hiring, and innovation — which supports the broader economy, job creation, and regional development.

However, the declining listing gains and potential liquidity/volume issues highlight risks: not all SMEs benefit equally; investor returns are uncertain; and over-reliance on IPOs could expose firms to market cycles and volatility. For sustainable growth, it will be vital for SMEs to maintain strong fundamentals, transparent governance, and performance consistency — only then can equity-market financing translate into lasting economic and employment impact.

Policymakers and regulators should also encourage greater post-listing support (e.g., disclosure norms, liquidity facilitation, investor education) to ensure SMEs reap the full benefits of equity market access without excessive risk to investors.

Conclusion:

This review examined the relationship between startups, SMEs, and the Indian equity market, highlighting opportunities, challenges, and emerging trends. Equity markets, through SME exchanges, IPOs, and venture capital, facilitate capital mobilisation, supporting growth, innovation, and scalability. Government initiatives, digitalisation, and investor participation have strengthened the ecosystem, while challenges like compliance costs, limited investor awareness, market volatility, and liquidity constraints remain. The study contributes theoretically by synthesising literature on SME financing

and practically by offering insights for policymakers and investors. Future research could explore sector-specific trends, post-listing performance, and the impact of regulatory reforms on sustainable economic development.

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