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AARTH GROWTH FUND



Aarth Growth Fund

MSMEs THE PARADOX OF PAIN & POTENTIAL

The evolution of MSMEs in India's capital markets reflects a shift from a limited financing to "a more inclusive, equity driven growth ecosystem". Before 2012, structured access to public capital markets for small enterprises was limited to internal accrual, borrowings & private equity, leaving many promising businesses without a clear pathway to scale through public participation.

The launch of BSE SME & NSE Emerge in 2012 created the missing launchpad -regulated, accessible & designed to graduate companies upward.

SME Exchange	Listed IPOs	Fund Raised (₹ in Cr)	Market Cap at Listing (₹ in Cr)
BSE SME	144	5,731.19	23,918.36
NSE Emerge	113	5,174.48	21,887.56
Grand Total	257	10,905.67	45,805.92

Table 1: SME Exchange IPO Activity, FY 2025–26

For larger enterprises, public capital is raised on mainboard where SEBI approves the prospectus. Below is the snapshot of Mainboard Vs SME raise.

Metric	Mainboard IPOs	SME IPOs
Number of IPOs (FY25–26)	112	257
Previous Year (FY24–25)	84	235
YoY Growth	▲33%	▲9%
Funds Raised (FY25–26)	₹ 191,644.56 Cr	₹ 10,905.67 Cr

Table 2: Mainboard vs. SME IPOs Comparison, FY 2025–26

As per our experience, a raise up to around ₹120 crore typically opts for SME segment, while Mainboard IPOs generally involve fundraises exceeding ₹150 crore.

At Aarth, we invest in Microcap i.e. companies raising upto 400cr at a market cap of below 5,000cr. Our universe consists of 2500+ listed companies & 250+ IPOs each year. To give you a flavour of the volume, we have over 490 DRHPs filed across SME & Mainboard, while 190 are approved & awaiting listing as on 31st March 2026.

For investors & fund managers, this dynamic represents a clear, **“PARADOX OF PAIN & POTENTIAL”** A market large enough to generate compelling opportunities, yet complex enough that identifying sustainable businesses requires deep research, discipline & careful capital allocation.

The path from a crowded market to a high-conviction portfolio runs through three distinct layers each sharpening the lens, each narrowing the field, until only the most compelling businesses remain.

Navigating the Paradox

Addressing this voluminous space requires an institutional process backed by micro-cap experience to make informed judgement. At Aarth, it done through a three-stage layer.

First layer – Investment Philosophy

Most capital entering the microcap segment begins with enthusiasm but long-term success depends on a structured investment philosophy & disciplined execution. In a segment where information asymmetry is the real edge, an early position can deliver multiples that later entry may not.

Second layer – AARTH Framework

The AARTH Framework (Addressable Market, Asset Quality, Regulation & governance, Timing & Trends, Horizon) is where intent meets reality. The cost of an incorrect conviction extends beyond mark-to-market impact, affecting time, allocation and opportunity cost making disciplined evaluation critical.

Third layer– Risk Metrics

Risk in the microcap segment often emerges gradually through governance, operational or capital allocation signals that require continuous monitoring. It accumulates in the governance choices management quietly makes, in the operational inefficiencies that silently erode margins, shifts in the promoter focus or strategic priorities that investors must monitor closely.

Where the Real Opportunity Lies

Success stories of Microcap are far lesser than average & below average performers by number. The maximization of investment potential relies on a seamless transition from the science of exclusion to the art of conviction. While the science provides the essential discipline to filter out un-investible companies, the true advantage in the micro-cap space is found in the ability to size positions based on the art of investing.

When these two dimensions operate within an institutional risk management framework, the micro -cap universe transforms from a chaotic set of small companies into a structured opportunity set.

And it is precisely here within this balance of science & art that the **“Paradox of Pain & Potential evolves into a landscape capable of generating sustainable alpha.”**