

WHITE PAPER SERIES #07

NIFTYSME EMERGE

{ Emerging companies,
high growth potential }

November 2017

Introduction

Small and Medium Enterprises (SMEs), including micro enterprises, play a crucial role in Indian economy by producing diverse range of products & services and contributing to value addition across sectors. SMEs including registered and unregistered, which contributed ~30%^{^1} to the India's GDP from FY12 to FY15, are the backbone to the overall economic growth and key contributor to employment generation in the country. Initiatives like 'Make in India', 'Startup India', MUDRA Yojana and 'Skill India' envision SMEs as the catalyst to socio-economic transformation in India.

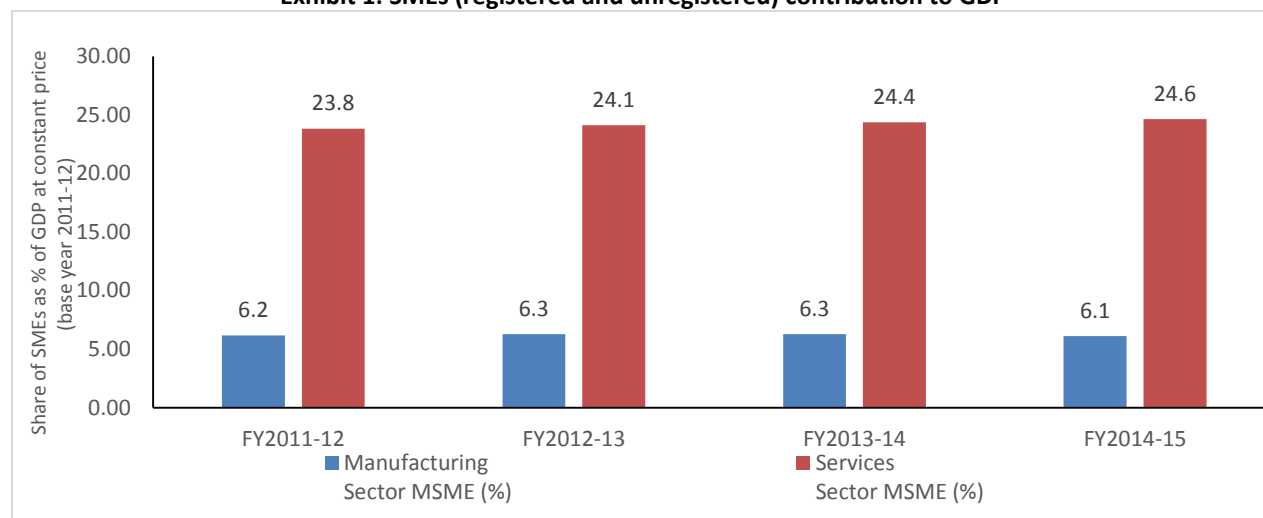
NIFTY SME EMERGE Index captures the performance of select liquid SME stocks listed on NSE EMERGE platform. Constituents are weighted based on free float market capitalization. Index is reconstituted on a quarterly basis.

^{^1} MSME Annual Report 2016-17 (www.msme.gov.in)

SMEs: A significant growth driver for Indian economy

SMEs (including micro enterprises) play a crucial role in the economic growth of the country with healthy contribution to India's GDP. The share of SMEs in GDP has grown from 29.9% in FY 2011-12 to 30.7% in FY 2014-15^{^1}. Services sector in SMEs has a higher share in India's GDP with ~24% compared to ~6% of manufacturing sector in SMEs during FY 2012 to FY 2015 period^{^1}. In FY 2014-15, share of SMEs' manufacturing output in total manufacturing output of India stood at a commendable 33.4%^{^1}. Further, total exports by SMEs contribute ~45% in the total exports from India underlining the importance of the small and medium enterprises (SMEs).

Exhibit 1: SMEs (registered and unregistered) contribution to GDP



Source: MSME Annual report 2016-17 (www.msme.gov.in)

Exhibit 2: Definition and Categorization of MSMEs

Enterprises	Type	Investment in Plant, machinery and equipment
Micro	Manufacturing	Does not exceed 25 lakh rupees
	Service	Does not exceed 10 lakh rupees
Small	Manufacturing	More than 25 lakh rupees but does not exceed 5 crore rupees
	Service	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium	Manufacturing	More than 5 crore rupees but does not exceed 10 crore rupees
	Service	More than 2 crore rupees but does not exceed 5 crore rupees

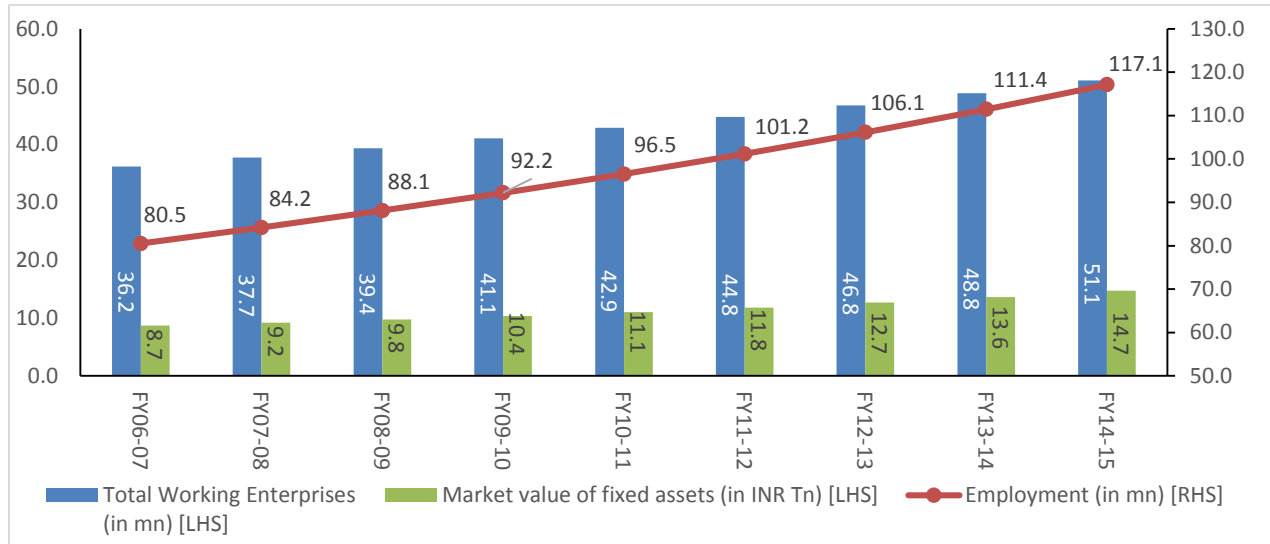
Source: Udyog Aadhar - Ministry of Micro, Small and Medium Enterprises

As on FY 2014-15, number of total active SMEs in India were ~51 million, employing 117.1 million employees across various industrial sectors^{^1}. From FY 2006 to FY2015, the number of active SMEs has grown from 36.2 million to 51.1 million registering a growth rate of 4.4% per annum. Similarly, the employment generation by SMEs has increased from 80.5 million to 117.1 million, representing a substantial growth rate of 4.8% per annum.

^{^1} MSME Annual Report 2016-17(www.msme.gov.in)

However, in comparison, market value of fixed assets of SMEs has recorded a healthy growth of ~70% from Rs.8.7 trillion to Rs.14.7 trillion during the same period, emphasizing the importance of SMEs in value creation. However, ~94% of the SMEs still remains unorganized and falls under unregistered/informal sectors.

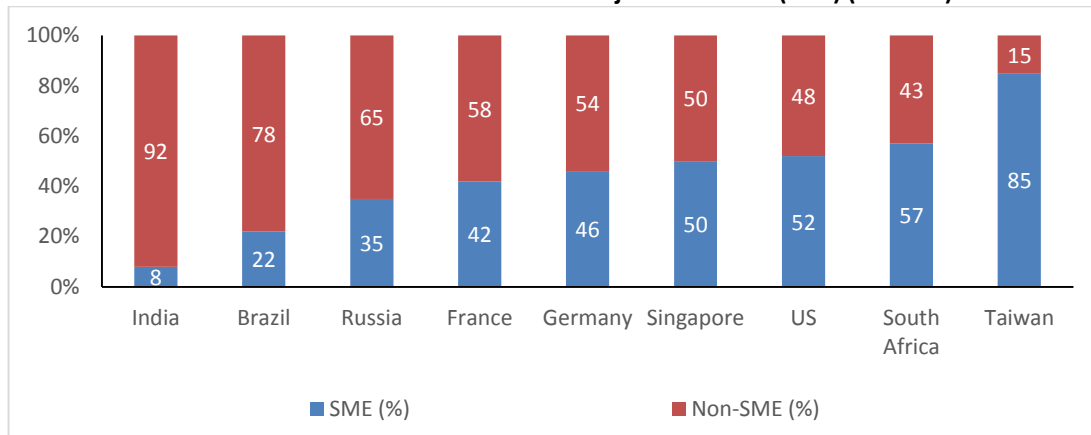
Exhibit 3: Active MSME and number of employees



Source: MSME Annual report 2016-17 (www.msme.gov.in)

Vast growth potential of SMEs

Exhibit 4: SME contribution to GDP of major economies (in %) (2011-12)



Source: Ministry of Micro, Small and Medium Enterprises, Government of India (www.msme.gov.in)

Note: SME sector includes only registered/organized enterprises. Non-MSME Sector Includes data from all enterprises.

In India, the share of SMEs including registered and unregistered, in GDP is ~30% whereas contribution of registered SMEs is only 8%. In comparison, the share of SMEs to the GDP of major economies ranges from 22% to as high as 85%. Thus, SMEs sector has immense potential for further growth as the contribution of registered SMEs to GDP in India still low as compared across the leading economies of the world.

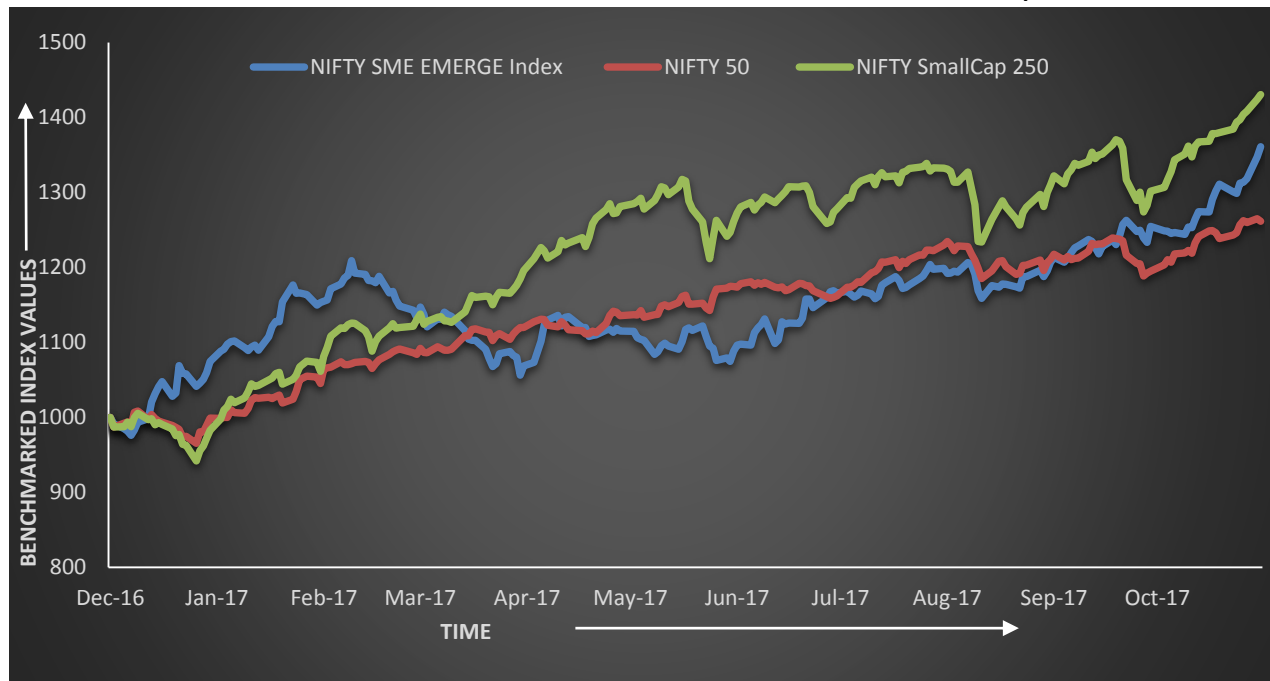
About NIFTY SME EMERGE Index

NIFTY SME EMERGE Index is designed to reflect the performance of a portfolio of eligible small and medium enterprises that are listed on NSE EMERGE platform.

- The index has a base date of December 01, 2016 and a base value of 1000
- To form part of the NIFTY SME EMERGE Index, stocks should qualify the following eligibility criteria:
 - Stocks should be listed under NSE EMERGE platform
 - At the time of quarterly review, stocks should have traded for a minimum of 25% of trading days subject to a minimum of 10 trading days during the previous 3 months
- Index is reconstituted on a quarterly basis
- Constituents are weighted based on free float market capitalization

NIFTY SME EMERGE Index has delivered healthy returns of 36.1% since its inception in December 2016

Exhibit 6: Performance of NIFTY SME EMERGE, NIFTY 50 and NIFTY Smallcap 250



Note: Performance of the index as on October 31, 2017

Since its inception on December 01, 2016, NIFTY SME EMERGE index has given a return of 36.1%. In comparison the NIFTY 50 has delivered the return of 26.2% and the NIFTY Smallcap 250 has delivered a return of 43.1% over the same period. The return and volatility profile for various periods since inception is given below.

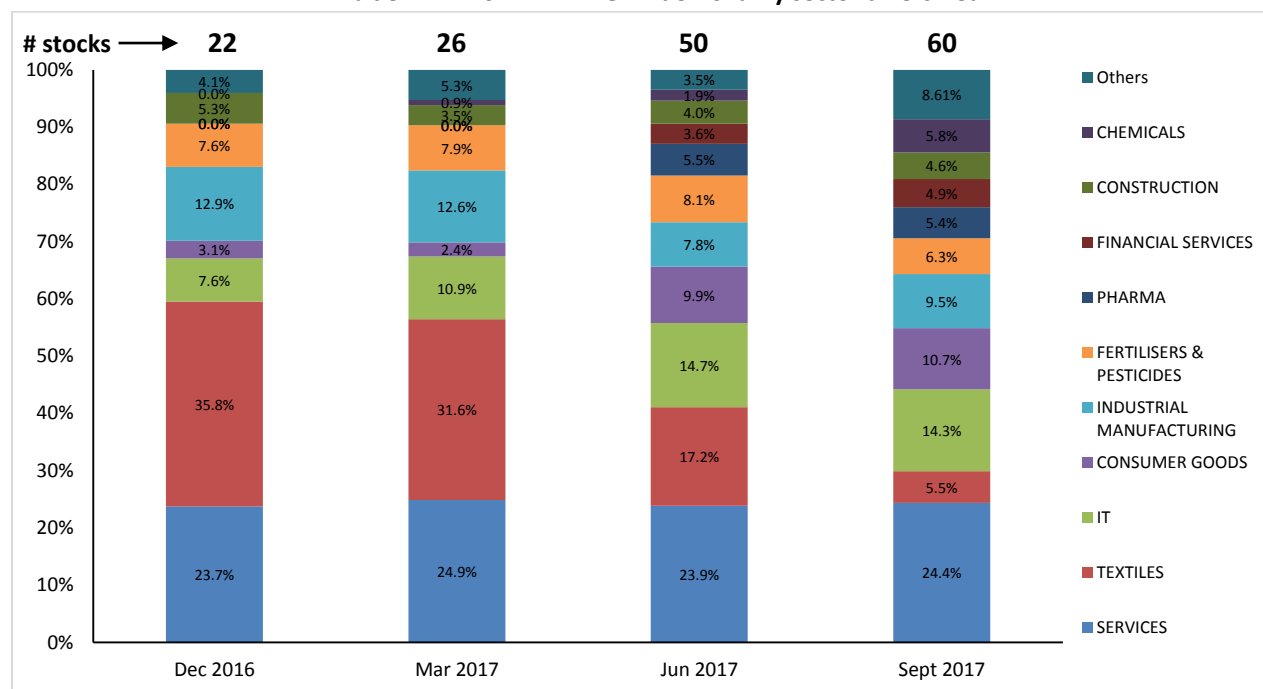
Exhibit 7: Returns-Risk comparison of NIFTY SME EMERGE Index

Period	Returns (%)			Annualized Volatility (%)		
	NIFTY SME EMERGE	NIFTY 50	NIFTY Smallcap 250	NIFTY SME EMERGE	NIFTY 50	NIFTY Smallcap 250
Since Inception	36.1	26.2	43.1	14.5	9.4	14.7
6 months	22.1	11.1	11.7	12.8	8.9	15.9
5 months	25.1	7.4	13.5	12.6	8.8	15.1
4 months	16.7	8.5	11.9	11.3	9.5	15.9
3 months	13.5	2.6	7.4	12.1	9.9	17.7
2 months	12.8	4.2	9.2	11.5	9.2	14.6
1 month	8.5	5.6	9.9	11.1	7.5	7.8

As on October 31, 2017

Sector diversification of NIFTY SME EMERGE portfolio leads to lesser concentration risk

Exhibit 8: NIFTY SME EMERGE index is fairly sector diversified



Note: Weights represented as on the end of each quarter

NIFTY SME EMERGE is a fairly diversified portfolio spread across 14 sectors. Services, Textile, IT and Consumer Goods sectors are few of the top sectors with a combined weight ~55% in the index as on September 2017. Similarly, top 10 sectors have a combined weight of 91.4% of the index with the bottom 4 sectors weights adding up to 8.6%.

The number of stocks included in the index is 60 stocks.

Exhibit 9: Wide range in MCaps of stocks

Range in market capitalization of stocks		
Parameter	Company name and Free Float MCap (in Rs Crs)	Company name and Full MCap (in Rs Crs)
Largest Stock	Shrenik Ltd. (126)	Shrenik Ltd. (485)
Smallest Stock	Husys Consulting Ltd. (2.1)	Gretex Industries Ltd.(6.1)
Median Stock	Bansal Multiflex Ltd. (13.9)	Agro Phos India Ltd. (53.4)

*As on October 31, 2017

The Herfindahl - Hirschman Index (HHI)² value of the NIFTY SME EMERGE Index remains comparable with NIFTY 50 index. The NIFTY SME EMERGE Index has a diversified portfolio with

²: Herfindahl Hirschman Index (HHI) measures of concentration. Calculated as sum of squares of percentage weight of each stock in the portfolio

top 10 stocks individual weights ranging between 3.2% and 9.1% and a combined weight of ~55.4%.

Exhibit 10: Top 10 stocks of NIFTY SME EMERGE Index

Top 10 stocks of NIFTY SME EMERGE Index		
Stocks	Sector	Weight (%)
Shrenik Ltd.	PAPER	9.0
Zota Health Care Ltd.	PHARMA	7.3
Euro India Fresh Foods Ltd.	CONSUMER GOODS	6.7
Hi-Tech Pipes Ltd.	INDUSTRIAL MANUFACTURING	6.3
Mitcon Consultancy & Engineering Services Ltd.	SERVICES	6.1
Steel City Securities Ltd.	FINANCIAL SERVICES	4.7
Airan Ltd.	IT	4.5
Thejo Engineering Ltd.	SERVICES	4.3
Maheshwari Logistics Ltd.	SERVICES	3.4
Vadivarhe Speciality Chemicals Ltd.	CHEMICALS	3.2

Note: Data as on October 31, 2017

Signing off....

SMEs play a pivotal role in growth of Indian economy. In FY 2014-15, share of SMEs manufacturing output in total manufacturing output of India remained a sizeable 33.4%. During the same period, exports by SMEs contributed ~45% in total exports of India. From FY 2006 to FY2015, the employment generation by SMEs has increased from 80.5 million to 117.1 million, representing a substantial growth rate of 4.8% per annum. Through services, manufacturing of diverse value-added products, employment generation coupled with newly introduced government initiatives & programs, SMEs are expected to receive a boost, further increasing their importance as a socio-economic catalyst.

NIFTY SME EMERGE index which currently tracks 60 SMEs is fairly diversified across 14 sectors. The index, with a fair representation of the performance of small and medium enterprises (SMEs), is expected to appeal, as a true benchmark, to investors intending to track or gain exposure to SMEs with high growth potential.

For information on Index methodology and factsheet, please visit us at www.nseindia.com

About India Index Services & Products Ltd. (IISL):

India Index Services & Products Ltd. (IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. IISL focuses upon the index as a core product. IISL owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. IISL equity Indices comprises of broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. IISL also maintains fixed income indices based on Government of India securities, corporate bonds and money market instruments. Many investment products based on IISL indices have been developed within India and abroad. These include index based derivatives traded on NSE, Singapore Exchange Ltd. (SGX), Chicago Mercantile Exchange Inc. (CME), Osaka Exchange Inc. (OSE), Taiwan Futures Exchange (TAIFEX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

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