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BSE and NSE SME Exchange Platforms: Big Opportunities for Small Companies and growing India

-Sikha Bansal

sikha@vinodkothari.com

Vinod Kothari & Company

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*Note***SMALL AND MEDIUM ENTERPRISES- POTENTIALLY SIGNIFICANT**

India, today, is seen as one of the major growing and emerging economies of the world. The credit goes to innovative ideas and a lead-taking approach adopted by new and energetic entrepreneurs across the country. This approach has led to emergence of many **Small and Medium Enterprises (SMEs)** having potential as great as any other large business firm. These SMEs, though not in limelight, have strategic and economic significance-collectively, they avert the prevalence and dominance of magnanimous enterprises, thereby curbing huge imbalances in the economy. Further, *SMEs play a vital role for the growth of Indian economy by contributing 45% of the industrial output, 40% of exports, 42 million in employment and create one million jobs every year*¹. In spite of having potential and significance, the SMEs have been fraught with some basic and fundamental difficulties, most common being the financial difficulties- in most of the cases, SMEs are unable to access funds, finance and working capital loans from the banks; even if they get the access, the cost of raising the capital is quite often high.

STEPS TAKEN BY THE GOVERNMENT AND THE REGULATORS

This important segment of economy could not be avoided and a need was felt to promote the sector by making resources available easily to augment their growth. Various steps in the recent past have been taken to uplift this segment.

With a view to overcome difficulties faced, *the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006* provided for facilitating the promotion and development and enhancing the competitiveness of MSMEs and for matters connected therewith or incidental thereto. Among other needed resources, need was felt for developing a dedicated Stock Exchange for the SME sector so that SMEs can access capital markets easily, quickly and at lower costs. Such dedicated SME exchange is expected to provide better, focused and cost effective service to the SME sector. Therefore, the Securities and Exchange Board of India inserted *Chapter XA- Issue of Specified Securities by Small and Medium Enterprises in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 vide SEBI (Issue of Capital*

¹ Source: http://www.smechamberofindia.com/rol_of_sme_sector.aspx

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and Disclosure Requirements) (Third Amendment) Regulations, 2010, wherein detailed provisions are laid down as to issue and listing of securities by SMEs; a separate window of a main exchange was envisaged alongwith relaxation in ICDR Regulations.

Prior to this, on November 05, 2008 SEBI had laid down the framework for recognition and supervision of stock exchanges/platforms of stock exchanges for SMEs-this framework was revised in the year 2010 stating the conditions to be fulfilled by a company desirous of being recognized as a SME Exchange². On September 27, 2011 SEBI accorded approval to the proposed SME Exchange by BSE Ltd. to offer a platform to small and medium companies to raise capital.

LAUNCH OF SME EXCHANGE PLATFORMS BY BSE AND NSE

The much awaited event crystallized on March 13, 2012 when BSE Ltd. launched operations of its SME Exchange platform with the first listing ceremony of BCB Finance Ltd. BSE SME platform has been developed after studying the salient features, best practices and the business model of similar global existing Exchanges. Following the suit, the National Stock exchange also announced the launch of its SME platform to be called "**EMERGE**"- "*symbolising the aspirations of a large number of entrepreneurs actively participating in the India growth story and having the potential to unlock value and emerge on a bigger stage.*" The listing norms have been extremely simplified and made convenient for SMEs compared to listing norms on the main board. There are relaxations as regards track record, IPO Grading, minimum number of allottees, etc. For example, to get listed on the Main Board of Emerge, a track record of three years is required whereas the issuer needs to have positive operating cash flows for the past two years to get listed on Emerge; on one hand IPO Grading is mandatory for listing on Main Board whereas it is not so for listing on EMERGE.

BENEFITS OF LISTING ON SME EXCHANGES

² SME Exchange, as defined under the ICDR Regulations, means a trading platform of a recognised stock exchange having nationwide trading terminals permitted by the Board to list the specified securities issued in accordance with this Chapter and includes a stock exchange granted recognition for this purpose but does not include the Main Board.



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The listing of the SMEs will bring forth ample opportunities and ample benefits to the entities, as discussed below:

SMEs will get easy capital for growth, acquisitions and innovations. An added benefit is that the enterprise would be able to get debt or mezzanine finance on favourable terms. The other aspect is-equity Financing will lower the debt burden leading to lower financing cost and healthier balance sheet.

The listing will help in expanding the investor base which in turn will attract secondary equity financing.

A greater participation by Venture Capitalists is expected since they will be having an exit route ready. Venture capital involves participation in risky areas and the capital may get locked till the project crystallizes. The presence of an exchange will grant liquidity to the stocks held by venture capitalists.

The listing of SMEs will enable easier acquisitions since the shares become cost effective. The shares can be utilized as an acquisition currency to acquire target companies, instead of a direct cash offering.

Liquidity, the most sought requirement by the shareholders, will get embedded in the securities of SMEs.

The visibility and exposure of these enterprises will increase, thereby attracting a new profile of institutional investors in the Company. This in turn will allow the Company to grow to a commendable size, achieve maturity, and ultimately migrate to the Main Board³ with more broad based Initial Public Offers (IPOs).

The employees of a SME can participate in its ownership and benefit from being a shareholder. Share options in a public limited company have an immediate and tangible value to employees, especially as a recruitment incentive.

REGULATORY FRAMEWORK FOR LISTING

³ Main Board, as defined under the ICDR Regulations, means a recognized stock exchange having nationwide trading terminals, other than SME exchange.



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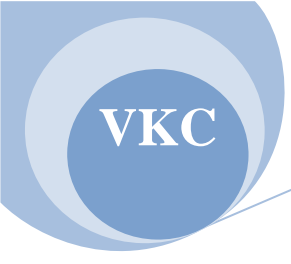
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Major requirements are listed as follows:

REQUIREMENTS FOR LISTING ON EMERGE
Track record of having positive operating cash flows for the past two years (in case of EMERGE).
Face value of the post-issue paid-up capital should be less than Rs. 25 crore.
Minimum number of allottees in the IPO to be 50.
100% of the IPO to be underwritten. Merchant Bankers to underwrite 15% in their own accounts. This will ensure that the issue is fully subscribed.
Observation on Draft Red Herring Prospectus to be given by the Exchange.
There is no restriction on market capitalization or issue size.
A minimum IPO Application size of Rs. 1 lakh.
IPO Grading is not mandatory.
Post-issue market making has been made mandatory. In the case of BSE SME Exchange, the market making by a merchant banker is mandatory for a minimum of 3 years.
Reporting requirements as to Audited Accounts on half-yearly basis (for EMERGE).
Corporate Governance norms are the same as those set for the Main Board.

THE END NOTE-PERHAPS THE BEGINNING NOTE

Recent years have seen several small Indian Companies scaling up their business activities and demonstrating impressive management skills by successfully managing sophisticated transactions including cross-border operations. The platforms introduced by the leading Stock Exchanges in India are expected to serve as ideal gateways for such growing organizations – this can be seen as a great



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initiative to encourage the growth of SMEs, which surely act and will continue to act as a backbone for developing countries like India.