



MSMEs

A New Era for MSMEs– with both NSE & BSE providing trading platform.

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MSMEs enters into a New
Era.

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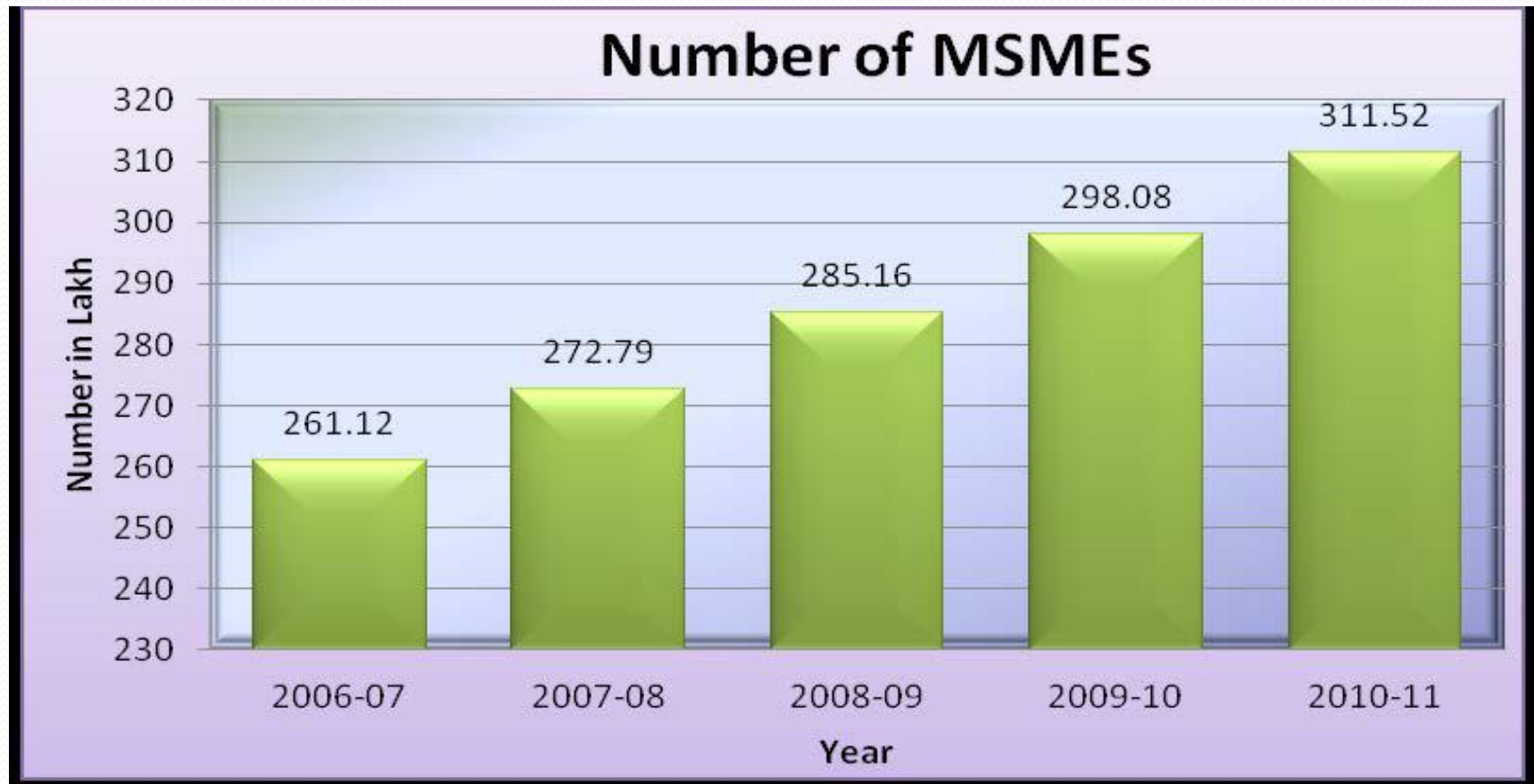
The MSME sector: small is beautiful

- In the age of technology, scale has reached never-before dimensions
- Small may be beautiful, but small is not strong
- In any case, every economy has to foster small enterprises
- If small enterprises are overtaken by large enterprises, economy will be driven by oligopolies, leading to huge imbalances

Importance of the MSME sector in India

- The MSME sector comprises-
 - 50 % of India's total manufacture/ exports
 - 45% of India's industrial employment
 - 95% of all industrial units in the country

Number of MSMEs



*Source: Annual Report 2011-12 as available on

<http://www.msme.gov.in/MSME-Annual-Report-2011-12-English.pdf>

Background

- The Government of India passed in June 2006 an Act regarding the Micro, Small, and Medium Enterprises. The Micro, Small and Medium Enterprise Development Act, 2006 (MSMEDA) was the product of a consultative process involving over 300 industry associations, government bodies, and multiple stakeholders across India. The Act accomplishes many long-standing goals of the government and stakeholders in the MSME sector. The contribution of SMEs alone have been greater than 7% to GDP.

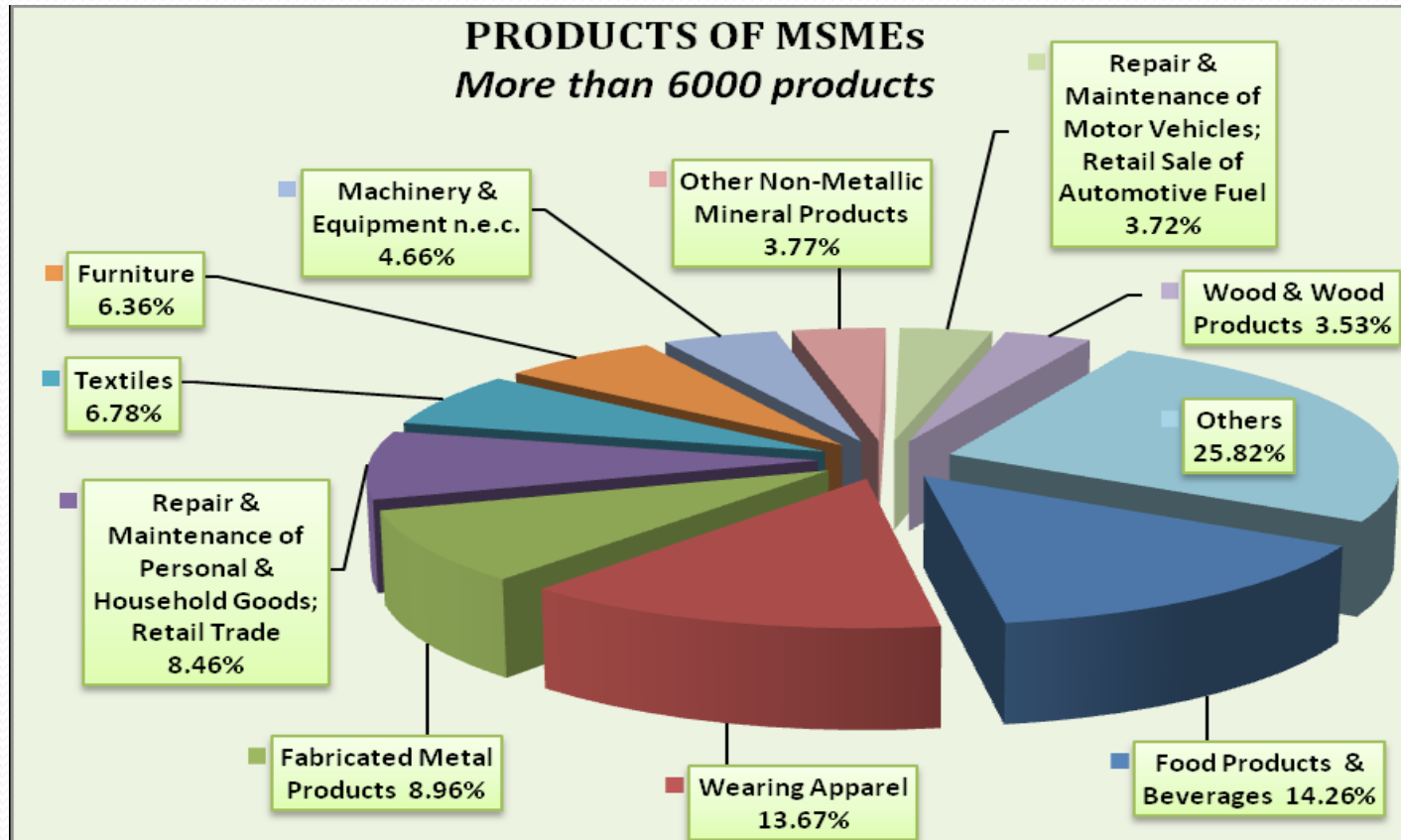
Obstacles

- Despite the importance, some of the obstacles faced by MSMEs are:
 - Inability to access finance and working capital loans from banks
 - Mistreatment by larger procurement companies
 - Difficult bureaucratic procedures for registration
 - Increasing availability of cheap foreign imports

Profile of Indian MSME sector

PARTICULARS	VALUE
No. of Micro and Small Enterprises	130 lakhs
Employment	410 lakhs
Share in GDP	8-9%
Share in manufacturing output	45%
Share in exports	40%

PRODUCTS OF MSMEs



Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07: Registered Sector.

<http://www.msme.gov.in/MSME-Annual-Report-2011-12-English.pdf>

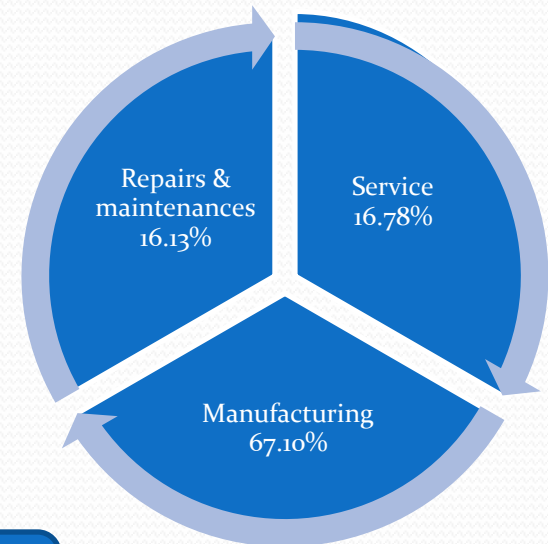
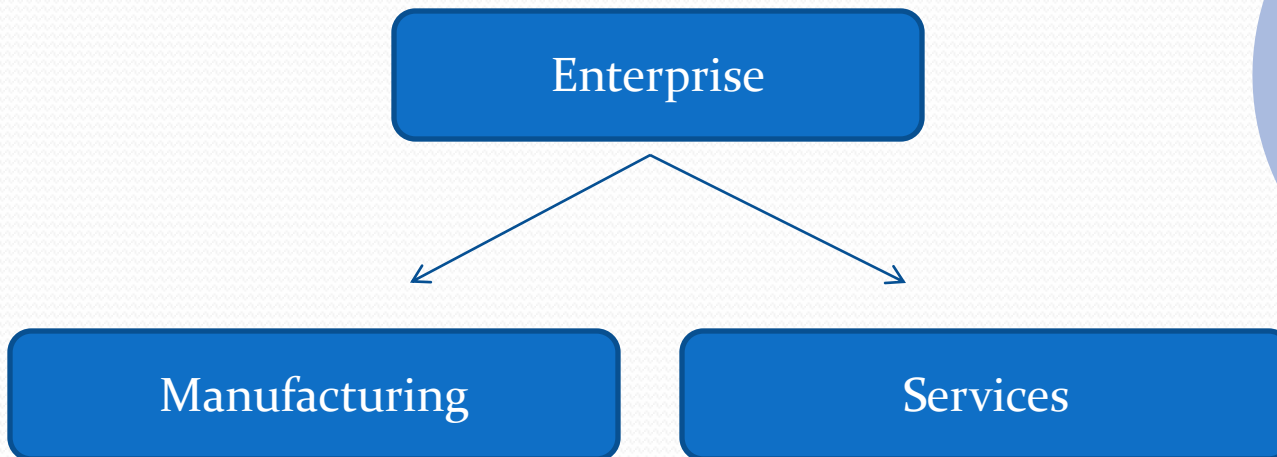
Comparative Data on Growth Rates of MSE Sector

Year	Growth rates of SSI Sector [2001-02 base IIP(%age)]	Over all Industrial Sector Growth rates (%age) #
2004-2005	10.88	8.40
2005-2006	12.32	8.00
2006-2007	12.60	11.90
2007-2008	13.00*	8.70
2008-2009	**	3.20
2009-2010	**	10.50
2010-2011	**	7.80

*	<i>Projected, IIP – Index of Industrial Production</i>
#	<i>Source- M/o Statistics and PI website- http://www.mospi.nic.in</i>
**	<i>Due to revised definition of MSMEs Sector, methodological revisions are under progress</i>
source	http://www.msme.gov.in/MSME-Annual-Report-2011-12-English.pdf

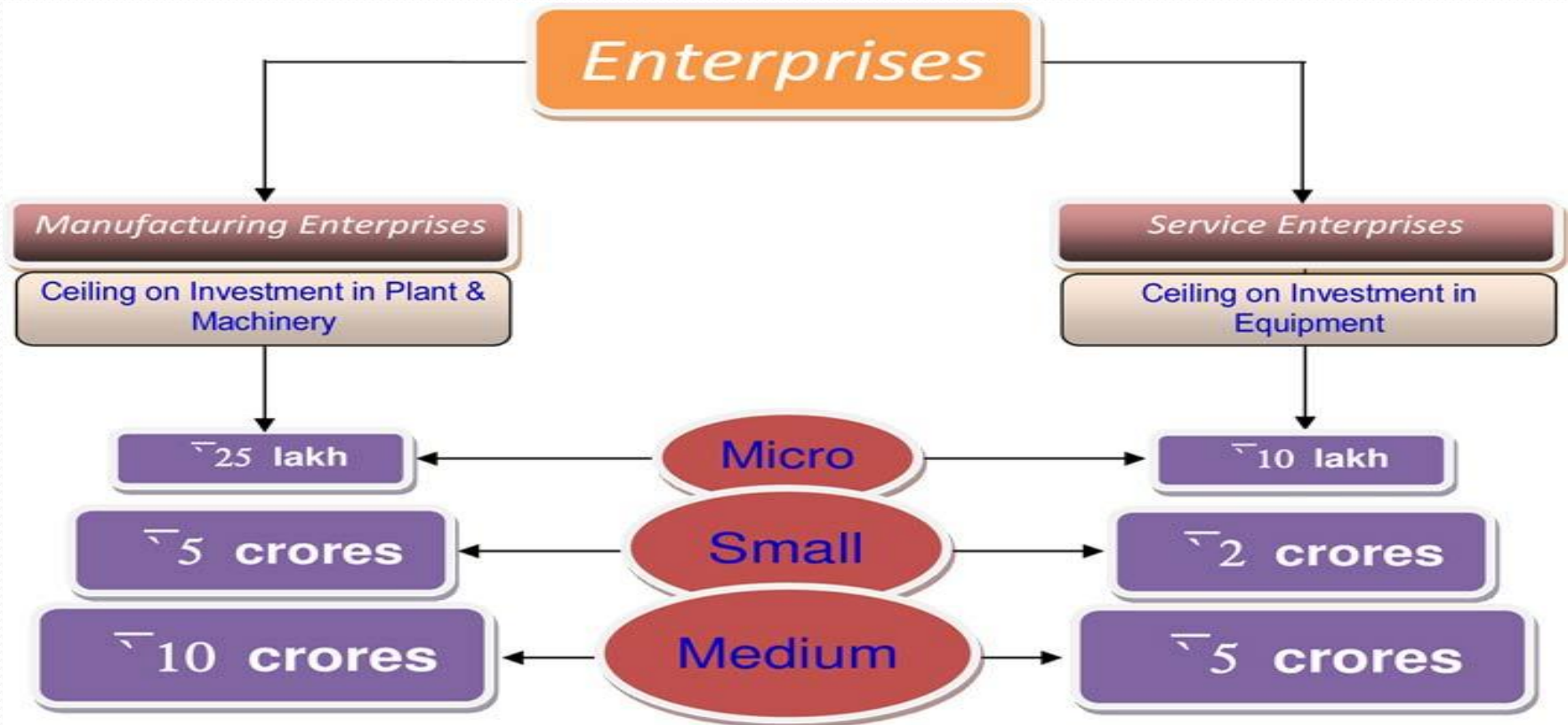
Definition of MSME

- Enterprises are broadly classified into
 - Manufacturing
 - Those engaged in providing/rendering of services



Classification of Enterprises

- Both categories are further classified into micro, small, medium and large enterprises based on their investment in plant and machinery



Preferences/ privileges to MSMEs

- General developmental programs of the Central Government
- Priority credit facilities by the banking system under MSME lending guidelines
- Procurement preference by central and state governments

Other Benefits of MSME's

MSME:WHERE SMALL IS BIG

- The main advantage is its employment potential at low capital cost.
- The labour intensity of MSME is much higher than the large sector.
- In India too, MSME's play an important role in the overall industrial economy of the country.
- Priority credit facilities by the banking system under MSME lending guidelines.

Separate Listing window for MSMEs

- SEBI approved framework for listing of MSMEs by inserting Chapter XA in ICDR Regulations in April 2010.
- Issuers whose post-issue capital will be upto Rs 10 Crores may issue “specified securities” only in accordance with this Chapter
 - Between 10-25 crore, it is optional for the companies
- Separate SME window of a main exchange envisaged



Separate Listing window for MSMEs contd....

- Lots of regulations of ICDR relaxed
- Listing of debentures is permitted even in case of private limited companies
- Listing of equity shares permitted only if it is a public company
- Reporting requirements are less stringent

Separate Listing window for MSMEs Contd....

- Separate listing agreement format
 - Note, however, that once securities are listed, the accounting standards will apply as they apply in case of listed companies
- Exception in case of SMCs will be lost

Essential listing norms contd...

- The minimum application and trading lot size shall not be less than Rs. 1, 00,000/-
- The issues shall be 100% underwritten and merchant bankers shall underwrite 15% in their own account
- Minimum 25% public shareholding
- Track record of having positive operating cash flows for the past two years (in case, to be listed on NSE's SME platform 'EMERGE')

Essential listing norms contd...

- Minimum number of allottees in the IPO to be 50
- Observation on Draft Red Herring Prospectus to be given by the Exchange.
- No restriction on market capitalization or issue size
- IPO Grading is not mandatory
- Reporting requirements as to Audited Accounts on half-yearly basis

Essential listing norms contd...

- Clause 52 lays down corporate governance provisions
 - $\frac{1}{3}^{\text{rd}}$ of the BoD must consist of independent directors
 - $\frac{1}{2}$, if the chairman is not an independent
 - Audit committee provisions same as in case of listed companies
 - Report of corporate governance to be part of annual report
- Essentially same provisions as for large companies
 - This is unduly cumbersome, and may be a show stopper
- SEBI has compulsorily mandated market making for all scrip's listed and traded on SME exchange

BSE SME Exchange Platform commence operations

- ✘ BSE launched operations of its SME Exchange platform with the first listing ceremony of BCB Finance Ltd on 13th March, 2012.
<http://www.bseindia.com/cirbrief/pr130312.asp>.
- ✘ BSE SME platform has been developed after studying the salient features, best practices and the business model of similar global existing Exchanges. The listing norms have been extremely simplified and made convenient for SMEs compared to listing norms on the main board.

Benefits of listing on SME Exchanges

- 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.
- Expanding the investor base which in turn will attract secondary equity financing.
- A greater participation by Venture Capitalists since they will be having an exit route ready.

Benefits of listing on SME Exchanges

- 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
- Increased visibility and exposure thereby attracting a new profile of institutional investors in the Company
- The employees of a SME can participate in its ownership and benefit from being a shareholder

Requirements for BSE

- Issuer with post issue face value capital up to Rs.10 crores shall be covered under the SME Platform, Issuer with post issue face value capital between Rs.10 – 25 crores may get listed at SME Platform and Issue with post issue face value capital above Rs.25 crores has to necessarily listed at main board of the Exchanges
- Suitable provisions for migration to/ from main board
- The minimum application amount as well as minimum trading lot shall not be less than Rs.1,00,000/-

Requirements for BSE Contd...

- All existing Trading Members would be eligible to participate in SME exchange without any further registration
- The Merchant Banker to the issue will undertake market making through a stock broker who is registered as market maker with SME Exchange.
- The Merchant Banker shall be responsible for market making for a minimum period of 3 years

Requirements for BSE Contd...

- Shall be required to provide two way quote for 75% of time in a day, to be monitored by the Stock exchange
- The minimum depth of the quote shall be Rs.1 lakh
- Not more than 5 market makers for a scrip
- Market Makers may compete with the other Market Makers
- Market Maker allowed to deregister by giving one month notice to the exchange

Requirements for BSE Contd...

- The exchange shall prescribe the minimum spread between Bid and Ask price
- 100% underwritten issues and Merchant Banker/s shall underwrite 15% in their own account
- During the compulsory market making period, the promoter holding shall not be eligible for the offering to market makers

National Level Organizations for Support to MSMEs

- Small Industries Development Organisation (SIDO).
- Has 10 other Institutes under it for Training and Development in Marketing, Quality Promotion, Technology Up gradation, Product Testing, Designing, Incubation, Financing, Guarantees, etc.
- National Small Industries Corporation (NSIC)



National Level Organizations for Support to MSMEs

- National Entrepreneurship Development Institutes (EDI, NISIET, NIESBD, IIE)
- Small Industries Development Bank of India
- SIDBI Venture Capital Ltd. (SVCL)
- SME Rating Agency of India (SMERA)



Some Important Schemes of Ministry of MSME, Govt. of India

- To ensure better flow of credit to micro and small enterprises by minimizing the risk perception of banks/financial institutions in lending without collateral security, Government has introduced several Schemes:
 - Credit Guarantee Scheme
 - Credit Linked Capital Subsidy Scheme
 - Intellectual Property Rights for MSMEs
 - Export Promotion
 - Infrastructural Development Property Rights for MSMEs

NSE comes into Picture

- Having known the fact that immense efforts are being taken by the SEBI, BSE and other national organization for the development of the MSME, the National Stock Exchange with its latest initiative made a remarkable announcement on **18th September, 2012.**

<http://www.moneycontrol.com/smementor/news/indian-markets/nse-operationalises-sme-platformfirst-listing-759202.html>



NSE comes into Picture

- This announcement has opened the door for the MSME's to raise their capital by issuing shares on NSE.
- With such kind of any initiative a strong platform will be definitely formed with high growth potential.

Benefits hereafter:

- Once the Paid up capital of the Company crosses Rs 10 Cr, the Company has the option to migrate to the main Board.
- It would help in providing liquidity to the shareholder.
- The company would become well known in the market as number of people trading in NSE are quite high.
- Leniency in listing agreement.
- Scope for issues of smaller size would now be available.
- Further it would reduce the complication in the procedure.

Requirements :

- The post issue paid up capital of the company (face value) shall not be more than Rs. 25 Cr
- The Company should have a track record of 3 years;
- The Company should have Positive Cash accruals from operations for at least 2 years preceding the application with a positive net worth;
- The issue shall be 100% underwritten;

Requirements :

- The Merchant Bankers should be responsible for market making for a minimum period of 3 years, through a stock broker;
- The company should not have been referred to BIFR;
- No winding up petition should have been filed against the applicant Company;
- The Company should be in compliance with SCRA/ SEBI Act/ Companies Act

What would be the approx cost of raising say Rs. 10 Cr on the exchange in terms of one time and listing fees?

- The cost of raising the IPO of Rs. 10 crores on the main board is about 7 to 8%.
- There is a cost reduction in the SME Exchange on account of printing forms, advertisement and marketing. However, there is additional responsibility given to the merchant bankers and it involves additional cost for 100% underwriting, sub-underwriting and responsibility of market making for three years.
- Considering all these, the overall merchant banker cost may be couple of percentages higher than the IPO of similar size on the main board.

What would be the approx cost of raising say Rs 10 Crs on the exchange in terms of one time and listing fees? Contd...

- However, BSE SME are working with the market intermediaries to bring down the cost of legal due diligence and rating by the CRAs.
- In addition, there is also the premium to be paid to the market maker for market making for at least three years. This is the additional cost to the listing companies in case of SME Exchange, as compared to the BSE Main board.
- There are various risks involved in market making and the duration of 3 years is also long, and this makes the premium to be paid for market making high.

What would be the approx cost of raising say Rs 10 Crs on the exchange in terms of one time and listing fees? Contd...

- It will be difficult to quantify the cost, but it is likely to be more than the merchant banker fees and costs involved in bringing the IPO.
- If the period of market making is brought down, then the cost on account of market making can be brought down, enabling more and more SMEs to go for the listing on SME Exchange.

What is the cost of raising equity capital compared to the debt capital?

- Generally, the SMEs require capital for very long period, say at least 10 years. If they are opting for debt, they need collaterals for taking debt from the Banks.
- They have to pay interest of about 15% per annum and service the debt for all these long years.
- After that, they should return the principal capital. If the promoter of SME is not able to pay the debt, his assets will be attached and the debt will be recovered from him.

What is the cost of raising equity capital compared to the debt capital?

- The investor of equity capital is like a partner for the SME. There is no burden on the promoters and the investors cannot compel him like in debt funding.
- If the company performs and grows, the investor also reaps benefits. The equity capital has only one time cost of raising it. If this cost is apportioned over the long period, the cost of capital for each year is insignificant.
- Thus, raising equity capital is very cost effective and it does not make the promoters liable for the capital.

Conclude:

- To move the graph upwards in the progress of industrialization, it becomes necessary to uplift the Small and Medium sector industries.
- With an initiative from BSE & NSE to create a platform for the growth of MSME, India is positively moving ahead towards industrialization.

THANK YOU