

# Update

## BSE issues additional norms for listing and migration for SME companies leading to *additional clamps*

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## *Update*

According to the Theme paper of Confederation of Indian Industries (CII) and KPMG presented at the India Global Summit in MSMEs on 2012<sup>1</sup>, the Indian MSMEs have shown a growth of 12-13% in 2012 with the number of enterprises standing at 260 lakhs, a clear increase of 159 lakhs from the year 2000. As a sector employing 700 lakh people, the growth story of MSME is phenomenal. With the enactment of The Micro, Small and Medium Enterprise Development Act, 2006, the Government has been successful in making good use of the labour intensive capability of India which in turn has contributed to the overall industrial economy of the country.

Through amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("**ICDR Regulations**"), SEBI together with Bombay Stock Exchange ("**BSE**") has created a congenial atmosphere for listing of SMEs ensuring easy capital for growth, acquisitions and innovations and also ensuring greater opportunities for secondary market financing.

The BSE with its Circular dated November 26, 2011<sup>2</sup> ("**Circular 1**") has issued additional norms for listing on BSE SME platform. Circular 1 has also made amendments to the eligibility criteria for migration from BSE SME platform to the Main Board.

### **Conditions for listing on SME Platform through Initial Public Offer ("IPO")**

In addition to the norms already prescribed relating to conditions for listing, Circular 1 also envisages scenario of listing on SME platform through IPO whereby the following have been prescribed:

1. Such companies are required to comply with the Quantitative eligibility norms for listing as prescribed by BSE.
2. BSE will undertake a tour of the company's site before granting of permission to use its name in the offer document.
3. Company has to file Compliance Certificate issued by a Practising Company Secretary as per the Guidance Note issued by Institute of Company Secretaries of India. This is however to be complied only when SME platform of BSE makes it applicable.

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<sup>1</sup> [http://www.cii.in/uploads//14\\_theme%20paper242.pdf](http://www.cii.in/uploads//14_theme%20paper242.pdf)

<sup>2</sup> <http://www.bseindia.com/markets/MarketInfo/DispNoticesNCirculars.aspx?page=20121126-17>

## *Update*

### **Eligibility Criteria for Migration from BSE SME Platform to the Main Board**

Replacing the existing guidelines, the following have been prescribed:

1. Company has to be mandatorily listed and traded on the SME Platform for a minimum period of two years.
2. Only after the condition given above is satisfied can the company migrate to the Main Board.
  - a. Migration<sup>3</sup> should be as per the Guidelines specified by Securities Exchange Board of India vide Circular dated May 18, 2010<sup>4</sup> and
  - b. As per the procedures laid down under ICDR guidelines Chapter XB<sup>5</sup>.

What is clear from the issue of Circular 1 is that BSE is stepping up its efforts to legislate the SME sector. This is in essence furthering the attempt of the Government to ensure that the SMEs are not exploited in the absence of any particular legislation considering the contribution of SMEs to our economy. The clamps issued with this Circular 1 will also ensure that the sector does not become a channel for any frivolous activities.

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<sup>3</sup> In terms of ICDR Regulations, the issuer to submit information memorandum to the stock exchange where it is migrating to in the format specified by SME Exchange or the Main Board.

<sup>4</sup> Securities Exchange Board of India vide Circular dated May 18, 2010

<sup>5</sup> <http://www.bsepsu.com/Sebidip/chap10B.pdf>

## Update

### Quantitative eligibility norms for listing

As prescribed by BSE in its Circular dated April 19, 2012<sup>6</sup>, the following are the *quantitative* norms for eligibility which have been prescribed:

#### Major requirements

- Net Tangible assets of at least Rs. 1 crore as per the latest audited financial results
- Net worth (excluding revaluation reserves) of at least Rs. 1 crore as per the latest audited financial results
- Track record of distributable profits in terms of sec. 205 of Companies Act, 1956 for at least two years out of immediately preceding three financial years and each financial year has to be a period of at least 12 months. Extraordinary income will not be considered for the purpose of calculating distributable profits. Other wise, the networth shall be at least Rs 3 Crores.

#### Other Requirements

- The post-issue paid up capital of the company shall be at least Rs. 1 crores
- The company shall mandatorily facilitate trading in demat securities and enter into an agreement with both the depositories.

<sup>6</sup> <http://www.bseindia.com/markets/MarketInfo/DispNoticesNCirculars.aspx?page=20120419-4>