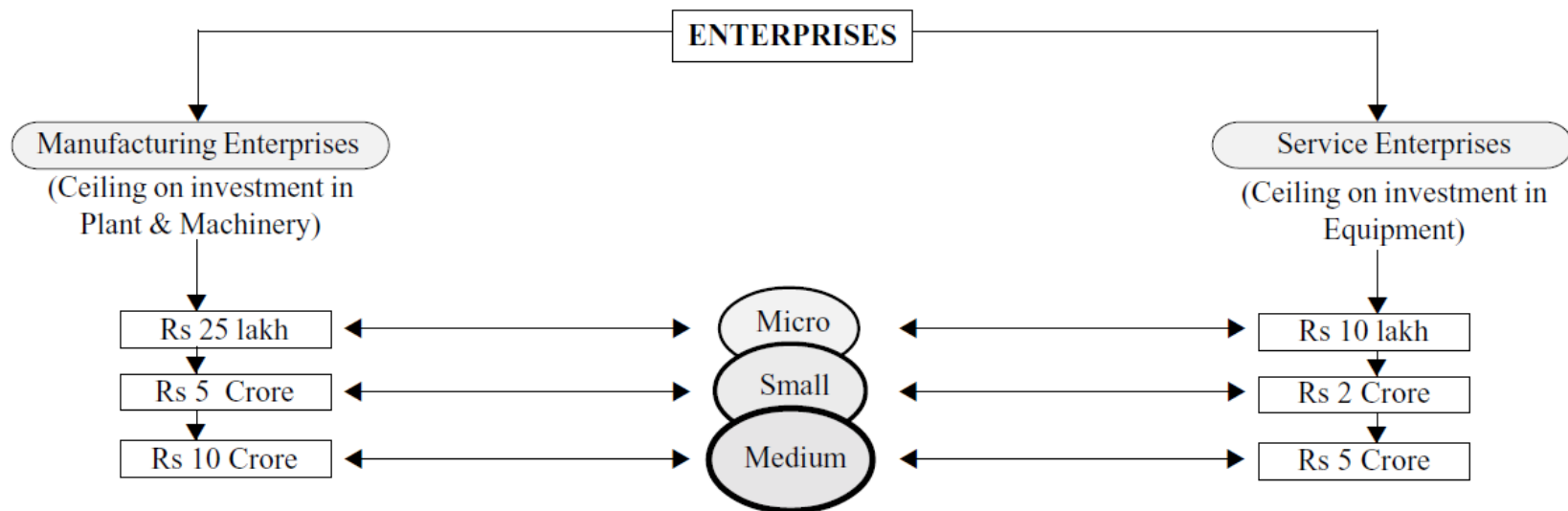




About SME Industry

Classification of Micro, Small and Medium Enterprises



- Micro, Small and Medium Enterprises (MSMEs) contribute
 - 8% of the country's GDP
 - 45% of the manufactured output
 - 40% of our exports
- Provide employment to about 6 cr. people through 2.6 cr. enterprises.
- The Micro Small and Medium Enterprise (MSME) sector forms the largest generator of employment in the Indian economy.
- The MSME sector forms a major portion of the industrial activity.

Governmental Efforts

Governmental Efforts

After India's independence, Cottage and Small scale sector was given prime importance in the economic and industrial policies for:

- Industrial dispersal
- Employment Creation

Specific policy measures initiated for boosting the growth of Small & Cottage industries:

- Reservation of items for exclusive manufacturing in small sector
- Preferential credit support measures
- Preferential government procurement policies
- Infrastructural development like the development of industrial estates, testing labs, common facility centers
- Entrepreneurship development

MSME Development Act, 2006

MSME Development Act, 2006

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 emphasized on the following :

- Remove impediments due to multiple laws
- Introduce **statutory consultative and recommendatory bodies** on formulating the MSME policies
- Improve registration procedures of MSMEs
- **Statutory basis for purchase preference and credit policies**
- **Improve realization of payments of MSMEs**
- 'Industry' replaced by 'enterprise' which include services industry also
- Constitution of MSME Board
- Simplification of registration procedure
- Policy of preferential procurement from MSMEs
- Progressive credit support
- Penalty for delayed payments
- Provision for exit policy

MSME Development Act, 2006

- The **Prime Minister's Task Force** (Jan. 2010) has recommended to set-up a dedicated ***Stock Exchange/ Platform for SME*** .
- SEBI has also laid down the regulation for the governance of SME Exchange/Platform.
- The Circulars issued by SEBI in this regard are as follows:
 - a) <http://www.sebi.gov.in/guide/framework.pdf>
 - b) http://www.sebi.gov.in/Index.jsp?contentDisp=SubSection&sec_id=25&sub_sec_id=25
 - c) <http://www.sebi.gov.in/circulars/2010/cirmrddp142010.pdf>
 - d) <http://www.sebi.gov.in/circulars/2010/circfddil062010.pdf>
 - e) <http://www.sebi.gov.in/circulars/2010/cirmrddsa17.pdf>

Need for SME Exchange/Platform

Need for SME Exchange/Platform

- Provide the SMEs with **equity financing opportunities** to grow their business – from expansion to acquisition
- Equity Financing will **lower the Debt burden** leading to lower financing cost and healthier balance sheet
- **Expand the investors base**, which in turn will help in getting secondary equity financing, including private placement
- **Enhance company's visibility**. Media coverage can provide SME with greater profile and credibility leading to increase in the value of its shares
- Incentives for greater venture capital participation by providing thus reducing their lock-in period

Need for SME Exchange/Platform

- Greater **incentive for the employees** as they can participate in the ownership of the company and benefit from being its shareholders
- **Encourage innovation and entrepreneurial spirit**
- Capital Market will help **distribute risk more efficiently**
by transfer of risk to those, who are best able to bear it
- SME sector will grow better on **two pillars of Financial system**
i.e. Banking and Capital Market

Initiating a dedicated Stock Exchange for SMEs' will lead to mobilization of the diversified resources of finance and **build a bridge** between the Equity and the Venture Capital by providing an **exit route**.

Introduction

Introduction

Capital Market Regulator **SEBI** has given 'In Principle' Approval to Bombay Stock Exchange (BSE) Ltd. To launch the BSE SME Exchange.

BSE is leveraging the existing 'Equity platform' i.e. BOLT System for launching the BSE SME Exchange. Negligible cost in launching the platform.

All **Merchant Bankers empanelled with SEBI** are by default MBs for this segment. Additional responsibility of secondary market for market making.

All **Members registered with BSE** are by default Members for this segment. No additional infrastructure required by Members for secondary market trading.

Introduction

SME companies with post issue paid up capital up to 25 crores can list on the BSE SME Exchange.

100% under writing by the Merchant bankers mean that the SME listing-cum-IPO issue will be 100% success.

Opportunity of Sub-under writing for large investors.

Larger participation of investors – exit option

Liquidity in the secondary market – market making

Better opportunity for SMEs for **equity fund raising**.

SME Exchange/Platform Overview

SME Exchange – SEBI Guidelines

- 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/-**
- All existing Trading Members would be eligible to participate in SME exchange without any further registration
- **100% underwritten issues** and Merchant Banker/s shall **underwrite 15% in their own account**
- 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**

SME Exchange – SEBI Guidelines – Market Maker obligation of Merchant Bankers

- 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
- Execution of orders at the quoted price and quantity to be guaranteed by MMs
- 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
- The exchange shall prescribe the minimum spread between Bid and Ask price
- During the compulsory market making period, the promoter holding shall not be eligible for the offering to market makers
- Trading system may be either order driven or quote driven

About BSE SME Exchange/Platform

About BSE SME Exchange/Platform

- BSE has proposed to set up a SME Exchange/Platform on the guidelines issued by SEBI
- The SME Exchange/ Segment will be a part of the BSE Ltd.
- The SME Exchange will be included as a group in the BSE's BOLT system – 'M' and 'MT' Groups.
- All the existing Members of BSE are members for BSE SME also (by default) .
- Members intend to do Market making need to intimate the exchange, so that they can be empanelled.
- The BSE SME Segment will be part of the BSE BOLT System.
No additional infrastructure is required by the Member brokers.
- The trading time of this platform is from 09:00 am to 03:30 noon
- All the empanelled merchant bankers with SEBI can do merchant banking for the BSE SME Exchange (by default).

Attributes of SME Exchange

Settlement	Rolling
Settlement Cycle	T+2
Demat/ Physical	Demat
Listing	Simplified listing
Listing Compliance	Simplified and liberal
Presence	National
Trading system	BOLT
Reporting	Internet Reporting

Additional Guideline for Companies (1/3)

BSE SME has laid down the Eligibility Criteria for the companies for Listing on BSE SME Exchange/Platform-:

1. Net Tangible assets of at least Rs. 1 crore as per the latest audited financial results
2. Net worth (excluding revaluation reserves) of at least Rs. 1 crore as per the latest audited financial results
3. 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.

Additional Guideline for Companies (2/3)

4. 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.
- Companies shall mandatorily have a website

5. Certificate from the applicant company / promoting companies stating the following -:

- The Company has not been referred to the Board for Industrial and Financial Reconstruction (BIFR).
- *Note: Cases where company is out of BIFR are allowed.*
 - There is no winding up petition against the company that has been accepted by a court.

Additional Guideline for Companies (3/3)

6. Listing Process will also involve-:
 - For listing on BSE SME platform promoters will mandatorily be required to attend an interview with the Listing Advisory Committee

Direct Listing Norms (1/3)

BSE Ltd has taken a decision to allow the **Direct Listing** on BSE SME Platform for the listed companies on Recognised Stock Exchanges, if they fulfil the eligibility criteria laid down below-:

S.No.	Particulars	Norms
1.	Paid up capital	Minimum of Rs.1 crore and maximum up to Rs. 25 crores, as on the date of making application for direct listing.
2.	Networth	Net worth (excluding revaluation reserves) of at least Rs. 1 crore as per the latest audited financial results
3.	Profit making track record	<p>Distributable profits in terms of sec. 205 of Companies Act, 1956 for at least 2 out of 3 immediately preceding financial years based on audited financial results with the last financial year reporting profit.</p> <p>Provided that extraordinary income shall not be considered for calculating distributable profit.</p> <p><u>Provided further that total period of latest 3 Financial Years should comprise a period of at least 36 months</u></p> <p>Otherwise, the networth shall be at least Rs 3 Crores as per the latest audited financial results</p>

Direct Listing Norms (2/3)

S.No.	Particulars	Norms
4.	Public Shareholding	Shall comply with the requirements of SCRA, SCRR and Listing Agreement.
5.	No. of public shareholders	Minimum 50
6.	Trading in Compulsory Demat	Minimum of 50% of the public shareholding should be held in demat form.
7.	Listing track record with Recognized Stock Exchange	Listed on any recognized Stock Exchange.
8.	Information Memorandum	Information Memorandum as provided in Schedule II of Companies Act, 1956 to the extent applicable, as certified by the Company Secretary/ MD of the Company.
9.	Migration	Companies can make a fresh application to migrate to main board after a period of two years from the date of listing on SME Platform, provided it fulfills the norms of Direct Listing on the Main Board.
10.	Appointment of Market Maker	<ul style="list-style-type: none"> •At least one Market Maker shall be appointed for a minimum period of 3 years from the date of listing on SME platform. •The Market Maker shall hold at least 5% of the issued capital of the company on the date of listing of the company on SME platform

Direct Listing Norms (3/3)

Kindly refer to www.bsesme.com for further information.

Key Statistics

- Number of Member Brokers registered with BSE for the purpose of doing the Market Making activity in BSE SME are 30. And we expect this number to increase in the coming time.
- BSE SME Platform has 2 companies listed .Namely, BCB Finance Ltd. and Monarch Health Services Ltd.
- 3 companies have filed their DRHPs with the Exchange. And around 10-15 companies are in the various stages of the Listing Process.
- The DRHPs of the companies can be seen on <http://bse sme.com/index.htm>
- The final Prospectus of the listed companies can seen on <http://bse sme.com/drhp.aspx>

Fees Involved

Listing Fees -:

Annual Fees will be charged on the basis of the Market Capitalization and not on the basis of the issue size. The revised Annual Fees is Rs 25,000/- or 0.01% of full market capitalization, whichever is higher. The basis of calculation of Market Capitalisation will be the closing price as on 31st March or the last day of trading in the financial year.

Book Building Fees-:

<i>Issue Size</i>	<i>Book Building</i>	<i>Fixed price</i>	<i>Rights</i>
Up to Rs. 10 crores	Rs. 200000/-	Rs. 100000/-	Rs. 100000/-
More than Rs. 10 crores	Rs. 300000/-	Rs. 150000/-	Rs. 150000/-

Research Report for SME Companies

- At the initiative of SEBI to have a sponsored research program and post research reports of on websites, BSE had sought proposals last year from research agencies which have the requisite experience to provide independent, high quality and continuing research. The goal of this initiative is to create and disseminate company-specific research focused on small and mid-cap companies, which do not have any research coverage in a format accessible to the retail investor. Based on this, BSE had empanelled SEBI approved rating agencies for making the Research Reports. We are pleased to inform that the same has been extended to the BSE SME Platform and the Research Reports will be published for the listing SMEs through IPOs on BSE SME Platform.
- The “Objective” of the Research coverage is to considerably improve the information availability to the investors and remove "Information Asymmetry". The Research report will focus and bring out the strength of the listing SMEs, which will be foundation for their growth. It will provide the best quality of research coverage to investors for their benefit. This initiative is to enhance BSE’s image as an investor and company friendly exchange. It is intended to motivate smaller companies/SME look at BSE SME Exchange Platform as a preferred exchange.

Beneficial Aspects



About SME



Small and medium enterprises (SMEs), particularly in developing countries, are the backbone of the nation's economy.

[Read more...](#)

Listing



Corporates may raise capital in the primary market by way of an initial public offer, rights issue or private placement.

[SRG Housing Finance Ltd - DRHP](#)
[Sangam Advisors Limited - DRHP](#)
[Jupiter Infomedia Limited - DRHP](#)
[Max Alert Systems Limited - DRHP](#)
[Monarch Health Services Ltd.- DRHP](#)
[Monarch Health Services Ltd.- Public Issue](#)
[Market Watch](#)

[Read more...](#)

Market Makers



The Market Makers provide depth and continuity on SME Platform.

[Read more...](#)

Circulars



[Research Reports of Listing SMEs on BSE SME Platform](#)
[Direct Listing on BSE SME Platform](#)
[Book Building Fees on BSE SME Platform](#)
[Listing of Monarch Health Services Ltd. on 30th May 2012](#)
[Eligibility norms for Listing on BSE SME Platform](#)
[Annual Listing Fees on BSE SME Platform](#)
[Circular on Market Making and Listing Fees](#)
[Model SME Equity Listing Agreement](#)
[BSE SME Brochure](#)

- ❖ [Book building](#)
- ❖ [Guidelines for Book Building](#)
- ❖ [ASBA Banks](#)
- ❖ [Glossary](#)
- ❖ [Benefits of Listing](#)
- ❖ [Guidelines for Listing](#)
- ❖ [DRHP](#)

About Public Issues

Corporates may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. This Initial Public Offering can be made through the fixed price method, book building method or a combination of both.

More About Book Building

Book Building is essentially a process used by companies raising capital through Public Offerings-both Initial Public Offers (IPOs) or Follow-on Public Offers (FPOs) to aid price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the issuer. The process is directed towards both the institutional as well as the retail investors. The issue price is determined after the bid closure based on the demand generated in the process.

The Process:

- The Issuer who is planning an offer nominates lead merchant banker(s) as 'book runners'.
- The Issuer specifies the number of securities to be issued and the price band for the bids.
- The Issuer also appoints syndicate members with whom orders are to be placed by the investors.
- The syndicate members input the orders into an 'electronic book'. This process is called 'bidding' and is similar to open auction.
- The book normally remains open for a period of 5 days.
- Bids have to be entered within the specified price band.
- Bids can be revised by the bidders before the book closes.
- On the close of the book building period, the book runners evaluate the bids on the basis of the demand at various price levels.
- The book runners and the Issuer decide the final price at which the securities shall be issued.
- Generally, the number of shares is fixed, the issue size gets frozen based on the final price per share.
- Allocation of securities is made to the successful bidders. The rest get refund orders.

Benefits of Listing

- Ensuring Transparency, Efficiency and Liquidity
- Attracting High Growth Companies
- Involvement of all market participants
- Minimum regulation and compliance requirements
- Lower cost of equity to the enterprise
- Attracting High Net worth Investors
- Involvement of Financial Institutions and Mutual Funds
- Active Participation of Associations, Merchant Bankers and Rating agencies



Thank You