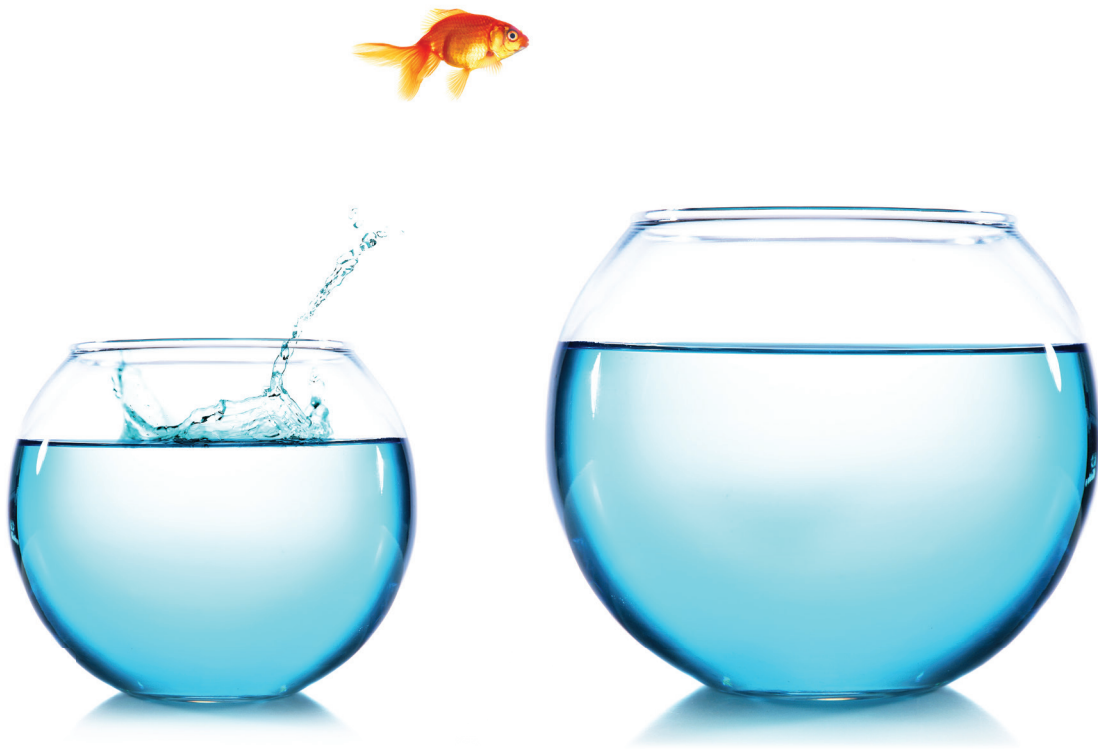


Make your next move
THE BEST MOVE



“ SME and MSME are core to the Economic and Social development of India. They play a significant role in India's industrial growth, providing employment and entrepreneurship opportunities in both urban and rural areas. The Government, Regulators have played a pivotal role in strengthening this segment. Since 2012 till date, 150 SMEs have preferred BSE for listing, in their quest to capital formation and wealth creation. BSE is the largest SME exchange in India with an overwhelming number of SME companies deciding to list only on BSE. The success of BSE SME platform is being noticed by international agencies such as Iosco in promoting SMEs in a country. We, at BSE, will continue to work to improve the BSE SME platform development to help enable the aspirations of SME entrepreneurs as well as support their contributions to the Economic and Social development of India. ”

-Shri Ashishkumar Chauhan, MD & CEO, BSE

India's over 51 million SMEs have contributed immensely towards industrial growth, providing employment and entrepreneurship opportunities in urban and rural areas. As per the 2016, report by the Ministry of MSME, SME's provided employment to over 80 million people, contributed up to 8% of GDP, 45% of manufacturing output and about 40% to the exports through its over 6000 products. Most importantly SMEs promoted a balanced economic development throughout India. Given the importance of this sector in contributing to developing India's furtherance of socio-economic development the Government has launched various schemes to provide financial support to SMEs including MUDRA, Stand Up India, Start Up India.

Financing a SME

• Debt route

In the face of the opportunities that pervade, there are quite a few critical issues that draw attention. The most crucial issue facing the SME sector has been access to finance. SMEs have primarily relied on debt capital through various informal financing sourcing, through self and friends and the formal finance sources like bank and micro finance institutions to meet their capital requirements. As per the IFC report (2012), the debt finance gap is estimated to be of INR 2.93 trillion (US\$ 58.6 billion). Most Government policies are directed towards providing simpler methods for debt financing. Raising capital at affordable cost is central to the growth and expansion of SME sector in India. A healthy balance sheet requires equity capital. The SME sector however primarily relies on Bank Financing (Debt Capital) for initial years, which requires servicing the debt capital at approximately 9% to 15% p.a., while locking their assets in case they are unable to service the Debt, adding financial burden. In tough economic conditions, the SME sector is impacted the most, in such a scenario the sector has to face the dual problem of falling revenues and high interest payout.

• Equity route

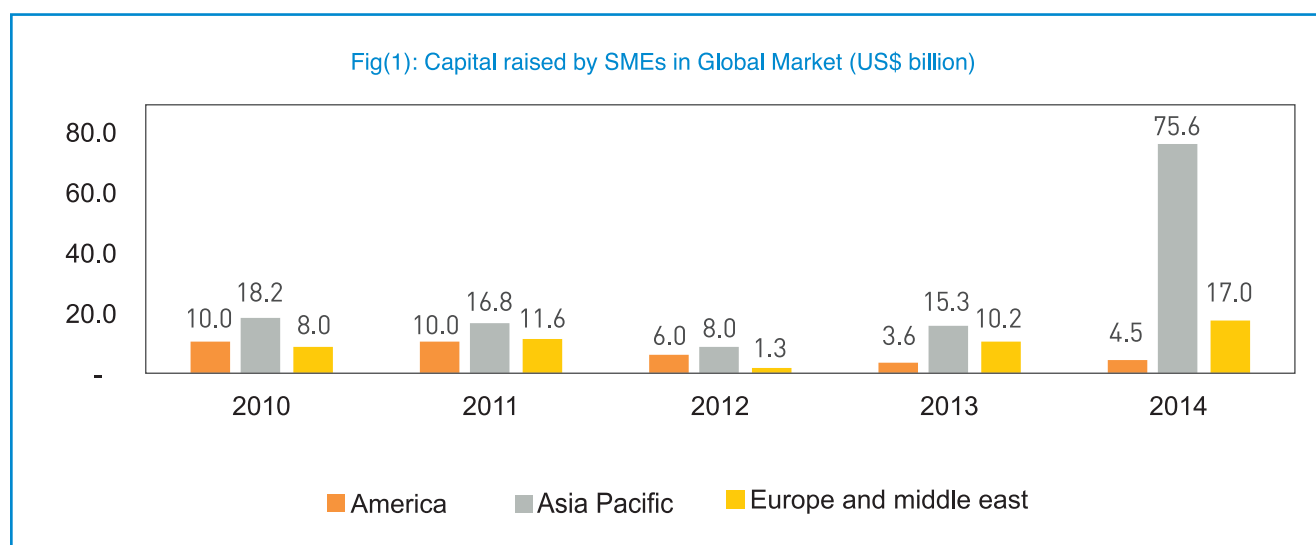
Equity capital is a preferred option as (a) servicing of debt is not required (b) and it has one time cost of raising funds. Both reduce the financial outgo in the initial years when the SME is growing. The cost is permitted under law to be apportioned over a long duration, thus tapering the negative financial effect on business. Equity financing assists companies in lowering the debt burden. Equity capital helps maintain a healthy balance sheet. The IFC report of 2012 also talks on equity finance gap, "the viable and addressable gap in equity is severe with the gap-to-demand ratio of ~95 percent estimated to be INR 0.64 trillion (US\$ 12.8 billion). The overall demand is for INR 0.67 trillion and current flow is of INR 0.03 trillion largely directed to mature small and medium enterprises". Access to equity finance is thus imperative to the growth of a healthy SME sector.

SMEs on the Stock Exchange Platform

The Government announced various measures for SMEs which address not only the issues of skill development, market accessibility and technological know-how but also the core issue of raising capital. From the perspective of equity financing, SEBI has been proactive and has released detailed guidelines to help the SMEs mobilise money from the SME exchanges. These guidelines take into consideration the specific needs of this sector while at the same time keeping in mind the risk associated with it.

Global practices: SMEs raising Capital through Exchange platform

A look at Fig. (1) based on the data from World Federation of Exchanges (WFE), indicates that SME's in Asia Pacific lead in raising capital via a Stock Exchange platform, registering Compounded Annual Growth Rate (CAGR) of 43%, for the period 2010-14.



Source: WFE

The BSE SME Platform Solution

For enabling equity resource mobilization through market participation, BSE launched BSE SME platform on March 12, 2012, enabling SMEs to list and grow. The BSE-SME Platform fast emerged as preferred destination of the SME segment to list and grow. As of 14th September 2016, it has helped entrepreneurs of 150 SME entities to raise Equity for growth and expansion in a cost effective manner, thus thereby assisting in their aspirations, while enabling wealth creation, social and economic development. It also allayed some of the common fears of the entrepreneurs with respect to listing on a Stock Exchange viz. Cost of Capital raising is high; complexities in raising Capital; additional Compliances; perceived risk of consequences of breach of listing requirements; fear of take over etc.

BSE SME Platform: Footprint since 2012

As of 14th September, 2016 the BSE-SME segment enabled 151 SMEs to raise capital of ₹ 1,136 Crores. (Table 1). The BSE SME listed companies had a market capitalization of ₹ 8490 Crores (as on 12th September 2016). On an average about 40 companies have listed per year. As the BSE-SME segment is evolving the profile of the shareholders at IPO stage is

of the shareholders at IPO stage is undergoing a change from been primarily HNI retail investors to increased participation from Institutional investors.

The alternate modes of Listing on BSE Segment: BSE provides SMEs two modes to list their securities:

- SME platform through IPO
- Direct Listing on Institutional Trading Platform (ITP) without an IPO

Table (1): Market Statistics

No. of Companies Listed on SME till date	151
Total Amount of Money Raised (₹ Cr.)	1,136
No. of Companies Migrated to Main Board	18
No. of Companies Listed as of date	133

Market Makers

BSE SME platform has a largest number of Market Makers (93 as on 16th August 2016) registered with it for providing the two way quotes which assists in increasing liquidity. The shares listed with Market Making facility allows an exit opportunity for the investors.

Value added Company Research

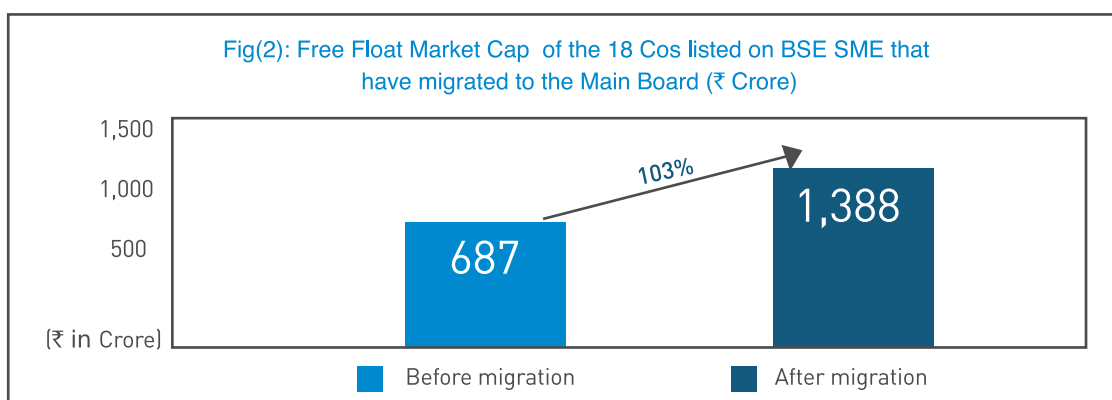
BSE SME has recognized the importance of ensuring research coverage of listed SMEs. Hence, BSE has engaged independent research firms like Care Research, Lotus Knowlwealth, ICRA Research, Varhad Financial Consultancy Services, EquityMasters Agora Research, Stakeholdes Empowerment Services and others to produce research reports on behalf of BSE SME. The Research costs are met by BSE out of its Investor Protection Fund. The Research information is available for the benefit of the investors.

Raising the Opportunity Value

BSE-SME listed companies benefit from potential migrations to the Main Board if the face value of the issued capital exceeds ₹10 crores. Migration to the Main Board gives the company greater visibility and access to a wider investor base

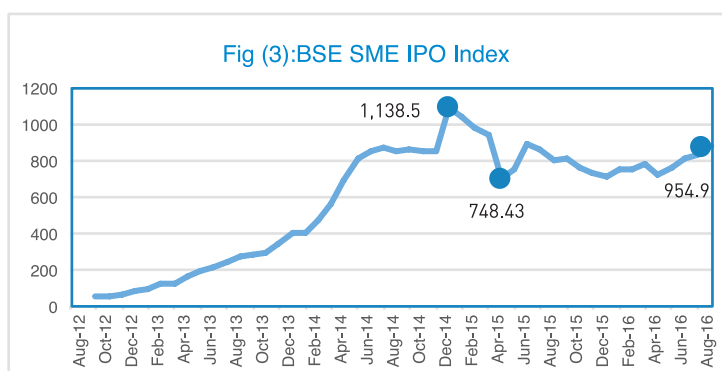
Value Realized

As indicated in Fig (2), the total Free Float for the migrated SME companies increased by 103% as of 31st August 2016 vs. the Free Float Market Cap prior to migration. Of the 18 companies, migrated to the Main Board, 16 have witnessed an increase in market cap since migration. Market cap of 9 companies increased by more than 50% post migration. The investors on the BSE-SME segment have seen their value double with the migration of the SME companies to the main board.

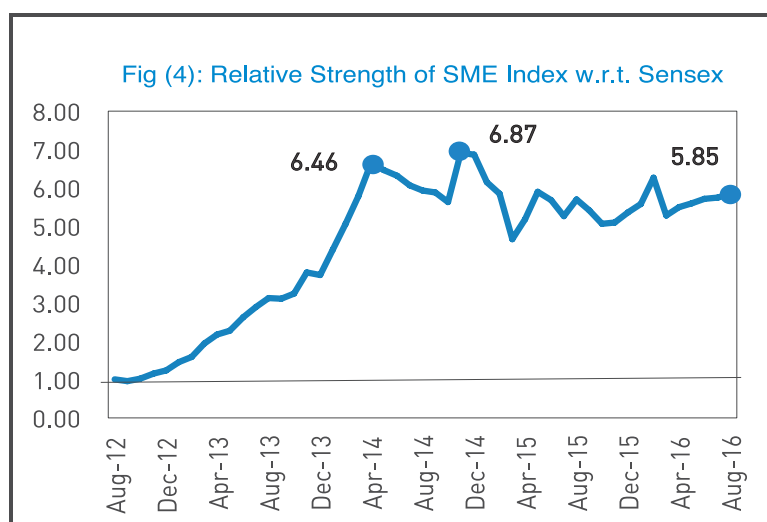


A dedicated BSE SME IPO Index

The S&P BSE SME IPO Index (Fig.3) consists of all the IPOs listed on BSE SME Platform, for a period of three years. A company that migrates from the BSE SME Platform to the BSE Main Board Platform is removed from the index on the date of the migration. A minimum of 10 companies are maintained in the SME index at all times. Every company is weighted in the index based on its



float-adjusted market capitalization. The index has grown by over 9 times since August 2012 indicating strong performance of this market. This also provides a focused view of the developments in the SME Platform segment



The Relative Strength Index (Fig. 4) gives the ratio of the normalized closing prices of S&P BSE SME IPO Index with respect to the S&P BSE Sensex.

BSE-SMEs reach in India and across different industries

Fig (5a) Industry Wise Distribution of SMEs listed on BSE SME platform as of August 2016

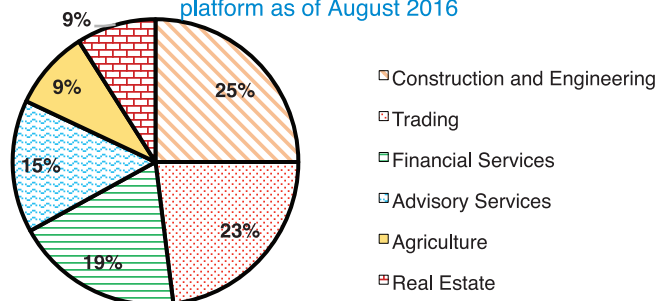
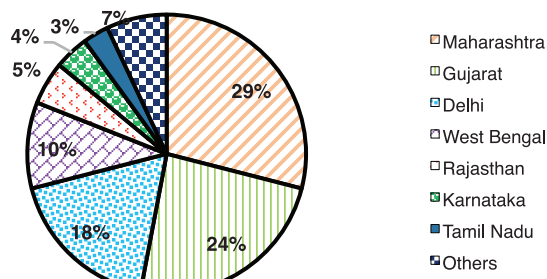


Fig (5b) Statewise Distribution of SMEs listed on BSE SME platform as of August 2016



BSE-SME Platform: Enabling Capital formation and Growth

The BSE-SME segment facilitates raising capital and engaging retail investors to the benefit of the SME sector.

The BSE-SME segment is a separate board for listing SMEs under the market Regulator- SEBI. The Key merits on listing a SME are:

1. EASING ELIGIBILITY

Listing on BSE SME segment is possible for companies from all sectors that meet the listing requirements.

A summary of the same is as follows:

Listing Criteria	BSE SME Exchange	Main Board
Post issue paid up capital	Should not exceed ₹ 25 Crore	Not less than ₹ 10 Crore
Minimum number of alltottes	50	1000
IPO Application Size	Minimum of ₹ 1,00,000	₹ 10,000 – ₹ 15,000
Submission of prospectus	Exchange	SEBI
Track record	Relaxed norms of track record	Three years of track record of profitability
IPO Underwriting	Mandatory (100% underwritten, out of which 15% compulsorily by Merchant Banker)	Mandatory (however, not required where 50% of the issue offered for subscription to QIB's)
Time Frame for Listing	2-3 months	6-8 months
Reporting Requirements	Half Yearly	Quarterly

Source: Jain, Shukla, Singh (2013) RBI, SEBI

Since April 2015, BSE has increased the eligibility requirements on its SME Platform. Accordingly the minimum requirement on the (a) net worth, (b) the post issue paid-up capital and (c) net tangible assets of the company have been increased from ₹ 1 Crore to ₹ 3 Crore respectively. BSEs focus has always been more on manufacturing, IT, logistics and services oriented companies. Hence, further we have disallowed the broking and NBFC companies from being listed on the BSE SME platform. This change came into effect to encourage listings from stronger growth oriented companies such as manufacturing companies that are employment generators.

For start-ups, a separate platform has been launched to enable them to be listed on the Exchange

2. INVESTORS

Retail individual allottees (typically HNIs) at 82.05% constitute the dominant segment of investors in BSE- SME segment. Non-retail individual investors constitute 17.19% of the market. Typically, these allottees are well-informed of Companies they are invested in and normally have a long term perspective. The mix of investors' changes to include institutional investors over time, as the company grows and becomes more recognized.

3. COST & TIME TO MARKET

The cost of listing on SME platform is roughly one-tenth of the cost of listing on the main board. The duration for listing process completion on the SME platform is 3 months, thus enabling faster turnaround in raising capital, at greater ease and lesser costs. BSE also engages with market intermediaries in this segment to encourage them to lower costs.

4. REDUCED REGULATIONS

The frequency of reporting is half yearly; different reporting formats are allowed to reduce costs for the SME issuers. Abridged version of results can be sent to investors to save costs. In essence it's less rigorous than in the case of debt financing. In either of the options- Equity Route Vs Debt Route, the Companies Act provisions continue to apply.

5. IMPROVED TRANSPARENCY LEADING TO INVESTOR PROTECTION

For Companies listed on SME boards, BSE SME focuses on maintaining corporate governance standards similar to those listed on Main Board. It requires appointment of a Compliance officer (normally the Company Secretary) and a Merchant banker to oversee Compliance requirements, thus improving transparency, greater investor confidence and investor protection.

6. DUE DILIGENCE

BSE, prior to listing of Company on SME board, conducts site visits to evaluate the prospects and the quality of the disclosure. SME's appoint merchant banks who are tasked with conducting due diligence prior to listing the company on the Exchange. This ensures compliance with listings requirements and underwriting the public offering. At least 15% of the issue size, is required to be held by the Merchant bankers. The Merchant Bankers are required to be associated with the company for minimum three years.

7. UNLOCKING VALUE

Listing the BSE SME segment, unlocks the valuations of the Company, thereby adding to wealth creation for the Entrepreneur and Shareholders.

8. HIGHER VALUE OF COLLATERALS

Generally listed securities are valued higher than the unlisted Securities; these are ranked more favorably as Collaterals compared to unlisted Securities.

9. BSE OUTREACH

BSE vide its 25 regional centers and wide network of intermediaries, conducts seminars that enhances awareness about the SME listing and consequent opportunities available to the Companies and investors. The countrywide reach is at no additional cost to the Companies whilst offering doorstep inputs to the investors.

ADVOCATING THE CAUSE OF THE SME SEGMENT

The BSE through industry meets, interaction with Regulators, hosting thought leadership meetings and events with local and cross border SME entities, facilitate knowledge sharing, best practices, highlighting challenges that impact the SME segment. This creates higher visibility and greater recognitions of the challenges, leveraging opportunities in the SME segment and laying a potential path for redressal of issues or implementation of better standards.

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