

PRESENTATION ON MANAGING GOVERNANCE AND GROWTH

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RELEVANCE OF SME TO INDIAN ECONOMY

Contribution of SME sector :-

- **45% of the industrial output**
 - **40% of the country's total exports**
 - **employs over 60 million people**
 - **creates 1.3 million jobs every year and**
 - **produces more than 8,000 quality products for the domestic and international markets.**
- 90% of industrial units in the manufacturing units are in the SME sector.**

OUTLOOK FOR INDIAN SME'S

Only Way forward is “GROWTH”.

Carry out a SWOT Analysis and then

Exploit the strength

Recognize & overcome the weaknesses

Encash the opportunities

Confront & ward off the threats

SME IPO AND ITP provides the route.

Let us understand these and navigate through them.



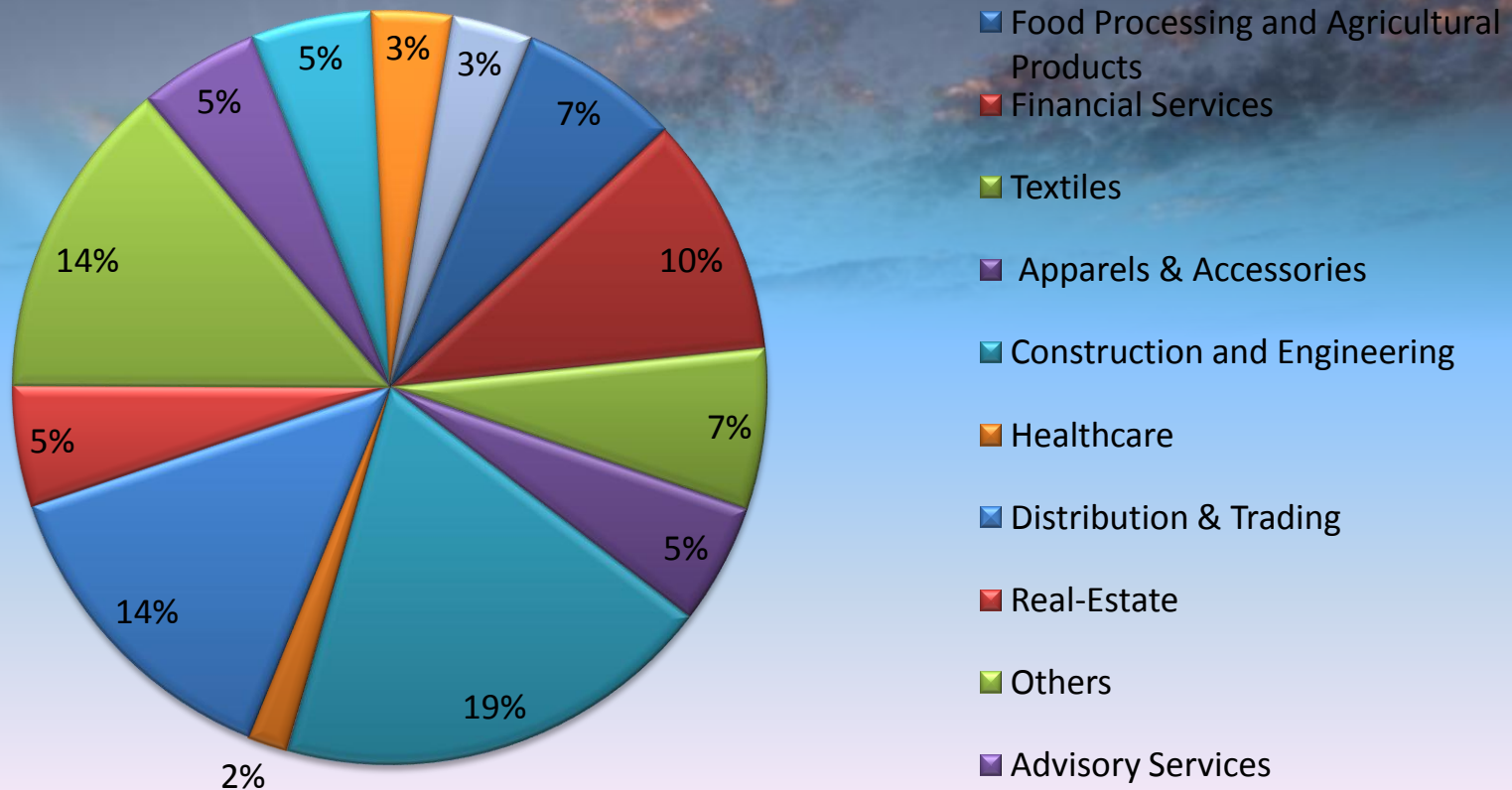
SME IPO

SME IPO – Listing – BSE Platform

- Number of companies listed so far – 111
- Number of companies migrated to Main Board – 7
- Number of companies listed as on date - 104
- No. of companies awaiting approval –7
- Total funds raised by 63 companies – 630 Crores
- Total Market Capitalisation- 7603.88 Crores
- Number of Market Makers registered with BSE SME – 86
- SME IPO index launched on 14th December 2012 with 100 as base (Value as on 4th October, 2015 – 829.13)
- Research reports are being published once the company gets listed

Source : refer www.bsesme.com for latest position

SME – BSE Listing Platform



Source : Presentation by BSE on 6.12.2014. For updated position, refer www.bsesme.com

SME- Projected Benefits of Listing

- Improved debt to equity ratio
- Better ability to raise finance from banks & financial institutions at lower cost
- More effective source of financing long term expansion / diversification
- Exit route to PE and employees who have stock options
- Continuing liquidity helps in broadening shareholder base
- Market provides independent valuation
- Better visibility which is very much necessary for global presence
- Pre-supposes good corporate governance leading to sound long term sustainability
- Only option for small & medium sized entities to target focussed growth with planned succession for ownership and management.

SME IPO – Eligibility Criteria of BSE

- **Minimum Post Issue Paid Up Capital Rs. 3 Crore**
- **Maximum Paid Up Capital Rs. 25 Crores**
- **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. 3 crores as per the latest audited financial results**
- **Track record of distributable profits in terms of sec. 123 of Companies Act, 2013 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. Otherwise, the networth shall be at least Rs 5 Crores.**
- **Mandatory for a company to have a website**
- **Mandatory for the company to facilitate trading in demat securities and enter into an agreement with the depositories**
- **No change in promoter holding for last one year preceding date of filing application for listing with BSE**
- **Filing of offer letter with BSE.**
- **Merchant Banker to file their report with SEBI along with copy of offer letter**
- **Promoters to appear for an interview before BSE prior to in-principle listing permission.**
- **Certificate from applicant company/promoting companies that it has not been referred to BIFR and there is no winding petition against the company, which has been admitted by the court or liquidator has been appointed.**

MIGRATION FROM SME TO MAIN BOARD AND FROM MAIN BOARD TO SME

Migration from SME Board to Main Board

- Company whose post-issue face value capital is more than Rs. 10 crore and up to Rs. 25 crore may migrate its securities to the Main Board (**OPTIONAL)
- Company whose post-issue face value capital exceeds Rs. 25 crore shall migrate its securities to Main Board (COMPULSORY)

Migration from Main Board to SME Board

- Company whose post-issue face value capital is less than Rs. 10 crores may migrate its securities to the SME Platform (OPTIONAL**)

**** With a Special resolution passed by postal ballot constituting the approval of 2:1 majority (excluding promoter shareholding) and satisfies the conditions of the Main Board or the SME Board as the case may be.**

SME IPO vs MAIN BOARD IPO

	SME BOARD	MAIN BOARD
Post Issue Paid Up Capital	Minimum Rs. 1 Crore Maximum Rs. 25 Crores	Minimum Rs. 10 Crores
Minimum no. of allottees	50	1000
Underwriting	Mandatory	Non mandatory
Track Record	Relaxed norms	Stringent norms
Vetting of offer document	By Stock Exchange	By SEBI
Application Size	Rs. 1 lakh per applicant	Rs. 10,000 – Rs. 15,000
End to End Time Frame	3 to 4 months	6 months
Publication of results	Half Yearly	Quarterly

SME IPO – Other Salient Features

- Mandatory Underwriting of 100% of Issue prior to its opening
- Merchant Banker to underwrite minimum 15%
- Merchant Banker may enter into agreement with “nominated investor”
- Minimum application size to be Rs. 1 lakh
- Minimum 50 allottees in the IPO
- Investor class : QIB/HNI/Retail/ Employees up to 5% of post issue paid up capital

SME IPO – Market making

- Responsibility on merchant banker to ensure market making in the securities for at least 3 years
- Merchant Banker may appoint brokers, who are required to register with BSE as market maker
- Nominated Investor may provide funds for market making
- Promoter shares not eligible for market making
- Market maker to provide two way quote for 75% of the time during the day
- Minimum depth of the quote to be at least Rs. 1 lakh.

IPO A JOURNEY

Treating IPO as an event rather than a journey is a perfect recipe for disaster

In this journey,

- Transition has to be properly navigated and managed
- Due Diligence is required at all stages – Pre IPO, During IPO and Post IPO

Due Diligence and Transition Management go hand in hand



INSTITUTIONAL TRADING PLATFORM (ITP)

LISTING ON ITP

- Governed by Regulation 106W
- Specified Securities may be listed on ITP platform either pursuant to a public offer or otherwise
- ITP shall be accessible to institutional investors and non institutional investors
- ITP has been defined in 106W to be a trading platform for listing and trading of specified securities of entities that comply with eligibility criteria specified in Regulation 106Y.

ELIGIBILITY TO LIST ON ITP (REGULATION 106Y)

- An entity which is intensive in the use of technology, IT, IPR, Data Analytics, Bio Technology or Nano Technology to provide products, services or business platforms with substantial value addition and
At least 25% of its pre-issue capital is held by Qualified Institutional Buyer (QIB) on the date of filing of draft information management document or draft offer document with SEBI
- Any other entity – at least 50% of its pre-issue capital is held by QIB
- No person individually or collectively with persons acting in concert shall hold 25% or more of post Issue capital

ELIGIBILITY TO LIST ITP ON SE REGULATORY CRITERIA

- The company, its promoter, group company or director does not appear in the willful defaulters list of Reserve Bank of India as maintained by Credit Information Bureau (India) Limited (CIBIL).
- There is no winding up petition against the company that has been admitted by a competent court.
- The company, group companies or subsidiaries have not been referred to the Board for Industrial and Financial Reconstruction within a period of five years prior to the date of application for listing.
- No regulatory action has been taken against the company, its promoter or director, by the Board, Reserve Bank of India, Insurance Regulatory and Development Authority or Ministry of Corporate Affairs within a period of five years prior to the date of application for listing.

ELIGIBILITY TO LIST ITP STOCK EXCHANGE CRITERIA

- The Company shall satisfy at least one of the following criteria as on date of application:-
Net Tangible Assets of minimum Rs. 1 Crore. (Net Fixed Assets plus Net Current Assets)
OR
Net income* (excluding extraordinary and other income) of Rs. 50 Lacs as per the latest audited financials. *(Net income = Sales – Purchases)
- There has been no change in the promoters of the Company in preceding one year from date of filing application to BSE for listing on ITP segment.
- Mandatorily signing tripartite agreement with both the depositories.

ITP LISTING WITHOUT PUBLIC ISSUE (REGULATION 106Z)

- File draft information document with SEBI containing the disclosures as specified for draft offer document
- Many regulations relating to IPO shall not be applicable such as allotment, issue opening; advertisement; underwriting, despatch of issue material etc.
- In principle approval of stock exchange where it is proposed to be listed.
- Entity shall list its specified securities within 30 days of a) date of issue of observations by SEBI or b) within the expiry of the period stipulated in 6(2) if SEBI does not issue any observations
- Requirement of complying with Rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957 is deemed to be waived
- Draft and final information document shall be approved by the Board of directors and shall be signed by all directors, the CEO, the MD or Manager within the meaning of CA 2013 and the CFO or whole time finance director or any other person heading finance function

EXIT OPTION FOR ENTITIES ON ITP WITHOUT LISTING (REGULATION 106ZD)

1. Approval
 - by special resolution through postal ballot where 90% of total votes and majority of non promoters have been cast in favour of such proposal and
 - Stock Exchange should approve the exit
2. Stock exchange may delist the specified security of an entity listed without public issue, upon non compliance of the conditions of listing and in the manner as specified by the SE
3. No entity promoted by promoters and directors of an entity delisted under sub regulation 2 above shall be permitted to list on institutional trading platform for a period of 5 years from the date of such delisting. (Directors here shall not include independent directors of such a delisted entity)

ITP LISTING PURSUANT TO A PUBLIC ISSUE (REGULATION 106ZA & ZE)

1. File draft offer document with SEBI containing the stipulated disclosures.
2. Minimum application size shall be Rs. 10 lakhs
3. The number of allottees shall be more than 200
4. Allocation in the net offer to public category shall be as follows :-
 1. 75% to institutional investors
 2. 25% to non institutional investors
5. Any undersubscription in non institutional investor category shall be available for subscription under institutional investors category
6. Mode of allotment to institutional investors ie. Whether discretionary or proportionate, shall be disclosed prior to or at the time of filing the RHP.

ITP LISTING PURSUANT TO A PUBLIC ISSUE (REGULATION 106ZA & ZE) (CONTD.)

7. Basis of Allotment shall be discretionary for institutional investors and for non institutional investors on a proportionate basis.
8. In case of discretionary allotment to institutional investors , no institutional investor shall be allotted more than 10% of issue size.
9. Offer document shall disclose the broad objects of the issue.
10. Basis of issue price may include disclosures , but no projections
11. The disclosures shall suitably caution the investors about the basis of valuation

INSTITUTIONAL TRADING PLATFORM (ITP)

LOCK IN (REGULATION 106 ZB)

- Lock in of entire pre-issue capital : 6 months from date of issue or date of listing (without public issue)
 - However, this lock-in shall not apply to equity shares held by
 - i. Employees pursuant to ESOP or ESPS prior to IPO, if entity has made full disclosures with respect to such options
 - ii. VCF or AIF Cat 1 or FVCI subject to lock in of one year from the date of their purchase by such fund
 - iii. Persons other than promoters, continuously for a period of at least one year prior to the date of listing in case of listing without IPO
 - » (In case of ii and iii above, if the shares have resulted from compulsorily convertible securities, the holding period of the convertible securities shall also be considered for determining lock in
 - » Specified security held by promoters and locked-in may be pledged with any scheduled commercial bank or PFI as collateral security for loan granted by such bank or institution if the pledge of securities is one of the terms of sanction.
 - » Locked in specified securities may be transferable in accordance with regulation 40 of ICDR, but such transferee shall not transfer the securities for the remaining period of lock-in
 - » All specified securities allotted on a discretionary basis shall be locked-in in accordance with the requirements for lock-in by Anchor investors on main board of SE

INSTITUTIONAL TRADING PLATFORM (ITP) MINIMUM TRADING LOT & MIGRATION TO MAIN BOARD

- Minimum Trading Lot (**REGULATION 106ZC**) :
Rs. 10 lakhs
- **Migration to Main Board (REGULATION 106ZE) :**
After 3 years from the date of listing subject to compliance with the eligibility requirements of the stock exchange.

SME IPO V SME ITP

A SNAPSHOT COMPARISION

SR NO.	PARTICULARS	SME IPO	SME ITP WITHOUT IPO	SME ITP WITH IPO
1	CHAPTER & REGULATIONS	CHAPTER XB	CHAPTER XC	CHAPTER XC
2	ISSUE OF CAPITAL	YES	NO	YES
3	UNDERWRITING	MANDATORY 100%	NOT APPLICABLE	NO
4	MINIMUM APPLICATION VALUE	RS. 1 LAKH	NOT APPLICABLE	RS. 10 LAKHS
5	MINIMUM NO. OF ALLOTTEES	50	NOT APPLICABLE	>200
6	MIGRATION TO MAIN BOARD	ON FULFILMENT OF CONDITIONS & NECESSARY APPROVALS / RESOLUTIONS	AFTER 3 YEARS	AFTER 3 YEARS
7	MINIMUM PUBLIC SHAREHOLDING	APPLICABLE	NOT APPLICABLE	APPLICABLE
8	ALLOCATION OF NET PUBLIC OFFER	AS IN CASE OF MAIN BOARD IPO (REGULATION 41)	NOT APPLICABLE	75% TO INSTITUTIONAL & 25% NON INSTITUTIONAL INVESTORS
9	MARKET MAKING	COMPULSORY FOR THREE YEARS	NOT APPLICABLE	NOT STIPULATED
9	LOCK IN	AS IN MAIN BOARD IPO REGULATION 36	AS PER REGULATION 106ZB CHAPTER XC	AS PER REGULATION 106ZB CHAPTER XC
10	MINIMUM TRADING LOT	Rs. 1 Lakh	Rs. 10 lakhs	Rs. 10 Lakhs
11	EXIT OPTION	ONLY THROUGH DELISTING	AS PER REGULATION 106ZD	AS PER REGULATION 106ZD



MANAGING GROWTH - GOVERNANCE PERSPECTIVE

Governance Framework & Important applicable regulations

- Companies Act
- SEBI ICDR Regulations
- Listing Agreement with Stock Exchange
- Direct Tax Laws
- Approvals, Permissions and Registrations
- Foreign Exchange Management Act, if there are non resident investments or in case of outbound investments
- Laws applicable based on sector / industry

MANAGING GROWTH – GOVERNANCE PERSPECTIVE

- Change in Constitution
 - Analysis of various options
 - Slump Sale vs takeover
 - Amalgamation of companies
- Conversion of firms etc.
- Managing Increased compliance costs
- Managing Increased complexities

Conversion into public company and related compliances

- Private Company to be converted into public company
- Increase in Minimum number of members
- Increase in minimum number of directors
- Review of on-going contracts / transactions & Identification of related compliance requirements

Alteration of Memorandum and Articles of Association

- Possible Change of Name arising out of consolidation of business
- Alteration of Objects Clause
- Alteration of Articles of Association to include clauses applicable for public listed companies

Related Party Transactions

- Section 188 – Substantially enhanced complexities and disclosures
- Listed companies also covered by Clause 49
- Underlying principle – Arms length and in the ordinary course of business
- Review of related party contracts & transactions for reducing complexities
- Consolidate / restructure related party entities and related party contracts & transactions

Composition of the Board

- Section 149 requires every listed company to have 1/3rd of total directors as independent directors
- Listed companies and certain class of companies must have a woman director
- Detailed compliance requirements for appointment of independent directors

Compliance Management System

- Specific responsibility of the directors to devise proper compliance systems to ensure compliance of provisions of all applicable laws and that such systems were adequate and operating effectively (Section 134(5)(e))
- The Secretarial Auditor is required to report whether there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with the applicable laws, rules, regulations and guidelines.

Compliance Management System (Contd.)

Management to give importance to the following :-

- Developing and establishing a Corporate Compliance Policy
- Reporting on Compliances and reporting of non compliances

Separate tracking for the following :-

- Procedural Compliances
- Event based compliance
- Periodic compliance
- Identified Non compliances and action taken for ensuring compliance
- Emphasis also on ensuring regulatory updates from time to time.

THE OPPORTUNITY TO EXCEL

- “Make in India” – the motivating force behind Indian SME’s
- And the journey goes on, let us manage the growth by exercising due care and diligence
- CMA and CS the catalyst in transition, let us exercise due diligence, govern ourselves better and make ourselves stronger.
- Today’s SME’s are the large enterprises that will do India proud in the next generation
- Let us take up this journey

A conceptual image featuring a dark asphalt road that curves upwards into the sky, ending in a large black arrow pointing towards the horizon. The background is a vibrant sunset or sunrise with a bright sun low on the horizon, casting long rays of light across a sky filled with scattered, colorful clouds. The foreground consists of a lush green field. The overall mood is one of hope, progress, and achievement.

THANK YOU