

SME Listing: A Powerful Growth Strategy

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SME Capital Market is a credible and efficient marketplace to bring about a convergence of sophisticated investors and growing corporates in India.

Background

“A small business is an amazing way to serve and leave an impact on the world you live in” - Nicole Snow

Small and Medium-sized Enterprises (SMEs) have emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. They not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. SMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

The SME Capital Market is a credible and efficient marketplace to bring about a convergence of sophisticated investors and growing corporates in India. It offers opportunities to inform investors to invest in emerging businesses with exciting growth plans, innovative business models, and commitment towards good governance and investor interest.

The SME Capital Market has customized processes and systems which will help prospective issuers in their journey of metamorphosing into listed public companies. The SME platform will provide capital raising opportunities to credible and fast-growing businesses with good governance standards. It will be an ideal platform to raise funds for companies on a growth path, but not large enough to list on the mainboard.

MSME – Classification in India w.e.f. 01-07-2020

MSME stands for MICRO, SMALL and MEDIUM Enterprises. It covers manufacturing enterprises and enterprises rendering services.

- **MICRO:** Investment not more than Rs. 1 crore and annual turnover not more than Rs.5 crores
- **SMALL:** Investment not more than Rs. 10 crores and annual turnover not more than Rs. 50 crores
- **MEDIUM:** Investment not more than Rs. 50 crores and annual turnover not more than Rs. 250 crores

SME Listing on Stock Exchange

Under the guidance and monitoring of the Securities Exchange Board of India, BSE Limited had launched its SME platform - BSE SME Platform and the National Stock Exchange of India Limited had launched its platform “NSE Emerge” in 2012. These platforms offer a unique opportunity to aspiring SMEs to raise capital, unlock their value and get listed on a nationwide stock exchange. They provide guidance to SMEs on the process required to list and introduce them to intermediaries that can assist such companies to in listing.

Small and Medium Size Enterprises have difficulty accessing Equity Capital from public sources. They are forced to access capital from family and friends. However, this source also has its own limitations. Hence, many of them try to raise equity from non-private sources such as Alternate Investment Funds (AIF). The return expectation by the AIFs, governance issues, transaction size and cost make it less attractive for the SMEs.

The size of funds required by the SMEs make main board issues an unattractive proposition. It is with this need in mind that regulators have created the SME Exchanges. These SME

Exchanges address the issue of size, cost, control etc. that are vital for functioning of the SMEs.

The Benefits of listing on the SME Exchange

1. It provides access to equity capital which is a direct growth driver.
2. It enables the SME to unlock the enterprise value of the SME.
3. It stipulates, regulates, and ensures adherence to good governance practices.
4. Listing on an SME Exchange enhances the visibility of the companies.
5. It increases the credibility of the Company for the various stakeholders like shareholders, clients, employees, government etc.
6. SMEs can access the market in a cost-effective manner.
7. SMEs need not dilute existing promoters below 75%
8. The time required to execute the issue is less compared to raising funds on the mainboard.
9. Once the shares of SME Company are listed, it provides access to additional fund raising in future
10. Listed shares act as a currency for the SME, especially business acquisition transactions
11. It provides the advantage of seamlessly migrating to the main board.

At this stage, it is worth noting what Peter Lynch said “I think you have to learn that there's a company behind every stock and there's only one real reason why stocks go up. Companies go from doing poorly to doing well or small companies grow to large companies.

Requirements for Listing - SME

S. NO.	PARTICULARS	B.SE - REG	NSE - REQ
1.	Incorporation	Company must be incorporated under the Companies Act 1956 or The Companies Act 2013.	The Issuer should be a company incorporated 1956 or The Companies Act. 2013
2.	Post issue Paid-up Capital	The post issue paid up capital of the company (face value) shall not be more than Rs. 25 crores	The post issue paid up capital of the company (face value) shall not be more than Rs. 25 crores
3.	Net worth	Positive Network	N/A
4.	Tangible As set	Net Tangible assets should be Rs. 1.5 Crore.	N/A

S. NO.	PARTICULARS	B.SE - REG	NSE - REQ
5.	Track Record	<p>The company or the partnership /proprietorship /LLP firm or the firm which has been converted into a company should have a combined track record of atleast 3 years.</p> <p>OR</p> <p>In case it has not completed its operation for three years, then the company/proprietorship/LLP should have been funded by banks or financial institutions or central or state government or the group company should be listed for at least two years either on the main board or SME board of the exchange.</p> <p>The company or the firm which have been converted into the company should have combined positive cash accruals (earnings before depreciation tax) in any of the year out of last three years and its net worth should be positive</p>	<p>Track record of atleast three years of either</p> <ol style="list-style-type: none"> 1. The applicant seeking listing; or 2. The promoters/****promoting company 3. Proprietary/ Partnership Firm & subsequently converted into a Company (not in existence as Company for three years) and approaches the Exchange for listing <p>****Promoters mean one or more persons with a minimum 3 years of experience in the same line of business and shall be holding at least 20% of the post issue equity share capital individually or severally.</p> <p>The company/entity should have positive cash accruals (earnings before depreciation and tax) from operations for atleast any 2 out of 3 financial years preceding the application and its net-worth should be positive.</p>
6.	Other Requirements	<ul style="list-style-type: none"> • It is mandatory for a company to have a website • It is mandatory for the company to facilitate trading in demat securities and enter into an agreement with both the depositories. <p>There should not be any change in the promoters of the company in preceding one year from date of filing the application to BSE for listing under SME segment.</p>	<p>The applicant Company has not been referred to erstwhile Board for Industrial and Financial Reconstruction (BIR) or No proceedings have been admitted under Insolvency and Bankruptcy Code against the issuer and Promoting Companies.</p> <p>The company has not received any winding up petition admitted by NCLT/Court. No material regulatory or disciplinary action has been taken by a stock exchange or regulatory authority in the past three years against the applicant company.</p>
7.	Disclosures	<p>A certificate from the applicant company/ promoting companies stating the following:</p> <p>The Company has not been referred to the Board Industrial and Financial Reconstruction (BIFR)</p> <p>Note - Cases where company is out of BIFR is allowed.</p> <p>There is no winding up petition against the company which has been admitted by the court or a liquidator has not been appointed.</p>	<p>The following matters should be disclosed in the offer document:</p> <ul style="list-style-type: none"> • Any material regulatory or disciplinary action by a stock exchange or regulatory authority in the past one year in respect of promoters /promoting company(ies), group companies, companies promoted by the promoters/ promoting company(ies) of the applicant company. • Defaults in respect of payment of interest and/or principal to the debenture/bond/ fixed deposit holders, banks, FIs by the applicant, promoters /promoting companies), group companies, companies promoted by the promoters /promoting company(ies) during the play three years. • The applicant, promoters/promoting company(ies), group companies, companies promoted by the promoters/promoting company(ies) litigation record, the nature of litigation, and status of litigation.

S. NO.	PARTICULARS	B.SE - REG	NSE - REQ
			In respect of the track record of the directors, the status of criminal cases filed or nature of the investigation being undertaken with regard to alleged commission of any offense by any of the company, where all or any of the directors of issuer have or has been charge sheeted with serious crimes like murder, rape, forgery, economic offences.

SME IPO & Listing

When an unlisted company seeks to raise money by selling securities or shares to the public for the first time, it announces an Initial Public Offering (IPO). In other terms, it is the public sale of securities on the primary market.

In 2021, initial public offerings by firms rose to about 63, the highest since 2010. Not just that, in the previous year, these IPOs raised a record-breaking amount of Rs. 1,19,882 crores (USD 15.4 billion) in total as well.

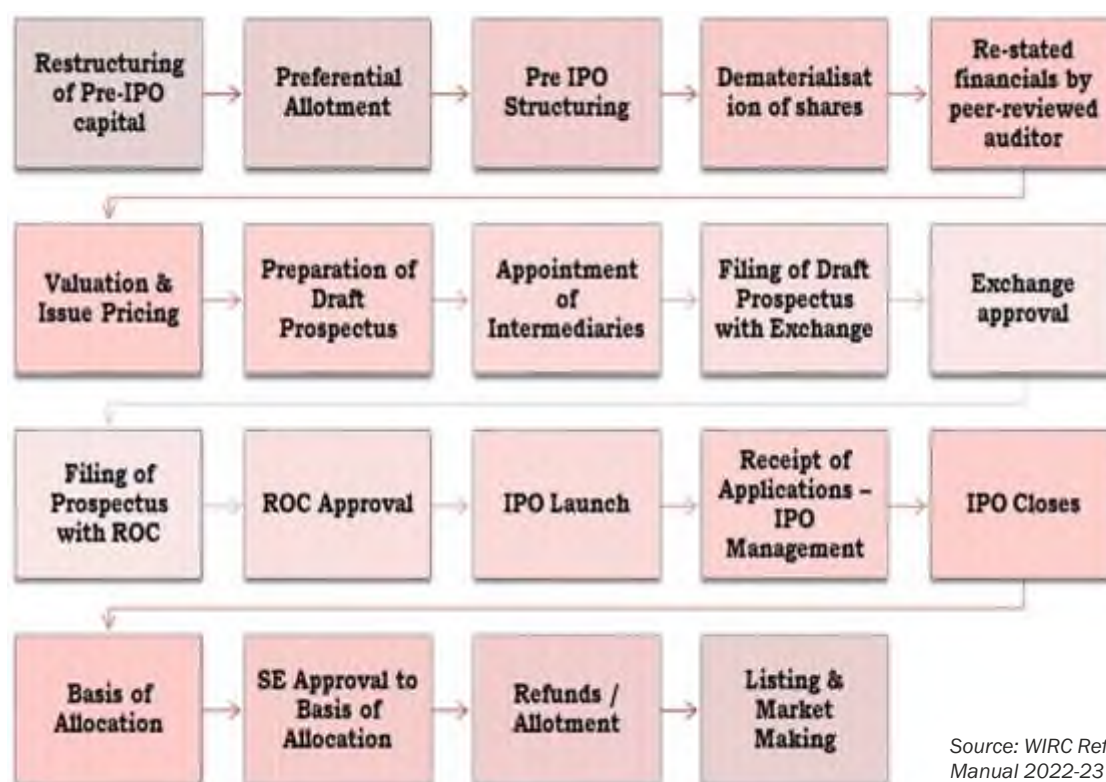
However, one thing we all need to remember is that not all of them are created equal, and not all new companies that issue their first stock are successful ones. Thus, if you are investing for the first time, you should be wary of some pros & cons of IPO.

As mentioned above, an Initial Public Offering allows the company to issue security by selling its stock to the general public. It is a type of sale that most companies do to raise capital. New securities issued for the first time are dealt with in a primary market.

The company became publicly traded, and its shares are available for free open market trading when listed on a stock exchange. The process can be quite costly but, at the same time, easy, making it an ideal option for those who lack money or time to conduct due diligence in their business.

SME IPO can be completed in 60 days subject to availability of all the documents & Approvals.

Procedure Flow Chart



Source: WIRC Reference Manual 2022-23

Choosing an initial public offering has several benefits over staying private, especially if your business grows rampantly.

Below mentioned are some of the significant pros & cons of IPO you should be aware of:

Pros & Cons of IPO

S.No.	Pros	Cons
1.	Capital Access	Higher starting cost.
2.	Gaining Visibility & Recognition	Increased pressure to deliver results
3.	More Options & Flexibility	Financial reporting becomes public
4.	Transparency	More administrative work
5.	Helps in achieving Long Term Objective	Distractions caused by the IPO process
6.	Better Liquidity	Less Autonomy
7.	Entity can raise lot of Cash & fast	
8.	Helps in achieving financial health	
9.	Helps in attracting & retaining Talent	
10.	Creates better perception for the entity	
11.	Better negotiation / bargaining power	

Conclusions

There is no simple answer to the question as to whether an entity should go for IPO and Stock Listing. Investing in a listed company is preferred by investors due to easy exit opportunities. Listed companies are under obligation to give timely disclosures and follow all the compliances. An IPO is a big step for a company as it provides the company with access to raising a lot of money. This gives the company a greater ability to grow and expand. The increased transparency and share listing credibility can also be a factor in helping it obtain better terms when seeking borrowed funds as well. This transparency boosts investments as it creates confidence amongst the investors. Further, a

company can raise capital pursuant to the IPO through FPO and Private Placements. It can also delist itself from the stock exchanges. It all depends on the entity's 'Purpose', 'Strategy' and 'Growth aspirations etc. However overall, the pros of listing and going for IPO far outweighs the cons and hence going for IPO & Stock listing is not only a good proposition but may be a sound business decision. ■

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