

FAQ on SME Exchange

1) What is SME Exchange?

SME Exchange provides a great opportunity to the entrepreneurs to raise equity capital for the growth and expansion of SMEs. SME exchange is a stock exchange dedicated for trading the shares of small and medium scale enterprises (SMEs) who, otherwise, find it difficult to get listed in the main exchanges. The concept originated from the difficulties faced by SMEs in gaining visibility or attracting sufficient trading volumes when listed along with other stocks in the main exchanges. World over, trading platforms / exchanges for the shares of SMEs are known by different names such as Alternate Investment markets or growth enterprises market, SME Board etc.

2) How is the SME Platform different from the main board?

The new thing about the SME platform is that the issue will be 100% underwritten, therefore the issue will be 100% subscribed.

3) How SME Platform is going to help smaller firms?

There have been traditional ways of funding available to the SME companies. A dedicated platform for these SMEs will help them in finding a solution to their financial requirements to execute their financial plans. Listing of companies on the exchange will give a better valuation of the company. The debts and equity ratio will improve and balance sheet will look much healthier.

4) Whether grading of IPOs is mandatory for listing on SME platform?

As per ICDR regulations, grading is not mandatory for listing on the SME Platform.

5) What are the eligibility criteria for listing with SME Exchange?

- 1) Net Tangible assets of at least INR 1 crore as per the latest audited financial results.
- 2) Net-worth (excluding revaluation reserves) of at least INR 1 crore as per the latest audited financial results.
- 3) Track record of distributable profits (excluding extra-ordinary income) in terms of section 205 of Companies Act, 1956 for at least two years out of immediately preceding three financial years, with each financial year being a period of at least 12 months. Otherwise, the net-worth shall be at least INR 3 Crore.
- 4) The post-issue paid up capital of the company shall be at least INR 1 crore.
- 5) The company shall mandatorily facilitate trading in DEMAT securities and enter into an agreement with both the depositories.
- 6) The company shall mandatorily have a website.
- 7) Certificate from the applicant company / promoting companies stating the following :

- 8) The Company has not been referred to the Board for Industrial and Financial Reconstruction (BIFR), although the Companies which are out of BIFR are allowed. - There is no winding up petition against the company that has been accepted by a court.
- 9) A visit to the company's site will be undertaken by the Exchange before granting of approval to use the name of the exchange in the offer document.
- 10) It shall also be desirable for the Company to file a compliance certificate by a Practicing Company Secretary as per the guidance note issued by the Institute of Company Secretaries of India as an additional eligibility criteria issued by BSE through its circular dated 26-11-2012

6) Whether the investors are protected under Investors Protection Fund (IPF) on the SME Platform?

The provisions of the IPF for the main board apply to SME Platform also. The investors in the secondary market are covered under this.

7) Whether the suspended companies will be allowed to list on the SME Platform?

The suspended companies are not permitted for listing on BSE SME platform.

8) What are the corporate governance norms for the companies listed on the SME Platform?

Clause 52 of the listing agreement of the corporate governance will be applicable to the SME Segment. There has to be 50% independent directors on the main board of listed SMEs.

9) What are the main features of SME Listing?

- 1) An Issuer with post-issue face value capital up to Rs.10 Crores will be invariably covered under the SME Exchange.
- 2) An Issuer with post-issue face value capital between Rs.10 Crores to 25 Crores may get listed on either SME Exchange or Main Board.
- 3) Issue with post issue face value capital above Rs.25 Crores has to be necessarily listed on the Main Board of the BSE.

- 4) Suitable provisions for migration to/from Main Board from/to SME Exchange
- 5) Minimum 50 investors required while listing IPO. No post-listing continuous requirement of minimum number of shareholders
- 6) The minimum application amount as well as minimum trading lot shall not be less than Rs.1,00,000.
- 7) Unlike other companies, the IPO prospectuses of SMEs will be vetted by exchanges rather than SEBI.
- 8) Merchant bankers who manage an SME listing are mandated to underwrite the new share offering 100% and appoint brokers to act as market-makers for at least 3 years from the date of listing.
- 9) Financial results shall be submitted on half yearly basis instead of on quarterly basis.
- 10) SMEs need not publish their financial results, as required in respect of companies listed on the Main Board. The SMEs can make it available on their websites.
- 11) SMEs can send the abridged version of the annual report of few pages with the details of the profit & loss account and balance sheet to the shareholders instead of sending physical copies of full annual report.
- 12) SMEs have been exempted from the condition of having a track record of profit making for 3 years out of last 5 years as applicable for listing an IPO on the Main Board.

10) What due diligence must be observed as part of IPO?

- 1) Due diligence is required to be done on various approvals that a corporate is required to have also on the applicability of various regulations.
- 2) Important tips:
- 3) Avoid suppression of profits from taxation point of view. Full and truthful disclosure of profits will help in getting a better valuation.
- 4) EPS, OP, Profit margin, cash flow, Industry P/E Ratio are important to decide the extent of equity capital that the SMEs can raise from the capital markets.
- 5) The companies are advised to dilute the equity in phases at different stages of their growth, instead of diluting large equity upfront.