

NEW FINANCING OPTIONS - SME IPO

PRESENTED BY

PRABHUDEV ARADHYA. S

B.Sc, LL.B, FCA, DBA, DISA

CHARTERED ACCOUNTANT



AND

PRANABH PANIGRAHI

COMPANY SECRETARY

PRESENT FUNDING OPTIONS FOR SME

- Term Loans
- Working Capital Loans-Fund and Non-Fund based
 - -Cash Credit, Bill Discounting, Debtors, Shipment Credits, Letter of Credits, Bank Guarantees etc.
- Loans against property
- Venture Capital
- Private Equity
- Angel Investors
- Crowd Funding
- Special Lines of Credits, FDIs
- Unsecured Loans

PERCEPTION OF SME's BY FINANCIAL INSTITUTIONS

- Majorly, MSMEs are under-capitalised and highly leveraged
- Flexibility – New opportunities not taken by SMEs
- Personal Relationships – Promoter centric
- Family & friends Involvement common-Viewed differently
- Single Credit Provider – Gets tied up
- Lack of Professionals – Technical, Professional, Legal, Managerial etc.
- Dependence on a single client - Ancillaries
- Susceptibility – Shocks, Rehabilitation
- Problem with Restructuring – not Mandatory to finance

ALTERNATIVE.....

SME Listing

- It was introduced by The Finance Minister in his budget speech on Feb 28, 2013.
- "Small and Medium Enterprises (SMEs), (including start-up companies) will be permitted to list on the SME exchange (NSE EMERGE and BSE SME)
- This will be in addition to the existing SME platform in which listing can be done through an IPO and with wider investor participation".
- The SME need not require to make an Initial Public Offer but the participation can be restricted to informed investors.
- Foreign Investors prefer Equity Funding route
- Where a need arises, Pre IPO Funding could be considered

BENEFITS OF SME IPO

- It's an opportunity for a Small and Medium company (SME) to raise funds by issue of shares and enter the Capital market (IPO)
- Fund raised through SME IPO can be used for any purposes of the Business of the Company, there is no restriction on use of issue proceedings. Funds for Expansion, Diversification, working capital and **M & A**.
- In the present situation we should look to opportunities of businesses shifting out of China or access to Global Markets
- Covers the issues of High cost of Credit, adequate Credit and Timely Credit
- Also existing shareholders can sell their shares through the same process (Offer for Sale). The issue should be combination of IPO and Offer for Sale.
- Potential risk of failure of IPO is NIL as the issue is 100% underwritten.

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M/s. Raju and Prasad
Chartered Accountants

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BENEFITS OF SME IPO

- Promoter will neither lose his shareholding (in numbers) nor control over the management of the Company.
- After two years Company can voluntarily shift to main board and in secondary market shares can be freely purchased and sold without any lot size restriction.
- Once a Company is listed it attracts investors/Fund Houses to invest further in the Company, which creates more value addition to the Company.
- Once a Company is listed its credit rating also changes which results reduction in interest rate with Lenders.
- After listing the affairs of the Company are regulated in more professional manner with good corporate governance practices, which reduces the risk of non-compliances.

BENEFITS OF SME IPO

- It unlocks the valuation door for the Company and further creates values for the Company, in long run.
- Once the Company listed shares of the Company can be freely traded in stock exchange
- Higher eligibility criteria will be available for further borrowing for short term, when need arises
- Greater Liquidity will always be available to the Company by trading their shares.
- After consolidation, the Company can opt for further IPO, Rights Issue and Debenture/Bond Issues. Cost of entire IPO is as low as less than one year borrowing cost.
- Hostile Take-over threats not possible
- The Promoters can also take a look at IPO as an Tax Planning, Succession Planning or as the exit option

ELIGIBILITY CRITERIA

For listing on NSE Emerge Platform

- The following criteria should be complied with as on the date of filing the DRHP with NSE as well as when the RHP is filed with RoC and SEBI.
- The Issuer should be a Company incorporated under the Companies Act, 1956 or Companies Act, 2013 in India
- The post issue paid up capital of the Company (face value) shall not be more than Rs. 25 Crore
- Company should have good track record of at least 3 years.
- The Company should have positive cash accruals (earnings before depreciation and tax) from operations for at least 2 financial years preceding the application and its net-worth should be positive.

ELIGIBILITY CRITERIA

For listing on BSE SME Platform

- Post Issue Paid up Capital of the Company shall be at least Rs. 3 Crores.
- Net worth (excluding revaluation reserves) shall be at least Rs. 3 Crores as per the latest audited financial results.
- **Net Tangible Assets shall be** at least Rs. 3 Crores as per the latest audited financial results.
- **Track Record** - Distributable profits for at least two years out of immediately preceding three financial years (Section 123 of the Companies Act, 2013)
or
The net worth shall be at least Rs. 5 Crores.
- Extraordinary income will not be considered for the purpose of calculating distributable profits

BSE SME EXCHANGE FEATURES

- Post-issue paid-up capital of the issuer Company should not be more than **INR 10 Crore** shall be eligible to list its securities on the SME exchange.
- If the post-issue paid-up capital of the issuer Company lies between **INR 10 Crore and up to INR 25 Crore**, they have the option to list on the Main Board.
- A prospectus in relation to the issue shall also be filed with the SME Exchange and the jurisdictional Registrar of Companies.
- The issue is 100% underwritten and that a disclosure to that effect is made to SEBI, a day prior to the opening of the issue.
- Minimum application size in an SME IPO is fixed at INR 100,000 per application.
- The merchant banker to the issue shall bear the responsibility of compulsory 'market making' for a minimum period of 3 yrs.

OTHER REQUIREMENTS

- 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 the depositories.
- There should not be any change in the promoters of the Company in preceding one year from date of filing the application for listing under SME segment.
- Promoter is not debarred from participating in Capital Market .
- Promoter should not be in the list of willful defaulter under RBI.
- The applicant Company should not have been referred to Board for Industrial and Financial Reconstruction (BIFR).
- No petition for winding up is admitted by a Court of competent jurisdiction against the applicant Company.
- No material regulatory or disciplinary action by a stock exchange or regulatory authority in the past three (3) years against the applicant Company.

POST LISTING COMPLIANCES

- Disclose Shareholding pattern on half yearly basis.
- Disclose of Financial Results on half yearly basis.
- Comply with Corporate Governance requirements as prescribed for the SME platform.
- Disclose Corporate Actions where corporate benefits are involved (like dividend, split, buyback, bonus, rights).
- Intimation of Board Meeting where specific agenda disclosure shall be required (although not all board meeting intimation would be required) and their outcome.
- Disclose and intimate to stock exchanges, all the notices sent to shareholders and their outcome.
- Disclose details related to further raising of funds.
- Any change in Management Team.
- Disclose any Price Sensitive Information.
- Payment of listing fees.

CASE STUDY - 1

- ABC Pvt. Ltd. Having paid up capital of INR 5.00 Cr.
 - Free Reserves of INR 48.00 Cr.
 - PAT for 2019-20 INR 12.00 Cr.
 - The Company is planning to raise funds through SME IPO.
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- Design the SME IPO
 - Set Objects of the Issue
 - Internal Restructuring of Financials
 - Get Investors
 - Compliances

CASE STUDY - 2

- XYZ Pvt. Ltd. Having paid up capital of INR 5.00 Cr.
 - Free Reserves of INR 48.00 Cr.
 - Debt of INR120 Cr,
 - Finance Cost INR 14.00 Cr.
 - PAT for 2019-20 INR 12.00 Cr.
 - The Company is planning to raise funds through SME IPO.
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- Design the SME IPO
 - Restructure Existing Debt – Pre IPO
 - Improve Cash flow and PAT
 - Plan SME IPO after 2-3 Years

PROFESSIONAL OPPORTUNITIES

- You will be the 'face' of the SME
- Guiding SMEs for SME IPOs as a niche area of practice
- Suggest and educate SMEs on IPO, M and A, Joint Ventures, Private Equity, Strategic Sales, Exit strategies, etc, to help companies grow
- Developing Strategies and advice on Restructuring Capital -in line with the requirements of the Financial Markets
- Advise Post Issue Compliances
- Due Diligence Audit
- Pre & Post Listing Support
- Build a 'Financial Market Eco-system'

QUERIES ?

Please CONTACT:

CA Prabhudev Aradhya. S

CS Pranab Panigrahi

M/s. Raju and Prasad

Chartered Accountants

+ 91 92415-70047

+ 91 98440-78270

rajuandprasad_blr@yahoo.com

www.rajuandprasad.com

THANK YOU