

Sarthi Capital Advisors Private Limited
Bridging the Gaps



SME LISTING – A Primer
November, 2018

Privileged & Confidential

AGENDA



SME Listing - Background

SME Listing - An Overview of Key Requirements & Eligibility Norms

Key Benefits of SME Listing

SME Listing - Coming up in a BIG Way...

Merchant Banker – Partner in Process

SME IPOs - Select Issues Managed by Sarthi

Annexures





S A R T H I

SME Listing - Background



SMEs – The Real Engine of Growth

- Small and Medium Enterprises have played a vital role for the **growth of Indian economy** and has been the fountain head for many products and innovations for the Indian and international markets.
- Indian SMEs represent a **diverse asset class of emerging companies from both traditional sectors and new age economy sectors.**
- SMEs are now exposed to **greater opportunities than ever for expansion and diversification** in rapidly growing Indian market across the sectors.

Contribution to GDP	8.7 %
Share of Industrial output	45 %
Share of Exports	40 %
Total Employment	69 million
Job creation every year	1.3 million

Source : Ministry of Micro, Small and Medium Enterprises, GOI

Need of the Hour is to empower the SME Sector to take its rightful place as the growth engine of Indian economy.

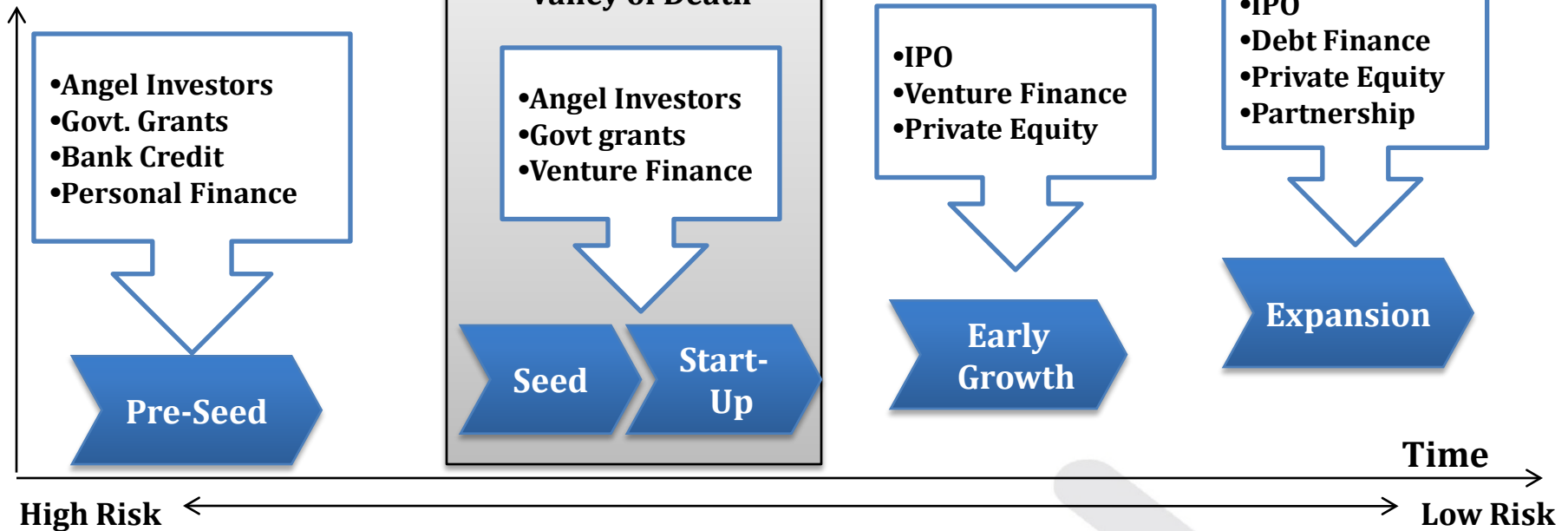
The initiatives like listing opportunities will help SME's realize their optimum potential.

Lifecycle of a SME



S A R T H I

Cash Balance



- Angel Investors and Government grants are the key sources of funding during pre-seed stage.
- Venture Capital firms are growing averse with risk associated with seed financing due to recession.

- Lack of Venture Financing is affecting startups and early growth companies.
- Most Companies fail to take off in the start up and early growth phase known as the Valley of Death due to lack of Capital commercialization.

With launch of new platforms for SME's and equity Markets bottoming out, one can look for Alternate Funding Options to meet their growth needs.

SME Listing - Background

BSE and NSE launched their respective platform for SMEs; MCX too is gearing up for SME Exchange

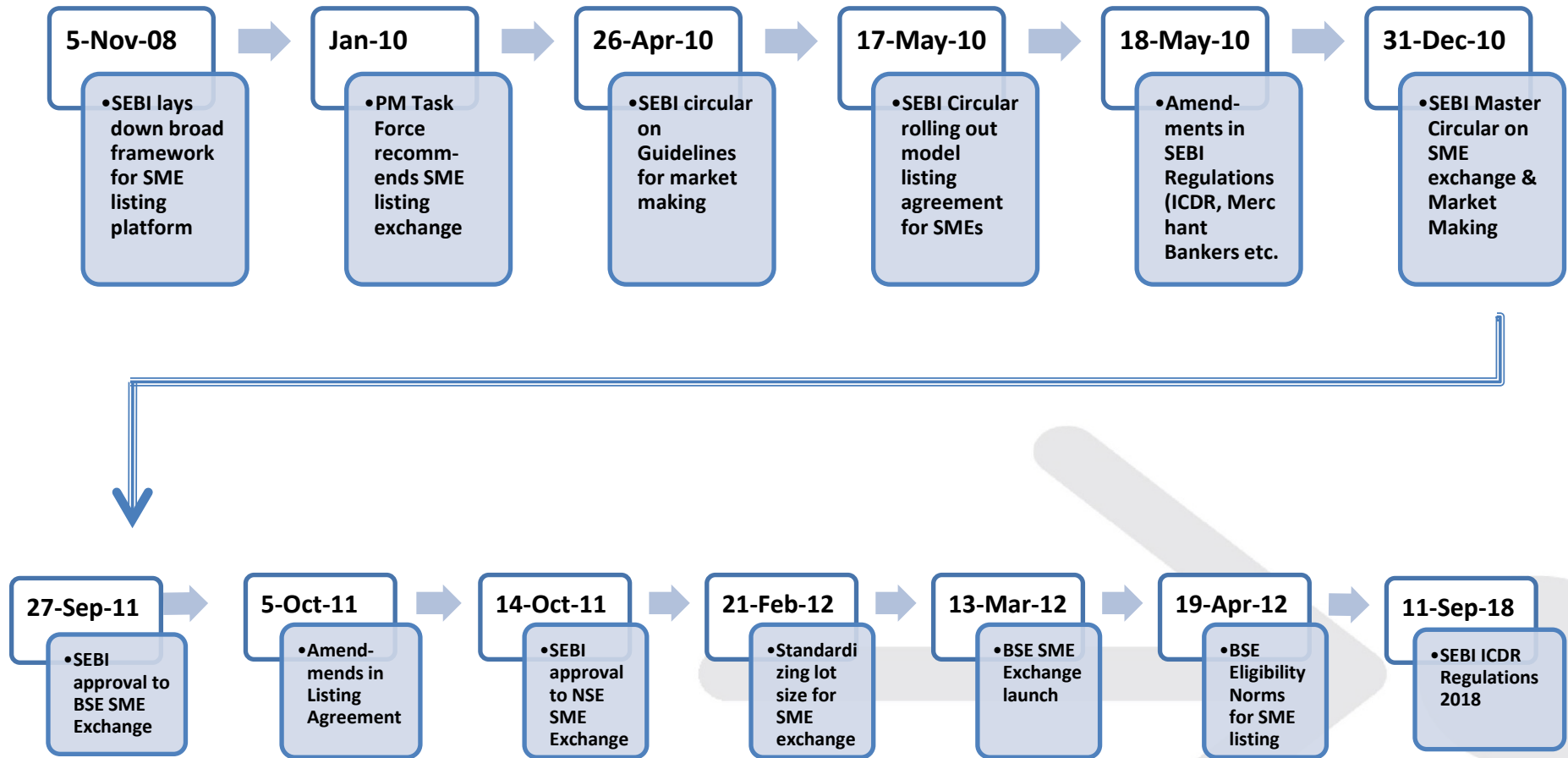
The move aims at providing an opportunity to SME entrepreneurs to raise growth capital and reap benefits of listed space

Both BSE & NSE leverage their existing 'equity platform' for SME exchange platform

As per estimate of SME Chamber of India, over 5000 SMEs have the potential for listing

A facilitative framework for SME listing

SME Listing – Evolution...



SME Listing - An Overview of Key Requirements & Eligibility Norms



SME Listing - Eligibility Norms (SEBI)

- Capital threshold for listing :

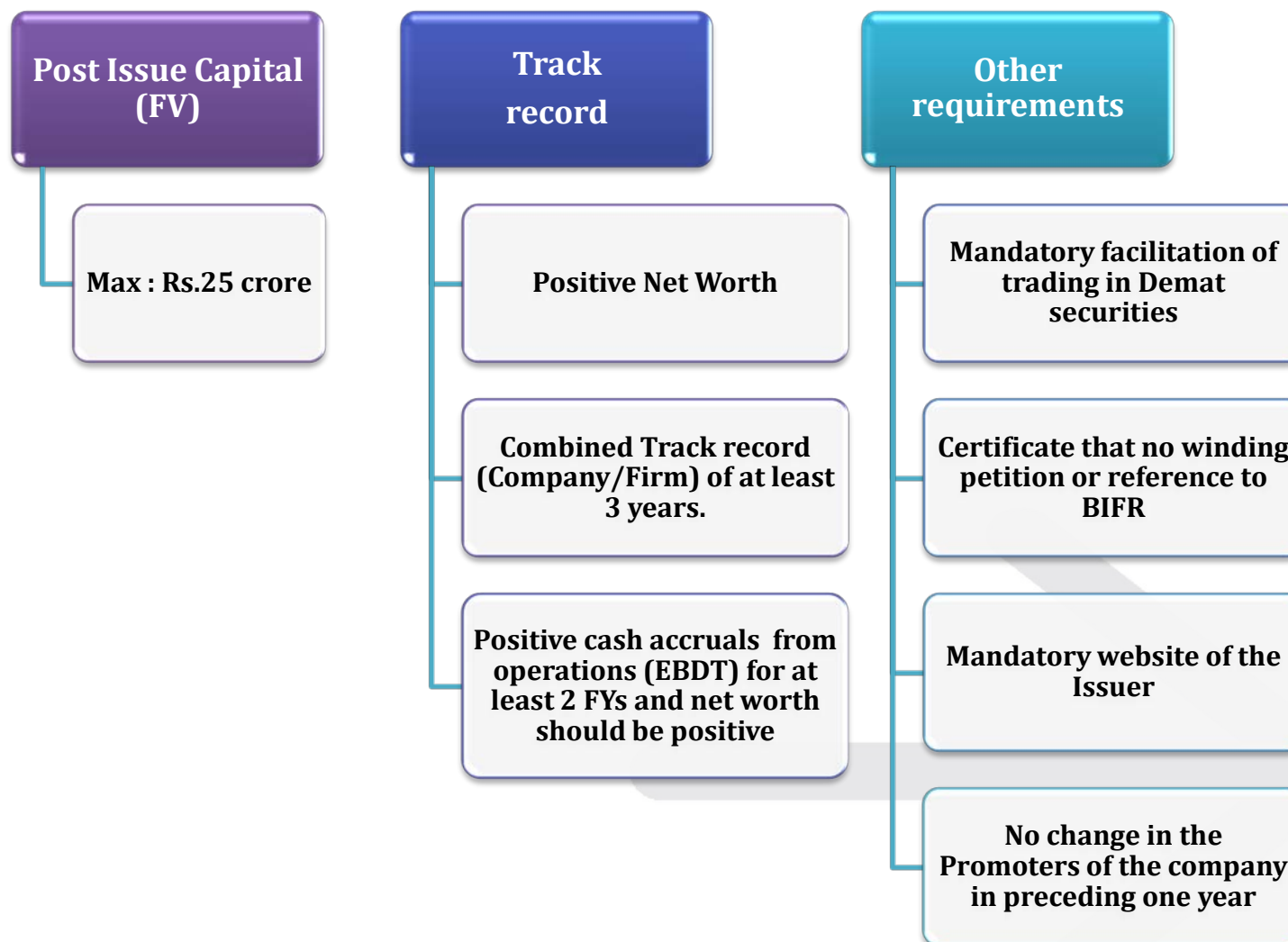
Post Issue Face Value Capital	Listing Platform
Up to 10 crores	SME Exchange
10 crores to 25 crores	SME/ Main Board
More than 25 Crores	Main Board

- Minimum application amount / trading lot of Rs. 1 lac
- Promoters or Directors shall not be fugitive economic offender
- Selling shareholder should not be a person who is debarred from accessing the market
- 100% underwriting (MB to underwrite 15% in own account)
- MB to undertake market making
 - through Exchange-registered market makers
 - for minimum period of 3 years
- Public Shareholding
 - Min. 25%
 - Min. 50 investors required; No post-listing continuous requirement
- Provisions for migration to / from Main Board from / to SME Exchange

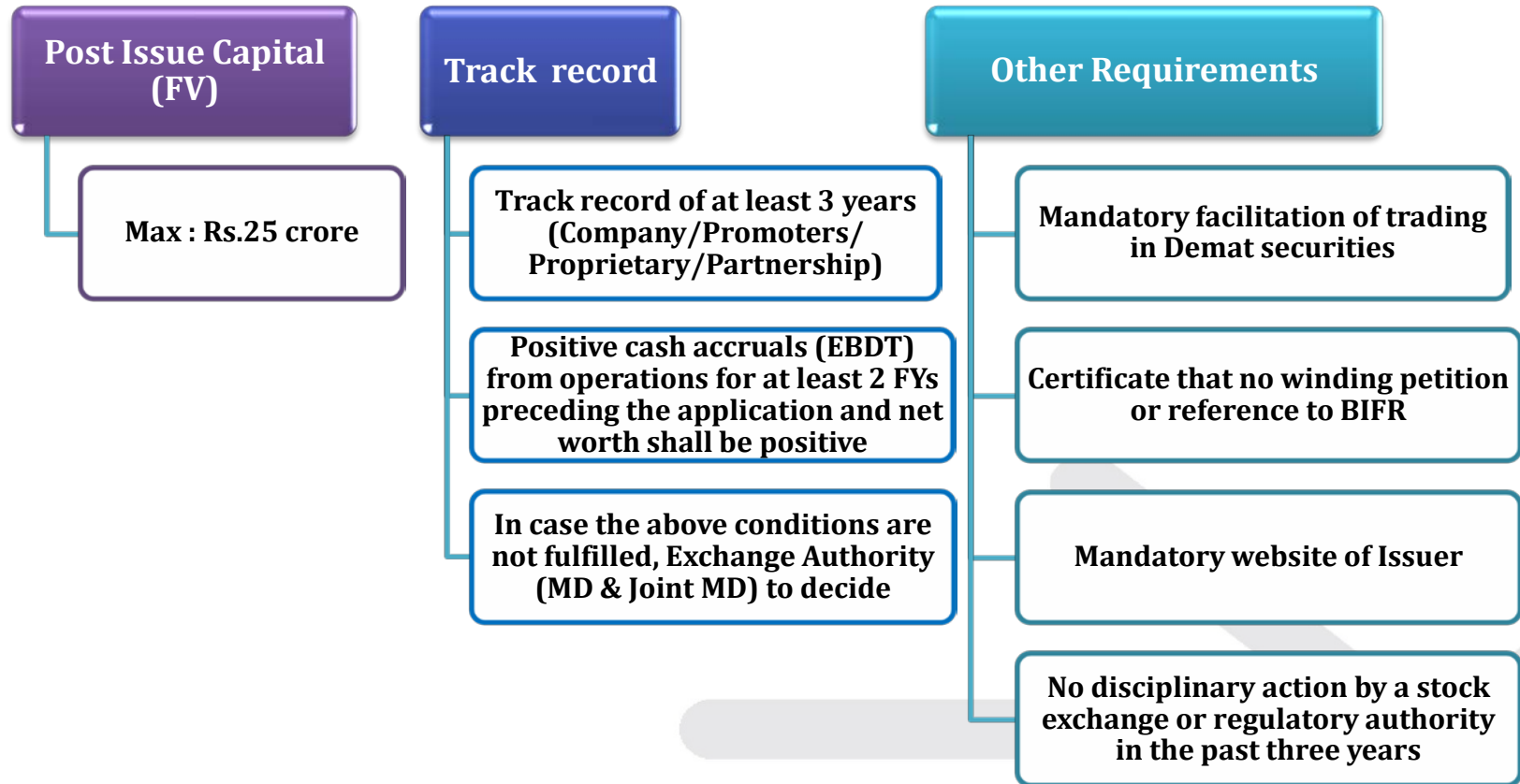
[Refer Annexure for key norms of SEBI ICDR](#)

[Offer Doc is not subject to SEBI vetting](#)

SME Listing - Eligibility Norms (BSE)



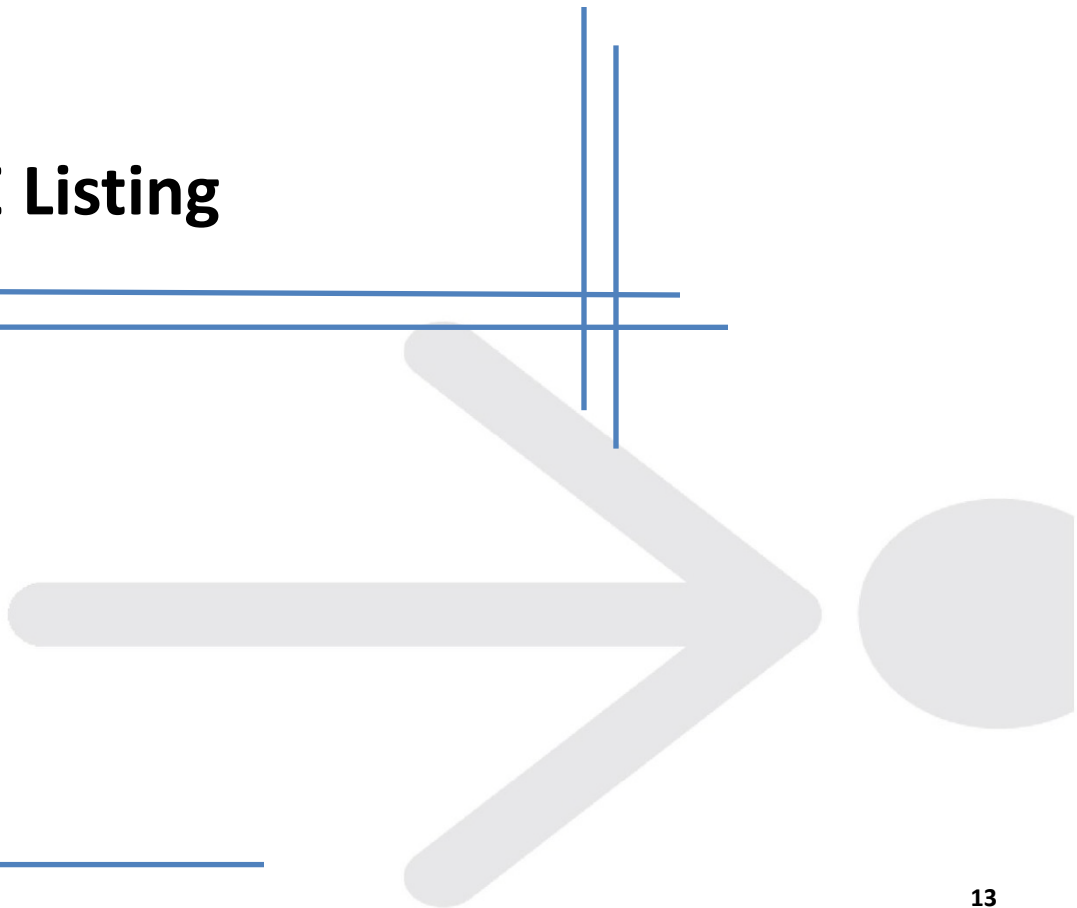
SME Listing - Eligibility Norms (NSE)



SME Exchange v. Main Board – Advantage SME

Parameters	Main Board	SME Exchange (NSE)
Post – issue paid up capital	Min Rs. 10 crore	Max Rs.25 crore
Minimum Allotees in IPO	1000	50
IPO underwriting	Non Mandatory (Under 50% compulsory subscription to QIB's)	Mandatory (100% underwritten with MB underwriting 15%)
IPO Grading	Optional	Optional
Track record	Stringent track record norms	Relaxed track record norms
Offer Document vetting	By SEBI	By Exchange
IPO Application Size	Rs. 10000 – Rs. 15000	Min. Rs. 1 lac
IPO Time frame	6 months	3 – 4 Months
Reporting Requirements	Quarterly Compliance	Half yearly Compliance

Key Benefits of SME Listing



Key Benefits of Listing



Funding Convenience

- Access to capital & financing opportunities
- Avoid unlisted space discounting
- M&A Currency
- Entry / Exit platform for PE / other investor

Tax Benefits

- Short Term Capital Gain Tax at reduced rate of 15%
- No WHT on Buyback
- No tax on equity infusion in the company & on 'distress business' purchase



Others

- Unlocking value
- ESOPs – Talent retention tool
- Visibility – Profile building
- Improved Governance - Internal systems

Key Benefits of SME Listing



Implications of Listing	Resulting Benefits
Collateral Value	Raising of loans through collateral of listed shares possible
Improves Credit Rating	Cost of finance reduces
Visibility	<ul style="list-style-type: none"> • Brand building • Stock Exchange quote • Analysts' coverage
Lenders' / Suppliers' increased comfort	<ul style="list-style-type: none"> • Increase in credit period • Lesser negative covenants
Transferability of shares at market price	<ul style="list-style-type: none"> • ESOPs – Higher compensation for senior executives without cash / P&L burden • Overseas listing possible

Key Benefits of SME Listing



Operational Benefits of listing – Illustrative Case Study

Particulars	Unlisted	Listed	Remarks
Sales	2000	2200	Branding & visibility may help increase sales / orders
Total Expenses	1500	1550	Expenses increases but at lesser rate due to scale benefits such as higher bargaining power, bulk discounts etc.
EBITDA	500	650	Increase in sales at reduced expenses results in increased EBIDTA & EBIDTA Margin
EBITDA %	25	29.55	
Interest	28	22	Listing often results in cheaper cost of funding (assumed debt of INR 300 lakhs @ int rate of 14% pre-listing and 11% post-listing)
Dep.	5	5	
PBT	473	623	Increase in PAT and PAT margins due to increased EBITDA and reduced borrowing cost
PAT	331	436	
PAT %	16.56	19.82	

Amounts in INR Lakhs.

Key Benefits of SME Listing



Tax on Buy Back of Shares

- Unlisted companies subject to 20% tax on buy back of shares



Tax on Infusion

- Unlisted Companies subject to 30% tax on issue of new shares at a premium exceeding fair value



Purchase of Distressed Asset

- Purchase of distressed asset below NAV is subject to tax @ MMR

All such taxes are NOT applicable in case the shares are listed. This enables tax-free

- entry and exit (through buy back, fund infusion)
- purchase of distressed assets,
- share transfers (eg. Family Succession, Intra-Group Transfers, Third-party Transfers etc.)

Key Benefits of SME Listing



Valuation benchmarking

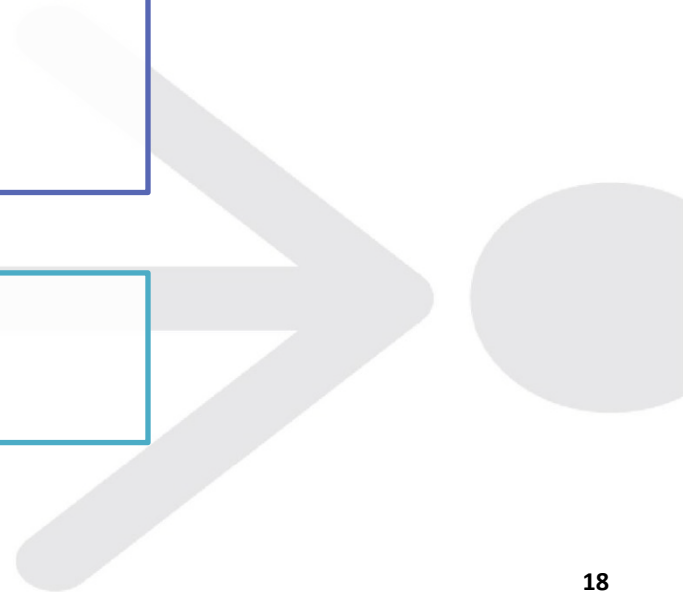
- Wealth creation through market cap of shares upon listing (Refer Next Slide)

Listed shares as currency

- Use of shares for takeovers / M&A transactions, leading to inorganic growth

Promoter Profile Building

- Adds to social reputation and status



Key Benefits of SME Listing



Wealth Creation – Select Examples

	Tiger Logistics	HI-Tech Pipes	Akme Star Housing Finance	Wealth First Portfolio Managers	Focus Lighting & Fixtures
Market cap. & Price Pattern					(Rs. Crore)
Issue Price	66	50	30	50	45
Mcap at IPO	27.9	52	18	32	15
CMP (Face Value INR 10)*	141.95	258.40	53.00	151.20	114.00
Current Mcap*	150.08*	276.52	64.02	96.66	38.52

***Prices as on 31st October, 2018**

- **Tiger Logistics** have allotted 3:2 Bonus on 16/05/15

Key Benefits of SME Listing



Internal Controls

Improved Systems

Better Information Flow

Data management

Good corporate governance helps companies immensely and also increases the confidence among its stakeholders

SME Listing – Coming up in a BIG way...



SME - Coming up in a BIG Way...

So far, 274 companies have been listed on BSE SME Exchange & 185 on NSE Emerge Exchange

Particulars	Tiger Logistics	HI-Tech Pipes	Akme Star Housing Finance	Wealth First Portfolio Managers
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* Prices as on 31st October, 2018

SME - Coming up in a BIG Way...

Particulars	Focus Lighting & Fixtures	Salasar Techno Engineering	Jet Freight Logistics	Jet Knitwears
Market cap. & Price Pattern				(Rs. Crore)
Issue Price	45	108	28	39
Mcap at IPO	15	143	15.3	16
CMP (Face Value INR 10)*	114.00	214.05	27.55	53.00
Current Mcap*	38.52	284.37	31.96	21.64

* Prices as on 31st October, 2018

Jet Freight Logistics have allotted bonus on 17/09/18 at the ratio of 1:1

SME - Coming up in a BIG Way...

Particulars	Aarvi Encon	Infobeans Technologies	Libas Designs	Five Core Electronics
Market cap. & Price Pattern				(Rs. Crore)
Issue Price	54	58	68	140
Mcap at IPO	79.83	139	51	137.55
CMP (Face Value INR 10)	46.15	58.70	49.75	110.00
Current Mcap *	68.23	140.97	55.97	138.83

*** Prices as on 31st October, 2018**



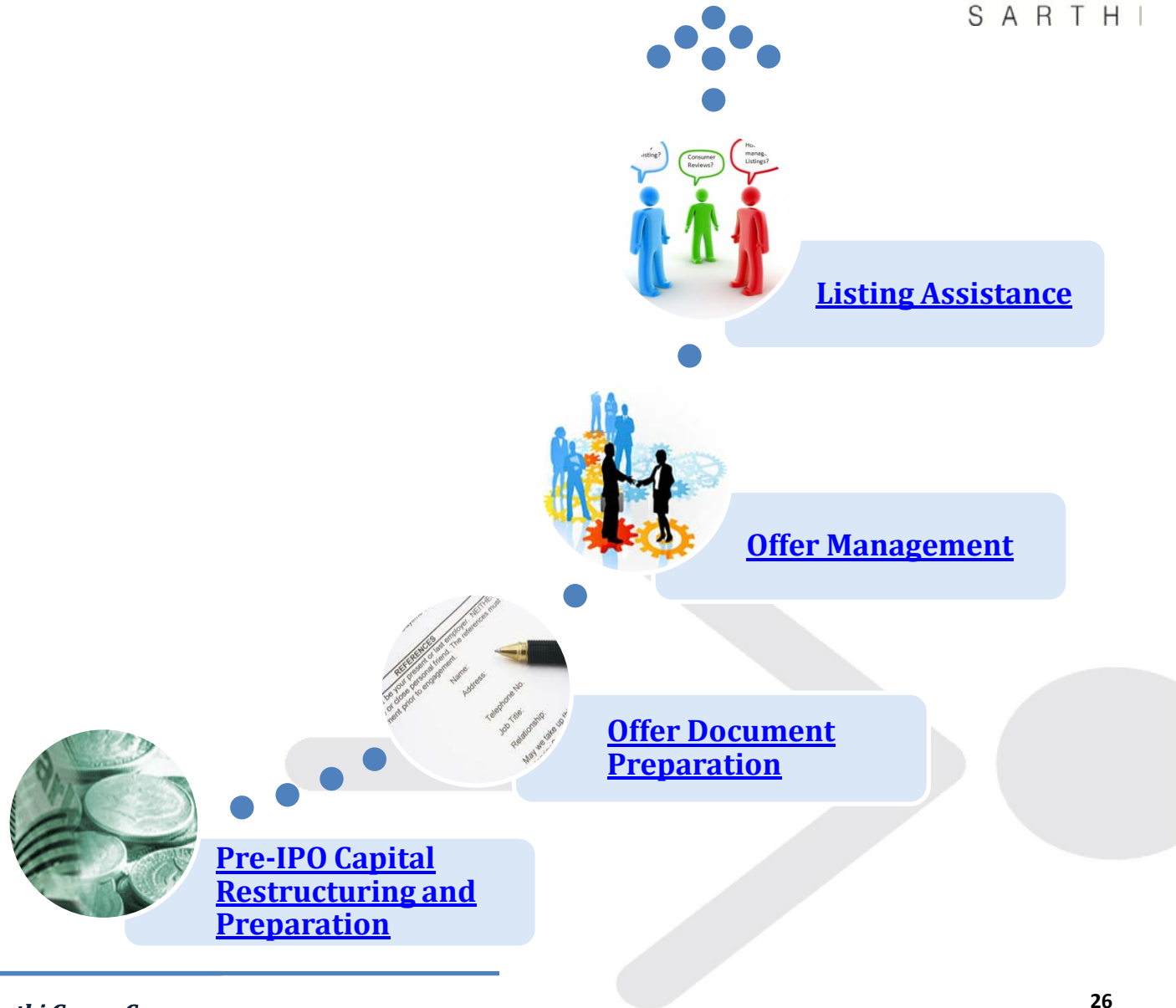
S A R T H I

Merchant Banker - Partner in Process

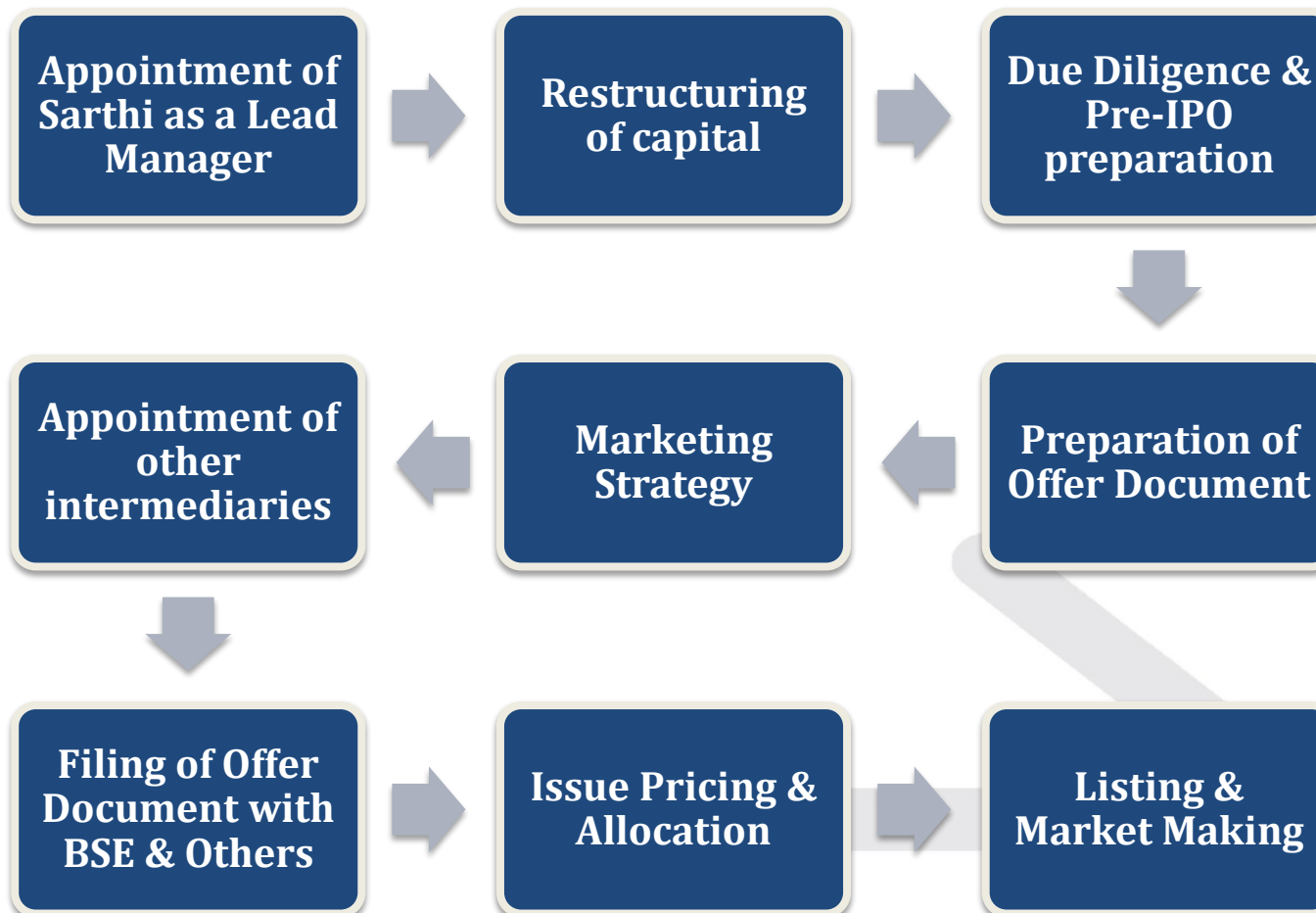
A decorative graphic on the right side of the slide, featuring a large, light gray arrow pointing right, a light gray circle to its right, and a blue crosshair-like structure composed of two vertical and two horizontal lines.

Merchant Banker – Partner in Process

*End-to-end
assistance
and
hand-holding
by
expert &
dedicated
Team –
TEAM SARTHI*



SME Listing – Way Forward...



SME IPOs - Select Issues Managed by Sarthi

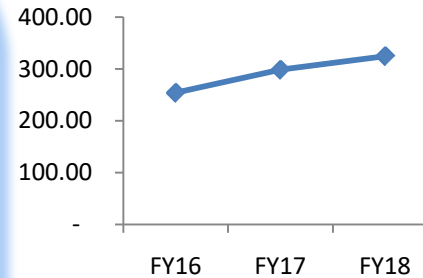


Financial Snapshot

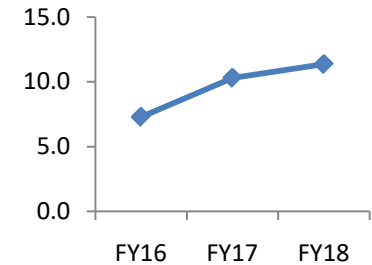
Business Introduction

- Incorporated in the year 2000,
- Tiger Logistics is one of the country's leading providers of end-to-end supply chain solutions.
- It is engaged in providing logistics solutions for both inbound and outbound cargo
- Issue Size : Rs 7.52 Cr thus at total equity value of Rs 30 Cr.
- Listed in September 2013 on BSE SME Exchange
- **Migrated to BSE Main board in February 2016**

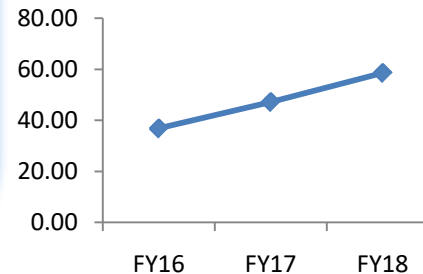
Turnover (Cr)



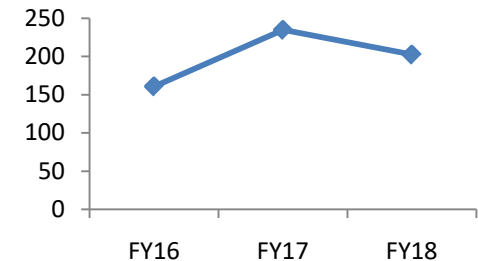
PAT in (Cr)



Net Worth (Cr)



Mcap in Rs(Cr)



Migrated to main board, a company sought after by Institutional investors!

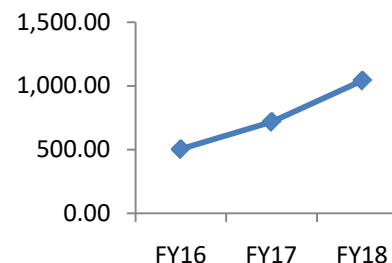


Business Introduction

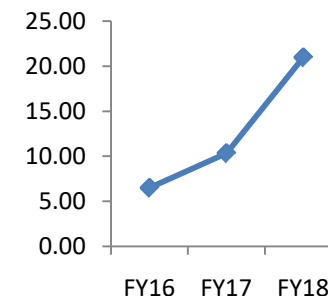
- Incorporated in the year 1985 by Mr. Ajay Kumar Bansal and Mr. Anish Bansal based in New Delhi
- Primarily engaged into the business of producing steel pipes, hollow sections, tubes, cold rolled coils, road crash barriers, solar mounting structures.
- Issue Size : Rs 13.65 Cr thus at total equity value of Rs 59 Cr.
- Listed on NSE Emerge in February 2016

Financial Snapshot

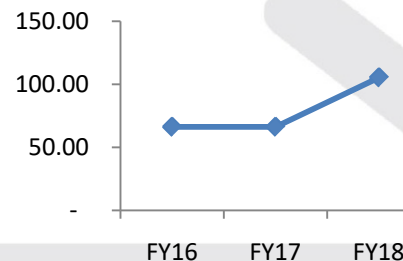
Turnover(Cr)



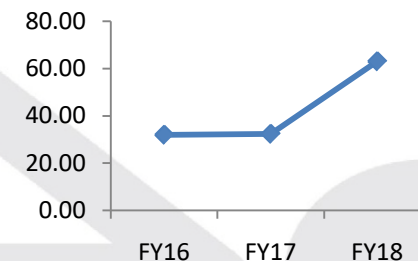
PAT(Cr)



Net worth(Cr)



Mcap in (cr)

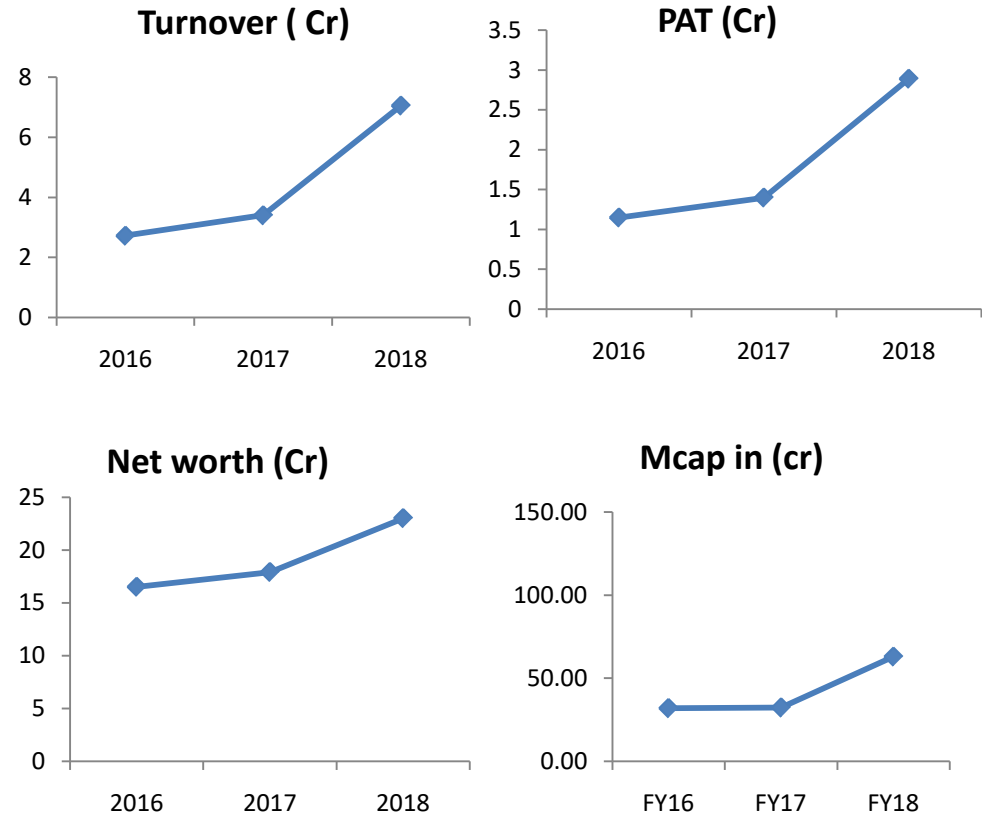


Steel pipes and fenders manufacturer with 3 manufacturing facilities

Business Introduction

- AKME Star Housing Finance was incorporated in the year 2005 with an objective to manage, administer and carry on the business of providing housing loans.
- The company also provides finance to weaker section and finances group housing societies and NGOs engaged in the welfare of the weaker section
- The company was listed on NSE SME platform in February 2015 at a premium of 20%.
- The issue price was Rs 30 as against the face value of Rs 10. Issue size was 4.8 Cr.

Financial Snapshot



The company has Gross NPA of just 1.21% as reported in FY 18



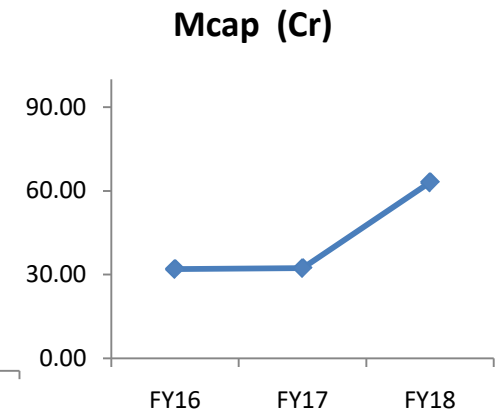
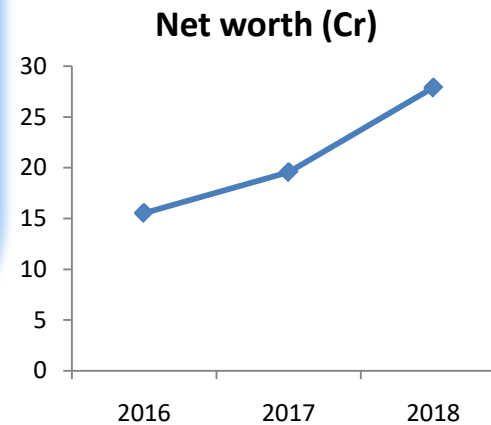
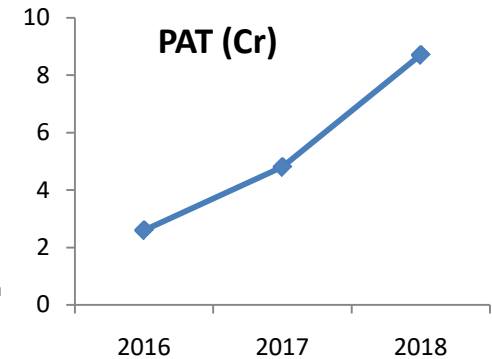
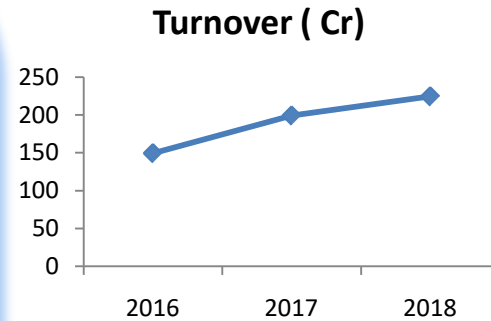
Wealth First Portfolio Managers



Business Introduction

- It is a one stop solution for asset investment management
- Our comprehensive service basket includes investment strategizing, asset research, asset allocation, tax planning, brokerage services, treasury management, risk management and retirement planning
- Range of financial products include Government Securities, Mutual Funds, PMS, Fixed deposits and pension products
- Issue size was Rs 8.4 Cr

Financial Snapshot



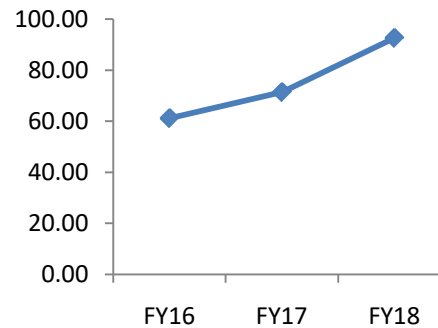
One of the most trusted client centric asset management service providers in India

Business Introduction

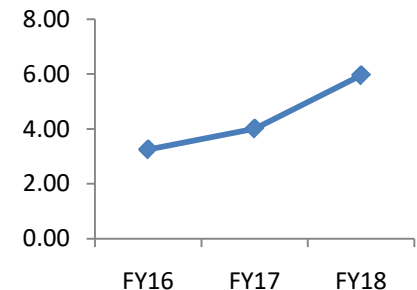
- Incorporated in the year 2005 by Mr. Amit Vinod Sheth and Mrs. Deepali Amit Sheth headquartered In Mumbai.
- Primarily engaged in providing wide range of products which includes recessed adjustable & surface spotlights, down lights, system based spotlights / wall washer, track-mounted spotlights, etc.
- Issue Size : Rs 4.05Cr. Cr thus at total equity value of Rs 18.24.
- Listed on NSE Emerge in April 2017

Financial Snapshot

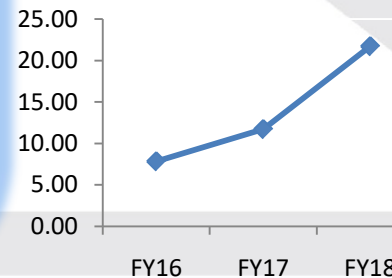
Turnover (Cr)



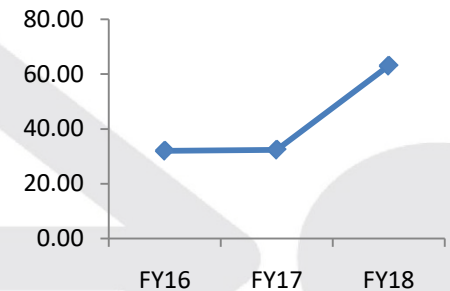
PAT (Cr)



Net worth(Cr)



Mcap in (cr)



Fastest Grown Market Cap within a month of listing at 144% absolute return.

Annexures

Merchant Banker's End-to-end Services



Phase- I: Pre-IPO Capital Restructuring & Preparation



Under the phase, Merchant Banker shall assist you in preparing for IPO and listing on SME Exchange. The services under this phase shall include the following :

- Assistance in devising appropriate capital restructuring plan;
- Assistance in statutory compliance management and setting up minimum corporate governance practices expected by a listed company from the perspective of the following rules/regulations :
 - Companies Act, 1956 & Companies Act, 2013
 - Listing Obligations and Disclosures Requirement applicable for SMEs
 - NSE listing norms
 - SEBI ICDR Regulations;
- Assistance in appointment of market intermediaries and other parties including the following;
 - Underwriters
 - Market Makers
 - Registrars to Issue
 - Bankers to Issue
 - PR Agency, Printer etc.;
- Assistance in devising a complete IPO plan and strategy including the likely post-issue shareholding distribution pattern.

Phase- II: Documentation Preparation

Merchant Banker shall assist you in drafting of IPO Offer Document and other important agreements, documents and resolutions necessary for an SME IPO process. An indicative list of important documents is as under for easy understanding :

- IPO Offer Document,
- Tripartite Agreement with Registrar to Issue, NSDL and CDSL,
- Underwriting Agreement,
- Market Making Agreement,
- Agreement with Bankers to Issue,
- Agreement with Registrar to Issue,
- Board / Shareholders' Resolutions,
- Certificates, Letters of Representations etc,
- Draft of public advertisements, notices etc,
- Forms / Applications to be filed with NSE, ROC and other regulatory office.

Phase- III: Offer Management



S A R T H I

Once all PRE-IPO preparations would be over including meeting the eligibility criteria, appointment of other market intermediaries, and drafting of offer document, Merchant Banker initiates the actual process of IPO. The services under the phase shall include end-to-end IPO activities :

- Filing of IPO Offer Document with NSE and other regulatory offices like SEBI and ROC;
- Follow-up with NSE and ROC for their approvals;
- Execution of agreements with other market intermediaries;
- Assistance in launch of IPO and coordinate with other parties including PR Agency, Printers for adequate public advertisement, distribution of application forms as required statutorily;
- Monitoring the flow of applications and keeping a real-time discussion with the management of the Company;
- Coordinating with bankers and registrars for deposit of application moneys and finalization of allotment list in consultation with the stock exchange .

Phase- IV: Listing Assistance

Finally, post IPO closure and finalization of allotment, Merchant Banker initiates the activities for listing of equity shares of the Company on SME Exchange. The scope of services under this phase shall include the following:

- Assistance in completing allotment of shares to the successful allottees,
- Preparing listing application ,
- Filing of listing application with Stock Exchange(SE),
- Coordinating and assistance in interview with SE Listing Advisory Committee,
- Follow-up with SE and obtain listing approval,
- Assist in trading formalities and obtain SE's trading approval,
- Assist in making required public disclosures as required statutorily,
- Coordinating for continuous market making for 3 years.

Annexures

Some Key Norms of Listing Agreement & SEBI ICDR



SME Listing Agreement

- All SMEs getting listed need to enter into Listing Agreement (LA) with the relevant stock exchange.
- BSE and NSE has adopted model LA released by SEBI.
- Key Requirements include the following :
 - Half-yearly results (Audit / limited review)
 - Half-yearly shareholding pattern
 - Advance notice of Board meetings with specified agenda (e.g. dividend, bonus, buy back etc.)
 - In-principle approval for any further issuance of shares
 - Disclosure of price sensitive information
 - Annual report containing inter alia full financials, consolidated financials, related party disclosures etc. to be uploaded on website of the Issuer
 - Full annual report to be emailed; Abridged annual report to shareholders not on email ids
 - Compulsory migration to main board after the cut- off ceiling

SEBI ICDR As Applicable to SMEs

- SEBI ICDR applies to SME listing with specific relaxations
 - Offer document requirements and eligibility norms relaxed
- Appointment of Merchant Banker, and other intermediaries required
 - Lead Merchant Banker to the issue,
 - Rights, obligations, and responsibilities relating to disclosures, allotment, refund, and underwriting obligations
- Book building or fixed priced issue permitted
- Lock-in conditions apply
 - 20% of post-issue capital of promoter/promoters to be locked in for a period of 3 years and balance promoter/promoters shareholding to be locked in for a period of 1 year
 - Non-promoter pre-IPO shareholding to be locked in for 1 year with exception to ESOP shares and shares held by VCF or FVCIs for more than 1 year pre IPO
 - Subject to the provisions of SEBI (SAST) Regulations i.e. Takeover Code, Locked-in shares are permitted to be transferred inter se promoters incl. new promoter(s).
 - Lock in period shall continue for the remaining period with the transferee.

Thank You....



SARTH I CAPITAL ADVISORS PRIVATE LIMITED

Bridging the Gap

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