

BSE



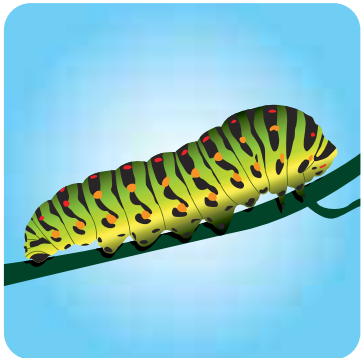
SMALL IS THE NEXT BIG THING.
GROW BIG WITH BSE SME EXCHANGE.

BSE  SME

INTRODUCTION

Small and Medium Enterprises (SMEs), particularly in developing countries, are the backbone of the nation's economy. They constitute bulk of the industrial base and also contribute significantly to their exports as well as to their Gross Domestic Product (GDP). In India, Micro, Small and Medium Enterprises (MSMEs) contribute 8% of its GDP, 45% of the manufactured output and 40% of exports. It provides employment to about 6 Crore people through 2.6 Crore enterprises.

The MSME Sector is the largest generator of employment in the Indian economy. It forms a major portion of the industrial activity.



VISION

Wealth creation by the SMEs
through inclusive economic growth.

MISSION

Provide the world class Platform for SMEs and Investors to
come together and raise equity capital.



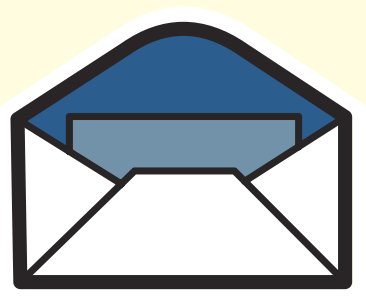
INDIA'S SME SCENARIO

Special roles for SMEs were earmarked in the Indian economy with the advent of planned economy from 1951 and the subsequent industrial policy followed by Government. By and large, SMEs developed in a manner, which made it possible for them to achieve the desired objectives. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 provided for facilitating the promotion and development and enhancing the competitiveness of MSMEs and for matters connected therewith or incidental thereto. It emphasized on the following :

- Remove impediments due to multiple laws
- Introduce statutory consultative and recommendatory bodies on MSME policies
- Improve registration procedure of MSMEs
- Statutory basis for purchase preference and credit policies
- Improve realization of payments of MSMEs

The Prime Minister's Task Force (Jan. 2010) has recommended to set-up a dedicated **Stock Exchange/ Platform for SMEs**.

SEBI has also laid down the Regulations for the governance of SME Exchange/Platform.



MESSAGE TO ENTREPRENEURS AND INVESTORS

"BSE SME Exchange provides a great opportunity to the entrepreneurs to raise equity capital for the growth and expansion of SMEs. It also provides immense opportunities for investors to identify and invest in good SME companies at early stage. It will help unleash the valuation of companies and in the process create wealth for all the stakeholders including investors, besides considerable income tax benefits and facility to exit at any point of time."

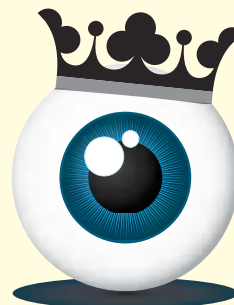


NEED FOR SME EXCHANGE

- Provide SMEs with equity financing opportunities to grow their business – from expansion to acquisition
- Equity Financing will lower the Debt burden leading to lower financing cost and healthier balance sheet
- Expand investors' base which in turn will help for getting secondary equity financing, including private placement
- Enhance Company's visibility. Media coverage can provide SMEs with greater profile and credibility leading to increase in the value of the shares
- Incentive for greater venture capital participation by providing them an exit route
- Greater incentive for the employees as they can participate in the ownership of the company and benefit from being shareholders
- Encourage innovation and entrepreneurial spirit
- Capital Market will help distribute risk more efficiently by transfer of risk to those who are best able to bear it
- SME sector will grow better on two pillars of Financial system, i.e., Banking for debt capital and Capital Market for equity capital
- Initiating a dedicated Stock Exchange for SMEs will lead to diversification of resources of finance and help build a bridge between the SMEs, Private Equity and the Venture Capital by providing an exit route

SME EXCHANGE – OVERVIEW

- SEBI has issued a final Circular on May 18, 2010 for setting up a stock exchange/a trading platform by a recognized Stock Exchange having nationwide trading terminals for SMEs
- The necessary amendments are made to various SEBI's Regulations. Chapter XA has been inserted in the SEBI (Issue of Capital and Disclosure Requirements) Regulations for the SME Exchange
- Model equity Listing Agreement has been notified
- BSE is eligible for setting up the SME Exchange and has already got the 'in-principle' approval of SEBI. We are waiting for the final approvals, for launch of the BSE SME Exchange





SME EXCHANGE – SEBI GUIDELINES

- An issuer with post-issue face value capital up to Rs.10 crores will be invariably covered under the SME Exchange. An issuer with post-issue face value capital between Rs.10 Crores to Rs.25 Crores may get listed on either SME Exchange or Main Board, and issue with post issue face value capital above Rs.25 crores has to be necessarily listed on the Main Board of the BSE
- Suitable provisions for migration to / from Main Board from / to SME Exchange
- The minimum application amount as well as minimum trading lot shall not be less than Rs.1, 00,000
- All existing Trading Members would be eligible to participate on SME Exchange without any further registration
- 100% underwritten issues. Merchant Banker/s shall underwrite 15% in their own accounts
- The Merchant Banker to the issue will undertake market making through a stock broker who is registered as market maker with SME Exchange. The Merchant Banker shall be responsible for market making for a minimum period of 3 years

SME EXCHANGE - MARKET MAKER OBLIGATIONS

SEBI has compulsorily mandated market making for all scrips listed and traded on SME Exchange. The obligations for market makers are as follows:

- The merchant bankers to the issue will undertake market making through a stock broker who is registered as market maker with the SME Exchange
- The merchant bankers shall be responsible for market making for a minimum period of 3 years
- The market makers are required to provide two way quotes for 75% of the time in a day. The same shall be monitored by the Exchange
- There will not be more than 5 market makers for a scrip
- Market makers will compete with other market makers for better price discovery
- The exchange shall prescribe the minimum spread between the Bid and Ask price
- During the compulsory market making period, the promoter holding shall not be eligible for the offering to market makers
- Market Maker shall be allowed to deregister by giving one month's notice to the Exchange
- Trading system may be either order - driven or quote - driven





TRADING LOTS

The application and trading lot size is being kept at Rs. 1,00,000 so that only the informed investors invest in the SMEs. It has also been stated that the minimum depth of the quote in secondary market shall be of One Lakh Rupees. An investor's holding in a scrip with value less than Rs. 1,00,000 is known as odd lot and he is allowed to offer his holding to the market maker in one lot. However, in functionality the market lot will be subject to review after a stipulated time.

Amendments to the Regulations

- SEBI has issued a final Circular on May 18, 2010 for setting up a stock exchange/trading platform by a recognized Stock Exchange having nationwide trading terminals for SMEs
- Necessary amendments have been made in the various SEBI Regulations and Chapter XA has been inserted in the ICDR Regulations
- Model equity Listing Agreement has been notified
- BSE got the 'In Principle' approval from the Capital Market Regulator, 'SEBI' for launch of SME Exchange
- Necessary changes and amendments are being made in the Rules, Bye-laws and Regulations of the Cash Market for making a provision for SME Exchange. BSE intends to shortly set-up this Exchange after taking final approvals from SEBI
- The Circulars issued by SEBI in this respect are available on <http://www.sebi.gov.in/sebiweb/> and on www.bsesme.com



BENEFITS OF LISTING AT THE BSE SME EXCHANGE

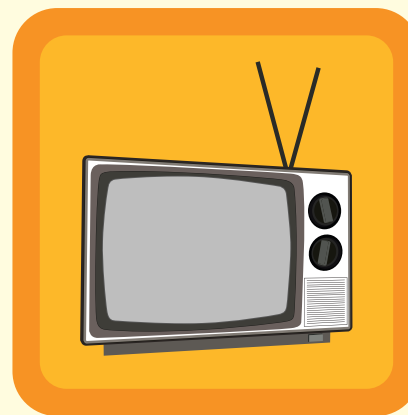
BENEFITS OF EQUITY CAPITAL

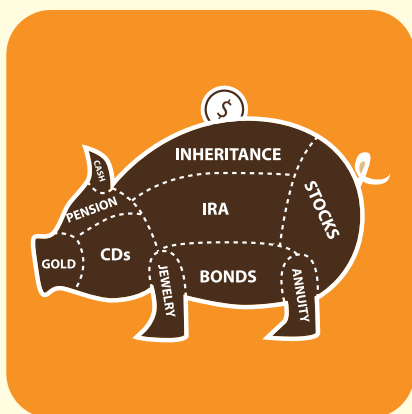


Going for a public issue of capital would provide the SMEs with equity financing opportunities to grow their business - from expansion of operations to acquisitions. In addition, equity financing lowers the debt burden leading to lower financing costs and healthier balance sheets for the firms. The continuing requirement for adhering to the stock market rules for the issuers lower the on-going information and monitoring costs for the banks.

INCREASED VISIBILITY AND PRESTIGE

Going for a public issue of capital is likely to enhance the company's visibility. Greater public awareness gained through media coverage, publicly filed documents and coverage of stock by sector investment analysts can provide the SMEs with greater profile and credibility. This can result in a more diverse group of investors, which may increase the demand for that company's shares leading to an increase in the company's value.



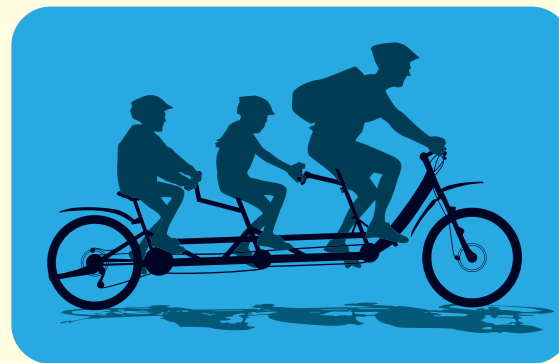


VENTURE CAPITAL (VC) PARTICIPATION

The underdeveloped equity culture has made it difficult for companies to both get into the VC phase as well as graduate from venture capital / start up phase to a scale of operations that would make them internationally competitive. A vibrant equity market would prove to be an added incentive for greater venture capital participation by providing an exit route.

LIQUIDITY FOR SHAREHOLDERS

Becoming a listed public limited company establishes a market for a company's shares, providing its investors with an efficient and regulated vehicle in which to trade their shares. A provision for mandatory Market Making during initial 3 years in the SMEs' scrips will provide them liquidity in secondary market. Greater liquidity in the stock market can lead to better valuation of shares than would be seen through private transactions.





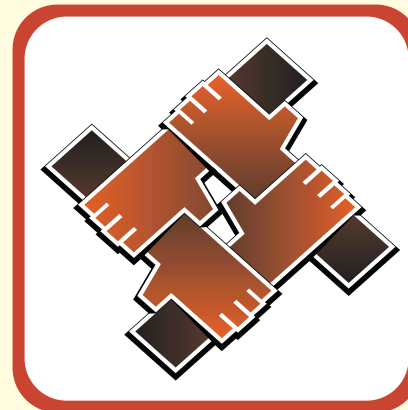
CREATE INCENTIVE MECHANISMS FOR EMPLOYEES AND COMPANIES IN SUPPLY CHAIN

Employees of a SME can participate in its ownership and benefit from being a shareholder. This can serve to ensure stronger employee commitment to the company's performance and success. Share options in a public limited company have an immediate and tangible value to employees, especially as a recruitment incentive.

The companies in the supply chain in the forward or backward integration may take strategic stake as part of growth & expansion. Also, companies in the same business line planning to expand the operations may take a stake in listed SMEs.

FACILITATE GROWTH THROUGH STRATEGIC INVESTMENTS, MERGERS AND ACQUISITIONS

- Domestic and international investors repose faith in listed SMEs. Listed SMEs are likely to get strategic investments from both, domestic and international investors as well as companies
- As a listed public limited company, it's shares can be utilized as an acquisition currency to acquire target companies, instead of a direct cash offering. Using shares for an acquisition can be a tax- efficient and cost- effective vehicle to finance such a transaction





ENCOURAGES INNOVATION & ENTREPRENEURIAL SPIRIT

The ability of companies in their early stages of development to raise funds in the capital markets allows these companies to grow very quickly. Equity capital is a risk capital. It will help entrepreneurs to take risk for developing new products and technologies besides encouraging innovation and entrepreneurship.

EFFICIENT RISK DISTRIBUTION

The development of the capital markets has helped distribute risk more efficiently by transfer of risk to those best able to bear it. Capital is a precious resource. When one can afford, he can invest it; when one needs it back, he can exit. This ability to transfer risk facilitates greater risk-taking, but this increased risk-taking does not destabilize the economy. Thus the capital markets ensure that capital flows to its best uses and that riskier activities with higher payoffs are funded.



ATTRIBUTES OF SME EXCHANGE

ATTRIBUTES	RECOMMENDED PLATFORM
Membership	All Existing Members
Trading	Hybrid
Auction Market vs. Dealer Market	Dealer Market
Transparency	High
Anonymity	High
Orders	Quotes by market makers and orders by the investors
Order Matching	Automatic/ Anonymous order matching
Lot size	Rs. One Lakh
Settlement	Rolling
Settlement Period	T+2
Demat/Physical	Demat
Listing	Simplified listing
Listing Compliance	Simplified compliance
Presence	National
Trading system	BSE's On-Line Trading (BOLT)

KEY PLAYERS INVOLVED

- Venture Capital Funds
- Private /Equity Funds
- High Networth Individuals
- Retail Investors
- Banks
- Qualified Institutional Buyers (QIBs)
- Foreign Institutional Investors (FIIs)
- Non Banking Finance Companies (NBFCs)
- Registrars to the Issue
- Merchant Bankers
- Market Makers
- Member Brokers and sub-brokers
- Financial Advisors
- Professionals, like Chartered Accountants, Company Secretaries, Chief Financial Officers, etc.
- SME Companies





SERVICES OFFERED

- Special Cell for addressing the members' technical and non- technical queries
- Accepting suggestions and feedback and implementing the same
- Mock trading conducted periodically
- Co-ordination between various departments
- Advice to the companies in respect of listing rules and regulations
- Advising the companies in preparing their Balance Sheet and filing it on proper time
- Advising the companies in respect of compliance of all the listing requirements
- Advising the companies about the process of Initial Public Offers (IPOs) or Private placements

BENEFICIAL ASPECTS

- Ensuring Transparency, Efficiency and Liquidity
- Attracting High Growth Companies
- Involvement of all market participants
- Minimum regulations and compliance requirements
- Lower cost of capital to the SMEs
- Attracting all diverse class of investors
- Attracting High Net Worth Investors (HNIs)
- Involvement of Financial Institutions and Mutual Funds
- Active Participation of Associations, Merchant Bankers and Credit Rating Agencies (CRAs)



PREPARATIONS FOR THE IPO



The Initial Public Offer (IPO) is one of the means of financing and it is an important residuary method to raise funds for any corporate aspiring growth. Therefore it is important that every corporate is aware about the requirements and the kind of preparation required to be ready to enter the capital market. An overview of the process of IPO and activities are listed below:

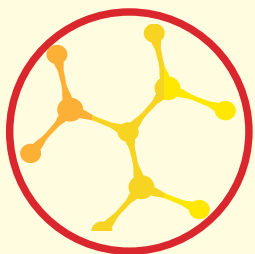
1. Selection of Merchant Banker
2. Restructuring of capital and valuations
3. Offer Document
4. Due Diligence
5. Marketing Strategy
6. Effective communication of the corporate & its equity strength



1. SELECTION OF MERCHANT BANKER

Engaging the right Merchant Banker who understands the philosophy, business model and wavelength of the SME company and its promoters is the most important step in the IPO process. They play an important role selecting right market makers in the company's scrip.

Choosing and using all the intermediaries is a great challenge for any Investment Banker/Merchant Banker. It is important for the Investment Banker to assist the Issuer Company in selecting intermediaries like the Registrar & Transfer Agent, the Syndicate Members/Sub Syndicate Members, the Printers, the Bankers, Advertising Agency, etc. Understanding of the stock exchange regulations and determining the Designated Stock Exchange are also very important functions.



2. RESTRUCTURING OF CAPITAL AND VALUATIONS

- An SME needs to transform itself to a public limited company : First, convert the firm into private limited company. Second, convert private limited company into public limited company
- SMEs are also required to restructure capital so as to comply with Regulations and requirements of raising equity capital through IPO
- Valuation of SME needs to be done to arrive at the financial strength of the company as well as to decide size and pricing of its IPO

3. OFFER DOCUMENT





4. DUE DILIGENCE

Due diligence is required to be done on various approvals that a corporate is required to have and also on the applicability of various regulations.

The risk factors associated with the company and the external environment have to be very clearly understood. The applicability of certain regulations have to be clearly mentioned. The litigations have to be listed out and their relative magnitude should be analysed by the corporate but left to the judgment of the legal people.

4A. BUSINESS ACTIVITIES, PAST PERFORMANCE AND FINANCIAL RESULTS

- Industry background, competition and business environment
- Description of the company's business
- Objects of the issue
- Future plans and strategy of the company
- Management's discussion and analysis of the financial results





4B. MATERIAL CONTRACTS AND AGREEMENTS

- Enabling provisions of Memorandum of Association (MoA) and Articles of Association (AoA) for allowed lines of business
- Letters of Contract with each member of issue management team
- Loan agreements and sanction letters with Financial Institutions/ Banks
- Deeds of hypothecation /mortgages executed in favour of lenders
- Underwriting agreements
- Agreement with the Key Management Personnel (KMP)
- Purchase Orders with major suppliers
- All utilities contracts and permissions
- Syndicate and Escrow agreement

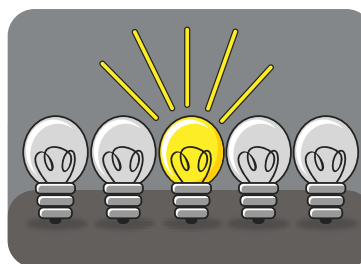
4C. PROMOTERS AND MANAGEMENT

- Quality experience, qualifications, reporting structures, composition of Board of Directors
- Quality of human resources
- Details of Key Management
- Pledge details



5. MARKETING STRATEGY

A sustained media effort including visual media, regular interaction with the brokers, large institutional investors and high networth individuals is very necessary to create awareness about the public issue. It is also important that the industry news and the story relating to company needs to be well positioned. Selection of bidding centers should be done by identifying the investors' centres and brokers so that maximum investors can participate in the bidding process. Targeting the key potential investors will help save time and cost of marketing.



6. EFFECTIVE COMMUNICATION OF THE CORPORATE & ITS EQUITY STRENGTH

Communication of an effective equity story comprising of proper research presentation to the investors and analysts, public relations and advertising. A long term sustainable valuation and a larger sustainable shareholder base is the need of the hour. More effective the communication, better will be the results. To conclude, the preparation for an IPO is a process and it involves various elements which need proper attention at every point of time that enables fruitful results to the corporate.



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FREQUENTLY ASKED QUESTIONS

Q: How the SME Exchange is different from the Main Board?

A: The new thing about the SME Exchange is that the issue will be 100% underwritten and therefore, the issue will be 100% subscribed. Other new aspect is that there shall be market making activities in a scrip for three years in the Secondary Market.

The SME Exchange is different to current stock exchanges on following parameters:

- The SMEs with paid up capital up to Rs. 10 crores can come on the SME Exchange, in contrast to the criteria of paid up capital of Rs. 10 crores or more for listing on the Main Board.
- The Listing norms have been simplified. The issuer has to take the approval of the Exchange and SEBI's approval is not required. A copy of the offer document will be sent to the SEBI for its information.
- Four steps - the filing of Draft Red Herring Prospectus (DRHP), in-principle approval of the exchange, in-principle approval of the SEBI and public notice of one month are waived off for the SMEs listing on the SME Exchange. This will save about 6 months for listing of SMEs. The merchant banker to the issue can file Red Herring Prospectus (RHP) with the Due Diligence Certificate with the exchange and its approval is sufficient. The IPO on the BSE SME Exchange can be brought in 2 to 3 months' time.
- The Compliance norms were simplified. An Half yearly compliance is required instead of quarterly compliance. The abridged version of the annual reports need to be sent to the investors instead of the entire annual report and keeping the soft copy of the report on the website is sufficient. The summary of the annual performance with balance sheet and Profit and Loss statement need to be sent to shareholders.
- The issue expenses will be minimal on the marketing of the issue, advertisement and stationery. However, the issue will be charged for underwriting, sub-underwriting and market making.

- Market making is mandatory for three years, which is not the case on Main Board.
- The listing fees on BSE SME Exchange are minimal compared to the Main Board.
- The SMEs with the paid up capital between Rs. 10 crores and Rs. 25 crores has the option to get listed at either on Main Board or on the SME Exchange.
- The condition of track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least three out of preceding five years is waived for listing of SMEs on SME Exchange.

Q: How the SME Exchange is different from SME Exchanges in other countries?

A: The SME Exchange has been formulated after detailed study of the best SME Exchanges across the world and taking into account the feedback from the market participants. The SME Exchanges elsewhere in the World, like AIM (London), TSX V (Canada), GEM (Hongkong), MOTHERS (Japan), KOSDAQ (Korea) and NASDAQ (US) were studied in detail to understand their salient features, best practices and their SME exchange model. The learnings from the OTCEI as well as the capital market realities are taken into account in formulating the SME Exchange in the Indian context.

Q: How the SME Exchange is different from the OTCEI Exchange?

A: The concept of SME Exchange is very much similar to the OTCEI Exchange. However, OTCEI was far ahead of its time. It launched screen based trading with depository concept which at that point of time was new to the market intermediaries and they were not so much equipped to adopt to the OTCEI model. The conditions of the market were bearish and not conducive for several years.

During the last two decades, the capital market has matured and adopted well the changes brought by the Regulators and Exchanges, viz online trading, rolling settlement and depositories. At the same time, the financial institutions, venture capitalists, Bank SME Divisions, institutional investors, QIBs, and HNIs have started investing in the SMEs in a big way. This has created conducive environment for raising of the equity capital by the SMEs and thus, we are well positioned to successfully launch the SME Platform.

The present SME Exchange is different from OTCEI in respects of the 100% underwriting of the issue and guarantee of listing, simplification of listing process, simplification of compliances, leveraging of the equity platform, and provision for migration to and from the Main Board.

Q: What are the simplifications to listing norms on the SME Exchange?

A: The condition in respect of filing of Draft Red Herring Prospectus (DRHP), obtaining in-principle approval of SEBI, and issuing public notice are waived for listing of the SMEs. The merchant banker can file the RHP with due diligence certificate with Exchange and approval of Exchange is sufficient. A copy of the RHP has to be filed with SEBI for its information. The process of launching an IPO for listing on SME Exchange may be completed within two to three months, compared to the time frame of about 8 to 9 months required for launching an IPO proposed to be listed on the Main Board.

Q: What are the simplifications in compliance norms for SMEs listed on the SME Exchange?

A: SEBI has made amendments in the Issue of Capital and Disclosure Requirements (ICDR) Regulations simplifying the compliance norms for SMEs listed on the SME Exchange. It introduced Chapter XA which states the Regulations for the SME Exchange/Platform. The salient features are:

- Financial results shall be submitted on half yearly basis instead of on quarterly basis.
- 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.
- 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 full annual report.

Q: What are the compliance requirements to migrate from SME Exchange to the Main Board?

A: Any SME listed on BSE SME Exchange having a paid up capital of more than Rs. 10 Crores can move to the Main Board provided that the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal, and apply to BSE SME. A SME migrating to the Main Board has to comply with all the Main Board norms like requirement of minimum 1000 investors, payment of listing fees stipulated by the Main Board and quarterly compliance, etc.

Q: What are the additional responsibilities of Merchant Bankers in SME Exchange?

A: The Merchant Bankers in the Main Board assist the company in raising equity capital through primary market, but in the SME Exchange, the Merchant Bankers have to also handhold the company for 3 years and ensure that there is continuity in market making in the SME's scrip for 3 years.

The other additional responsibility is that the issue should be 100% underwritten and the merchant banker has to do compulsory underwriting of 15% in his own books of accounts. There is need for syndication for the purpose of underwriting and the responsibility lies with the merchant banker. There is no such responsibility cast upon the merchant bankers while listing scrips on the Main Board.

Q: Who can be the Members of the SME Exchange?

A: All the Member Brokers of the Equity (Cash) Segment of the BSE Main Board are by default the members of the BSE SME Exchange also.

Q: Who can be the market makers in the SME Exchange?

A: Only the Member Brokers of the stock exchanges recognized by the SEBI can act as market makers. The Member Brokers desirous of becoming market makers have to get themselves registered as market maker with the exchange by filing the registration form. These Member Brokers should have a minimum experience of 3 years, minimum net worth of Rs. 5 crores and an average daily turnover of Rs. 10 Crores. The market maker shall have an additional networth of Rs. 2 Crores per additional scrip that he desires to do market making in.

Q: How does the Market Making work?

A: Market Making is an activity where the Member Brokers registered as market makers will undertake to support the scrip by providing two way quotes. All the market makers in a scrip will provide 2-way quotes for 75% of the time during a trading day. The market makers will have to hold 5% of the specified security to be listed at the time of allotment in their inventory to do the market making. In addition to this, the market makers can also buy from or sell to the nominated investors the required shares for market making. The merchant banker and nominated investor need to enter into an agreement in this regard.

Q: Who can be the Nominated Investors?

A: Nominated investors can be Qualified Institutional Buyers (QIBs) and Private Equity (PE) Firms registered with the respective Regulators.

Q: What is the minimum dilution the SMEs need to do for listing on SME Exchange?.

A: As per ICDR Regulations, the company desiring to come with the IPO has to offer a minimum of 25% of the post-issue paid-up capital, to the investors. Few exemptions have been given for the finance companies.

Q: Which provisions will be applicable to the issues / aspects on which Chapter XA of ICDR Regulations is silent?

A: Chapter XA of ICDR Regulations specifies that it will attract all the provisions of main ICDR Regulations where the exemptions are not being provided under the said Chapter XA.

Q: Whether 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 is applicable to the listing of the SMEs?

A: The SMEs have been exempted from above condition.

Q: What is the rationale of keeping the lot size of One Lakh Rupees?

A: Lot size of One Lakh Rupees is kept, so that only the informed investors can invest in SMEs.

Q: What is the provision on odd lots?

A: Odd lots may get created because of the corporate actions taken by companies from time to time, like issuing bonus shares, warrants and rights issues. The Regulations provides that the odd lots can be sold only to market makers and investor shall give the declaration that he is selling all the odd lot shares of a particular scrip. This is to minimize the odd lots in the system.

Q: How an SME Exchange is going to help smaller firms?

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

The tax benefits are immense. Any sale of shares of unlisted company attracts 10% long term capital gains tax. However, long term capital gains tax on sale of shares of a listed company is zero.

The listed SMEs will unlock their wealth in the medium to long term and will do the wealth creation for the promoters and the investors. Transparency and corporate governance will improve manifold pursuant to listing on the BSE SME Exchange. The repose of faith by the investors, both domestic and foreign in the listed SMEs will be high. Listed company will have easy accessibility to alternate funding options. The banks, Private Equity Funds and other Financial Institutions provide them loans easily. The fund raising through American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) become easier. Also, the company can raise more funds through follow- on public offerings. The listed SMEs will get better visibility among the investors. The investor base improves for the listed companies in medium to long term.

Q: Whether Grading of IPOs is mandatory for listing on SME Exchange?

A: As per ICDR Regulations, grading is mandatory for listing on the SME Exchange.

Q: What is the outlook of the Market participants about the SME Exchange / Platform?

A: A large number of merchant bankers are optimistic about the SME Exchange/ Platform. The market makers will get their fees out of the issue expenses, like the merchant bankers. The members who have the experience of market making in the past are positive on the scope of market making in this Segment. Investors' outlook is not yet clear. But the investors who have medium to long term perspective are optimistic on huge wealth creation opportunity in this Segment. Response from the SMEs has been extra- ordinarily exciting. The SMEs are enthusiastic about the opportunities to raise the equity capital on BSE SME.

The professionals like Chartered Accountants and Company Secretaries, have an important role to play in educating the promoters of the SMEs and guiding them in raising equity capital on SME Exchange. The Member Brokers and the sub- brokers having branches and franchises spread across the country can play important role in mobilising and educating the SMEs with their market knowledge and experience.

Q: What kind of preparedness is required before getting listed on BSE SME?

A: Preparation required to be made for bringing the IPO proposed to be listed on the BSE SME Exchange is as follows:

- Keeping the Annual Reports on accounts ready
- Documenting the Past performance
- Due diligence on the applicability of various Regulations
- Due Diligence on the various approvals required from Regulatory Bodies
- Documenting the Risk Factors associated with the company
- Documenting the External environment effecting the company
- Listing out the litigations, its magnitude and ramifications
- Documenting the Business activity
- Documenting the Material Contracts and Agreements
- Detailed report on promoters & management
- Selection of Investment Banker
- Selection of Registrar and Transfer Agent (RTA)
- Selection of Syndicate Member /Sub- Syndicate Members
- Selection of electronic media and advertising agency
- Selection of Escrow Bankers

The IPO is all about:

- Effective equity story supplemented by proper research and documentation
- Presentation to the investors as well as the analysts and take feed-back
- Regular interaction with Member Brokers/ sub brokers, CAs, CSSs, financial advisors, etc.
- Positioning of company through sustained media efforts including visual media
- Selection of potential bidding centers
- Creating sustainable valuation and sustainable shareholder base
- Effective communication for better results

Q: What are the capital gain tax benefits by listing on BSE SME?

A: The unlisted shares will attract short term capital gains tax of 30% and long term capital gains tax of 10%, whereas in the case of listed securities, the short term capital gains tax is 10% and there is no long term capital gains tax. It is clearly seen that the capital gains tax is attractive, in case of listed securities, when compared with the rates applicable to unlisted securities.

Q: Whether the BSE is considering any relaxation of Listing Fees for the SMEs?

A: BSE has been always forthcoming and considerate in matters related to the SMEs. BSE's Main Board has more than 1500 listed companies each of which has paid-up capital upto Rs. 10 Crores and more than 2500 listed companies each of which has paid up capital between Rs. 10 Crores and Rs. 25 Crores. These companies may opt to migrate to BSE SME Exchange, subject to compliance of applicable provisions.

Keeping up with the tradition and commitment for nurturing the SME companies, BSE will charge them Listing and other fees related to the primary markets only to the extent of about 50% of the Listing and other fees applicable on the Main Board.

Q: Whether the investors are protected under the Investors' Protection Fund (IPF) on the SME Exchange?

A: The provisions of the IPF for the Main Board apply to the SME Exchange also. The investors in the Secondary Market are covered under this.

Q: Whether companies listed on Regional Stock Exchanges (RSEs) are allowed for direct listing on the SME Exchange?

A: Direct Listing of companies listed on RSEs is not permitted as of now. They are expected to launch IPO on the SME Exchange, if they plan to list on the SME Exchange.

Q: Whether the suspended companies will be allowed to list on the SME Exchange?

A: The suspended companies' scrips are not permitted for listing on BSE SME Exchange. The companies are suspended on the Main Board for non-compliances of the listing agreement. Once the compliance is done as per the present norms, the suspension is revoked and the company is allowed to trade on the Main Board of BSE. Only the Main Board companies have the choice of migrating from Main Board, after taking the approval of 2/3rd of its non-promoter investors.

Q: What is the clearing and settlement mechanism in the companies listed on the SME Exchange?

A: The clearing and settlement of the SME Exchange will be same as that of the Main Board which is at present settled on T+2 basis. The Settlement Guarantee Fund of the Main Board is extended to SME Segment. The existing clearing and settlement of the equity (Cash) segment will be extended to the SME Segment also.

Q: What are the Corporate Governance Norms for the companies listed on SME Exchange?

A: Clause 49A of the Listing Agreement on Corporate Governance will be applicable to the SME Segment.

Q: How is the Risk Management done in the SME Exchange?

A: The Risk Management will be applicable in the same way as that of the Main Board. The Mark to Market (M-to-M) Margins, Value at Risk (VAR) Margins, Extreme Loss Margin (ELM) and special margins as applicable to the Main Board will also apply to the SME Exchange.

Q: What is the investors' Grievances Redressal system in the SME Exchange?

A: The Exchange has the Investor Grievances Redressal Committee (IGRC) to amicably redress the complaints of the investors against the Members Brokers. If amicable solution is not reached, the investors can opt for arbitration. The Exchange has provided the IGRC and arbitration services at its 4 Offices at Chennai, Delhi, Kolkata and Mumbai as provided in its Rules, Byelaws and Regulations. BSE has a special cell for redressal of grievances of the investors against the companies. The investors' Grievance Redressal System of the Equity (Cash) Segment will be made available for the SME Exchange also.

Q: What are the penalties for market making violations?

A: All market makers for a scrip shall together do market making more than 75% of the market timings. If the market makers for a scrip fail to comply with these provisions up to 15 days, BSE has prescribed the monetary penalties. Beyond 15 days, the scrip will be temporarily suspended.

Q: What will the SME Exchange do to promote awareness about the listed SMEs?.

A: We have got a dedicated website (www.bsesme.com) for the SME Exchange to disseminate information on the SMEs listed on the SME Exchange.

Q: How equipped is BSE to launch the new SME Exchange?

A: The BSE is leveraging the existing equity platform for the BSE SME. The systems necessary for monitoring the market making and quote- driven systems for the market makers are made to comply with SEBI Regulations. BSE is fully equipped to launch the BSE SME Exchange.



BSE SME Exchange



Questionnaire for the Companies

(This Questionnaire is intended to elicit information from SME companies who intend to raise capital for listing on BSE SME Exchange)

Note: The data collected will not be divulged to any entity unless required by law.

1. Name of the representative _____
2. Designation _____
3. Name of the Company _____
4. Address and Contact details
Address: _____
Mobile: _____ Landline: _____ Fax: _____ Email: _____
5. Paid- up Capital of the Company Rs. _____
6. Extent of Capital infusion needed Rs. _____
7. Turnover of the Company (FY.2010-2011)
Upto Rs.5 Crs Between Rs.5 Crs - Rs.20 Crs Between Rs.20 Crs - Rs.50 Crs Above Rs.50 Crs
8. Net Worth of the Company
Upto Rs.5 Crs Between Rs.5 Crs - Rs.20 Crs Between Rs.20 Crs - Rs.50 Crs Above Rs.50 Crs
9. Average distributable Profit (During past 3 years)
Less than Rs. 50 Lakh Between Rs.50 Lakh – Rs. 1 Cr Between Rs. 1 Cr – Rs. 3 Crs Above Rs. 3 Crs
10. Public Shareholding (No. of shares & %) _____
11. Promoter Shareholding (Give Promoters' names & % of shares held by each) _____
12. Whether listed with Regional Stock Exchange?
Yes No If Yes, Name of the Exchange : _____
13. Do you have a Compliance Officer?
Yes No If Yes, Full Time Practicing
14. Value of Net Tangible Assets
Upto Rs.3 Crs Between Rs.3 Crs - Rs. 5 Crs Between Rs. 5 Crs - Rs.10 Crs Above Rs.10 Crs
15. Corporate Governance
 - Whether Board Composition is as per Clause 49 of listing agreement? Yes No
 - Whether composition of Audit Committee is as per Clause 49 of listing agreement? Yes No
 - Whether Shareholder Grievance Redressal Committee is constituted? Yes No

16. Whether company is associated with any Merchant Banker/s for managing issue of all kinds of its securities and listing thereof?
 Yes No If Yes, the name of the merchant banker(s) _____
17. Existing working Capital (Rupees in lakhs) _____
18. Average Working Capital Requirement (Rupees in lakhs) _____
19. Total employee strength
 Upto 25 Between 25-50 Between 50-75 Above 75
20. Capital Requirement in near future:
 Upto Rs. 3 Crores Between Rs.3 Crores - Rs. 5 Crores Between Rs. 5 Crores-Rs.10 Crores Above Rs.10 Crores
21. Existing source of capital
 Banks/Financial Institutions Angel/ venture funds PE funds Group Financing Internal financing
22. Any of your group companies listed at
 BSE NSE Regional Stock Exchange
23. Any litigations having material impact on the company's performance. Yes No
24. Background of key managerial personnel
 Academic Experienced
25. When do you propose to list on SME?
 Within 6 mths Within 12 mths Within 15 mths Within 18 mths
26. Whether any Merchant Banker identified? Yes No
27. Whether any Market Maker identified? Yes No
28. How Share Transfer Activities are carried out? In- House Out –Sourced
 If Out-sourced, name of Registrar & Share Transfer Agent: _____
29. Do you have a website? Yes No
 If yes, website address: _____
30. Have you identified any media partner? Yes No
31. Does the company arrange programmes for education & awareness of investors? Yes No

Note: This Questionnaire may be,

1. Delivered to our representative or
2. Scanned and emailed to ajay.thakur@bseindia.com/soyal.gupta@bseindia.com or
3. Sent to Address: **Ajay Thakur/Soyal Gupta, Bombay Stock Exchange Limited, 25th Floor, P.J. Towers, Dalal Street, Fort, Mumbai - 400001.**

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