

SME Access to Market Based Finance



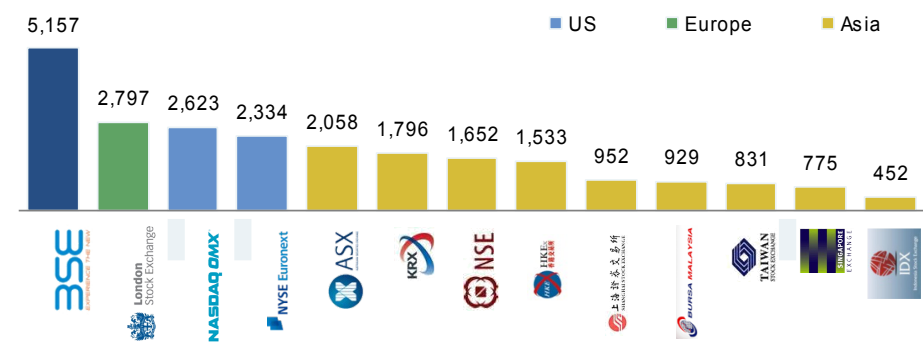
BSE- Exchange with Maximum Listed Companies Worldwide

Historic brand and an iconic listing franchise

Key highlights

- Oldest stock exchange in Asia, established in 1875 with a historic brand
- First Indian exchange to obtain permanent recognition from the Government of India in 1956
- Announced its demutualization in 2007

Asian Exchanges no. of listed companies¹ (August 2012)



BSE has many firsts to its credit

- ✓ Largest number of Companies amongst Stock Exchanges in Asia
- ✓ Launched a special platform for trading in SME securities
- ✓ Launched a Free Float Index - SENSEX
- ✓ Launched Exchange Enabled Internet Trading Platform
- ✓ Obtained ISO certification for a stock exchange
- ✓ Exclusive facility for financial training – BSE Institute Ltd.
- ✓ Launched its website in Hindi and regional languages
- ✓ Hosted the popular opening-bell ceremony in Indian capital markets

Source: World Federation of Exchanges, Bombay Stock Exchange (BSE)
¹ Selected US and European Exchanges for reference only

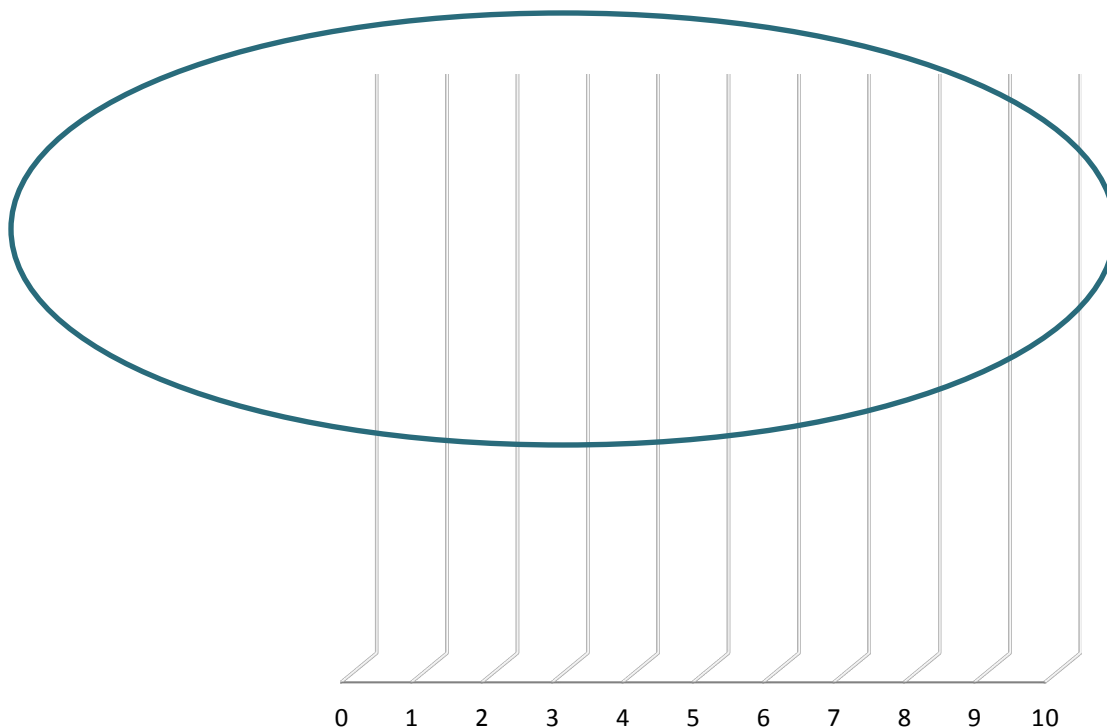
- ✓ Launched mobile-based trading in India in Sept 2010

✓ Becomes securities market infrastructure member of SWIFT in India and provide

Indian SME Overview

- Micro, Small and Medium Enterprises (MSMEs) contribute
 - 8% of the country's GDP
 - 45% of the manufactured output
 - 40% of our exports
- Provide employment to about 12 Crores people through 5 Crores enterprises.
- Forms the largest generator of employment in the Indian economy.
- Forms a major portion of the industrial activity and produce 8000 different products.

Indian SME Challenges



adequate access to finance is essential for SMEs to survive and eventually grow beyond their SME Status

Most SMEs have poor access to finance

A large SME relies mostly on own capital and/or informal borrowing from friends and family members for start-up costs and working capital

BSE Estimate

Indian SME Challenges (Cont..)

SME universe is diverse. No one size fits all solution

Institutional funding sources typically target process driven scalable opportunities

Poor information, fragile systems, weak control/corporate governance

Difficult to assess and analyse via a template approach/standard format

Apart from Capital, lack of management resources and bandwidth

Institutional funding sources not equipped to address low return on debt financing

Banking institutions gravitate towards collateral based financing

Increasing Complexity of SME Financing-Debt

- Banks have been lowering their **high pre-crisis leverage levels** and are preparing for stricter regulatory capital requirements. Consequently, lending to SME's is likely to become increasingly challenging.
- **Securitisation** is a partial solution. However, this requires a lengthy and uncertain process of Government and Regulatory support.
- The assessment of **creditworthiness** in case of an SME loan is much more complex and difficult as compared to a mortgage loan. This also makes **securitisation of SME loans** more complex and difficult than securitisation of mortgages.
- While the loan size is relatively small, the investment in **due diligence** is about the same as for a bigger loan for a larger company. However, Mezzanine financing gives banks more leeway to provide additional loans.

Increasing Complexity of SME Financing-Equity

- **Equity financing** for SMEs, as opposed to debt financing, was seen as appropriate in particular for small, innovative start-up companies that are essential to improve an economy's competitiveness and underpin dynamic growth.
- Many company owners hesitate to raise equity capital for **fear of losing control** to investors. Yet research shows that venture capital (VC) supported firms in the US are on average three times more innovative than comparable, non VC-funded firms.⌘
- But the **venture capitalist threshold** is high, creating a so-called equity gap that is making it harder for most entrepreneurs to secure financing

MARKET FINANCE ACCESS TO SME IS A VIABLE ALTERNATIVE TO BOTH DEBT & EQUITY

Value Proposition for SME listing

- 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 the investors base**, which in turn will help in getting secondary equity financing, including private placement.
- **Enhance company's visibility.** Media coverage can provide SME with greater profile and credibility leading to increase in the value of its shares.
- Incentives for greater venture capital participation by providing an **exit option** thus reducing their lock-in period.

Value Proposition for SME listing (Cont..)

- Greater **incentive for the employees** as they can participate in the ownership of the company and benefit from being its shareholders
- Encourage **innovation and entrepreneurial spirit**
- Capital Market will help **distribute risk more efficiently**
- SME sector will grow better on **two pillars of Financial system** i.e. Banking and Capital Market

Initiating a dedicated Stock Exchange for SMEs' will lead to mobilization of the diversified resources of finance and **build a bridge** between the SMEs, Private Equity and the Venture Capital by providing an **exit route**.

Regulatory- SEBI SME Guidelines

- Issuer with **post issue face value capital up to Rs.10 Crores** shall be covered under the SME Platform.
- Issuer with post issue face value capital **between Rs.10 – 25 Crores** may get listed at SME Platform or on the Main Board
- Post issue face value capital **above Rs.25 Crores** has to be necessarily listed at Main Board of the Exchanges
- There are additional provisions for **migration to/ from main board**
- 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 in SME exchange without any further registration
- **100% underwritten issues** and Merchant Banker/s shall underwrite **15% in their own account**
- The **Merchant Banker** to the issue will undertake market making through a stock broker who is registered as market maker with SME Exchange. He is responsible for market making for a minimum period of 3 years

BSE SME Eligibility Criteria

- **Net worth** (excluding revaluation reserves) and **Net Tangible Assets** of at least Rs.3 Crores as per the latest audited financial results.
- **Distributable profits** in terms of Section 123 of the Companies Act 2013 for at least two years out of immediately preceding three financial years (each financial year has to be a period of at least 12 months).Extraordinary income will not be considered for the purpose of calculating distributable profits Or Net worth shall be at least Rs. 5 Crores.
- The **Post-issue paid up capital** of the company shall be at least Rs. 3 Crores
- The company shall mandatorily facilitate **trading in demat securities** and enter into an agreement with both the existing depositories in India.
- Companies shall mandatorily have a **website**.

Relaxations and Additional Criteria vis-à-vis Main Board

Relaxations in Criteria

- The **periodicity of disclosure requirements** is reduced from quarterly to half yearly.
- The **abridged version of the annual reports** needs to be sent to the investors instead of the entire annual report. Posting of soft copy of the report on the website is sufficient.
- The **issue expenses** are minimal on marketing and stationery. However, there are charges for underwriting, sub-underwriting and responsibility of three years market making.
- Listing fees** on BSE SME platform are minimal compared to the Main Board.

Additional Criteria

- Market making** is compulsory for 3 years, unlike on main platform.

Relaxed regulatory disclosures over Main Board

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Entrepreneur Perception Vs Reality

PERCEPTION

REALITY

Increased compliance level

Market intervention

Increased on-going cost post listing

Takeover threat

Pricing Mis-matches

Regulatory intervention

- Listing on the SME Platform has less regulatory bottlenecks. Many post listing compliances like preparation & publication of quarterly results, printing & circulation of annual report, etc. are exempt. CG requirement is exempt.
- Robust norms for takeover are in place to curb hostile takeovers. In a majority shareholding scenario, hostile takeover is ruled out.
- Increased information flow helps benchmarking the value of companies.
- Listed Companies enjoy similar benefits as companies listed on main board with much relaxed listing norms, reduced compliances and minimal cost of listing.

In India BSE is a Market Leader in SME

No. of Issues	BSE	NSE
SMEs Listed	145	16
Market-share	90%	10%

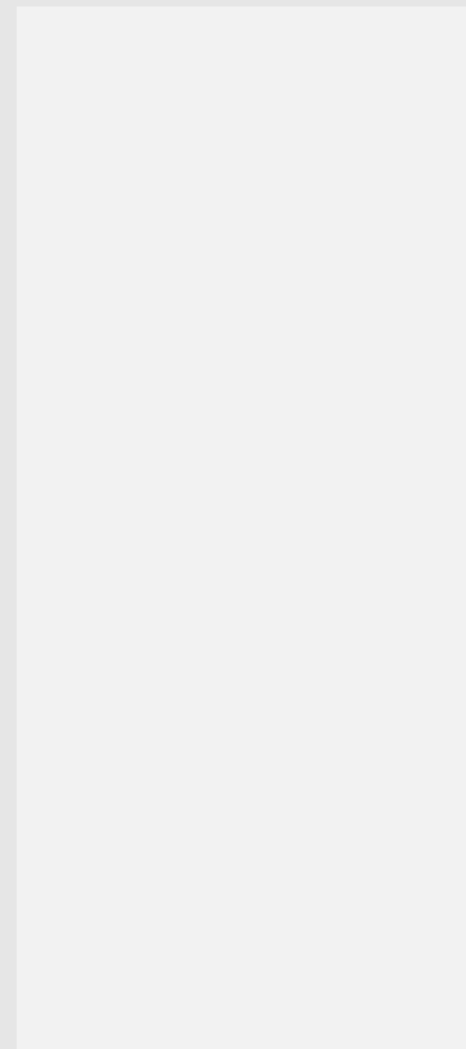
S&P BSE SME IPO Index

▪ BSE SME IPO Index Enables Investors Track Performance of SME Listed Companies

▪ INDEX FEATURES

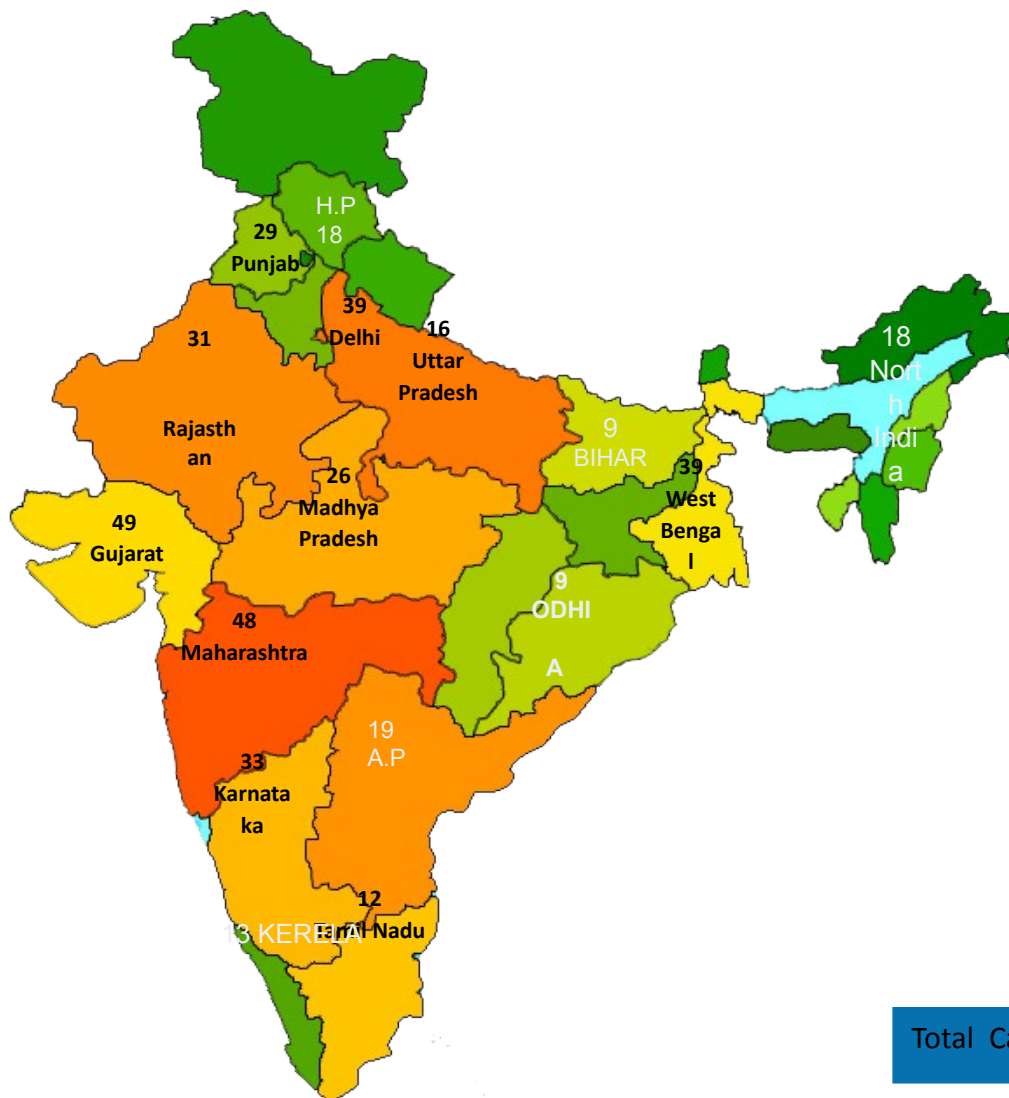
Sectoral Distribution of BSE SME Companies

Sectoral Distribution



Total Count-110

Awareness Campaigns Across India



Total Campaigns=408

Awarded the Best SME Exchange



Felicitation by SKOCH



Interaction with Regulator

- Ahmedabad Event



- Patna Event



- ADB Event along with SEBI



Assistance to other Exchanges in Promoting SME's

- Officials from Chittagong Stock Exchange visited BSE for setting up SME Stock Exchange.

- Officials from Bangladesh Securities and Exchange Commission visited BSE for assistance in formulation of guidelines and setting up SME Stock Exchange.

- BSE signed an MOU with Sri Lankan officials for setting up SME Stock Exchange in Sri Lanka.

MOU with Professional agencies and Banks

- BSE signed a MOU with YES Bank as Knowledge partner for creating awareness about SME Platform .

- BSE is in process of signing MOU with KPMG as Knowledge partner for creating awareness about SME Platform

- BSE is in process of signing MOU with Innoviti for providing other financial services

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