

A person in a dark pinstriped suit is pointing their right index finger at the letters 'SME'. The background is a blue-toned world map. The letters 'SME' are large, white, and bold, with a horizontal light flare passing through them.

SME

Glossary:

S.No.	Particulars	
1	Applicable ICDR Regulations	
2	SEBI Chapter XB regulations	
3	Eligibility Norms (BSE & NSE)	
4	Key features of Listing	
5	Flow Chart	
6	Roadmap at Macro Level	
7	Practical difficulties	
8	Key Strategic Points	

Definitions:

- **Act: Companies Act, 1956/2013.**
- **SME: Small and Medium Enterprises**
- **SEBI: Securities and Exchange Board of India**
- **BSE: Bombay Stock Exchange**
- **NSE: National Stock Exchange**
- **ICDR: SEBI (Issue of Capital and Disclosure Requirements {ICDR}) Regulations, 2009**

About SME Platform:

The market regulator SEBI vide its circular dated May 18, 2010 have provided for setting up of a stock exchange/ trading platform by a recognized Stock Exchange having a nationwide trading terminal for SME's.

In this context **Chapter XB** has been inserted in the SEBI (Issue of Capital and Disclosure Requirements {ICDR}) Regulations, 2009 for the SME platform.

CHAPTER XB

ISSUE OF SPECIFIED SECURITIES BY SMALL AND MEDIUM ENTERPRISES

1	Applicability	<p>A company can issue specified securities if:-</p> <ul style="list-style-type: none"> ▪ The post-issue face value capital does not exceed Rs.10 Crore. ▪ The post-issue face value capital is more than Rs.10 crore and up to Rs.25 Crore.
2	Filing of offer document	<ol style="list-style-type: none"> 1. No draft offer document need to be submitted to SEBI. But it has to file offer document with SEBI through MB, simultaneously with the filing of the prospectus with the SME exchange and the Registrar of Companies or letter of offer with the SME exchange 2. SEBI should not issue any observations on the offer document 3. The offer document shall be displayed from the date of filing on the websites of SEBI, the issuer, MB and SME exchange
3	Min. Application Value & No. Of Allottees	<ol style="list-style-type: none"> 1. The minimum application size shall not be less than Rs. 1Lakh 2. The minimum number of prospective allottees should not be less than “50”

4	Listing	<ol style="list-style-type: none"> 1. Securities issued as per SEBI(ICDR) Reg. will be listed on SME exchange 2. A Listed Co. can migrate its securities to the SME Exchange
5	Migration	<ul style="list-style-type: none"> ▪ A listed Co. can migrate its securities by fulfilling the following conditions: <ul style="list-style-type: none"> ➤ Post issue face value capital is less than Rs.25 Crore ➤ SR (Special Resolution) approving migration through postal ballot ➤ Fulfilling eligibility criteria for listing laid down by SME Exchange ▪ Migration to Main Board: <ol style="list-style-type: none"> 1. A SME Exchange listed Co. can migrate its securities to the Main Board with meeting following Conditions <ul style="list-style-type: none"> ➤ SME listed Co. Post issue face value capital is more than Rs. 10 Crore and up to Rs.25 Crore ➤ Special Resolution (SR) approving migration through postal ballot ➤ Eligibility criteria for listing laid down by Main Board

		<ol style="list-style-type: none"> 2. If the post issue face value capital is likely to increase beyond Rs.25 crore by virtue of further issue, the issuer shall migrate to main Board 3. However, no further issue of capital by the issuer shall be made unless- <ul style="list-style-type: none"> ➤ A SR shall be passed through postal ballot ➤ Must obtain In- principle approval from Main Board for listing
6	Underwriting Obligation	<ol style="list-style-type: none"> 1. The issue shall be 100% underwritten. 2. The MB shall underwrite at least 15% of issue size on his own 3. The issuer in consultation with MB may appoint underwriters and the MB may enter into an agreement with underwriters at issue price in case of under-subscription. 4. All the underwriting arrangements made by MB shall be disclosed in the offer document 5. The MB shall file an underwriting to SEBI that the issue has been 100% underwritten along with the list of underwriters etc.

Eligibility Norms - BSE

#	Particulars	Norms
1	Net Tangible Assets	At least 3 Crores
2	Net worth	At least 3 Crores
3	Profit making track record	<p>Distributable profits for at least 2 out of 3 immediately preceding financial years.</p> <p>(or)</p> <p>Net worth shall be at least 5 Crore</p>
4	Post issue paid up share capital	<p>Min 3 Crores</p> <p>Max 25 Crores</p>

Eligibility Norms - NSE Emerge

#	Particulars	Norms
1.	Post Issue paid up Capital	The post issue paid up capital of the company (face value) shall not be more than Rs. 25 crore.
2	Profit making track record	<p>Track record of at least “3”years of either</p> <ul style="list-style-type: none"> i. the applicant seeking listing; or ii. the promoters/promoting company, incorporated in or outside India or iii. Partnership firm and subsequently converted into a Company (not in existence as a Company for three years) and approaches the Exchange for listing. <p>****Promoters mean one or more persons with minimum 3 years of experience in the same line of business and shall be holding at least 20% of the post issue equity share capital individually or severally</p> <p>➤positive cash accruals from operations for atleast 2 financial years preceding the application and its net-worth should be positive.</p>
3.	Other Listing conditions	<ol style="list-style-type: none"> 1.The applicant Company has not been referred to Board for Industrial and Financial Reconstruction (BIFR). 2.No petition for winding up is admitted by a Court of competent jurisdiction against the applicant Company. 3 No material regulatory or disciplinary action by a stock

Key Features



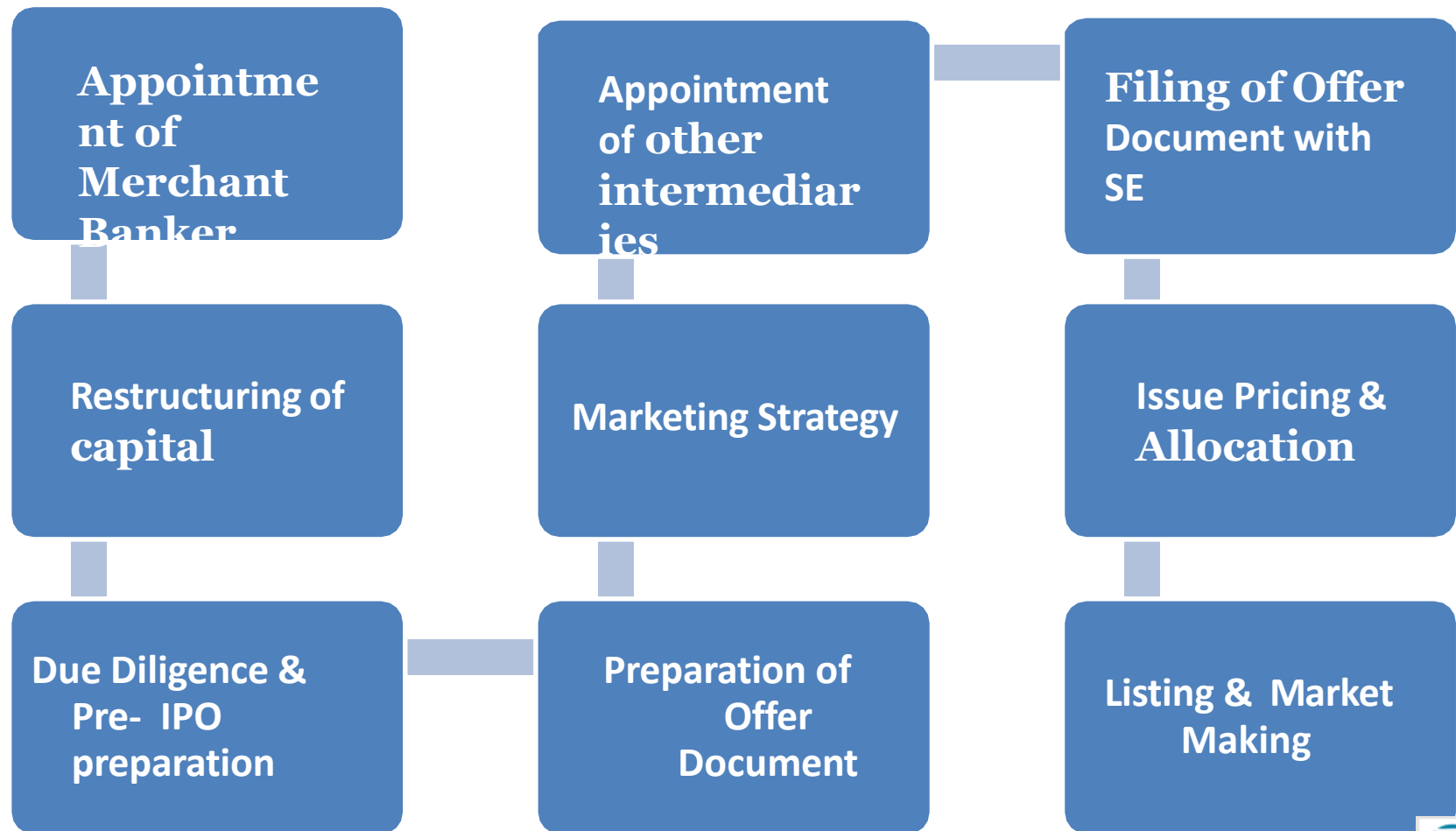
- **Relaxed Eligibility Criteria**
- **Need not file DRHP or DP with SEBI / need not seek any observations from SEBI**
- **Listing and Trading continues on SME Platform of the Exchange**
- **Migration to Main Board after 2 years**
- **Issue to be 100% underwritten (Merchant Bankers need to underwrite 15% from their own account)**
- **Appointment of Market Maker and Market Making mandatory for a period of 3 years**

Key Features



- **IPO Grading – Not mandatory**
- **Standardized Lot size for market trading (odd lots to be sold to market makers only)**
- **Minimum Application size in IPO – Rs. 1 lacs**
- **Minimum Statutory Advertisements**
- **Low one - time Listing fee of Rs. 50,000**
- **Half yearly submission of Results instead of Quarterly**
- **No requirement of Publishing of Financial Results**
- **Low Annual Fee of Rs.25,000 or 0.01 % of Market Cap**

FLOW CHART



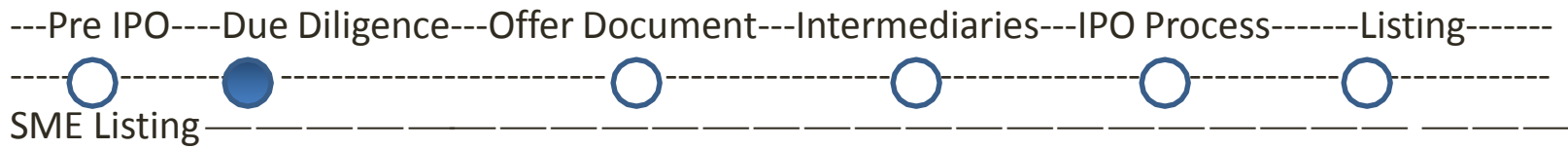
Flow Chart

Pre IPO → Due Diligence → Offer Document → Intermediaries → IPO Process → Listing



Phase- I: Pre-IPO Preparations

- Appointment of Merchant Bankers (Category I) registered with SEBI to act as Lead Manger to the Issue and Underwriters.
- Appointment of Legal Advisors
- Increase authorised share capital (based on the desired IPO size), if required
- Passing of resolution for further issue of share capital under section 62(1)(c) of the Companies Act, 2013 (Fresh IPO)
- Audited restated financials for the last 5 years by a peer-reviewed auditor (Financials shall not be older than 6 months at the time of submission of Offer Document with stock exchange/SEBI)
- Re-Structuring of Board if Required
- Reviewing corporate / group Companies



As a part of Due Diligence site visit is conducted.

Understanding the business model of the issuer Companies, business profile, and business activities carried out by its group companies etc.

Due Diligence

ROC Search, Statutory government licenses required by the issuer company to carry out the existing business activities.

This exercise would also help preparing Offer Document appropriately.

Pre IPO → Due Diligence → Offer Document → Intermediaries → IPO Process → Listing

Phase III :Offer Document Preparation

- Drafting of IPO Offer Document for SME IPO in accordance with the provisions of: -
 - ❖ SEBI ICDR Regulations (Schedule VIII)
 - ❖ Companies Act, 2013
 - ❖ SEBI LODR Regulations as applicable for SMEs
 - ❖ BSE SME listing norms
 - ❖ Indicative heads of information for Offer Documents are
 - * Capital Structure
 - * Business Overview
 - * Objects of the Issue
 - * Outstanding Litigations
 - * Our Management
 - * Promoter & Promoter Group

Merchant Bankers would prepare and submit the Offer Document to Stock Exchange along with their Due Diligence Report.

Pre IPO → Due Diligence → Offer Document → Intermediaries → IPO Process → Listing



Phase IV : Appointment of Other Intermediaries

- Depositories
- Registrar to Issue
- Market Makers
- Bankers to Issue
- Printers
- Advertising Agency

*Drafting and executing
agreements with all
intermediaries*

Pre IPO → Due Diligence → Offer Document → Intermediaries → IPO Process → Listing



Phase V : Submission of Document & IPO Process

- **Submission of Material Documents** as per SEBI ICDR Regulations
- **Dematerializing shares** of the Promoters of the Company & Lock-in of Pre-IPO shares
- **Filing of draft Offer Document** with Stock Exchange
- Obtaining **In-Principle Approval from Stock Exchange**
- **Filing of Offer document with ROC** for their approval
- Forms / Applications to be filed with Stock Exchanges
- **Pre Issue Advertisement** (Issue Opening and Closing dates)
- 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

Pre IPO → Due Diligence → Offer Document → Intermediaries → IPO Process → Listing



Phase VI : Listing Assistance

- Getting Final Collection figures from the ASBA Bankers and Bankers to Company.
- Finalizing Basis of Allotment of Shares in consultation with Merchant Bankers and Registrar to issue & Stock Exchange
- Crediting of Shares, instruction to Self Certified Syndicate Banks, Corporate Action, Unblocking of Funds, Advertisement for Basis of Allotment.
- Coordinating and assistance in interview with Stock Exchange Listing Advisory Committee
- Filing of Listing Application with Stock Exchange.
- Assist in Listing formalities and obtain BSE's trading approval
- Trading Commence within 6 working day from closure of the Public Issue.



- Assessment of Company (as to eligibility on various parameters)
- To identify Lead Merchant Banker and Signing of Engagement Letter.

PRE-IPO

Before filing Draft Prospectus

- Due Diligence
- Financials due diligence
- Secretarial due diligence
- Legal due diligence
- Restatement of accounts
- Compiling of documents for filing Draft Prospectus
- Obtain Legal Due Diligence Report
- File Draft Prospectus with the Stock Exchange

After filling Draft Prospectus

- Stock Exchange Observations
- Site Visit by Stock Exchange Officer
- Promoter Interview by Stock Exchange
- Demat of Pre-IPO Shares

In principle Approval From Stock Exchange Post Approval

- Final Prospectus
- File Prospectus with ROC
- Registration of Prospectus by ROC
- Issue Opens --- Closes
- Basis of Allotment
- Listing and Trading Approval

Factors Determining Market Valuation



- Earning Per Share
- Turnover of the Company
- PAT

Practical Difficulties

Sr. No.	Practical Issues	Solution
1	Government Approvals are not in order: This issue generally arises when the details reflected in the government approvals do not match with the other details.	We generally look into the factual data to determine the reasons for such anomaly and accordingly rectify the details.
2	Old Secretarial Records are Improper: This issue arises when the old RoC records of the company are not in order.	Any such RoC issues need to be corrected before filing of the offer document. The secretarial records which are not in place/misplaced needs to be created again/ arranged.
3	Gratuity /PF/ESIC/Other Labour Laws: There may at times arise a situation where the company needs to comply with certain labour laws, but has not been complying with the same.	Any such labor law mismatch needs to be corrected before filing of the offer document. If the company has for example failed to provide for gratuity in the previous financial years, an actuarial valuation certificate of the amount of gratuity to be provided for in the financials is obtained and accordingly

Pre- Requisites for IPO



Appointment of :

- Independent Directors
- Woman Director
- Company Secretary
- Chief Financial Officer
- Composition of Board of Directors

Suppose, director is disqualified u/s 164 then need to remove from the Board if not able to remove disqualification

Practical Difficulties

Sr. No.	Practical Issues	Solution
4	Non Compliance with the provisions of the Companies Act, 2013: Generally the non compliance arises in areas such as loans taken from/ given to the directors i.e. section 185 & 186 of the Companies Act, 2013.	File compounding applications
5	The Statutory Auditor of the Company is not Peer Review Certified: The financials statements of a listed entity can be audited and certified only by an Auditor/Audit firm which has been certified by the Peer Review Board of the ICAI.	In such cases we recommend the company to change the statutory auditor and appoint a Peer Review Certified Auditor, since the same would become mandatory if the company is listed.
6	Company does not have a website/logo: The company may not have a website/logo where it is an SME private limited company.	In such cases we recommend the company to create a website with all the details required by the LODR and also have its own logo which should be registered.
7	Composition of the Board of Directors: The Board of the company may not be in accordance with the provision of the Act etc.	The composition of the board is made proper to comply with the provision of the Act / LODR etc.

Practical Difficulties

Sr. No.	Practical Issues	Solution
8	Litigations Against the Company: There may be certain litigations against the company which are required to be disclosed in the offer document. The company may at times not be having all supporting documents in relation to such pending litigations.	All such documents needs to be arranged and given to the legal advisor to the issue for the drafting of Legal Chapters.
9	Non-Availability of Sanction Letters: A separate disclosure is made in the Offer Documents highlighting the financial indebtedness of the company as per the last reported financials in the offer document, which requires the details of the sanction letters.	If the company is not in possession of certain old sanction letter, the loan of which is still outstanding in the financials the company is required to obtain a copy of these sanctions from the bankers.
10	Consent and NoC of the Banker to the Issue and the Lenders to the Issue: The company going for an initial public offer needs to obtain a consent and NoC of the Banker as well as the Lender to the Company beforehand. This process may a times be tedious and time consuming.	
11	Capital Build up / Promoters Equity etc.,	To reconcile Register of Members / Share Transfer Registers / Returns / Return of Allotments / Financial Statements etc.

Key Strategic points:



- **Suitable Capital structure – to be altered by the way of further issue/
Bonus etc**
- **Appropriate – offer size & Structure**
 - **Fresh issue or**
 - **Fresh issue & offer for sale**
- **Dilution of shares to be done in phases**
- **Full disclosure of litigation matters**
- **Avoid Suppression of profits- fair disclosures fetch better valuations**
- **Competent intermediaries / Registrar etc**

Key Strategic points:



- **Proper co-ordination & synergy between company & auditors and company secretary team**
- **Minimum control centers/ decisions making centers**
- **Valuation of shares to be realistic and not exorbitant**
- **NOC from Bankers**
- **Consolidation of group companies – merger etc**
- **Restatement of accounts**
- **Site visit by Exchange officer**

Key Strategic points:



- **To ensure data does not compete with each other**
- **Personal interview of promoter**
- **Have proper road maps/ trackers in advance**
- **Shares dematerialization updated**
- **Promoters identification- legal Background**
- **Appointment of directors- Proper selection**
- **Avoid decisions which are adverse in long term**
- **Objects of the issue**

Statutory Compliances Post- Issue IPO



- Half- Yearly Financials Results
- Shareholding Pattern (Half Yearly)
- Major corporate announcements ex. Change in directors, expansion programme etc.
- Quarterly, half yearly and Annual Disclosure s

Thank You

P.S. Rao & Associates
Company Secretaries