SUPPLEMENTRAY READING MATERIAL

For

NISM eLearning Course

# SME Listing and Compliance

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# Introduction to SME Listing in India

## SMEs – The backbone of the Indian Economy

Small & Medium-sized Enterprises (SMEs) are a crucial part of a country's economic progress. The Government of India runs a dedicated ministry for Micro, Small & Medium Enterprises (MSMEs). The ministry ensures the availability of credit, technological upgradation skill upgradation, and market access assistance to these enterprises. It is estimated that approximately 48% of India's total exports are contributed by the MSMEs. As of March 2024, approximately 2.4+ crore enterprises are registered as MSMEs in India. These enterprises employ roughly 16 crore people as of the same date. They play a crucial role in the industrialization of rural areas. Therefore, equitable distribution of national wealth and income is ensured by these enterprises. There has been a consistent rise in the share of GST payments from the MSMEs. Hence, they are essentially the backbone of the Indian economy contributing to the socio-economic development of the nation. As per the latest definition (as of March 2024) provided by the MSME Ministry, an enterprise is classified into the MSME category based on its investment in plant, machinery, or equipment and turnover.

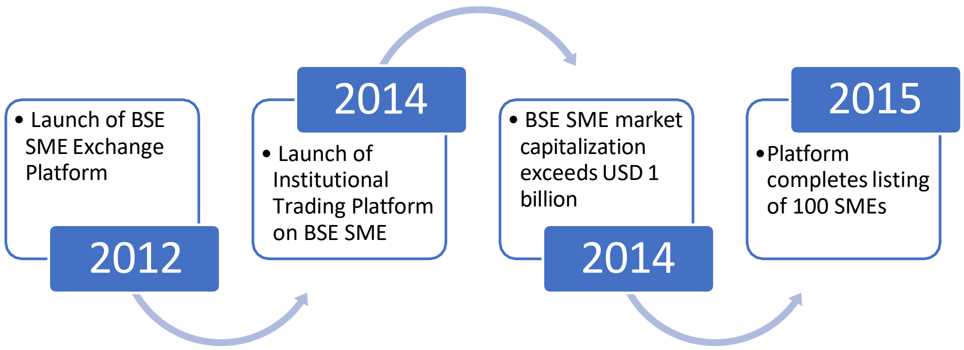
| **Classification** | **Plant/Machinery/Equipment Investment** | **Turnover** |
|---|---|---|
| Micro Enterprise | Does not exceed Rs. 1 crore | Up to Rs. 5 crore |
| Small Enterprise | Does not exceed Rs. 10 crore | Up to Rs. 50 crore |
| Medium Enterprise | Does not exceed Rs. 50 crore | Up to Rs. 250 crore |

Considering the crucial role of MSMEs in the economic growth of the country, the Government of India runs various schemes and initiatives to support such enterprises. It includes the launch of the Credit Guarantee Trust Fund for Micro & Small Enterprises under which collateral-free loans up to a limit of Rs. 100 lakh is available for individual Micro & Small Enterprises (MSEs) on payment of a guarantee fee to the bank. The Government also runs an Entrepreneurship Skill Development Programme (ESDP) to nurture the youth of the nation on the grounds of industrial or business activities which in turn can help them in setting up an MSE. Providing a platform for SME companies to list their securities and raise capital for the business, is one of the most important steps taken for the strengthening of this ecosystem.

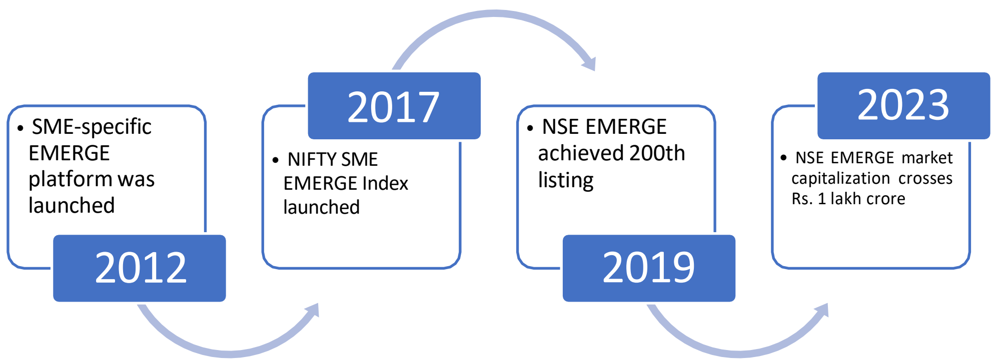
## Evolution of SME Listing in India

Large corporations have been raising funds from the Indian capital markets since a long time. The companies who wish to raise capital by listing their securities on the stock exchanges are required to follow the SEBI (Issue of Capital & Disclosure Requirements) Regulations, also known as SEBI ICDR Regulations. To encourage the promotion of dedicated exchanges for listing and trading of securities issued by Small & Medium Enterprises (SMEs), the Securities & Exchange Board of India (SEBI) amended the ICDR Regulations in May 2010. This was done in recognition of the need to make finance available to such enterprises. SMEs enjoy a relaxed framework and faster processing time for listing. This also facilitates finding an early entry into a potentially good company for investors who are willing to take such a risk.

Accordingly, the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) launched their respective SME listing and trading platforms in the year 2012. Thejo Engineering from Chennai was the first company to list on NSE EMERGE and BCB Finance Limited was the one in the case of BSE SME Exchange. Here are some important milestones pertaining to the BSE SME Platform:




Similarly, the evolution of SME listing on NSE Emerge platform took place in the following manner:




## Benefits of Listing for SMEs

At the 114th annual session of PHD Chamber of Commerce and Industry in 2019, the then MSME Minister Mr. Nitin Gadkari urged SMEs to register themselves with the stock exchanges to gain easy access to capital. While easy access to capital is definitely a huge benefit of listing on the SME exchange, the following are some of the other important advantages:

- **Enhanced Visibility and Profile**: A listed company generally enjoys greater visibility as compared to its unlisted peers as a result of better media coverage. Listed companies communicate with investors on a continuous basis. It also leads to higher credibility with stakeholders like customers, employees, etc. As listed companies have to disclose their financial results and other significant details as per SEBI regulations from time to time, they are viewed to have greater transparency. This can lead to trust among creditors, if any.

- **Value Unlocking**: Listing facilitates value unlocking which in turn can be used to exercise Employee Stock Ownership Plans (ESOPs) to attract and retain talent. Under this, companies usually offer shares to their employees either for no additional cost or at a lower price. These can be exercised after a specific time period. ESOPs valuation for an unlisted firm are needed to be valued through complex methods considering various finance & non finance aspects. ESOP valuation does not remain an issue for listed companies. Employees can also participate in the ownership of the business which can act as a greater incentive.
- **Exit Option**: Listing can increase the liquidity of the company's securities which in turn can provide exit for early investors. Listing can thus reduce the lock-in period which can incentivize venture capital participation. As per Professor Ross Levine, "Investors will come if they can leave".
- **Healthier Balance Sheet**: Due to equity financing, the need for debt will be lowered or even completely eliminated. Thus, a lower debt burden shall reduce the costs. Companies in to early stage of growth especially SMEs should generally avoid debt.
- **Increased Investor Base**: Listed companies can also opt for secondary equity financing through private placements. Private placement involves issue of shares to a select group of persons (it is not a rights issue/public issue). Private placement of shares by listed comp can be of 3 types: preferential allotment, qualified institutional placement, and institutional placement programme.

# Eligibility and Pre-Requisites for SME Listing

## SEBI Regulations

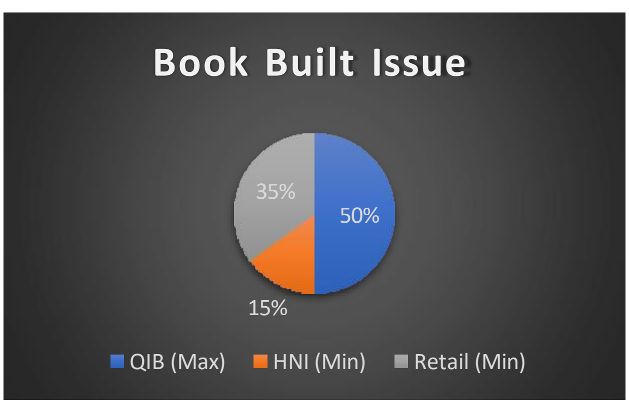
The regulation that deals with the public issue and listing of companies is the SEBI (Issue of Capital & Disclosure Requirement) Regulations. The SEBI ICDR regulations apply to all kinds of issues including initial public offering (IPO), rights issues, preferential issues, qualified institutional placement, bonus issues, etc. SME listing regulations have been covered in Chapter IX. Upon getting listed, the listed companies have to also comply with the SEBI (Listing Obligation & Disclosure Requirement). The listed companies are expected to abide by the LODR regulations in accordance with the principles of disclosing information based on applicable accounting standards, refraining from misrepresentation, and misleading investors. The companies must comply with corporate governance provisions in order to ensure shareholder rights, equitable treatment of shareholders, disclosure & transparency of material matters, and cooperation with all the stakeholders.

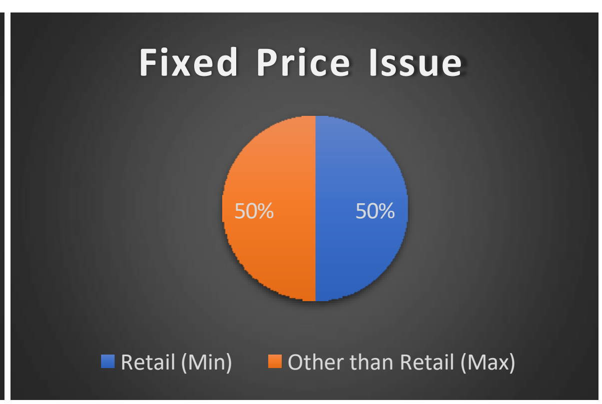
The following types of issuers shall not be considered eligible for bringing up a public issue if:

- its promoters/promoter group/directors/selling shareholders are debarred by SEBI from accessing the capital market.
- promoters or directors of the issuer are promoters/directors of any other debarred company.
- any of its promoters/directors is a willful defaulter or a fraudulent borrower.
- any promoter/director is a fugitive economic offender.

To come up with an IPO the company must have made an application to 1 or more SME exchanges and choose 1 as a designated exchange. It also must have entered into an agreement with a depository for dematerialization of its securities, it also includes all specified securities held by the promoters. Partly paid-up equity shares should be made fully paid up or can be forfeited. The promoters of the company shall hold minimum 20% (twenty percent) of the post-issue capital. The minimum dilution shall be 26.5% of post issue capital. The issuer may make an initial public offer, if it satisfies the track record and other eligibility criteria, if any, of the specific SME Exchange on which the securities are proposed to be listed.

The offer structure is required as follows:

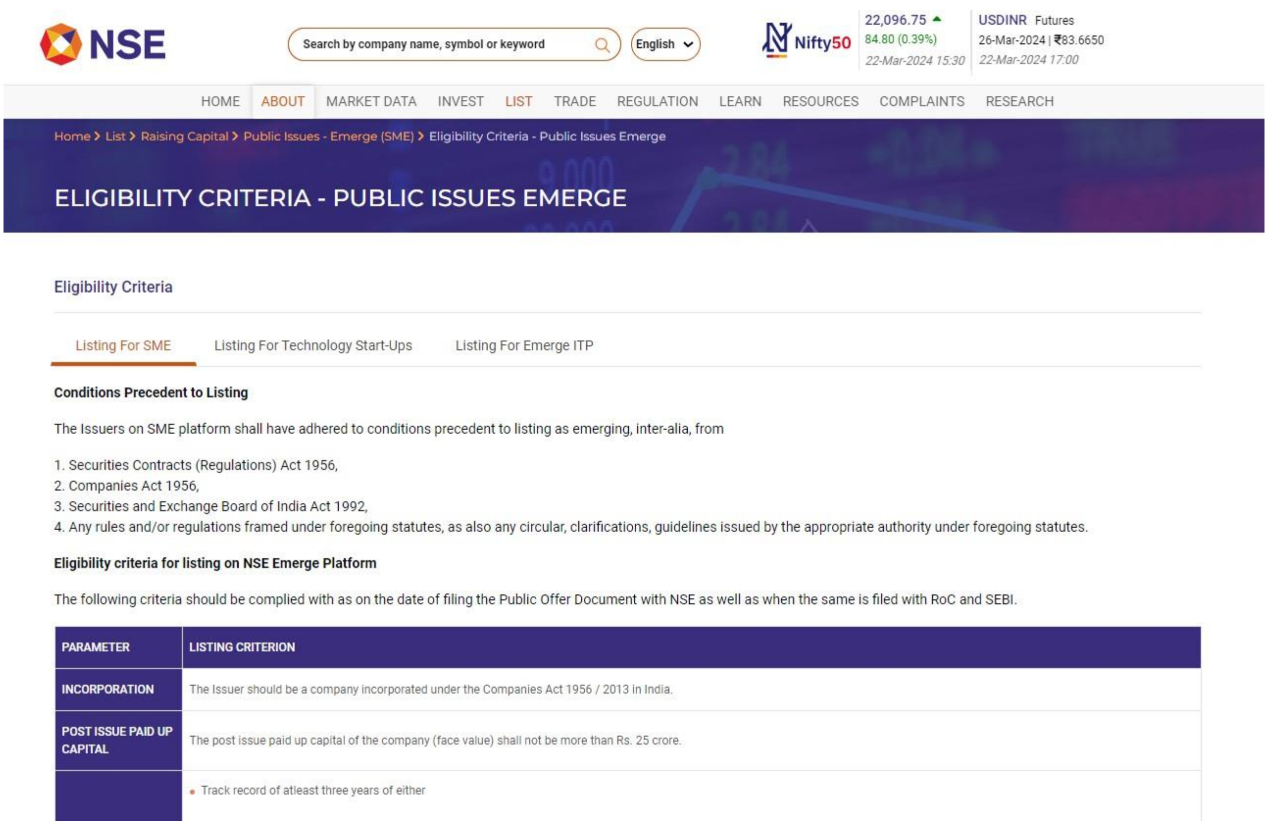


The 2 most important regulations to adhere with in order to come up with a public issue are attached further.

SEBI (Listing Obligations & Disclosure Requirements) Regulation
SEBI (Issue of Capital & Disclosure Requirements) Regulations

## Requirements for Listing on NSE Emerge Platform



NSE

Search by company name, symbol or keyword | English

Nifty50 22,096.75 84.80 (0.39%) 22-Mar-2024 15:30 | USDINR Futures 26-Mar-2024 | ₹83.6650 22-Mar-2024 17:00

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ELIGIBILITY CRITERIA - PUBLIC ISSUES EMERGE

Eligibility Criteria

Listing For SME | Listing For Technology Start-Ups | Listing For Emerge ITP

**Conditions Precedent to Listing**

The Issuers on SME platform shall have adhered to conditions precedent to listing as emerging, inter-alia, from

1. Securities Contracts (Regulations) Act 1956,
2. Companies Act 1956,
3. Securities and Exchange Board of India Act 1992,
4. Any rules and/or regulations framed under foregoing statutes, as also any circular, clarifications, guidelines issued by the appropriate authority under foregoing statutes.

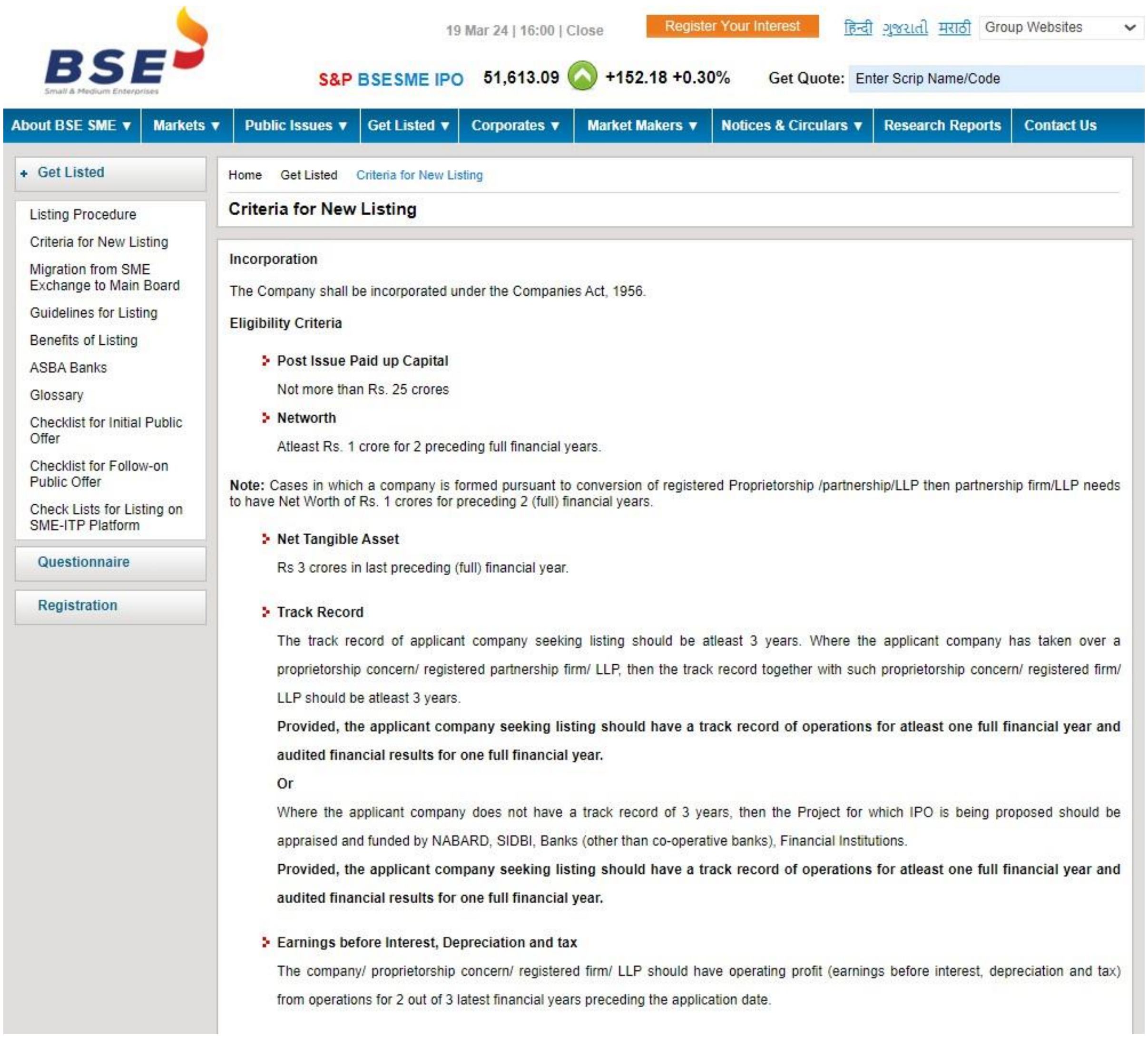
**Eligibility criteria for listing on NSE Emerge Platform**

The following criteria should be complied with as on the date of filing the Public Offer Document with NSE as well as when the same is filed with RoC and SEBI.

| PARAMETER | LISTING CRITERION |
|---|---|
| INCORPORATION | The Issuer should be a company incorporated under the Companies Act 1956 / 2013 in India. |
| POST ISSUE PAID UP CAPITAL | The post issue paid up capital of the company (face value) shall not be more than Rs. 25 crore. |
| | • Track record of atleast three years of either |

Check complete details regarding NSE EMERGE Listing Criteria here

# Requirements for Listing on BSE SME Exchange Platform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S&P BSESME IPO 51,613.09 +152.18 +0.30% Get Quote: Enter Scrip Name/Code

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+ Get Listed
- Listing Procedure
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- Guidelines for Listing
- Benefits of Listing
- ASBA Banks
- Glossary
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Questionnaire

Registration

Home Get Listed Criteria for New Listing

**Criteria for New Listing**

**Incorporation**

The Company shall be incorporated under the Companies Act, 1956.

**Eligibility Criteria**

- **Post Issue Paid up Capital**

  Not more than Rs. 25 crores

- **Networth**

  Atleast Rs. 1 crore for 2 preceding full financial years.

**Note:** Cases in which a company is formed pursuant to conversion of registered Proprietorship /partnership/LLP then partnership firm/LLP needs to have Net Worth of Rs. 1 crores for preceding 2 (full) financial years.

- **Net Tangible Asset**

  Rs 3 crores in last preceding (full) financial year.

- **Track Record**

  The track record of applicant company seeking listing should be atleast 3 years. Where the applicant company has taken over a proprietorship concern/ registered partnership firm/ LLP, then the track record together with such proprietorship concern/ registered firm/ LLP should be atleast 3 years.

  **Provided, the applicant company seeking listing should have a track record of operations for atleast one full financial year and audited financial results for one full financial year.**

  **Or**

  Where the applicant company does not have a track record of 3 years, then the Project for which IPO is being proposed should be appraised and funded by NABARD, SIDBI, Banks (other than co-operative banks), Financial Institutions.

  **Provided, the applicant company seeking listing should have a track record of operations for atleast one full financial year and audited financial results for one full financial year.**

- **Earnings before Interest, Depreciation and tax**

  The company/ proprietorship concern/ registered firm/ LLP should have operating profit (earnings before interest, depreciation and tax) from operations for 2 out of 3 latest financial years preceding the application date.

Check complete details regarding [BSE SME Listing Criteria]() here

# IPO Process for SME Listing

The company must first develop an understanding of the financial markets and the various processes involved in a public issue for raising funds. IPO vis-à-vis other options for raising funds must also be considered. NSE's EMERGE platform provides a "Listing Readiness Assessment" to know the level of preparedness for considering fund raising through an IPO.

EMERGE
NSE SME PLATFORM

| | PRELIMINARY INTERNAL READINESS ASSESSMENT | Yes | In-Process | No |
|---|---|---|---|---|
| | | | | |
| 1 | **Is the nature of business / industry / company's track record attractive for equity investors?** *(You need to clearly identify and articulate the investor value proposition of your company out of those listed below)* | | | |
| | High scalability potential | | | |
| | Profitability potential | | | |
| | M&A potential | | | |
| | Strategic value | | | |
| | What is the level of current Investor interest in the sector you operate in | | | |
| | Do you have a track record of financial and non-financial performance (project implementation, IPRs, etc) | | | |
| | Do you have a clear understanding of how company compares to peers | | | |
| | | | | |
| 2 | **Are you ready with your investment plan? (In case of a fund raising)** | ☐ | ☐ | ☐ |
| | A comprehensive business plan | | | |
| | Mapped out improvement initiatives and/or strategic transactions | | | |
| | A strong, long-term strategy for commercial growth that can be easily explained to investors | | | |
| | Well articulated project plan with clear means and application of funds | | | |
| | Clarity in plan for use of funds | | | |

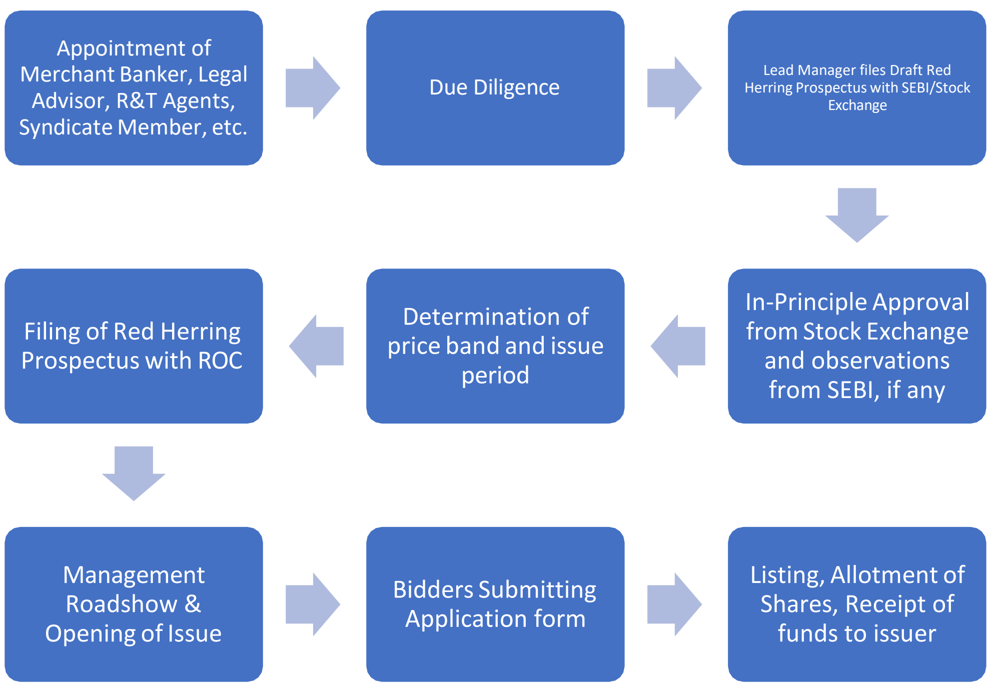
Access the [NSE EMERGE Listing Readiness Assessment] here

Upon making a decision to go for an IPO, the company needs to approach market intermediaries who actually carry out the issue process. An IPO process requires contribution from various different financial market professionals/intermediaries. The definition of these intermediaries as per the SEBI regulations is as follows:

| | |
|---|---|
| Merchant Banker | Any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management. |
| Lead Manager | A merchant banker registered with the Board and appointed by the issuer to manage the issue and in case of a book built issue, the lead manager(s) appointed by the issuer shall act as the book running lead manager(s) for the purposes of book building. |

| | |
|---|---|
| Registrar & Share Transfer Agents | **Registrars** to an issue are entities, who on behalf of any Body Corporate collect applications from investors in respect of an issue, keep proper record of applications and monies received from investors and assists body corporate to determine basis of allotment, process and dispatch allotment letters, refund orders or certificates in respect of an issue.<br><br>**Share transfer agents** maintain the record of holders of securities issued by such body corporate and deal with all matters connected with the transfer and redemption of its securities. |
| Syndicate Members | An intermediary registered with SEBI who is permitted to accept bids, applications and place orders with respect to the issue and carry on the activity as an underwriter; |

## IPO Process Overview




1. **Preparatory Stage:** The issuer company must set up a virtual data room wherein all the documents related to the company are kept in a logical manner. The issuer company then needs to appointment intermediaries like merchant bankers, legal advisors, syndicate members, etc. Merchant banker must be selected considering the track record, expertise in the industry of issuer company, etc. After completing the agreement with all the involved intermediaries, preparation of Draft Redd Herring Prospectus can be started.
2. **Due Diligence**: This is done to collect information about the issuing company. This helps the lead manager to draft and assess disclosures made in the offer document.

3. **Filing of DRHP**: Draft Red Herring Prospectus (DRHP) is filled by the lead manager to the SEBI and selected Stock Exchanges. It is a document covering business information which a potential investor needs to know.
4. **In Principle Approval from Exchanges & SEBI:** Issuer is required to seek an in-principle approval for listing of its securities on stock exchanges. SEBI also shares its observations, if any. During this process, the stock exchanges may seek certain clarifications with respect to objects of the issue, experience related to the promotor, on-going litigation matters, etc. The fees to be paid along with the draft offer document to the SEBI are as follows:

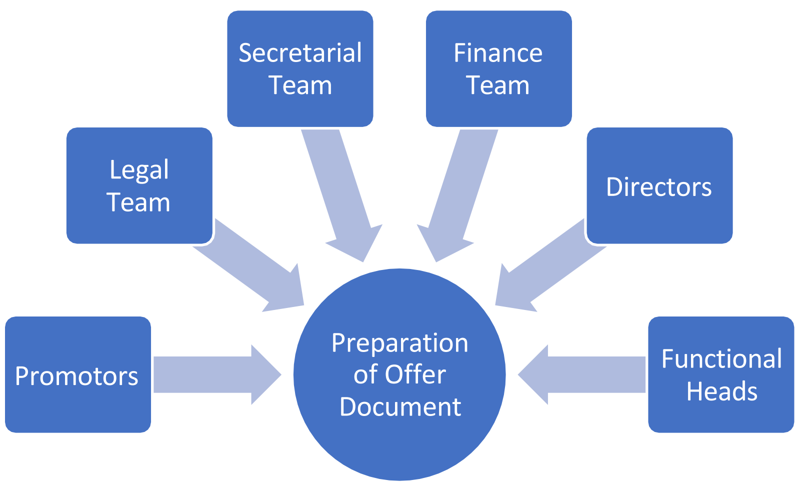
| **Size of the issue, including intended retention of oversubscription** | **Amount / Rate of fees** | **Amount / Rate of fees for filing within one year after expiry of SEBI Observation letter** |
|---|---|---|
| Less than equal to Rs. 10 crore | Rs. 1,00,000/- | Rs. 50,000/- |
| More than Rs. 10 crore but less than equal to Rs. 5000 crore | 0.1% of issue size | 0.05% of issue size |
| More than Rs. 5000 crore | Rs. 5,00,00,000 + 0.025% of the portion of the issue size in excess of Rs. 5000 crore | Rs. 2,50,00,000 + 0.0125% of the portion of the issue size in excess of Rs. 5000 crore |

For the convenience of issuer companies, exchanges provide a checklist for the in-principle approval.

Download BSE SME IPO Checklist here
Download NSE EMERGE IPO Checklist here

5. **Determination of Price Band:** Once the DRHP gets the regulatory approval, it is revised and finalized with the determined price band and is thereafter known as Red Herring Prospectus.
6. **Filing of RHP**: This RHP is filled with the Registrar of Companies (ROC), which is an office under the Ministry of Corporate Affairs whose primary duty is to is registration of companies and LLPs and ensuring that they comply with the Companies Act. All outstanding convertible securities (any right to receive equity shares) should be converted into shares before filing of RHP, (ESOPs are exception).
7. **Management Roadshows & Opening of Issue:** The company shall, upon filing the RHP with ROC, make an issue advertisement in 1 English daily, 1 Hindi daily with nationwide circulation, and 1 regional daily newspaper. Investors are given sufficient days as per the regulations to apply for the IPO if it attracts their interest. Once the issue is close the securities are all set to be listed on the day of listing.


These are the key teams who would be contributing for preparing the offer document i.e Draft Red Herring Prospectus.




## Due Diligence and Documentation

- The regulatory framework does not specifically define the things that actually needs to be covered under due diligence. However, the objective of due diligence is to collect information about the issuer that helps the Lead Manager draft and assess the disclosures. Disclosure includes detailed information on the following aspects of the company:


- Financial information appearing in the offer document must be audited by Peer Review Auditor. Financial statements must be restated by for changes in accounting policies, prior period adjustments, incorrect accounting policies, extraordinary items, etc. Identification of promotors, promotor group and group companies shall be as per the definitions provided in SEBI ICDR regulations and other applicable regulations.
- The Association of Investment Bankers of India (AIBI) provides an indicative list of documents that a merchant banker must go through. It provides the manual which sets out guiding principles for diligence and record keeping. The lead manager is expected to follow it for the purpose of public offerings as per SEBI ICDR regulations.
- It must be noted however that due diligence is not investigation. Due diligence ensures that there are no material omissions or mis-statements. Offer document must be prepared in such a way that the prospective investors can make an informed investment decision.
- The merchant banker follows the below given procedures under due diligence:
    1. Developing a fair understanding of business activities
    2. Detailed discussions with the management key customers, suppliers (if practicable), company's auditors in order to understand the risk associated and financial reporting.
    3. Make sure that disclosures in the prospectus are material to an investment decision and are at the same time backed by appropriate documentation.
    4. Inform the company that it is their responsibility to provide the reviewed documents, even post listing, in the case of receipt of clarifications/questions from SEBI.
- Merchant bankers are required to review a great number of documents in the process of bringing up a public issue under the process of due diligence. Documents related to the issue, capital structure, issue objectives, industry, business, incorporation matters, management, promotors, financial information, litigation, government approvals, allotment basis, and anchor portion are

reviewed under the process. Some of the examples of due diligence areas and their corresponding documents to be reviewed are explained further.

| **Area Covered** | **Documents to be reviewed** |
|---|---|
| Issue Related Info | • Copy of agreements with NSDL / CDSL.<br>• Audited Financial Statements of Issuer for last 5 years, etc. |
| Resolution & Approval | • Certified true copy of the extract of the resolution of the Board of Directors authorizing the Issue and seeking approval of the shareholders<br>• Applications for and in-principle approvals from stock exchanges, etc. |
| Capital Structure | • Memorandum of Association<br>• ESOP scheme<br>• CA certificate for revaluation of assets, etc. |
| Objects of Issue | • If objects of the issue is repayment or prepayment of loans: The loan documents pertaining to loans<br>• If objects of the issue are funding the working capital requirements: Obtain CA certificate providing working capital break up<br>• If objects of the issue are purchase of equipment, machinery or furniture and fixtures: Valid quotations, etc. |
| Industry | • Copy of relevant extract of the Industry report<br>• Copy of relevant extract of the Industry journal, magazine, newsletter, etc. |
| Business | • Issuer certification of its total number of employees<br>• List of material regional / branch offices / manufacturing units,<br>• CA/Auditor certification with respect to data/numbers/ factual points, etc. |
| History & Incorporation Matters | • Memorandum of Association and Article of Association<br>• Annual reports and previous offer documents (last 5 years), etc. |
| Manager | • Certificates/self-attested CVs from Directors/KMPs<br>• Certificate for remuneration paid to KMPs, etc. |

| | |
|---|---|
| Promotor/Promotor Group/Group Companies | • Memorandum of Association and Article of Association<br>• Family settlement agreement<br>• Certificates confirming the constitution of the promoter group and the Group Companies<br>• Agreements with large investors like private equity investors to ascertain control clauses, etc. |
| Financial Information | • Auditors' report.<br>• Peer review certificate of auditors, etc. |
| Litigations | • MIS / summarized table of legal cases<br>• Extract of last orders etc. of material litigation against the Issuer, Subsidiaries, JV, etc. |

The entire list can be accessed in the AIBI Due Diligence Manuel

## Valuation and Issue Price

Before SEBI, the Controller of Capital Issues (CCI) used to decide the entry of companies in the capital market. It also controlled the valuation i.e. the price at which securities can be offered. However, SEBI later introduced the disclosure-based regime under which the companies could determine issue price of securities freely to take advantage of market forces.

The valuation exercise also generally requires the help of a merchant banker. Valuation of a company can be arrived at using one or a combination of all the below-given approaches:

1. Asset-Based Approach: The valuation can be arrived at by considering the actual net asset or book value of the company.
2. Income-Based Approach: Under this approach, the expected future cash flows of a business are discounted back at an appropriate discounting rate to arrive at the present value of the business.
3. Relative Valuation: Under the relative valuation methods, the price-to-earnings multiple, price-to-book value multiple, price-to-sales multiple, enterprise value to EBITDA multiple, etc. of the similar peer companies is considered to arrive at the valuation.

While there exist a lot more valuation approaches, the above 3 are the most common ones followed. Various important factors like growth, sustainability of the business model, etc. decide the valuation of a business. The following factors are considered for arriving at a valuation:

| **Qualitative Factors** | **Quantitative Factors** |
|---|---|
| • Experienced promotor and management team<br>• Prime location of manufacturing facility<br>• Diversified products portfolio<br>• Long-standing relationship with diversified customer base<br>• Wide application products | • Basic & Diluted Earnings Per Share (EPS)<br>• Average Return on Net Worth<br>• Return on Capital Employed<br>• Price to Earnings Ratio<br>• Net Asset Value per Equity Share |

| | |
|---|---|
| • Consistent financial performance | |

**Fixed Price Issue**: When the company decides on the issue price and mentions it in the Offer Document, it is commonly known as a "Fixed price issue".

**Book-built Issue** (most common mode of IPO): The price of an issue is discovered on the basis of demand received from prospective investors at various price levels. Such issue is called a "Book Built issue".

| **Fixed Price Issue** | **Book Built Issue** |
|---|---|
| Price at which securities are offered /allotted is known in advance to the Investor. | Price at which securities will be offered/allotted is not known in advance to the investor. |
| Price is fixed in this process. | Only indicative price range is known. |
| Demand can be known only after the closure of the issue. | Demand can be known everyday as the book is built. |

# Post Listing Compliance for SMEs

A listed company enjoys a good number of benefits which its unlisted peers might not. In order to reap those benefits, listed companies often have to comply with certain number of regulations pertaining to appointments, disclosures, etc. In addition to all those regulations to be followed by the listed companies, listed SME companies need to take care of one more post-list requirement for liquidity, which is known as market making.

## Market Making

The function of the Market Makers is to provide liquidity to illiquid securities in the market. They do so by providing 2-way quote for 75% of the time in a day, with a difference of not more than 10% between sell and buy quote. The minimum depth of the quote shall be Rs. 100,000/-. They provide buy and sell quotes in a manner such that liquidity automatically gets created in the market. Market making fee is borne by the company. The market-making regulations are provided in the SEBI (ICDR) regulations.

- Market-making is conducted by a broker appointed by a merchant banker in consultation with the company.
- The lead manager is required to ensure mandatory market-making for 3 years since the date of listing, through the appointed stock brokers of the SME exchange.
- The details of the market-making arrangement should be disclosed in the offer document.
- The market maker cannot buy the shares from the promoters/persons from the promoter group or any person who has acquired shares from such promoters/promoter group. However, promoters' holding that is not locked in as per these regulations can be traded with prior permission of the SME exchange.
- The lead manager may be represented on the BOD (board of directors) of the company subject to the agreement with the lead manager who has the responsibility of market making.

## Key Compliance Requirements

- **Appointments**: A listed company is required to appoint a qualified company secretary as a Compliance Officer. The company must also appoint a share transfer agent or the company can also manage the share transfer facility in-house. If the total number of holders of listed securities exceed 1 lakh, the company shall either register as a Category II share transfer agent or appoint Registrar & Transfer Agent registered with the SEBI.
- **Cooperation:** The listed company will be required to cooperate with registered intermediaries such as Credit Rating Agencies, Registrar and Transfer Agents, etc., whenever applicable.
- **Document Preservation:** The listed company shall maintain 2 categories for documents approved by the board of directors: (a) documents for permanent preservation (b) documents with preservation for at least 8 years upon completion of the relevant transactions.
- **Grievance Redressal:** The company shall redress investor grievances, if any within 21 calendar days in a manner as specified by the SEBI. It must also be registered on the SCORES (SEBI Complaints Redress System) platform.

- **Exchange Fee:** The company will be required to pay all such fees/charges, as applicable, to the recognized stock exchanges.
    - In the case of NSE EMERGE, the processing fee shall be Rs. 25,000, initial listing fee shall be maximum of Rs. 50,000 or 0.01% of issue size and annual listing fee shall be 0.02% of full market capitalization as on the last day of financial year. Check the latest NSE EMERGE Listing Fees here
    - The Annual Fees maximum of Rs 25,000/- or 0.01% of full market capitalization, as of last day of trading in the financial year. Check the latest BSE Listing Fees here.
- **Board of Directors:** The company shall follow the obligations regarding the composition of the board of directors with respect to the optimum combination of executive directors, non-executive directors, woman directors, independent directors, etc. as prescribed in the SEBI LODR regulations. The board of directors shall meet at least 4 times a year, with a maximum time gap of 120 days between 2 meetings. A person cannot be a director in more than 7 listed entities.
- **Committees:** The listed entity is obliged to constitute various committees like audit committee, nomination & remuneration committee, stakeholder relationship committee, and risk management committee as per the SEBI regulations.
- **Financial Results:** They are required to declare their financial results regularly. However, as opposed to a main board company, an SME company is required to release results on a half-yearly basis and not a quarterly basis. Year-to-date financial results must be released, by the main board companies however is exempted from SMEs.
- **Shareholding Pattern:** The companies must disclose the shareholding pattern separately for each class of securities, in the format specified by the SEBI, on a half-yearly basis

# Challenges and Risks for SMEs

SME companies, though labeled as backbone of the economy, often find it extremely difficult to carry on their business. Companies often face difficulties due to inefficient bureaucracy, poor on-ground implementation of various supporting schemes, attracting and retaining talented workforce, insufficient capital for research and development, accessing finance, etc. Going public solves some of these problems considering the several benefits of listing. However, listing is a paradigm shift for an SME private company as it must now meet the expectations of external investors keeping in mind the enhanced level of surveillance, compliances, and regulations.

## Common Challenges faced by SMEs

- Access to right advice on long-term business plan: Limitation on aligning business plan with expectation of investors-capital markets.
- Raising further growth capital through equity instruments post-IPO could be challenging from SMEs.
- Building an internal Investor Relation (IR) team involves costs.
- Liquidity in terms of wider participation of various types of investors can be a challenge.
- Migration of an SME listed company to the main board can not be assured and may subject to evaluation by the respective stock exchange.
- An IPO process is fairly complicated and the company is required to tie up with suitable professionals like Merchant Banker, Legal Advisors, Registrar and Transfer Agents, etc.
- Selection of merchant banker should be done by keeping various things in mind like the banker's expertise in the industry to which the issuer company belongs. The merchant banker must have good relations with the investors, must have a proven track record, must have ability for providing market making service, etc.
- Companies are required to fulfil all the required compliances right from at the time of making a public offer. Companies are required to follow regulations continuously post listing as well.
- Companies are required to follow the minimum free-float criteria i.e. criteria for a minimum number of public shareholding (non-promotor holding). This may imply dilution of the promotor's control over his/her business. It can also hamper the decision-making process as after listing, crucial decisions will require shareholders' approval.

# Comparative Analysis of Listing

## BSE SME vs NSE Emerge vs Mainboard

In order to arrive at a decision to choose the most suitable stock exchange for the public issue, the following table can be used. Some of the crucial aspects are compared across the 2 SME exchanges and the main board.

| **Particulars** | **BSE SME Platform** | **NSE EMERGE** | **Main Board** |
|---|---|---|---|
| Observations on DRHP | By the exchange | By the exchange | By SEBI |
| Document Vetting | By the exchange | By the exchange | By SEBI |
| Post-issue paid-up capital (face value) | Not be more than Rs. 25 crore | Not be more than Rs. 25 crore | Minimum 10 crore |
| Minimum number of allottees in the IPO | At least 50 | At least 50 | At least 1000 |
| Reporting requirements (Financial accounts) | Half-yearly (abridged) | Half-yearly | Quarterly |
| Market Making | Mandatory | Mandatory | Non-Mandatory |
| IPO Underwriting | 100% mandatory | 100% mandatory | Non Mandatory (under 50% compulsory subscription QIBs) |
| Minimum Profit | No Such Requirement. Operating profit (earnings before interest, depreciation and tax) at least any 2 out of 3 financial years | No such requirement. Operating profit (earnings before interest, depreciation and tax) at least any 2 out of 3 financial years (annual revenue of Rs. 10 crore for Technology startup) | average operating profit of at least 15 crore rupees during the preceding 3 years (not applicable if 75% of net offer to be allotted to QIBs through book building process) |

Readers are also advised to go through the official brochures of NSE EMERGE and BSE SME Exchange to get themselves familiar with the listing requirements and associated benefits.

Download BSE SME Exchange Brochure
Download NSE EMERGE Brochure