

# **SME LISTING**

A note on the SME platform introduced by BSE on 13th  
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## **NOTE ON SME EXCHANGE AND LISTING WITH BSE SME EXCHANGE**

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## SME exchange

An **SME exchange** is a stock exchange dedicated for trading the shares of **small and medium scale enterprises** (SMEs) who, otherwise, find it difficult to get listed in the main exchanges like Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

*Here the term “**Small and medium scale enterprises**” is **not only limited** to include Small and medium industries as defined by The Micro, Small And Medium Enterprises Development Act, 2006 but **includes all such industries or companies where the post issue paid up capital will be less than Rs. 25.00 Crores.***

“SME exchange” is defined in Chapter XA of the Securities and Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations] as a trading platform of a recognised stock exchange or a dedicated exchange permitted by SEBI to list the securities issued in accordance with Chapter XA of SEBI (ICDR) Regulations and this excludes the Main Board (like BSE or NSE - which is in turn is defined as a recognized stock exchange having nationwide trading terminals, other than SME exchange)

## BSE SME Listing

On 13<sup>th</sup> March 2012 the Bombay Stock Exchange launched the much awaited SME Exchange Platform (which can be accessed through a dedicated website – [www.bsesme.com](http://www.bsesme.com)) with BCB Finance Limited being the first Company to be listed in the BSE SME Exchange.

## Eligibility Norms for Listing on BSE SME exchange

1. Net Tangible assets of at least Rs. 1.00 Crore as per the audited financial results.
2. Net worth (excluding revaluation reserves) of at least Rs.1.00 Crore as per the audited financial results.
3. Track record of distributable profits in terms of Section 205 of the Companies Act, 1956 for at least two years out of immediately preceding three financial years.
4. Post Issue paid up capital of the company to be at least Rs. 1.00 Crore

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## Other requirements

5. Mandatory trading of securities in DEMAT mode and to enter into agreement with both the depositories.
6. Companies to mandatorily have a working website
7. Company to certify that the Company has not been referred to the Board for Industrial and Financial Reconstruction (BIFR) and that there is no winding up petition against the company that has been accepted by a court.
8. Promoters of the Company require to mandatorily attend an interview with Listing Advisory Committee.

## Annual Listing Fees for BSE-SME Listed Companies

Annual Fees will be charged on the basis of the Market Capitalization and not on the basis of the issue size. The revised Annual Fees is Rs 25,000/- or 0.01% of full market capitalization, whichever is higher. The basis of calculation of Market Capitalization will be the closing price as on 31<sup>st</sup> March or the last day of trading in the financial year.

## Guidelines for SME LISTING BY SEBI

SEBI has time to time issued the circulars and guidelines for setting up of the exchange for small and medium enterprises. The final circular was issued on 18th May, 2010. The necessary provisions for the listing of specified securities under the SME Platform have been made in the Chapter XA of Issue of Capital and Disclosure Requirements (ICDR).

The highlights of the SEBI guidelines are:

- The post issue face value capital should not exceed Rupees Twenty Five Crores. ( Rs. 25.00 Crores)
- The minimum application and trading lot size shall not be less than Rs. 1, 00,000/-
- The existing members would be eligible to participate in SME Platform.
- The issues shall be 100% underwritten and merchant bankers shall underwrite 15% in their own account.
- A minimum number of 50 investors are required at the time of Initial Public offer of the company at the time of SME listing

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SEBI has compulsorily mandated market making for all scrip's listed and traded on SME Platform.

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 Platform.
- 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 quote 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 notice to the exchange.
- Trading system may be either order driven or quote driven.

The application and trading lot size is being kept at Rs. 1, 00,000/- so as to curtail the entry of retail investors. It has also been stated that the minimum depth shall be of one lakh rupees and at any point of time it cannot go below that amount. The investors holding with value less than Rs. 1, 00,000/- shall be allowed to offer their holding to the market maker in one lot. However, in functionality the market lot will be subject to revival after a stipulated time

**Following Relaxations are provided to the SME Listed companies in Comparison to the listing requirements of Main Board i.e. BSE NSE**

- A. Instead of sending a full Annual Report to its shareholders the listed companies can send a statement containing the salient features of all the documents as prescribed in Section 219 (b)(iv) of the Companies Act, 1956 can be sent i.e. Balance sheet, Profit and loss account and Auditors report.

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- B. Financial Results may be submitted on a “half yearly basis” instead of “quarterly basis”
- C. Need not publish their financial results in newspapers but can make it available on their websites.
- D. Other provisions of SME listing agreement like Corporate Governance , Disclosure of Shareholding pattern, Book Closure, which are similar to that of the listing agreement of the main boards are to be followed.

### **Migration from SME Exchange to Main Boards**

To get listed in the main boards like, National Stock Exchange, the minimum [paid up capital](#) required is Rs. 10 crores and that of Bombay Stock Exchange is Rs. 3 crores. Hence, those companies with paid up capital between Rs. 10 crores to Rs. 25 crores has the option of migrating to the Main Board / or to SME exchange.

The companies listed on the SME exchange are allowed to migrate to the Main Board as and when they meet the listing requirements of the Main Board and there shall be compulsory migration of the SMEs from the SME exchange, in case the post issue paid up capital is likely to go beyond Rs 25 crore limit.

### **Migration from Main Boards to SME Exchange**

Regulation 106T of SEBI ICDR Regulations has laid down that the companies whose post-issue face value capital less than Rs. 25. Crores *may migrate its specified securities to SME exchange, if its shareholders approve such migration by passing a special resolution through postal ballot* to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the SME exchange.

Companies can make a fresh application to migrate to main board after a period of two years from the date of listing on SME Platform, provided it fulfills the norms of Direct Listing on the Main Board.

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## Conclusion

Though the names suggest (SME exchange) that they are set up for SMEs, they are open for all companies which fulfill the eligibility criteria and wish to list themselves in the SME Exchange. As on date only Bombay Stock Exchange Limited has launched its SME platform and National Stock Exchange and is soon expected to join the elite SME group.

The SME exchanges are designed as “buyers beware” markets for informed investors and SEBI has incorporated provisions like need of market making for the specified securities listed on the SME exchange and minimum lot size of Rs. 1 lakh to keep out retail and small time Investors.

## Difficulties faced:

- Only institutional investors and high net worth individuals can invest in an SME and this means a smaller market
- There has to be a 100 percent issue underwritten by merchant bankers. Merchant bankers also have to kind of assure a 15% of the subscription of the IPO hence fewer merchant bankers are willing to take up IPO of SME listing Companies.
- Annual listing fees is based on market capitalization with minimum fee of Rs. 25,000/-
- Only BSE has launched dedicated SME platform hence limited scope for trading.

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