October, 2013 Edition

S-CAP

SME Capital Market Watch

An initiative by Sarthi Capital Advisors Private Limited

SEBI Registered Category I Merchant Banker

S A R T H I

PREFACE

Dear Readers,

It is our great pleasure to present the 11th edition of ‘**S** - **C**ap’ – **S**ME **Cap**ital Market Watch, an initiative of Sarthi Capital Advisors Private Limited (‘**S**arthi **Cap**ital’).

Recently, we have seen a lot of traction on the policy front with Government notifying 98 sections of the new Companies Act already. This month, SEBI has released Institutional Trading Platform (ITP) regulations on 8th October 2013. ITP is a path-breaking route which aims to facilitate the entry and exit of investors of Start-Up SMEs without requiring them to go through IPO route.

We are over-whelmed with the magnificent response and wide appreciation by the readers for last ten issues of S-Cap. Be it SME entrepreneurs, or professional fraternity or corporate executive, all stakeholders found S-Cap very useful & informative.

In this issue of S-Cap we bring to you:

- Researched articles on Institutional Trading Platform and Slump Sale
- Highlights of related developments on regulatory, market and other fronts
- SME Market Watch updated as on date
- Research Coverage on Chemtech Industrial Valves Ltd.
- Latest information and upcoming events regarding SMEs

We trust you would find this issue of S-Cap of immense use and we do invite your suggestions/feedback to make S-Cap even more useful, going forward.

Team Sarthi

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Salient Features

- Sarthi Angels is a section 25 non-profit organisation
- Provides a platform to connect the budding entrepreneurs with Angels
- Provides Incubation Services to entrepreneurs
- Our endeavor is to create a conducive environment for Entrepreneurs & provide value investment opportunities to Angels

BRIDGING THE GAP BETWEEN ENTREPRENEURS AND ANGELS

SME Capital Market Watch

Smelisting.net

Knowledge Portal

A One Stop Comprehensive Solution To SME Listing

Salient Features

- Comprehensive content on procedural and regulatory aspects.
- Eligibility Calculator to gauge your eligibility for SME IPO.
- Knowledge Comer that provides regulatory & market insights.
- A platform to interact with the experts on SME Listing & related topics.
- Latest happenings in SME world
- An in-depth research on listed SMEs & prospective IPOs.

& many more...

Email us at: smelisting@sarthiwm.in

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INSTITUTIONAL TRADING PLATFORM

ITP Preface

SME business segment holds a critical space in Indian business panorama, given, inter alia, that SMEs produce nearly half of the manufactured output and are the largest employers in India. In order to bolster growth funding opportunities, SME Exchanges were launched last year. Till date, 34 companies have been listed on SME Exchanges of BSE and NSE and 10 are in process.

To complement the SME Exchanges, the finance minister in its FY13-14 budget opened up another layer of listing platform – Institutional Trading Platform (ITP). SEBI at its Board meeting held on 25th June, 2013 accorded in-principle approval for setting up of ITP and released ITP Regulation on 8th October 2013.

What is Institutional Trading Platform (ITP)?

Institutional Trading Platform means the trading platform in a SME exchange for listing and trading of specified securities of SME without going through a public offering process. The main objective of coming up with this regulation is to provide greater liquidity to the SME securities and to make the security more stable by putting mandatory investments from VCF, AIF, Merchant Bankers, etc.

Who are Eligible to list on ITP?

This facility is available to SMEs that meet certain conditions, as follows:

Qualitative Factors	Company Fundamentals
Company/ Promoter/ Group Company/ Director not to be in the defaulters list of RBI/CIBIL	Company history of 1 to 10 years
No winding up petition against the company	Revenue upto Rs 100 Cr in any FY
Company/Group companies/Subsidiaries not to be referred to BIFR within 5 years	Paid-up Capital not more than Rs 25 cr in any FY
No regulatory action against the company /Promoter /Director by SEBI, RBI, IRDA, MCA within last 5 years	Atleast 1 full year's audited financial statements

In addition to the earlier mentioned criteria, any one of the following pre-listing investment criterion also needs to be met :

- Minimum investment of **Rs 50 Lakh** in Equity Shares by either **AIF or VCF or Angel Investor** (Member of any Angel Association/Group) **OR**
- Company received finance from **Scheduled Bank 3 years back** and have been fully utilized **OR**
- Minimum investment of **Rs 50 Lakh** in Equity Shares by a **Merchant banker or QIB** locked in for 3 years from listing **OR**
- Investment by a **Specialized International Multilateral Agency or Domestic Agency or PFI** in equity Capital (No mention of amount).

What are the Benefits of ITP ?

ITP is a path breaking route which aims to facilitate entry and exit of PE/VC/Early Stage investors into SMEs & Start-ups in India. The benefits include :

- ✓ ITP is a platform exclusively for listing of securities without public offer
- ✓ The shares will be listed on the same Recognised Stock Exchanges under different group.
- ✓ Exemption from the requirement of having minimum 50 shareholders.
- ✓ Negligible expenses and lower time frame for ITP process.
- ✓ Transactions will attract only STT, not Capital Gains Tax.
- ✓ Exempted from 25% mandatory public share-holding norm.
- ✓ SEBI Takeover Code not applicable to companies listed on ITP.
- ✓ SEBI Delisting Regulations not applicable to companies listed on ITP.

What's the Listing & Trading Mechanism?

A company that fulfills the eligibility criteria can apply to a recognized stock exchange for listing and trading of its securities on ITP.

Listing

- Company needs to prepare Information Memorandum.
- Information Document to be made public for atleast 21 days from date of filing.
- Exchange to check eligibility/conditions and grant in-principle approval.

Minimum Public Share - Holding

The ITP listed companies are exempted from 25% mandatory public share - holding norm.

Minimum Promoter Share - holding

Promoter to hold atleast 20% of the post listing capital with 3 years lock-in from the date of listing.

Trading

All securities will be in demat and traded in lot of Rs 10 Lakhs. This will limit the trading participation to only large informed participants. The identity of buyers and sellers for every transaction will be visible on the ITP at the end of respective trading day.

How can a company raise capital on ITP?

ITP Listed company are not allowed to raise funds through public offer while listing on ITP or post listing. Capital raising only possible through private placement or rights issue without an option for renunciation of rights.

- The private placement and rights issue will be subject to in-principle approval from SE & shareholders' approval through special resolution along with certain other criteria and disclosures
- Completion of allotment of securities to be done in 2 months from approval
- Minimum Pricing to be higher of "Book Value as per last audited financials" AND "Value as determined by an Independent Auditor or Registered Merchant Banker".

Exit from ITP:

ITP is not a permanent listing platform. The company listed on ITP has to delist someday subject to criteria mentioned below. Also there is no route for migration to SME Platform or Main Board which implies that the Company will have to come-up with a fresh IPO to list on SME Exchange or Main Board. The exit conditions are -

Voluntary	Growth	Disciplinary Action
• Special Resolution by shareholders with 90% favorable votes **AND**	• 10 years on ITP **OR**	• Failure to file its periodic returns for more than a year **OR**
• Stock Exchange Approval	• Paid up capital > Rs 25 cr **OR**	• Non-compliance with corporate governance norms more than a year **OR**
	• Revenue > Rs 300 cr **OR**	• Non-compliance of listing conditions specified by Stock Exchange
	• Market Cap > Rs 500 cr **OR**	

If a company gets delisted due to Disciplinary Actions, no company promoted by promoters & directors shall be permitted to be listed on ITP for next 5 years.

ITP v/s SME Exchange v/s Main Board

Parameters	Main Board	BSE SME	ITP
Post – issue paid up capital	Min Rs. 10 crore	Min Rs.1 crore; Max Rs.25 crore	Max Rs 25 Crore
Minimum Allotees in IPO	1000	50	NA
IPO underwriting	Non Mandatory (Under 50% compulsory subscription to QIB's)	Mandatory (100% underwritten with MB underwriting 15%)	NA
IPO Grading	Mandatory	Not mandatory	NA
Track record	Stringent track record norms	Relaxed track record norms	Nominal Track record with basic hygiene factors
Offer Document vetting	By SEBI	By Exchange	Info memorandum to be approved by Exchange
Trading Lot	No Lot (Even single Share Possible)	Min. Rs. 1 lac	Min Rs. 10 Lakhs
IPO Time frame	6 months	2 – 3 Months	1.5 - 2 Months
Reporting Requirements	Quarterly	Half yearly	-

Concluding Remarks:

Globally, Institutional Trading Platforms are prevalent, although in various different forms. For instance, AIM (UK) permits listing without IPO on fulfillment of prescribed conditions whereas in the US, Over The Counter Bulletin Board (OTCBB) could be used by companies as a stepping stone before leaping into the larger exchanges and markets. ITP aims to provide easier entry and exit options for entities such as Angel Investors, VC/PE Funds which would be entitled for exemption in Capital Gain Taxes by listing their investee companies on ITP before exit. Besides, the move will provide better visibility, wider investor base and greater fund raising capabilities to such companies.

ITP, in our view, would act as a precursor to listing on SME Exchange or Main Board rather than being a substitute to listing on Stock Exchanges (SME or Main Board). It would be a sort of 'limited' platform only to facilitate early-stage investment by informed investors into SMEs and providing the benefits of listed space to such companies & investors. Through ITP, the Government has taken a landmark step to bring confidence in early stage investment community and we wish and hope that the same momentum be continued on the policy front to restore back the investment cycle in the economy.

- Rohit Nerurkur

SLUMP SALE

Background:

The concept of Slump sale was introduced in AY 2000-01 after lot of litigation and ambiguity on taxability of slump sale. The sellers were taking advantages of provisions of law that if cost of acquisition or cost of improvement cannot be ascertained, then question of capital gain doesn't arise. To put this ambiguity to rest Section 2(42c) and sec 50 B were inserted.

Section 2(42C)

This section defines "Slump Sale" as – The **transfer** of one or more **undertaking** as a result of **sale** for a **Lump sum consideration** without values being assigned to the individual assets and liabilities in such sales

Explanation: For removal of doubts, it is hereby declared that the determination of the value of asset and liability for the sole purpose of payment of stamp duty, registration fees or other similar taxes or fees shall not be regarded as assignment of values to individual assets or liabilities.

Undertaking

- According to this section, Undertaking shall include part of an undertaking or a unit or division of an undertaking or a business activity taken as a whole, but does not include Individual assets or liabilities or any combination thereof not constituting a business activity.
- Therefore what is essential to constitute an undertaking is that part of undertaking or unit of undertaking or division of undertaking which should constitute a business activity as a whole.
- No values should be assigned to the individual assets and liabilities. However, the values can be assigned to the assets for the limited purpose of payment of stamp duty, registration fees etc. This issue should be clarified in the agreement itself.
- Slump Sale is not a sale of assets which on its own cannot produce sustainable revenue. **SALE in this case does not include transfer of any undertaking through exchange, relinquishment, extinguishment, compulsory acquisition etc. It has to be sale of business as a going concern,**
- **LUMP SUM:** Payment of consideration in installments will also be construed as lump sum consideration.

Section 50B:

- The crux of section 50 B is if the agreement for transfer specifies the individual value of each asset to be transferred, then the provisions of slump sales shall not be applicable and capital gains on each asset shall be computed separately.
- If the undertaking is sold as slump sale then capital gain shall arise and the same shall be taxable in the previous year in which slump sale is affected.
- The nature of capital gain shall depend on the period of holding of the undertaking transferred by way of slump sale. If the undertaking is held for more than 36 months immediately preceding the date of transfer, then the capital shall be long term. This is irrespective of the fact that the undertaking consist of assets which are short term capital asset.
- No profit under the head business and profession shall arise in case of slump sale even if stock is transferred in slump sale.
- The cost of acquisition and cost of improvement of the undertaking shall be **net worth** of the undertaking.
- The benefit of indexation shall not be available in case of slump sale.

  In Simple words

  Capital Gain on Slump Sale = "Slump Sale Consideration" minus "Net worth of Undertaking or Division"

Net worth Calculation

- **Net worth** is aggregate value of total assets of the undertaking or division transferred minus Value of liabilities or division transferred as appearing in the books of account.
- Contingent liabilities do not appear in the books of account and therefore shall not be deducted while computing the Net worth.
- Revaluation of assets shall not be considered while computing the net worth i.e. revaluation of assets shall be ignored for computing the net worth irrespective of the fact that revaluation is done in the current year or in past years.
- Non depreciable assets are to be taken at their book values.
- In case of depreciable assets, the written down value of such assets shall be computed as per Sec 43(6)(c)(i)(C)
- A report of a chartered accountant certifying the correctness of computation of Net worth of the undertaking or division has to be furnished along with the return of income.

Carry Forward Losses & Unabsorbed Depreciation

- After the insertion in Finance Act 1999 and Finance Act 2000 carry forward losses and unabsorbed losses of the transferred undertaking and unabsorbed depreciation can be carried forward by transferor. The condition that business must be continued for carry forward has been deleted.
- Further Sec 43 (6) which defines the written down value of block of assets has been amended. It has been provided in Sec 43(6)(c)(i)C) that the written down value of the transferor in case of slump sale shall be reduced by the following :
- Actual cost of the asset falling within the block by way of slump sale as reduced by the depreciation actually allowed up to assessment year 1987-88 in respect of the asset transferred and depreciation that would have been allowable for assessment year 1988-89 and future assessment as if the asset was only asset in the block of assets. However, the above reduction shall be limited to the written down value of Block of assets.

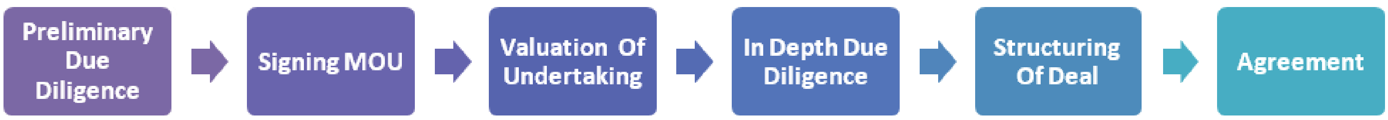
Cost in hand of Transferee

- Law does not prescribe the actual cost in the hand of transferee. A logical view is that slump sale consideration should be apportioned on the basis of the fair market value of the assets (AS 10) backed by an independent valuation report which allocates purchase consideration to various assets /liabilities and depreciation be allowed on such apportioned cost. Balance purchase consideration, if any, attributable to goodwill
- In case of slump sales in nature of succession of a firm or proprietary concern by a company, capital gains made on slump sale may be entitled to exemption u/s 47(xiii) and (xiv), respectively provided the other conditions of these sections are satisfied. In case of violation of conditions of Sec 47(xiii) or (xiv) in any subsequent year, the benefit availed by the firm or the sole proprietor will be taxable in the hands of successor company in the year in which the violation takes place as per SEC 47A(3).
- Besides, if the successor company violates the conditions of S 14(xiii) or(xiv) by transferring that undertaking under the slump sale within three year of conversion, the undertaking will be classified as a short term capital asset as per S 50B. Then the company would have to pay for the loss of tax benefit due to violation of conditions as well as tax on the short term capital gains arising on the slump sale.

Advantages & Disadvantages of Slump Sale

Advantages	Disadvantages
✓ Slump Sale is the fastest course of M&A as it requires a simple majority vote as per SEC 293	✓ Slump Sale may not always be beneficial. If the company finds that it is prudent to sell the assets separately, then it can do so if the tax incidence comes out to be lower.
✓ There can be huge saving on account of sales tax.	✓ Distribution of proceeds to shareholders as dividend results in tax leakage
✓ Huge Tax saving if the undertaking is owned and held for more than 36 months, even though some assets are held for short term . Further taxations at 20% u/s 112	✓ No indexation benefit is available, where the land is acquired prior to 1-4-81, cost cannot be substituted by FMV as on 1-4-81.
✓ Long term Capital Gain are eligible for deduction u/s 54 EC and SEC 54F	✓ Stamp duty on immovable property is a big issue.
✓ Sec 50B overrides Sec 50C, so the effective rate of Long term gains turn out to be much lower than 20%	✓ Extensive diligence and indemnity provisions are significantly similar to a full entity acquisition.

Steps in Slump Sale



Recent Developments

Slump Exchange : Some sort of tax planning was used by some after Bharat Bijlee Limted vs ACIT (4). In this case it was held that where consideration of transfer of an undertaking is by way of exchange and no monetary consideration was received, the transaction doesn't amount to slump sale. But with insertion of Sec 50D, if the consideration received or accruing on transfer of the capital is not ascertainable or cannot be determined, then for the purpose of computing income chargeable to tax as capital gain, the fair market value of the said asset on the transfer shall be deemed to be the fair value of the consideration received or accrued. The provision to assess capital gains based on market value was inserted by the Finance Act 2012 w.e.f. 01.04.2013 that is Assessment Year 2013-14 (PYE 31.03.2013). Any taxpayer who find that the provisions of S 50D may be attracted in his case, can take timely study, find out implications of the same by ascertaining fair market value of capital asset and estimate his tax liability. In case advance tax has not been paid, the same can be paid as soon as possible to meet obligations for payment of installments of advance tax.

Further DTC 2010 defines the word slump sales without the word transfer however it defines the word sold to include transfer by way of exchange. Accordingly, under the DTC, an exchange would be covered within the meaning of slump sale.

Date of Determination of Net Worth

The view taken by courts is that the Net worth of the undertaking on the date of transfer has to be considered to determine the cost of acquisition.

Negative Net worth

- The issue arises in some cases where liabilities are higher than assets. There are two thoughts prevailing in this case. According to one view, Cost of acquisition is to be taken as zero since capital gains cannot exceed the sales consideration. But in certain recent ruling ITAT Mumbai has taken a view that negative Net worth of the undertaking should be added to sale consideration.
- Even in a case where assets are sold except land, the assesse is liable under SEC 50B, it cannot be construed as sale of piecemeal sale. On-transferring of land could not be deciding factor in determining the nature of transactions as the business was not affected by the non transfer of land.

Conclusion

✓ Buyers and sellers should carefully negotiate and seek the services of professional while drafting business transfer agreement

✓ Where itemized sale is more beneficial, one can go for breakup of sale consideration by assigning values to individual assets and liabilities. Determining Sale consideration appropriately can save huge taxes

✓ Since there are lot of cost and taxes in the arrangement of transfer, it is always better if both the buyer and seller negotiate and commercially agree on sharing of the cost burden.

- Harish Nagpal

REGULATORY DEVELOPMENTS

SEBI Circular on Procedure for Fines for Non-Compliance of Listing Conditions and Standard Operating Procedures for Suspension and Revocation of shares of listed entities

SEBI vide circular no CIR/MRD/DSA/31/2013 dated September 30, 2013 came out with a procedure for imposing penalties on non-compliance of certain provisions of listing agreement by listed entities. SEBI has come out with a Standard Operating Procedure for imposing penalties on non-compliant companies and for suspension and revocation of listed entities.

To enforce this circular, listed entities would be served notices of non-compliances. In case of subsequent and consecutive non-compliance the promoter/promoter group shares shall be freezed by the depositories on instructions of the stock exchange. The shares shall be unfreezed only 3 months after revocation of the listed entities.

The stock exchange shall disclose on its website action taken against listed entities for non-compliance including amount of fine imposed, period of suspension and freezing of shares etc.

The list of fines in case of non-submission/delay in submission of documents pursuant to relevant provisions of the listing agreement.

Clause of Listing Agreement	First Time Fines	Fines for Subsequent and Consecutive non compliance
Clause 31 – Annual Report	Rs. 1,000/- per day	Rs. 2,000/- per day
Clause 35 – Shareholding Pattern	If more than 15 days then Rs. 15,000/- + 0.1% of the paid up capital (Capital as on April 1) or Rs. 1,00,00,000/- whichever is less.	If more than 15 days then Rs. 30,000/- + 0.1% of the paid up capital (Capital as on April 1) or Rs. 1,00,00,000/- whichever is less.
Clause 41 – Financial Results	If more than 15 days then Rs. 75,000/- + 0.1% of the paid up capital (Capital as on April 1) or Rs. 1,00,00,000/- whichever is less.	If more than 15 days then Rs. 1,50,000/- + 0.1% of the paid up capital (Capital as on April 1) or Rs. 1,00,00,000/- whichever is less.
Clause 49 – Corporate Govenrnace	Rs. 1,000/- per day	Rs. 2,000/- per day

Amount collected as fine shall be used for Investor Protection Fund. Stock Exchanges shall disclose names of the companies that are liable to pay fines on their website. Exchange shall review compliance status within 45 days for the end of each quarter for Clause 35 and Clause 49 and within 15 days for Clause 31 and Clause 41. Stock Exchange shall issue notices to listed entities to ensure compliance and pay fines. Fine shall be paid within 15 days from the date of notice. Non-compliant entity failing to pay fine, stock exchange shall initiate action against such entities.

Non-compliant entities will be shifted to "Z" Category and trade shall take place on T to T basis. Stock Exchange may move the company back into normal category if the company complies with the listing agreement and pays necessary fines. Stock Exchange shall also give 7 days prior notice to investor before moving the shares to "Z" Category.

Standard Operating Procedure for Suspension

1. Listed entities will be suspended if the company fails to comply with Clause 31 for 2 consecutive financial years, Clause 35, 41, 49 and Reconciliation of Shares and Capital for 2 consecutive quarters and notice of suspension from any other recognized stock exchange.
2. Before suspension Stock Exchanges shall send written intimation to the company to comply with the Listing Agreement and pay necessary fines within 21 days.
3. In the event of non-compliance by the company and failure to pay penalty, stock exchange shall intimate depository to freeze shares of the promoter and promoter group and issue 21 days' notice on its website for investor stating proposed suspension of trading of the company.
4. In the event the listed entities complies with the Listing Agreement and pays penalty, suspension shall not be invoked and shares frozen shall be unfreezed after 1 month form the date of compliance.
5. After suspension trading of non-complaint listed companies may be allowed on T to T basis on every 1st trading day of every week for 6 months.
6. Trading in shares of suspended entities shall completely stop if the company remains non-compliant for more 6 months.

Standard Operating Procedure for Revocation

1. Suspended company, if complies with listing agreement and pay all penalties, stock exchange may revoke suspension.
2. Stock Exchange will issue 7 days notice prior to revocation of suspended entities.
3. After 3 months of revocation, stock exchange shall send intimation to depository to unfreeze shares of promoter and promoter group.
4. After revocation, trading for 3 months shall take place on T to T basis.

MARKET DEVELOPMENTS

- **RJ Bio-Tech Ltd.** engaged in the business of developing and marketing hybrid seed varieties in India opened the issue for subscription on 10th September, 2013. The Issue was subscribed 1.08 times out of which Retail Investors category was subscribed by 0.22 times while Non Retail Investors category was subscribed by 1.95 times. The Issue is being Lead managed by **Sarthi Capital Advisors Private Limited** and is its **third issue** to be listed on BSE SME Platform.

- **Ace Tours Worldwide Limited** engaged in the business of providing travel and leisure services opened the issue for subscription on 9th September, 2013. The Issue was subscribed 1.08 times out of which Retail category was subscribed by 0.45 times while Non Retail Investors category was subscribed by 1.55 times.

- **Chemtech Industrial Valves Limited** engaged in the business of manufacturing carbon steel and stainless steel industrial valves of various types & sizes filed a draft prospectus for a public issue of Rs. 8 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to acquire additional plant & machinery at the existing manufacturing facilities of the Company; to fund the interiors of corporate office of the company; to meet the incremental working capital requirements; to meet the expenses towards general corporate purposes and to meet the issue expenses.

- **Tentiwal Wire Products Limited** engaged in the business of manufacturing and supplying winding wires and aluminum extrusions filed a draft prospectus for a public issue of Rs. 2.12 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to reduce overall indebtedness of the Company by repayment of the outstanding loan, for General Corporate Purpose and to Meet the Issue Expenses.

- Currently 37 companies are listed on SME platforms of BSE and NSE.

Forth Coming IPOs

Name of the Company	Exchange	Issue Size (Rs. crores)	Issue Price (Rs. Per Share)
Tentiwal Wire Products	BSE	2.12	13
Chemtech Industrial Valves	BSE	8.00	15
Suyog Telematics	BSE	4.53	25
Stellar Capital Services	BSE	9.00	20
Newever Trade Wings	BSE	6.32	10
Satkar Finlease	BSE	13.51	18
Prabhat Telecoms (India)	BSE	26.60	80
Subh Tex (India)	BSE	3.50	10

OTHER DEVELOPMENTS

Government mulling a policy on MSMEs NPAs

The government is mulling over formulating a policy that will enable recovery from micro, small and medium enterprises (MSMEs), which have turned into bad loans, Minister of State for Commerce and Industry E M S Natchiappan said today.

At the same time, the government is also looking at a CDR-type mechanism for the MSMEs to help recast their loans," he told reporters on the sidelines of IEEMA event here.

Assocham suggests 50% hike in MSME investment limit

The Associated Chambers of Commerce and Industry of India (Assocham) has recommended that the definition of micro, small and medium enterprises (MSMEs) under the MSMED Act 2006 should be revised. This is one of eight major recommendations by the chamber to help the MSME sector.

In a report titled Indian MSMEs: Current Scenario and the Way Forward, which Assocham recently submitted to Finance Minister P Chidambaram, the chamber said that keeping in view the definitions of MSMEs in other countries and inflation in India in the last few years, the capital investment limits on the basis of which MSMEs are defined are too low. They should therefore be increased by at least 50 per cent.

Moreover, the number of employees should also be incorporated in the definition, as in other countries, it said. For sustained growth, it is important for MSMEs across the country not only to deal with big corporates and government companies, but also to interact among themselves to identify new business opportunities, said Assocham.

The other major recommendations pertain to availability and cost of credit, marketing support, modification in labour laws, infrastructure, incentives and expanded tax benefits, constitution of a standing committee of secretaries to resolve policy and implementation-related issues, and greater and coordination at the ground level between Customs and DGFT offices.

Google to web-enable SMEs in Gujarat

Even as it looks to help Gujarat-based small and medium enterprises (SMEs) go online, search engine giant Google is looking to tap verticals like export oriented units (EOUs), textiles and jewellery in the state.

As part of its national campaign, 'India, get your business online', Google is offering free websites and hosting space to SMEs in India. In Gujarat, the campaign has already seen 5,000 SMEs go online.

However, for greater success, Google plans to tap several verticals that can see quicker acceptance among SMEs, such as textiles, jewellery and other export oriented units. The company is of the view that Gujarat predominantly houses a large number of SMEs that deal in the entire value chain of textiles as well as jewellery, such as diamond polishing, jewellery design and manufacture, and retail stores.

CRISIL's analysis on MSME's profitability trend

CRISIL has analyzed the profitability trend of 8,500 micro, small, and medium enterprises (MSMEs) from 2009-10 to 2011-12 (refers to financial year, April 1 to March 31). The analysis reveals that MSMEs held on to their profit margins tenaciously in these tough times. In fact, their OPBDIT margin actually improved from 7.13% to 7.30%. However, OPBDT dropped from 4.99% to 4.76% due to high financial costs necessitated by longer working capital cycles and hikes in interest rates. Due to income from extraordinary sources, PAT margin improved from 3.68% in 2009-10 to 4.04% in 2011-12, indicating that MSMEs could sufficiently support their income profile to maintain viability. Increase in PAT margin in tough times is also indicative of an encouraging trend towards better compliance and operational transparency.

CHEMTECH INDUSTRIAL VALVES LTD

Chemtech Industrial Valves Limited (CIV) was founded in the year 1997 having a registered office at Mumbai and a manufacturing facility at Wada, Maharashtra. It is engaged in the business of manufacturing carbon steel and stainless steel industrial valves of various types & sizes ranging from 15mm to 4000mm. CIV manufactures and supplies various types of ball, butterfly, globe, gate and check valves and has a significant customer base in the steel industry. CIV caters to oil and gas industry, infrastructure, process industries (including pharmaceuticals, chemicals, intermediaries and fertilizers), nuclear space and defence industry.

Business Process:

Key Highlights:

Fully Integrated Manufacturing Facility: The manufacturing facility is fully integrated and self-sufficient with the raw materials and consumables readily available.

Experienced Management Team: CIV is managed by a team of professionals led by Chairman, Mr. Pradeep Shikharchand Badkur, who has over 15 years of experience in this business. The Company believes that the growth strategy in combination with management's demonstrated ability to consistently meet the customers' high expectations for quality and reliability, serves as a foundation for future revenue growth and stable operating profit.

Continuous Focus on Developing Novel and Innovative Products: The Company constantly encourages its people to innovate and develop new products for catering to demands of customers. CIV stays constantly in touch with its clients in order to assess their requirements for increasing their process efficiency.

Strong Customer-Base: The Company has long-standing relationships with customers for whom it has executed repeat orders over an extended period of time, which it believes has been established and is strengthened by the dedicated infrastructure and ability to meet Clients' requirements for customized products. CIV's customers include leading steel plants, government companies, engineering companies and EPC contractors.

Technical Expertise and vast Industry Experience: All Promoters are experienced in the line of business. Further, the Company has employed professionals having technical and commercial backgrounds.

Quality Assurance and Standards: The Company believes in imbibing stringent quality standards in all its processes and products.

Key Challenges:

Enforcement of Contingent Liabilities: CIV's Contingent Liabilities towards counter guarantee given by the Banks, if materialized, fully or partly, the financial condition of Company could be adversely affected.

High Working Capital Requirements: The business requires a large amount of working capital, used significantly to finance the purchase of raw materials and other expenses before payments are received from customers and hence may not be able to raise the required capital for future orders.

Dependency on Consumer Industries: CIV is heavily dependent upon the growth prospects of the industries which consume its products. Any slowdown in the rate of growth of these industries would seriously impact its own growth prospects and may result in decline in profits.

Issue Details

Issue Size (Rs. Cr)	8.00
No. of shares on offer (Lakhs)	53.36
Price (Rs.)	15
Face value (Rs.)	10
MCap (Rs. Cr)	17.78

Objects of the issue (Cr)

Purchase of Plant & Machinery	3.32
Interiors of Corporate Office	1.09
Working Capital Requirement	2.93
General Corporate Purpose	0.60
Issue Expenses	0.53
Total	8.47

Shareholding (%)	Pre IPO	Post IPO
Promoters	100	55
Public & others	-	45

Relative Valuation

Currently there is no listed entity in India operating in the similar business with same size & scale and hence a strict comparison with CIV not possible due to significant differences in the business models. The firm operates on high margin manufacturing model. Increasing EBITDA margins and ROE are on the back of increased reliance on debt funding over last three years. This along with increasing inventory & debtors days may pose a threat to the equity holders of the company. The firm proposes to list its shares on P/E multiple of 6.1 which implies a positive valuation fundamental for the investors on standalone basis.

Financials (Rs. In Cr)

Year	FY13	FY12	FY11
Sales	22.74	16.74	10.19
EBITDA%	15.46	13.07	9.63
PAT%	4.15	4.17	-
ROCE%	15.58	14.62	13.58
ROE%	26.08	24.97	-
ROA%	3.74	3.83	-
Debtors days	85.56	103.80	45.26
Inventory days	140.25	149.60	104.38
Creditors days	53.38	66.44	38.03
Interest coverage	1.54	1.78	0.82
Debt/ Equity	4.30	2.83	1.00

TRADING – GROUPS & MECHANISM

The scrips traded on the Exchanges have been classified into various groups based on certain qualitative and quantitative parameters.

BSE Categorization

- **Group A:** Most tracked class of scrips consisting of about 200 scrips. Shares in this category have a high liquidity, market capitalization and capital appreciation.
- **Group B:** Similar to A, but with a slightly lower market capitalization and appreciation but good liquidity. These are financially healthy stocks.
- **Group S:** S group consists of companies exclusively listed on regional stock exchanges.
- **Group F:** Represents the Fixed Income securities.
- Group T: Group represents scrips which are settled on a trade-to-trade basis as a surveillance measure. Their settlement needs to be done by DELIVERY only.
- **Group Z:** Represents the scrips of the blacklisted companies which have failed to comply with its listing requirements and/or have failed to resolve investor complaints and/or have not made the required arrangements with both the depositories for dematerialization of their securities.
- **Group G:** Trading in Government Securities by the retail investors is done under the "G" group.
- **Group M:** Represents the stocks of companies from the SME segment listed under BSE SME. These stocks are traded in a lot size of Rs.1 lakh and more.

The scrips of companies which are in demat can be traded in market lot of 1. However, the securities of companies which are still in the physical form are traded in the market lot of generally either 50 or 100. Investors having quantities of securities less than the market lot are required to sell them as "Odd Lots". This facility offers an exit route to investors to dispose of their odd lots of securities, and also provides them an opportunity to consolidate their securities into market lots.

NSE Categorization

On NSE the stocks are classified into three categories on the basis of their liquidity and impact cost.

- The Stocks which have traded at least 80% of the days for previous 6 months shall constitute the Group I and Group II.
- Out of the scrips identified above, the scrips having mean impact cost of less than or equal to 1% are categorized under Group I and the scrips where the impact cost is more than 1, are categorized under Group II.
- The remaining stocks are classified into Group III.

Tick Size:

Tick size is the minimum difference in rates between two orders on the same side entered in the system for particular scrip. BSE has a tick size of 5 Paise. However it is reduced to 1 paise in case of MF units, "F" group securities and equity shares having closing price up to Rs. 15 on the last trading day of the calendar month. Accordingly, the tick size in various scrips quoting up to Rs.15 is revised to 1 paise on the first trading day of month. In case of NSE the tick size varies from 1 paisa to 5 paise depending on the characteristics of the securities.

Market Timings

Trading on the equities segment takes place on all days of the week (except Saturdays and Sundays and holidays declared by the Exchange in advance). The market timings of the equities segment are:

	Market Timings
A) Pre-open session	
Order entry & modification Open	09:00 hrs
Order entry & modification Close	09:12 hrs for BSE & 09:08 hrs for NSE
B) Regular trading session	
Normal Market Open	09:15 hrs
Normal Market Close	15:30 hrs
Block deal session is held between	09:15 hrs & 09:50 hrs
C) The Closing Session between	15:40 hrs and 16:00 hrs

Trading & Settlement Mechanism

- Trading at both the exchanges takes place through an open electronic limit order book. The entire process is order-driven, and thus, buyers and sellers remain anonymous which brings more transparency.
- All orders in the trading system need to be placed through brokers.
- On both the Exchanges, the settlement takes place on a T+2 rolling settlement cycle. For all trades, cumulative obligations of each member are determined on the T+1 day and the trades are settled on T+2 day. For arriving at the settlement day all intervening holidays, which include bank holidays, Exchange holidays, Saturdays and Sundays are excluded.

WHAT'S IN PRESS?

RBI governor Raghuram Rajan's plans to change trade credit may bring relief to SMEs

The 3.6-crore micro, small and medium enterprises, which account for nearly 10 per cent of the country's gross domestic product, could get a substantial boost if the moves by Reserve Bank of India governor Raghuram Rajan to change the way trade credit is treated have their intended effect.

Rajan's plans to permit trade in the receivables of small companies that sell goods to big producers such as Tata Motors or Maruti Suzuki may bring relief to small industries as this leads to the cost of working capital falling sharply.

A supplier waiting 90 or 120 days to receive payments from final goods producers may be able to discount receivables in an electronically operated exchange similar to stock exchanges.

If a small company is able to sell receivables, its interest payment to the bank drops to that extent. "It is a sign of matured markets and a good idea to ensure payments to MSMEs within definite timetable," said S Mundra, Chairman and Managing Director of Bank of Baroda. "Only a few things need to be taken care of like the quality of receivables, mechanism of payments as well as legal and operational aspects.

This will not only check our NPAs (nonperforming assets) but also aids liquidity management."

Rajan's proposed model is akin to Mexican development bank Nafinsa's creation of an electronic platform on which any small firm can sell receivables. The idea was first floated by Rajan in a 2008 report on financial sector reforms — A Hundred Small Steps. "For small and medium firms, we intend to facilitate Electronic Bill Factoring Exchanges whereby MSME bills against large companies can be accepted electronically and auctioned so that MSMEs are paid promptly," Rajan had said.

After becoming governor, Rajan said: "This was a proposal in the report and I intend to see it carried out."

The medium enterprises segment, which contributes more than 8 per cent to India's GDP and accounts for 45 per cent of the manufacturing sector, tends to get squeezed as big companies seek to protect their profit margins. This includes payments to them getting delayed.

The companies that could benefit from the changes number about 8 crore, according to data from the government's MSME Annual Report for 2012-13.

Source : Economic Times

QUOTES

"Most SMEs are a one-man-show who lack both manpower and strength to demand on time payments from the bigger players, which can be resolved if the banks exert their influence and ask the biggies to release the dues. "It is here the banks should step in to help them for their survival."

Uma Shankar,
Regional Director, RBI

"We are soon planning to call CMDs of banks to find out a solution to the problem of inadequate credit flow to the MSME sector. We will also ask banks to speed up their advances to the sector as timely availability of credit is really important for small units for their development."

K H Muniyappa,
Minister of State for MSME

"Major factors affecting growth of the sector include shortage of working capital, lack of demand, marketing problems, shortage of raw-material, power crunch and labour issues."

Madhav Lal,
Secretary in the MSME Ministry

"Considering the significant scope for flow of banking credit in the MSME sector, RBI had taken steps like priority sector lending to encourage greater bank-led financing. However, the financing gap has only widened given the massive demand-supply constraints."

D S Rawat,
Assocham secretary general

SME MARKET STATISTICS

Sl No	Company	Closing#	%Returns*	52 Week High	52 Week Low
1.	Anshus Clothing	31.20	1.85	37.00	22.50
2.	BCB Finance	25.25	1.00	27.50	24.50
3.	Bronze Infra	7.40	-36.00	20.10	5.80
4.	Comfort Commotrade	28.20	185.00	45.95	12.05
5.	Jointeca Education	14.50	-5.00	18.00	14.25
6.	Jupiter Infomedia	25.80	37.50	27.50	22.70
7.	Max Alert	90.00	350.00	99.00	57.10
8.	Looks Health	287.00	792.50	357.00	42.60
9.	RCL Retail	16.95	222.50	32.25	7.55
10.	Sangam Advisors	24.95	-0.45	25.85	19.00
11.	SRG Hsg Fin	90.95	425.00	108.00	19.95
12.	Eco Freindly	93.15	245.20	102.85	21.10
13.	Esteem Bio	87.35	274.60	104.00	25.25
14.	Sunstar Realty	42.70	113.50	42.70	21.20
15.	Kavita Fabrics	33.60	-0.12	45.25	33.60
16.	Channel Nine	46.75	87.00	46.75	26.25
17.	Bothra Metals	30.00	30.00	34.20	24.85
18.	Lakhotia Polyesters	35.00	0.00	36.60	33.85
19.	GCM Securities	119.00	495.00	228.00	65.00
20.	Ashapura Intimates	86.80	117.00	86.90	46.40
21.	Samruddhi Realty	38.50	220.83	42.48	10.62
22.	HPC Biosciences	116.00	231.43	118.35	37.25
23.	Onesource Mediatech	4.50	-67.86	13.00	3.95
24.	India Finsec	14.75	47.50	19.40	9.55
25.	eDynamics Solutions	49.85	398.50	49.85	25.40
26.	Money Masters Leasing & Finance	16.20	8.00	19.65	16.20
27.	Alacrity Securities	10.85	-27.67	13.25	6.10
28.	GCM Commodity & Derivatives	11.25	-43.75	21.25	10.15
29.	Kushal Tradelink	41.00	17.14	49.00	35.00
30.	Silverpoint Infratech	10.15	-32.33	14.80	9.50
31.	VKJ Infradevelopers	36.55	143.67	36.55	15.55
32.	Tiger Logistics	67.40	2.12	69.30	63.50
33.	RJ Biotech	36.70	83.50	36.70	21.00
34.	Ace Tours Worldwide	19.65	22.81	24.95	19.50
35.	Thejo Engineering	199.00	-50.50	405.00	199.00
36.	Veto Switch Gear	57.00	14.00	58.00	50.10
37.	Opal Luxury	111.00	-14.62	135.00	97.60

*Absolute returns since IPO. # Closing prices as on 11th October, 2013

GLOBAL SME MARKET

	Closing #	% Returns YTD
BSE SME IPO	356.9	159.04
TSE MOTHERS	866.1	108.68
CHINEXT PRICE INDEX	1,379.90	95.64
FTSE AIM All Share Index	785.93	9.77
TSX Venture Composite	929.37	-25.04
Hong Kong GEM Index	462.07	21.12

Closing Values as on 11th October, 2013

MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	Ashapura Intimates	RCL Retail	SRG Housing	Eco-friendly	Sunstar Realty
A. Valuation / Market Cap								**(Rs. Crore)**
Pre Issue Net Worth	20.82	16.34	11.64	10.98	5.60	4.90	8.606	5.54
Issue Size	12.21	7.52	5.00	21.00	5.80	7.00	7.515	10.62
Market Capitalization*	55.55	28.49	34.75	137.73	20.87	73.49	92.27	85.10
B. Price Pattern								**(Rs. Per Share)**
Issue Price	25.00	66.00	20.00	40.00	10.00	20.00	25.00	20.00
CMP (Face Value Rs. 10)*	30.00	67.40	36.70	70.75	16.95	90.95	93.15	42.70

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	Anshu Clothing	Jupiter Info	Money Masters Leasing & Finance	Ace Tours Worldwide
C. Valuation / Market Cap								**(Rs. Crore)**
Pre Issue Net Worth	5.56	7.10	4.39	4.80	12.70	2.00	6.70	8.71
Issue Size	11.67	8.00	2.60	15.75	5.10	4.10	2.00	8.00
Market Capitalization*	69.09	82.80	32.20	170.77	19.45	9.00	7.64	24.90
D. Price Pattern								**(Rs. Per Share)**
Issue Price	25.00	20.00	12.00	35.00	27.00	20.00	15.00	16.00
CMP (Face Value Rs. 10)*	44.55	90.00	46.00	107.40	31.20	25.80	17.00	19.65

Particulars	Esteem Bio	Kushal Tradelink	Alacrity Securities	VKJ Infradevelopers	Opal Luxury	Veto Switch Gear	Thejo Engineering	Silverpoint Infratech
E. Valuation / Market Cap								**(Rs. Crore)**
Pre Issue Net Worth	8.56	20.90	18.51	5.40	11.82	32.70	25.8	40.27
Issue Size	11.25	27.75	9.00	12.75	12.00	25.00	19.00	12.00
Market Capitalization*	130.31	84.82	18.06	37.66	37.28	87.47	68.67	26.72
F. Price Pattern								**(Rs. Per Share)**
Issue Price	25.00	35.00	15.00	15.00	120.00	50.00	402.00	15.00
CMP (Face Value Rs. 10)*	87.35	35.75	8.60	21.10	111.00	52.50	400.00	13.50

*Closing prices as on 11th October, 2013

UPCOMING EVENTS

Name of Event	Place	Date	Organizer
SME Connect 2013	Puducherry	19th October 2013	Confederation of Indian Industry
2nd Edition Of Annual Flagship Activity - SME Manufacturing Summit	Pune	25th October 2013	SME Chamber of India
Global Entrepolis Conference Supported by SME Chamber of India	Singapore	28th to 31st October, 2013	SME Chamber of India
UK – India SME Summit	London, UK	18th to 19th November 2013	SME Chamber of India
Mid – Size Industry Summit	Mumbai	13th December 2013	SME Chamber of India
Annual Flagship Activity - Gujarat Industry & SME Summit	Ahmedabad	28th December 2013	SME Chamber of India

EVENT - MEDIA COVERAGE

RJ BIO - TECH LTD LISTING CEREMONY

RJ Biotech Limited, an agri-biotechnology company got listed on BSE SME Exchange on September 25, 2013. The Issue was being Lead managed by **Sarthi Capital Advisors Private Limited** and is its **third issue** to be listed on BSE SME Platform. The issue was subscribed 1.08 times.

LAMP LIGHTING CEREMONY

MR. ASHISH CHAUHAN, MD BSE BEING FELICITATED BY RJ

SARTHI BEING FELICITATED

MR. AJAY THAKUR, HEAD BSE-SME ADDRESSING THE AUDIENCE

THE MOMENT OF GLORY!!

MR. DEEPAK SHARMAA GIVING VOTE OF THANKS

S A R T H I

Bridging the Gap

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