January, 2014 Edition

S-CAP

SME Capital Market Watch

S A R T H I

An initiative by Sarthi Capital Advisors Private Limited

SEBI Registered Category I Merchant Banker

PREFACE

Greetings from Sarthi Team!!

A Happy New Year to all. Year 2014, according to the Chinese calendar is the year of ‘Horse’. As per Chinese zodiac sign, horse stands for speedy progress and travel. Year 2013, for many is marked by slowdown all around be it economic growth, jobs, salary hikes and so on. Like every year, in 2014 too, many opportunities will present themselves and will need to be exploited.

As we step in 2014, it is difficult to imagine an economy without volatility, uncertainty, complexity and ambiguity. The first and foremost highlight for the year is the general elections and its outcome. There is uncertainty about if the new government doesn’t inspire confidence; it can result in high inflation and messy government finances. The other highlight of the year would be the gradual withdrawal of the economic stimulus by US Federal Reserve and its impact on emerging countries including India, if the country is not prepared well.

In this first issue of the year 2014, we have a report on economic outlook for 2014 besides our regular featured articles for you to plan and prepare to navigate through the year. SMEs are the back bone of any economy and we believe that transforming them will be an efficient business in the light of the continual ongoing SME reforms.

Have a great 2014!

Deepak Sharmaa
Group Managing Director

Sarthiangels.com

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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

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Salient Features

- Comprehensive content on procedural and regulatory aspects.
- Eligibility Calculator to gauge your eligibility for SME IPO.
- Knowledge Corner 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

Content

INDIAN MARKET OUTLOOK

Preface

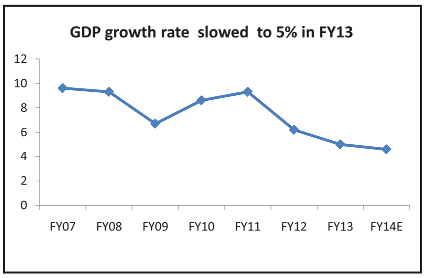
Global equity markets, including India, performed well in 2012. However in 2013, Indian equities have been a lot more volatile vis-à-vis initial expectations. Also, the sharp fall in the rupee also contributed to lower-than-expected operating performance. However, the performance of the IT sector was relatively better as improvements in the US economy accelerated revenue growth and weak USD/INR aided margins.

On the macro front, performances of key indicators such as inflation, IIP, and fiscal deficit have been mixed. In fact, the sudden sharp decline in the rupee has, to some extent, played spoil sport with RBI's plans of curbing the fiscal deficit and adopting a growth friendly stance on interest rates. Factors such as a stable and sustained recovery in the US, an unlikely scenario of further deterioration in the Eurozone, slow, but persistent improvements in the domestic policy, and investor-friendly investment and rate cycles could act as mid-term catalysts for a recovery in the Indian economy.

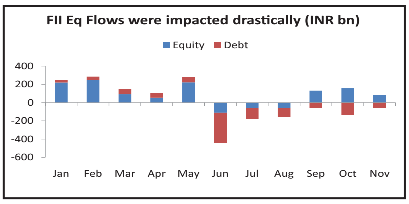
The Lost Year – 2013

The year gone by was the year of uncertainties with surprising events such as AAP forming a Government, Lokpal Bill being passed by both the Rajya Sabha and Lok Sabha, rupee nose-diving to all time low level of 68.83 per US$ in August, gold and silver prices touching all time high levels of ₹ 33,950 per 10 grams and ₹ 60,477 per 1 kilograms respectively among others.

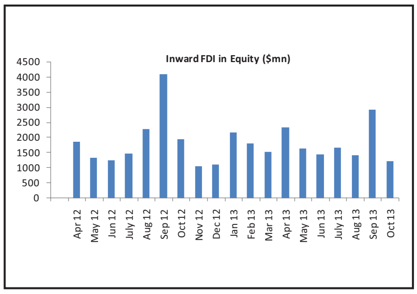
1. **GDP Growth:** Real GDP growth in India moderated to 5% during 2012-13 from 6.2% in 2011-12, and slackened further to 4.4% during Q1 2013-14 before improving marginally to 4.8% during Q2 2013-14. This is attributable mainly to weakening industrial growth in the context of tight monetary policy followed by the Reserve Bank of India (RBI) through the second half of FY14 and continued uncertainty in the global economy. The slowdown in the economy, particularly in the industry sector has entailed a lower-than budgeted growth in government revenues. However, measures undertaken as part of mid-course correction have helped in improving the expenditure outcome in 2012-13. On the whole, GDP growth rate in the first half of 2013-14 (H1) was placed at 4.6% as compared to 5.3% in H1 2012-13.



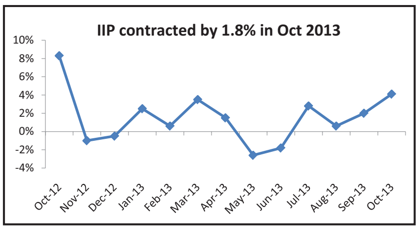
2. **Foreign Institutional Investment (FII):** Subsequent to the Fed's mid-June 2013 tapering announcement, FIIs withdrew from the Indian equity and bond markets, but returned as net buyers to the equity market in September 2013, though they were net sellers in the bond market till November 2013. While the actions of domestic and foreign institutions are counter-balancing, the dominance of foreign institutions prevails. FII Investments in domestic market increased in the last 5 years from 14.2% in 2008 to 21.3% in September 2013, particularly in BSE 100 companies.



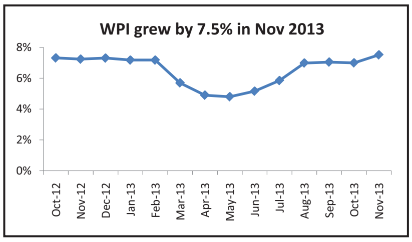
3. **Foreign Direct Investment (FDI):** Total Inward FDI to India in the first seven months of 2013 was down 15% at $12.6 billion, compared with $14.79 billion during the year-ago period. While FDI inflow was the highest in the month of September in 2013, it had declined by about 38% to $2.91 billion as against $4.67 billion in the same month last year. The decline in FDI in sectors like services, telecom and metallurgical industries has lowered the inflows which stood at $1.32 billion, $32 million and $240 million, respectively during April-September period of FY14. Whereas during the same period of FY13, services had attracted $3.04 billion, telecom - $43 million and metallurgical industries - $685 million. The government has also relaxed FDI policy in 12 sectors including telecom, tea and petroleum & natural gas.



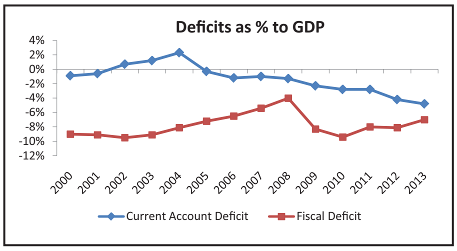
4. **Index of Industrial Production:** As per the IIP, industrial output growth rate was 0.27% during April-October 2013 as compared to 0.47% in the same period of the previous year. The contraction in 2013 was largely because of decline in capital goods, natural gas, crude petroleum, and fertilizers output. Manufacturing sector, which forms over 75% of the index, declined by 2% in October as against a growth of 9.9% in the same month a year ago. Growth of the electricity sector was 1.3% in October as against 5.5% a year ago. The growth rate of the mining sector was (-) 3.5% as compared to (-) 0.2% in the same month of the previous year.



5. **Wholesale Price Index:** The headline inflation measured in terms of Wholesale Price Index (WPI) in 2013-14 (April-November) averaged 6.12% as compared to 7.60% during the corresponding period in 2012-13. The persistently elevated prices for animal products (eggs, meat and fish), the rise in the prices of cereals and vegetables, along with the increase in international prices of fertilizers (non-urea) and the increase in administered prices of diesel have contributed to inflation to differing degrees over time.

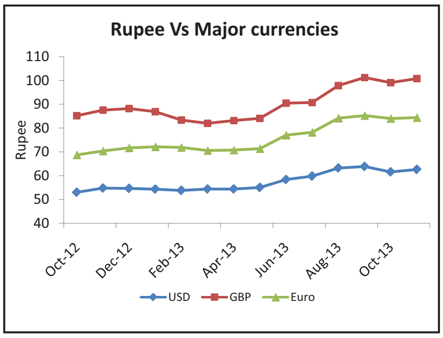


6. **Twin Deficits:** Fiscal and Current Account Deficits: India's fiscal deficit in the April-November period reached 94% (₹ 5.09 trillion) of the targeted budgetary estimate of ₹ 5.42 trillion. In the year-ago period, the deficit was 80.4% of the budgeted target and was contained to 4.9% of GDP. A sharp deceleration in real GDP growth, particularly in the industrial sector, elevated levels of inflation and subdued financial markets and persistence of high global crude oil and fertilizer prices led to a widening of the fiscal deficit to 4.9% of GDP in 2013.

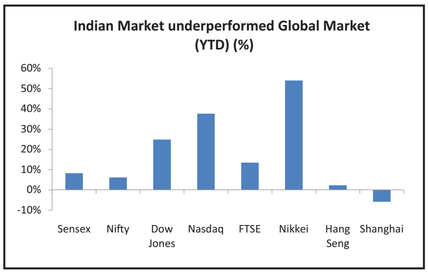


India's Current Account Deficit (CAD) for the first half of FY14 averaged to a little over 3% of GDP with it falling sharply to 1.2% of GDP in Q2 FY14 from 4.9% during Q1 FY14 on the back of turnaround in exports and decline in gold imports. The government took several steps, including hike in gold import duty and restrictions on import of gold bars and medallions, to restrict CAD. It also took measures to boost exports, taking advantage of depreciating rupee.

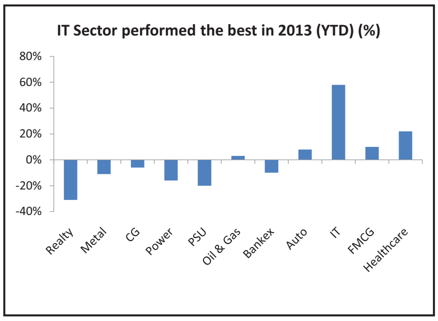
7. **Rupee Movement:** The Rupee touched an all time low of ₹ 68.83 per US$ on August 28, 2013 indicating a 27% depreciation over ₹ 54-55 per US$ level during March 2013. The Rupee appreciated to ₹ 61.02 per US$ till mid October 2013. However, it began declining again thereafter and the monthly average exchange rate of the Rupee has since been in the range of ₹ 61.59 to ₹ 61.81 per US$ between October and December 2013. On month to month basis, the Rupee depreciated by 13.6% from ₹ 54.42 per US$ in March 2013 to ₹ 61.81 per US$ in December 2013. Similarly, monthly average exchange rate of the Rupee depreciated by 23.3% against the Pound Sterling and 20.2% against the Euro between April 2013 and December 2013.



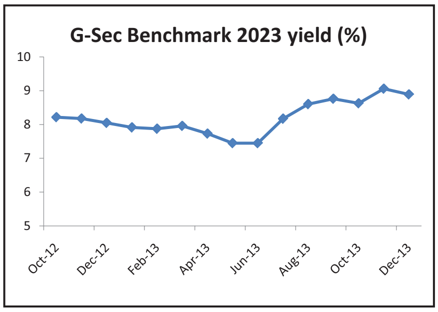
8. **Market Performance:** 2013 has been a challenging and eventful year for equities globally. Indian stock market delivered a return of around 8% YTD with the negative return of around 13% in FX market making the Indian platform unattractive for foreign investors. Dow Jones, Nasdaq, FTSE and Nikkei gave double digit returns during the previous year. Nikkei being the best performer across all the major indices gave a return of 54% YTD. Markets have particularly shown great strength post July-August 2013 when RBI took some strong measures to control the steeply depreciating rupee.



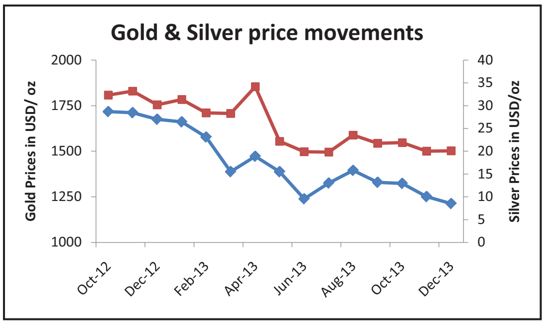
9. **Sectoral Performance:** Sectoral data suggests that after a pleasant year of 2012, almost all sectors headed southwards discouraging investors' sentiments with under performance in sectors such Realty, PSU, Bankex and Power. IT and Healthcare sectors outperformed all the other indices due to currency benefits as major chunk of revenue comes from Exports. IT being the best performer delivered around 58% return followed by Healthcare delivering 22% in this calendar year.



10. **Government Benchmark Bond Yields:** While there was a lull in the primary stock market, it was private placement of corporate bonds and non-convertible debentures that were used the most to meet funding requirements of businesses in 2013. Together, the companies have raised fresh capital worth nearly ₹ 4 lakh crore from equity and debt markets this year, of which a large chunk of this amount or more than ₹ 3.10 lakh crore has been mopped up from debt market. With increasing FII outflows and Repo rate being increased by the RBI during June-August led yield to move northwards. Economy downgrade threat kept yield upwards during the second half of the year.



11. **Precious Metals Price Movements:** Gold and Silver prices touched an all time high during April 2013. There was a major downfall in the precious metal prices after April 2013 due to some of the reasons depicted as below:



a. RBI raised import duty of Gold from 2% to 10% in the current fiscal, which led to lower demand of gold from India, the largest importing country

b. With the FED decision of tapering and US economy growing at a good pace, US dollar became an attractive instrument for foreign investors to park their money into dollar denominated assets in FY14. Past trend reveals that there was a negative relationship of US dollar with Crude oil and Precious metals which continued for FY14 as well.

New Year Highlights – The Road Ahead

Going into 2014, equity markets are likely to be positively poised on the back of supportive global cues as well as improving domestic outlook. The markets have taken the announcement of moderate tapering of the Fed's QE3 program in their stride as India's external sector risks have materially subsided.

Strong export growth, aided by the sharp rupee depreciation, as well as recovery in external demand, are key factors for improvement of the domestic outlook as it has reduced India's external vulnerability and is positive for GDP growth. Coupled with this, India's resilience on the external sector has also stemmed from a compression of imports, driven by restrictions on gold imports.

High inflation remains the key overhang on the outlook as WPI- and CPI-based inflation have paced higher. But on the positive side, it is driven largely by a surge in vegetable prices, seen to be temporary in nature.

1. **Economy:** Suggesting that the Indian economy has bottomed out, economic growth accelerated to 4.8% in the second quarter of FY14 from 4.4% in the first. Growth was spurred by higher output in both industry and agriculture and a rebound in exports. However, domestic demand remains weak as both consumption and investment continue to grow only sluggishly. Although growth will remain soft in Q4 of FY14 owing to delayed investment announcements in the run-up to general elections, it will be supported by export recovery and likely sustained growth in capital expenditure after Q1 of FY15, once political stability has been reestablished. Post-elections, greater policy certainty could drive announcements of new projects and revive the investment cycle, both of which would invigorate GDP growth.

2. **Monetary Policy:** While the RBI focuses to contain inflation, it is also important for it to consider maintaining adequate liquidity levels by reducing the statutory liquidity ratio and repo rates while controlling the cash reserve ratio. The twin action of fiscal and monetary policies is therefore expected to help raise savings and promote investments in the economy. With increasing investments, growth is expected to follow suit.

3. **Fiscal Deficit:** Government is expecting fiscal deficit to be 4.8% of GDP for FY14 but with the increase in Government expenditure and imports, it seems that Government will overshoot the deficit by 40 bps. There are other PSU divestments coming in the near future, which will help the Government to narrow the deficit. With the inflow of around ₹ 20,000 cr through dividends from the cash rich PSUs, it seems that, there will be 20 bps reduction in the deficit for this fiscal and Government can end up with 5% of deficit.

4. **Capital Flows:** Currently CAD being close to 5% of GDP and export markets looking weak, freer FDI inflows offer one way of attracting long-term capital and hence raising their ceiling was a necessity. The Government increased the FDI limits in 12 sectors, including crucial ones such as insurance and telecom. India is now definitely in a better position to manage its balance of payments as the government and RBI have taken effective steps to build up forex reserves and render stability to the foreign exchange market.

5. **Interest Rate Scenario:** In the previous year, broad inflation remained above 7% pushed by food and fuel prices. Tight liquidity and RBI's desire to keep inflation under check led to high interest rates. The 10 year benchmark remained in the upper band of 8.5-9.0% range due to RBI's policy stance and as well by the extended fiscal deficit. With the inflationary pressure coming down and expected future decline in oil prices it is very much expected from RBI to change the stance to witness interest rate cuts in the coming months of CY14. We expect central bank to cut the rates by 50-75 bps in CY14 and the overall inflation to hover around 6.5% towards the end of the CY14 while the 10 year G-sec benchmark trading between the range of 7.75% to 8.25% although fiscal indiscipline & government spending pose risks to this view.

6. **Election Carnival CY14:** It could be a well and truly hung Parliament in 2014 with nobody really in a clear position to form a government if current voter preferences are anything to go by. The Congress is likely to suffer crippling blows in most of the major states that helped propel the UPA to power in 2009. On the other hand, BJP seems well placed to make significant gains in Rajasthan and relatively smaller gains in several other states, this is unlikely to be enough to put it in prime position for power.

7. **Tax Reforms:** The Direct Tax Code (DTC) is slated to be implemented from coming year onward. But, if finance ministry officials' view is any indication, the soonest the law can actually be enforced is 2016-17. This would broaden the tax base, while improving incentives for tax compliance. The Goods and Services Tax (GST) is unlikely to be fully implemented immediately but some initial steps toward bringing retail taxes across states under one common market system will be taken in near future.

8. **Equity Markets:** FY 2013 was a year of below average performances for the Indian equities market owing to the ballooning CAD, high inflation rates and the fall of the rupee by as much as 25% which eroded investor confidence. Despite these negatives, a normal monsoon and increase in exports have led to improved sentiment with further improvements expected post elections.

9. **Currency:** The Rupee tumbled to an all time low against US$ in the CY13. There will be mixed outlook for Indian Rupee in CY14. With the announcement of FED to taper $10bn of bond buying each month will lead US dollar to strengthen a bit against Indian Rupee in the coming months. If political party changes in the coming election, it will increase the chances for new reforms and hence, make the Indian market an attractive platform for investments, which will lead Indian Rupee to appreciate against US dollar. Indian Government is allowing FDI in major sectors, which will boost FDI flows in year to come eventually appreciating the value of the Rupee.

10. **Commodities:** Commodities underperformed developed market equities for the third consecutive year in 2013, following ten years of outperformance. Slowing China growth, US Fed tapering jitters and rising supply expectations have been the main factors weighing on prices. Current strong negative sentiment towards the gold price is overdone. The gold price should rally if US growth disappoints and thus it provides a good risk hedge if optimistic consensus growth forecasts prove to be wrong.

Concluding Remarks

Current data indicates that deceleration in industrial growth may have bottomed out. With improved business sentiments and investor perception and a partial rebound in industrial activity in other developing countries, industrial growth is expected to improve in the next financial year.

Despite strong interest evinced by foreign institutional investors, retail investors have shied away from equity investments owing to the market's underperformance in the past year. It is only a matter of time before the investment environment in the country strengthens, resulting in a broad-based pick-up in economic activity and rise in market participation.

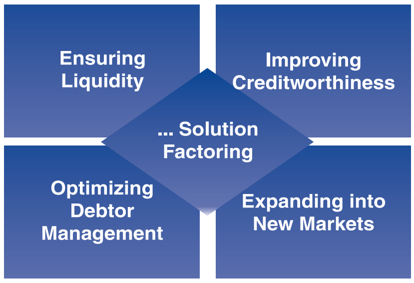
-Sudeep Mendjoge

Factoring : An Alternative Method of Financing for SME's

SME's are small promoter driven companies with limited resources and not very strong credit control capabilities. When they sell their products to big companies, this sale does not immediately release cash. These companies need more funds to expand their business and meet working capital needs even though payments receivables get delayed. Timely payments from customers will help SMEs in reducing their working capital requirements leading to lower interest costs, improved profitability and a positive impact on the long-term health and sustainability of India's SME sector. Delays in settlement of dues adversely affect the recycling of funds and business operations of the SME units. Traditional banks are not very keen to extend them credit beyond a point which generates the need for an alternative financing mechanism.

It is, therefore, critical to ensure that the small entities are able to raise liquidity against their receivables. This problem can be institutionally tackled by factoring, which provides liquidity to SMEs against their receivables and can be an alternative source of working capital. One such solution is called factoring.

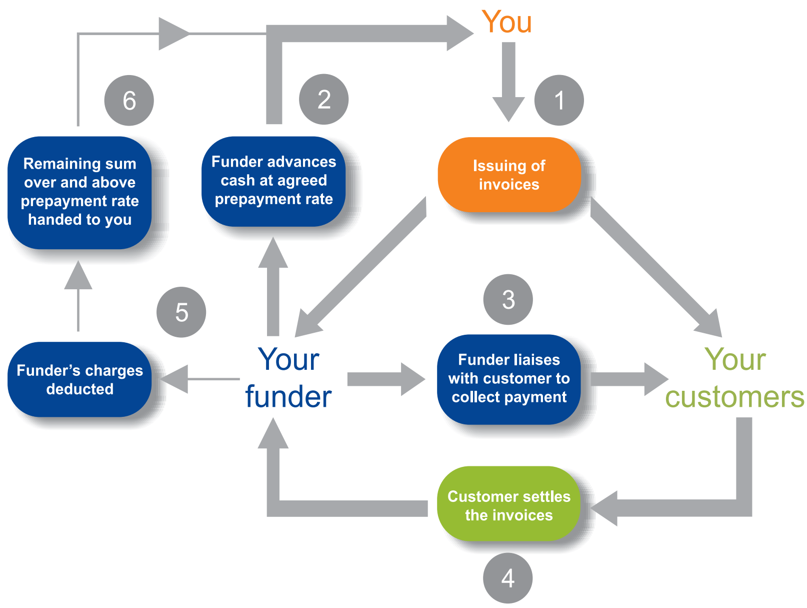
What is factoring?



Factoring is when a third party firm or 'factor' buys businesses accounts receivables and gives the business cash advance on those unpaid bills. The third party then takes over collecting the owed receivables. Factoring companies disperse funds as quickly as 24 hours and advance up to 80% of the total amount.

How does it work?

The factoring company (or 'factor') gives 80% of the assignment money upfront at an interest cost in the range of 14-15% per annum to the seller(chargeable on monthly basis).The factor will recover money from the product buyer after a stipulated period. If the SME client does not repay the interest, the factor will deduct it from the rest 20% at the time of final realization .This type of factoring is called full recourse factoring. Businesses of turnover between INR 2Cr-18 Cr typically avail factoring services in India.



Important types of factoring:

- **Recourse factoring:** The factor turns to the client (seller), if the receivables become bad. The risk of bad receivables remains with the client, and the factor does not assume any risk associated with the receivables. The factor provides the service of receivables collection, but does not cover the risk of the buyer failing to pay the debt. The factor can recover the funds from the seller (client) in the case of such default. The seller assumes the risks associated with the credit and the buyer's creditworthiness. The factor charges the seller for the management of receivables and debt collection services along with interest on the amount advanced to the client.

- **Non-recourse factoring:** The factor assumes the risk of non-payment by the client's customers. The factor cannot demand any outstanding amount from the client (seller). The commission or fees charged for non-recourse factoring services are higher than for recourse factoring. The factor assumes the risk of non-payment on maturity and consequently takes an additional fee

- **Full Factoring:** The factor provides almost all the services for good companies: collection, keeping the sales ledger, credit control and credit insurance. The factor can also provide other services based on client requirements: maturity-wise bill collection, keeping accounts, advance granting of limits to a limited discounting of invoices on a selective basis.

- **Limited Factoring:** The factor chooses a limited number of invoices to be the subject of the factoring agreement with the client (seller).

Advantages of factoring

- **Improved Cash flow:** Factoring is capable of bridging the gap between taking a customer's order and receiving payment, enabling a firm to vigorously pursue new opportunities without worrying about the impact on its liquidity.

- **Time Savings:** Factoring can save time and effort that would otherwise be spent on collecting from customers. That energy can be redirected to other business-building endeavors, like sales, marketing and client development.

- **Doesn't Require Collateral:** Unlike traditional bank loans, factoring doesn't require business owner to risk property as collateral.

- **Qualify for More Funding:** Factoring firms will typically give a cash advance on up to 80% of your receivables which is more than one would be able to get from a bank.

Major Indian Factoring Companies

The Indian Factoring industry is set to grow and attract a larger number of private players. The factoring market is currently dominated by public sector banks and financial institutions such as SBI Global Factors and Canbank Factors. Banks such as DBS, HSBC and Standard Chartered offer factoring services. SBI Global Factors lead the market with nearly 80% market share. Other players include India Factoring and Bibby Factoring Company .In the year 2004, Fimbank,an international trade finance provider, entered into a joint-venture with Bank of India ,Bank of Maharashtra and IFC and provides factoring services as well.

The Factoring Regulation Act 2011

The Factoring Regulation Act 2011, which came into force in February, 2012, regulates factoring business in India and provided the much-needed legal framework for factoring in India. The intension of the legislature behind introducing this Act was to promote the concept of factoring, making it more visible & organized and providing clarity on the process of assignment, rights and obligations of parties to contract for assignment of receivables.

Some salient features of the Factoring Act, 2011 are as follows:

- Amendment to the Indian Stamp Act 1899 which exempting payment of stamp duty on all agreements for assignment of receivables in favor of a factor leading to reduction of transaction costs.

- Every factor to mandatorily register the particulars of every transaction of assignment of receivables in its favor with a central registry set up under the SARFAESI Act 2002.

The Road Ahead

Even though the Factoring Act has provided for a facilitating environment there is scope for improved transparency and to provide an impetus to factoring in India. The following measures can help achieve these objectives:

- Applicability of the provisions of Negotiable Instruments Act, 1981: Section 138 of the Negotiable Instruments Act provides for imprisonment liability or payment of penalty or both for dishonor of cheques. Similarly Section 25 of Payments & Settlement System's Act, 2007 provides for imprisonment or fine or both in case of dishonor of electronic fund transfer. Similar penal provisions may be introduced in the Act for the factors with regard to fake bills.

- Applicability of SARFAESI: Currently SARFAESI Act is not applicable for NBFCs. If provisions of SARFAESI Act could be used by factors it would enable them to have faster and easier asset recovery.

-Aanchal Parker

Market Developments

- Captain Polyplast Limited engaged in the business of manufacturing and selling of quality Micro Irrigation Systems and allied products opened the issue for subscription on 26th November, 2013. The Issue was subscribed 1.40 times out of which Retail category was subscribed by 1.38 times while Non Retail Investors category was subscribed by 1.38 times.

- B.C. Power Controls Limited engaged in the business of manufacturing copper and aluminium wires and cables filed a draft prospectus for a public issue of ₹ 10.37 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds for working capital requirements, general corporate purposes and for issue expenses. The Issue is being Lead managed by Sarthi Capital Advisors Private Limited and is its fifth issue.

- Agrimony Commodities Limited engaged in the business of trading of iron & steel products, suitings & shirtings and other dress materials and agriculture products filed a draft prospectus for a public issue of ₹ 3.02 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to augment long term working capital and to meet public issue expenses.

- Unishire Urban Infra Limited engaged in the business of real estate development and construction along with equity shares trading and investing activities filed a draft prospectus for a public issue of ₹ 6.43 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to develop residential building at Kolkata and to meet public issue expenses.

- Gracious Software Limited engaged in the business of providing IT services, consulting and business solutions filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE.

- Basan Commodities Limited engaged in the business of commodity broking filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE.

- Currently 47 companies are listed on SME platforms of BSE and NSE as well as ITP.

Forth Coming IPOs

Name of the Company	Exchange	Issue Size (₹ crore)	Issue Price (₹ Per Share)
B.C. Power Controls	BSE	10.37	18
RCI Industries and Technologies	BSE	11.52	40
Agrimony Commodities	BSE	3.02	10
Unishire Urban Infra	BSE	6.43	10
Chemtech Industrial Valves	BSE	8.00	15
Suyog Telematics	BSE	4.53	25
Prabhat Telecoms (India)	BSE	26.60	80

Other Developments

ECGC to introduce specialised products for medium, small and micro enterprises

Export Credit Guarantee Corporation Ltd, the export credit insurance company, 100% owned by the Government of India, is having plans to introduce new products targeted at MSMEs, informed N. Shankar, Chairman and Managing Director of the Corporation.

Shankar was in Pune recently to preside over the annual customer commemorative meeting of ECGC. “The Products like Small Exporters’ Policy for companies having turnover of up to ₹ 5 crores; Micro Exporters’ Policy for firms having sales of up to ₹1 crore; insurance cover for Factoring Companies and also direct factoring facilities by the Corporation will be launched after obtaining concurrence of the Regulator, viz., Insurance Regulatory Development Authority, informed Shankar.

New MSMEs may enjoy 50% VAT reimbursement

New industrial units in the micro, small & medium enterprises (MSME) sector may avail VAT (value added tax) reimbursement of up to 50% after the finalisation of the new Industrial Policy Resolution (IPR), 2013 of the state government.

The VAT reimbursement will be valid for a period of five years from the date of starting commercial production and would be limited to 100% of fixed capital investment.

The new MSMEs as well as thrust and priory sector units will also be exempted from payment of entry tax on acquisition of plant and machinery for setting up of industrial units, according to the draft IPR-2013 prepared by OMEGA TAST (Technical Assistance & Support Team) appointed by UK-based Department for International Development (DFID).

State Govt nudges corporate majors to set up skill development centres

Small and medium enterprises (SMEs) in Punjab, battling a shortage of skilled manpower, are likely to get a shot in the arm with corporate majors like Tata Group, L&T and Trident Group, among others, planning to set up skill development centres in the state.

The state government has also conceptualised a plan to improve the skills of 100,000 youth in the next three years to meet industry’s manpower requirements.

Cash flows faster in service sector MSMEs: CRISIL Report

CRISIL has analysed the cash conversion cycle of 7,300 micro, small, and medium enterprises (MSMEs) in the manufacturing and service sectors in FY 2011-12 (refers to the financial year, April 1 to March 31). The study was conducted to understand the nature and pace of the working capital cycle from the first stage, where an MSME procures the requisite raw material, to the last stage, where it receives payments from customers for its goods or services. The sample does not include service sectors such as banking, financial services, and insurance (BFSI), as these activities are not undertaken by MSMEs owing to the small size of their operations.

The study revealed that MSMEs in the service sector have a shorter cash conversion cycle of 40 days, as compared with their manufacturing-sector counterparts, which take more than 58 days to recover cash from their working capital cycle. CRISIL’s analysis indicates that the key factors responsible for the longer cycles of manufacturing enterprises are: (1) they have a longer and more complex production process; and (2) their capital is invariably trapped by the need to maintain inventory of raw material and finished goods at various stages.

SMEs In Tier II Cities To Spend $9 Bn On IT By 2017

India-based SMEs (Firms with 1-999 full-time employees) are keen to leverage technology to enhance employee productivity & collaboration, and are forecasted to display a healthy CAGR of more than 15 percent over the next five years in boosting their ICT infrastructure. SMEs within the Tier-II cities contribute a significant proportion of the all-India SME IT spending.

Centre plans SME varsity, tool centre in State

Union Minister of State for Micro, Small and Medium Enterprises (MSME) K.H. Muniyappa has announced setting up of a Small and Medium Enterprises (SME) University at Hyderabad and a Tool Centre at Visakhapatnam. He asked the State Government to allot the required land to take up work on the two institutions at the earliest.

“Such a university is necessary to integrate several streams of training activities offered by the Ministry and the institutions attached to it”, he said stating that the decision on SME University was taken based on a proposal sent by the National Institute for MSME.

Speaking at the golden jubilee celebrations of NI-MSME, he maintained that the proposed university would serve as research and development hub for MSME sector supported by incubation network and would offer streamlined formal educational programmes in MSME management. It could be a competent body to accredit and certify education programmes, to develop and standardise curriculum and to generate resource material, he said.

Centre urges Odisha to ask PSUs to buy 20% procurement from SMEs

The Union ministry of MSME (micro, small and medium enterprises) today urged the state government to make it mandatory for the state-level public sector undertakings to procure at least 20 per cent of their product and service needs from small and medium enterprises (SMEs), in line with the Centre’s policy.

Of the 20 per cent target, there is a sub-target of four percent that is earmarked for procurement from the SMEs owned by entrepreneurs from the Scheduled Castes and Scheduled Tribes (SC/ST) communities.

External Commercial Borrowings

OVERVIEW

Foreign currency borrowings by the Indian companies from sources outside India are called External Commercial Borrowings (ECBs). These are commercial loans with minimum average maturity of 3 years. ECBs act as an additional source of funds for companies to finance its investment needs. In India, ECBs can be accessed through automatic and approval route. Major regulators governing the ECBs in India are Exchange Control Department of RBI and ECB Division in Department of Economic Affairs at Ministry of Finance.

What is Automatic route?

No prior Government approval is required if the investment to be made falls within the sectoral caps specified for the listed activities. Only filings have to be made by the Indian company with the concerned regional office of the Reserve Bank of India ("RBI") within 30 days of receipt of remittance and within 30 days of issuance of shares.

What is Approval route?

Investment proposals falling outside the automatic route would require prior Government approval. Foreign Investment requiring Government approvals are considered and approved by Foreign Investment Promotion Board ("FIPB"). Decision of the FIPB usually conveyed in 4-6 weeks. Thereafter, filings have to be made by the Indian company with the RBI.

Eligible Borrowers

Automatic Route

1. Companies except financial intermediaries
2. Units in Special Economic Zones (SEZ)
3. NGOs engaged in micro finance activities

Approval Route

1. Infrastructure or export finance companies such as IDFC, IL&FS, Power Finance Corporation, IRCON, Power trading corporation and EXIM bank
2. Banks and financial institutions which participated in the textile or steel restructuring package
3. NBFCs to finance import of infrastructure equipment for leasing
4. Multistate Co-operative society engaged in manufacturing activities

Recognized Lenders

1. Internationally recognized sources such as international banks, international capital markets, and multilateral financial institutions such as IFC, ADB and CDC, export credit agencies, suppliers of equipment, foreign collaborators and foreign equity holders
2. Overseas organizations and individuals with a certificate of due diligence from overseas bank adhering to host country regulations (applicable only under the automatic route)

Amount And Maturity

- Companies associated with hotels, hospitals and software sector can borrow up to US$ 200mn under automatic route and, they have to go for approval route to borrow more than US$ 200mn.

- Companies other than hotels, hospitals and software sector can borrow up to US$ 750mn under automatic route and need to go for an approval route to borrow more than the permissible amount mentioned under automatic window.

- NGOs can borrow up to US$ 10mn under automatic window and need to go for approval route to borrow more than that.

Advantages of ECB

1. Cost of raising ECBs is much lower than that of domestic borrowings (Current Spread is around 300 bps without considering cost of hedging)
2. Global financial market is a much bigger source of credit
3. Companies, who have export receivables can have natural hedge against the borrowings in the foreign currency and hence, reduce the foreign exchange risk
4. As the rate of borrowing is quite cheaper than the domestic finance, a company can utilize borrowed money into high yield project, which can enhance the economic value of the firm.

Disadvantages of ECB

ECB is simply loan in foreign currency so major threat or disadvantage for the borrower will be adverse forex rate movement. If currency moves in adverse direction and exposures are not hedged properly then the cost of borrowing can shoot up, which can hamper the financial performance of the company.

Case-Study

XYZ Ltd. borrowed US$ 100mn at a rate of 6% with a prevailing exchange rate of 50/$ and an agreement to repay principal in 5 equal tranches of US$ 20mn in each year. Now, effectively, company has borrowed ₹ 5bn at 6%. Under normal circumstances, Company has to pay US$ 6mn per year as an interest and a principal amount of US$ 20mn. Hence, total outflow would be US$ 26mn (or ₹ 1.3bn), if exchange rate remains at the same level.

Suppose, rupee exchange rate depreciated to 55/$ at the end of the year, at $1 = 55 would fetch ₹1.3bn/₹55 = $23.64mn. There is thus a shortfall of $2.36mn, which will be borrowed by the company in Indian rupee so company will borrow ₹ 130mn ($2.36mn*55) to repay additional $2.36mn. Hence, final outflow would be US$ 26mn (₹ 1.43bn). If we calculate effective cost of borrowing, it comes out to be 28.6% (₹ 1.43bn/₹5bn = 28.6%) due to currency depreciation, which is much higher than the domestic finance rate – making it an unattractive instrument.

Reverse case (currency appreciation) would advantage the company in making final payments.

Recent trends of ECB

The sharp downfall of rupee in the current fiscal led Corporates to borrow more from the domestic market rather than that from the external. Indian Corporates have ECBs of US$ 1,927mn in Oct 13 as against US$ 4,305mn in Oct 12, a sharp downfall of around 55%.

External Commercial Borrowings (ECBs) (Amount in US$ Million)

Item		2012-13	2012 Oct.	2013 Sep.	2013 Oct.
1	Automatic Route				
	1.1 Number	825	91	48	41
	1.2 Amount	18,395	2,411	800	720
2	Approval Route				
	2.1 Number	92	6	13	12
	2.2 Amount	13,651	1,894	2,546	1,207
3	Total (1+2)				
	3.1 Number	917	97	61	53
	3.2 Amount	32,046	4,305	3,346	1,927
4	Weighted Average Maturity (in years)	6.27	6.10	5.65	5.26
5	Interest Rate (per cent)				
	5.1 Weighted Average Margin over 6-month LIBOR or reference rate for Floating Rate Loans	2.73	2.68	1.89	2.16
	5.2 Interest rate range for Fixed Rate Loans	0.00-12.44	0.00-12.44	0.00-11.00	0.00-10.50

Source: RBI

Major Indian Companies availing ECB facility in FY13:

- Reliance Industries – US$ 2.3bn with an average maturity of 6.5 years
- ONGC Petro – US$ 300mn with a maturity of 9 years
- IDFC – US$ 150mn with a maturity of 5 years

WHAT'S IN PRESS?

In financing boost, SMEs may get loans against all movables

In what would help millions of small businesses and entrepreneurs access bank financing, the government may facilitate loans against movable assets, including inventory, stocks, accounts receivable and intellectual property rights as collateral.

A report of the legal working group, constituted by the government-owned central mortgage registry called the Central Registry of Securitisation Asset Reconstruction and Security Interest (Cersai) and IFC (a member of the World Bank Group), was submitted to the finance ministry on Thursday, recommending the expansion of Cersai's centralised electronic collateral database. The working group was chaired by MR Umarji, Chief Legal Advisor of Indian Banks Association.

If the plan materialises, banks and financial institutions would be able to extend credit to genuine borrowers from the SME segment without worrying about fraudulent multiple borrowings on the same asset. This is because the proposed policy change would give lenders access to a centralised electronic database of collateral with details of movables and immovables already pledged as collateral.

If the suggestions are implemented, the Cersai's database will enable the filing of the particulars of security interest on non-possessory securities, including hypothecated plant and machinery, movable assets, book debts; intangible properties including know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature; title retention contracts. Currently, Cersai's database has only details of immovable (and tangible) assets such as residential or commercial buildings.

The central database of Cersai helps in preventing multiple borrowings using the same property as collateral. This is done with the Cersai recording details of mortgages including the collateral used and then sharing it with banks, financial institutions and housing finance companies that are registered with the regulators. This helps in mitigating risks and helps in efficient pricing of assets, in turn ensuring transparency and security to the loans, said Cersai CEO and MD RV Verma.

According to legal expert and member of the panel Sumant Batra, reforming the secured transactions law, particularly to include registration of security interest on movable properties assumes greater significance in India as the MSMEs, which form a substantial part of the economy, rely on their movable assets to offer as security to obtain credit.

Around 95% of industrial units in the country are small and medium enterprises and about 40% of the value addition in the manufacturing sector takes place in the sector. A centralised registry for movable properties is set to enhance credit flow to the SME sector that roughly accounts for about 9% of the over $1-trillion economy.

The registration of security interest in movable assets would also result in the creation of a wide range of financial products, such as collateral management and asset valuation agencies, he said. This will also help in advancing the objectives of the recently launched Bharatiya Mahila Bank as women would be able to obtain credit by offering movable assets as security, Batra added.

Source: Financial Express

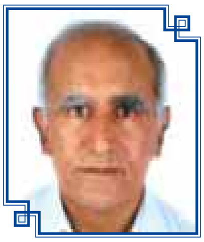
QUOTES

"We are number 1 in credit flow in the MSME sector in the country. During the period April-September 2012, the credit flow from banks in MSME sector in Bengal was the highest at ₹ 4331 crore. This has been possible due to the persistent follow up of the West Bengal government in providing entrepreneurs all necessary assistance for setting up and running business successfully."

Mamata Banerjee
Chief Minister, West Bengal

"We are focusing on two areas - infrastructure and credit facility - which really contribute towards development of the MSME sector. The MSME Department has developed 19 new ideas with the support of Anil K Gupta of IIM, Ahmadabad, also a member of National Innovation Council, which will be implemented in coming days."

Panchanan Dash
Secretary to Government of Odisha,
MSME Department and Charman Odisha State Financial Corporation



"SMEs can make modules, solar cells, cables and small electronic parts. They can register as channel partners with the ministry of new and renewable energy to avail of business opportunities."

Jagat Jawa
Director General of the Solar Energy Society of India

SME MARKETS STATISTICS

Sl No	Company	Closing#	%Returns*	52 Week High	52 Week Low
1.	Anshus Clothing	6.95	-74.26	18.50	6.05
2.	BCB Finance	25.25	1.00	26.50	24.50
3.	Bronze Infra	17.50	16.67	17.75	5.80
4.	Comfort Commotrade	25.00	150.00	45.95	17.55
5.	Jointeca Education	14.80	-1.33	16.00	13.50
6.	Jupiter Infomedia	29.05	45.25	29.25	23.50
7.	Max Alert	101.00	405.00	125.00	90.00
8.	Looks Health	433.00	982.50	437.00	86.55
9.	RCL Retail	43.70	337.00	49.85	7.55
10.	Sangam Advisors	21.90	-0.45	25.85	19.00
11.	SRG Hsg Fin	83.50	317.50	110.00	20.95
12.	Eco Freindly	137.00	448.00	137.00	21.10
13.	Esteem Bio	104.00	316.00	104.00	25.25
14.	Sunstar Realty	89.10	345.50	89.10	21.20
15.	Kavita Fabrics	44.90	12.25	45.25	33.60
16.	Channel Nine	90.50	262.00	96.65	26.25
17.	Bothra Metals	26.15	4.60	34.20	24.85
18.	GCM Securities	271.00	1255.00	341.20	65.00
19.	Ashapura Intimates	96.90	142.25	101.00	46.40
20.	Samruddhi Realty	36.00	200.00	42.48	10.62
21.	Lakhotia Polyesters	35.90	2.57	36.60	33.85
22.	HPC Biosciences	146.00	317.14	159.00	37.25
23.	Onesource Techmedia	8.65	-38.21	13.00	3.95
24.	India Finsec	14.05	40.50	19.40	9.55
25.	eDynamics Solutions	57.35	473.50	84.85	25.40
26.	Money Masters Leasing & Finance	13.30	-11.33	19.65	13.30
27.	Alacrity Securities	8.60	-42.67	13.25	6.10
28.	GCM Commodity & Derivatives	11.50	-42.50	21.25	10.15
29.	Kushal Tradelink	34.20	-2.29	49.00	34.00
30.	Siverpoint Infratech	7.50	-50.00	14.80	5.70
31.	VKJ Infradevelopers	26.70	78.00	58.90	15.55
32.	Tiger Logistics	68.00	3.03	81.00	57.00
33.	RJ Biotech	32.85	64.25	48.75	21.00
34.	Ace Tours Worldwide	24.55	53.44	47.25	19.50
35.	VCU Data	27.70	10.80	52.20	26.00
36.	Amrapali Capital	102.45	2.45	103.00	100.00
37.	Newever	31.15	211.50	35.50	12.20
38.	Stellar Capital	11.45	-42.75	21.10	11.45
39.	Subhtex	17.60	76.00	21.65	12.00
40.	Captain Polyplast	41.50	38.33	42.00	33.00
41.	Thejo Engineering	200.00	-50.25	405.00	199.00
42.	Veto Switch Gear	64.05	28.10	64.10	50.15
43.	Opal Luxury	115.00	-11.54	135.00	97.60
44.	Mitcon Consultancy	43.50	-28.69	60.00	37.95

*Absolute returns since IPO. # Closing prices as on 10th January, 2014

GLOBAL SME MARKET

	Closing #	% Returns YTD
BSE SME IPO	456.15	231.07%
TSE MOTHERS	977.57	135.54%
CHINEXT PRICE INDEX	1,353.30	91.86%
FTSE AIM All Share Index	875.99	22.34%
TSX Venture Composite	966.55	-22.04%
Hong Kong GEM Index	468.5	22.80%

Closing Values as on 10th January, 2014

MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	Ashapura Intimates	RCL Retail	SRG Housing	Eco-friendly	Sunstar Realty	VCU Data	Amrapali Capital
A. Valuation / Market Cap										**(₹ Crore)**
Pre Issue Net Worth	20.82	16.34	11.64	10.98	5.60	4.90	8.606	5.54	7.66	52.84
Issue Size	12.21	7.52	5.00	21.00	5.80	7.00	7.515	10.62	18.75	24.01
Market Capitalization*	48.42	28.74	31.10	188.64	53.79	67.47	135.71	177.58	42.94	98.37
B. Price Pattern										**(₹ per Share)**
Issue Price	25.00	66.00	20.00	40.00	10.00	20.00	25.00	20.00	25.00	100.00
CMP (Face Value ₹ 10)*	26.15	68.00	32.85	96.90	43.70	83.50	137.00	89.10	27.70	102.45

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	Anshu Clothing	Jupiter Info	Ace Tours Worldwide	Newever Trade	Stellar Capital	Captain Polyplast
C. Valuation / Market Cap										**(₹ Crore)**
Pre Issue Net Worth	5.56	7.10	4.39	4.80	12.70	2.00	8.71	17.53	27.84	7.36
Issue Size	11.67	8.00	2.60	15.75	5.10	4.10	8.00	6.30	9.00	5.94
Market Capitalization*	140.35	92.91	25.20	232.14	4.33	10.14	31.11	74.59	18.96	30.97
D. Price Pattern										**(₹ per Share)**
Issue Price	25.00	20.00	12.00	35.00	27.00	20.00	16.00	10.00	20.00	30.00
CMP (Face Value ₹ 10)*	90.50	101.00	36.00	146.00	6.95	29.05	24.55	31.15	11.45	41.50

Particulars	Esteem Bio	Kushal Tradelink	Alacrity Securities	VKJ Infra-developers	Opal Luxury	Silverpoint Infratech	Subh Tex	Veto Switch Gear	Thejo Engineering	Mitcon Consultancy
E. Valuation / Market Cap										**(₹ Crore)**
Pre Issue Net Worth	8.56	20.90	18.51	5.40	11.82	40.27	16.43	32.70	25.8	54.42
Issue Size	11.25	27.75	9.00	12.75	12.00	12.00	3.50	25.00	19.00	25.01
Market Capitalization*	155.15	81.15	18.06	47.66	38.63	14.84	19.36	106.71	34.34	52.64
F. Price Pattern										**(₹ per Share)**
Issue Price	25.00	35.00	15.00	15.00	120.00	15.00	10.00	50.00	402.00	61.00
CMP (Face Value ₹ 10)*	104.00	34.20	8.60	26.70	115.00	7.50	17.60	64.05	200.00	43.50

*Closing prices as on 10th January, 2014

UPCOMING EVENTS

Name of Event	Place	Date	Organizer
Maharashtra Industry & SME Summit	Mumbai	18 January 2014	SME Chamber of India
Rajkot Industry & SME Summit	Rajkot	24 January 2014	SME Chamber of India
India SME Banking Conclave	Mumbai	February 2014	SME Chamber of India
Madhya Pradesh Industry & SME Summit	Indore	February 2014	SME Chamber of India
Gujarat Industry & SME Summit	Ahmedabad	February 2014	SME Chamber of India
Gujarat SME Excellence Awards	Ahmedabad	February 2014	SME Chamber of India
SME Finance & Investment Summit	Mumbai	March 2014	SME Chamber of India
SME Manufacturing Summit	Mumbai	April 2014	SME Chamber of India
India SME Manufacturing Excellence Summit	Mumbai	April 2014	SME Chamber of India

EVENT - MEDIA COVERAGE

SEMINAR ON "LISTING OF SME'S" HELD WITH PHD CHAMBERS, CHANDIGARH

SARTHI

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