February, 2014 Edition

S - CAP

SME Capital Market Watch

An initiative by
Sarthi Capital Advisors
Private Limited
SEBI Registered Category I
Merchant Banker

PREFACE

Year 2014 started with Indian Cricket team losing two consecutive series moreover as bad as 0-4 against New Zealand. Capital markets reacted negatively as RBI Governor raised interest rates to keep check on inflation, other emerging economies raised interest rates as well and Turkish domestic interest rates rose as high as 400 basis points. So, uncertainties continue, more so for us as Indians as it is the Parliamentary Election year.

Recent rupee freefall has again pointed to the fact that our service led economy is still dependent on the developed countries and any policy change has a great impact on our economy. Hence businesses and people should be made resilient to such external shocks by improving MSME industries, increasing exports and making efficient use of resources.

India is the fourth largest economy in the world (in PPP terms) and the second largest in developing Asia. India accounts for 22% GDP, 33.8% of population and 32.5% of potential workforce in developing Asia. In the next 10 years, the country is expected to add 120 million to the workforce of the Asian region, accounting for 53% of the incremental addition. The MSME sector accounts for about 45% of manufacturing output, 95% of the industrial units, 40% of export and employs almost 60 million people as it is the largest source of employment after agricultural sector. Development of this sector thus holds the key to inclusive growth and plays a critical role in India's future. If we have to again achieve GDP growth of around 8 to 8.5%, we have to focus on SME sector and provide necessary support.

In this issue of S-Cap, we have covered the buy-backs as an effective cash management option for the listed companies, macro market outlook by Ms. Lakshmi Iyer and an exclusive interview of Mr. Ajay Thakur, Head BSE SME, along with our regular coverage on SME stocks.

We look forward to your valuable views and suggestions to help us improve the content of S-Cap to make it more informative.

Deepak Sharmaa
Group Managing Director

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- 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

Contents

BUYBACK – AN ANALYSIS

We are worth More than our Price

Buy-Back is one of the important provisions in the Companies Act which enables a company to purchase its own shares or other specified securities with inherent benefits to the company and its shareholders. A program of buyback is resorted to by a company to enable it to achieve the following benefits:

1. **Excess Cash Flow:** If the company has excess cash available and there is no immediate opportunity to invest, it can use that cash for buying its own shares so as to increase the underlying value of the shares.
2. **Capital Structure:** A buyback has a purpose to create a more desirable capital structure and the shares buyback influence the financial leverage; firms with high debt capacity may repurchase their shares in order to create a desirable capital structure.
3. **Increased EPS:** Management can have the goal of increasing the earnings per share because the number of shares gets reduced, the result can be divided over fewer shares.
4. **Increase in Promoters' holding:** When a company has excess cash available and there is no immediate opportunity to invest, it can use that cash for buying its own shares so as to increase the underlying value of the shares.
5. **Anti-takeover Mechanism:** Managers are often afraid that the firm is becoming take-over candidate. To defend the company against the threat of a hostile take-over, the managers can decide to use a buyback.
6. **Substitute for Dividend:** One of the reasons for companies to use a share repurchase is to avoid the dividend tax. The capital gain tax is lower than the dividend tax and if shares are selling, less capital tax is required to be paid.

Buybacks aren't without value. It is crucial, however, for managers and directors to understand when deciding to return cash to shareholders or to pursue other investment options. Good cash management practices drive performance through all stages of the business cycle. Nevertheless, in the good times these practices can become lax, leaving businesses vulnerable when conditions deteriorate. No one knows how recent economic and financial events will play out; just as the optimal government policy responses remain unclear. Official forecasts on the end of the downturn are often conflicting and provide little clarity. Winning companies should release cash from their businesses to give them financial flexibility and use the opportunity to embed effective cash management into the corporate culture and maintain a healthy balance between cash and earnings when prosperity returns.

A buyback's impact on share price comes from changes in a company's capital structure and, more critically, from the signals a buyback sends. Investors are generally relieved to learn that companies don't intend to do something wasteful such as make an unwise acquisition or a poor capital expenditure with the excess cash.

Recent Trends in Shares Buy-Back in India

With expectations of a revival in the economy, various firms are lining up to buy back shares, despite Sebi's move last year to tighten buyback norms. Buybacks aggregating up to Rs 594.25 crore have been announced in initial 10 days of January 2014. Between January and July 2013, before the buyback norms were amended, buybacks worth Rs 998.77 crore were announced. After the amendment, buybacks aggregating up to Rs 7,844 crore have been announced. The buy-back of shares usually improves the confidence of investors in the company. However, it showed that the share prices can move in either direction after the buy-back announcement. The movement of share prices post buy back is shown in table below:

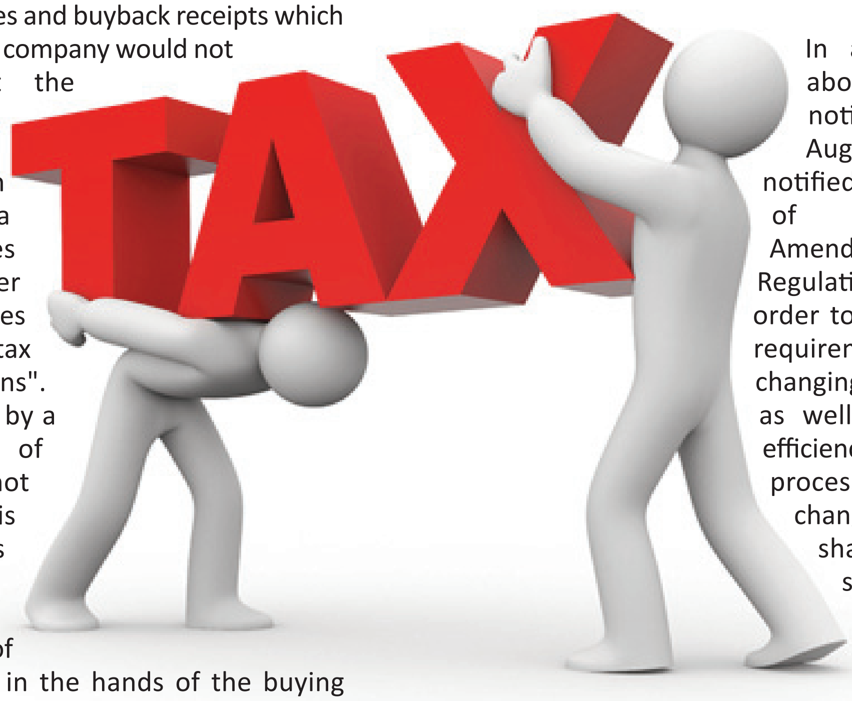
Company Name	Announcement Date	Proposed Buyback of Capital	Announcement Date Price	Buy Back Price	Current Market Price*	Gain/ (fall) in Share price
Aptech Limited	Jul 7, 2013	16.16%	58.60	82.00	69.60	18.77%
Crompton Greaves Limited	Jul 4, 2013	2.30%	87.20	125.00	118.55	35.95%
Zen Technologies Limited	Apr 23,2013	18.00%	66.00	69.15	60.50	-8.33%
Selan Exploration Technologies Limited	Sep 17, 2012	3.40%	291.45	350.00	456.05	56.48%
FDC Limited	Aug 22,2012	3.42%	88.10	110.00	118.05	34.00%
Sasken Communication Technologies Limited	Apr 24,2012	22.15%	118.25	180.00	167.25	41.44%
Zee Entertainment Enterprises Limited	Apr 9,2012	2.09%	129.65	140.00	268.10	106.79%
Bayer Cropscience Limited	Sep 18,2013	23.60%	1550.80	1580.00	1575.00	1.56%
NHPC Limited	Oct 25,2013	8.89%	18.45	19.25	18.40	-0.27%
Jagran Prakashan Limited	Oct 31,2013	5.54%	85.90	95.00	88.05	2.50%

**As on February 6, 2014*

One of the reasons for fall in the price of stock, after buy-back, could be the mismatch between the buy-back price announced by the company and investor expectations. In general, a share repurchase announcement reflects positive signals from company management that the company and the economy are doing well. Reducing the number of shares of stock being traded is a quick way for a firm's management to communicate to investors that a company's stock price is potentially undervalued and its prospects are bright.

Income Tax Implications on Buyback

The Indian Finance Minister presented the annual budget for 2013/2014 on 28th February 2013 ,a new chapter in the Income Tax Act "Chapter XII-DA Special Provisions Relating to Tax on Distributed Income of Domestic Company for Buy-Back of Shares" to impose tax under section 115QA in hands of company has been introduced with effect from June 1,2013. This chapter states that "any amount of "distributed income" by the company on "buy-back" of shares (not being shares listed on a recognized stock exchange) from a shareholder shall be charged to tax and such company shall be liable to pay additional income-tax at the rate of twenty per cent on the distributed income."The term "distributed income" is calculated as the difference between the amount paid as consideration for buying back the unlisted shares and the consideration received by the company when issuing these shares. This tax would be imposed on the company which is buying back its shares and buyback receipts which are taxed in the hands of the company would not be subject to tax at the shareholder level. Under the existing provision "Transfer of shares" in an Indian company by a shareholder (which includes buy-back of shares under section 77A of the Companies Act, 1956) is subject to tax under the head "capital gains". The consideration received by a shareholder on buy back of shares by the company is not treated as dividend but is taxable as capital gains under section 46A.



One of the key implications of taxing the buyback shares in the hands of the buying company is that the benefit of capital gains exemption is neutralized, which is available under various Indian double tax treaties, including those with Mauritius and Singapore. In such double tax treaties, shareholders are permitted to claim capital gains exemption on buyback shares of an Indian company, yet this tax will significantly impact the benefits availed by the double tax treaty.

Regulatory Framework

Buy-back is governed by the following statutory provisions:

a. The Companies Act,1956 – Sections 77A and 77B and The Companies Act,2013 – Sections 69 and 70(1)

b. Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998.

c. Private Limited Company and Unlisted Public Limited Company (Buy-back of Securities) Rules,1999

d. Companies (Passing of Resolution through Postal Ballot) Rules,2011

e. Listing Agreement.

f. Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 and the bye-laws framed thereunder.

SEBI has by notification dated February 7, 2012 notified SEBI (Buy-Back of Securities) (Amendment) Regulations, 2012 inter-alia prescribed revised timelines for tender offer, reservation for small shareholders, new Schedule II and III and by circular dated February 9,2012 issued revised guidelines in respect of disclosures to be made in the Letter of Offer.

In addition to the above, SEBI vide notification dated August 8, 2013 notified SEBI (Buy-Back of Securities) Amendment Regulations, 2013 in order to align regulatory requirements with the changing market realities as well as to enhance efficiency of the buy-back process, the following changes to buyback of shares or other specified securities from open market through stock exchange mechanism have been approved:

- The mandatory minimum buy-back has been increased to 50% of the amount earmarked for the buy-back, as against erstwhile 25%, failing which amount in the escrow account would be forfeited subject to a maximum of 2.5% of the total amount earmarked.

- The maximum buy-back period has been reduced to 6 months from 12 months.

- The companies shall create an escrow account towards security for performance with an amount equivalent to at least 25% of the amount earmarked for buy-back.

- The company shall not raise further capital for a period of one year from the closure of the buy-back except in discharge of subsisting obligations as against the existing 6 months.

- The company shall not make another buy-back offer within a period of one year from the date of closure of the preceding offer.

- The disclosure requirements have been rationalized requiring disclosure of the shares bought back on a cumulative basis on the website of the company and the stock exchange, only on a daily basis instead of the current requirement of disclosure on daily, fortnightly and monthly basis.

- The companies can buy-back 15% or more of capital (paid-up capital and free reserves) only by way of tender offer.

- Procedure for buy-back of physical shares (odd-lot) has been modified which includes creation of separate window in the trading system for tendering the shares, requirement of PAN/Aadhaar for verification, etc.

- The companies are permitted to extinguish shares bought back during the month, within fifteen days of the succeeding month subject to the last extinguishment within seven days of the completion of the offer.

- The promoters of the company shall not execute any transaction, either on-market or off-market, during the buy-back period.

A. Modes of Buy-Back

- *Listed Companies*
  - Tender Offer on proportionate basis
  - Open market through stock exchanges or book building process
  - Odd Lot buyers
  - Purchase of ESOP/Sweat Equity Shares

- *Unlisted Companies*
  - Proportionate basis through private offer
  - Purchase of ESOP/Sweat Equity Shares

B. Sources of Funds

As per the existing provisions, the buyback of shares and securities can be made out of the free reserves or the securities premium account or the proceeds of any shares or other specified securities. However, no buyback of any kind of shares or other specified securities can be made out of the proceeds of an earlier issue of the same kind of shares or other specified securities.

C. Authorization and Approvals

The primary requirement is that the articles of association of the company should authorize buy-back. In case, such a provision is not available, it would be necessary to alter the articles of association to authorize buy-back.

Buy-Back can be made with the approval of the Board of Directors at a meeting and/or by a special resolution passed by shareholders in a general meeting. In case of a listed company, approval of shareholders shall be obtained only by postal ballot.

D. Limits for Buy-back

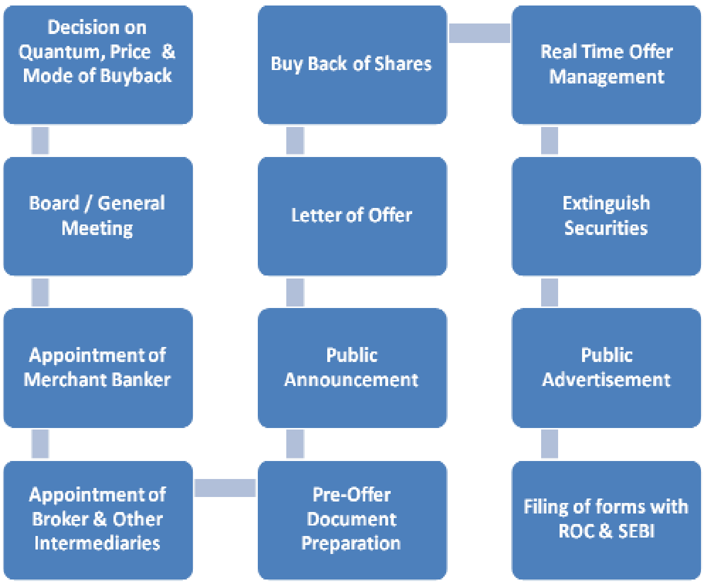
a) Board of Directors can approve buy-back up to 10% of the total paid-up equity capital and free reserves of the company.
b) Shareholders by a special resolution can approve buy-back up to 25% of the total paid up capital and free reserves of the company.

Are we going to create wealth for shareholders? In short, buyback should not be adhered to any ulterior motives and the spirit and objective of the buyback law should be upheld by the companies.

The aforesaid 10% and 25% limits have to be calculated with reference to the last audited balance sheet of a company. 'Free Reserves' for the purpose of this calculation shall have the meaning assigned to it in clause (b) of the Explanation to Section 372A of the Act.

As per Companies Act, in case of buy-back with the Board Approval, the company cannot make any further offer of buy-back for a period of 365 days except with the approval of shareholders. Further, the 10% and 25% limit approved by the Board or shareholders, respectively indicate the sum that can be expended by a company towards buyback. *Howsoever, in a financial year, the company cannot buy-back equity shares more than 25% of its paid-up equity capital. This restriction is applicable only for buy-back of equity shares and not any other security.*

E. Brief Process:



F. Key Provisions/Restrictions/Prohibitions:

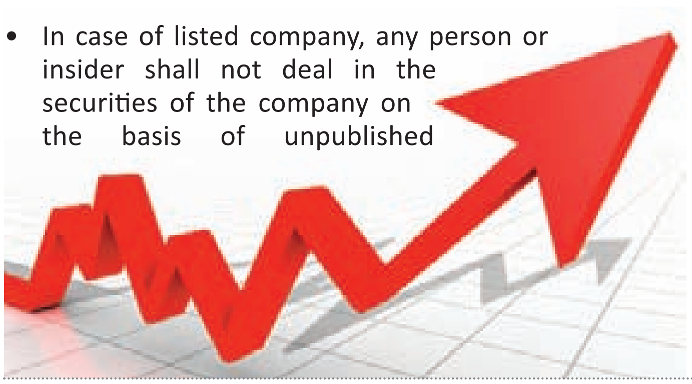
- Post Buy-Back debt to equity ratio should not be more than 2:1

- All shares or other specified securities for buy-back should be fully paid-up.

- Consideration should be only in the form of cash

- Declaration of solvency to be filed with ROC and SEBI (in case of listed entity)

- In case of listed company, any person or insider shall not deal in the securities of the company on the basis of unpublished information relating to buy-back.



- No company shall directly or indirectly, purchase its own shares or other specified securities in case the company has defaulted in repayment of deposit or interest payable thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of any term loan or interest payable thereon and such default is subsisting; through any subsidiary or investment company; non-compliance with the provisions of section 159,207 and 211 of the Act.

- Issuance of further capital for 6 months (in case of unlisted company) and 1 year (in case of listed company) from closure of offer.

- In case of listed company, company cannot buy-back locked-in shares or other specified securities non-transferable shares or specified securities till pendency of lock –in or it becomes transferable.

- In case of listed company, Company is not allowed to withdraw the offer once DLOO or PA is filed with SEBI.

- The company shall not buy-back its shares or other specified securities from any person through negotiated deals, whether on SE or through spot transactions or through any private arrangements.

G. Exemption under SEBI (Substantial Acquisition of Shares & Takeovers) Regulations,2011

Regulation 10 of SAST Regulations inter alia provides for exemption from the obligation to make an open offer in the event of increase in voting rights pursuant to a buyback under section 77A of the Act subject to fulfillment of the additional conditions as provided in regulation 10 of SAST Regulations, 2011.

Conclusion:

Notwithstanding a few concerns and exceptional cases, buy back is a win-win situation for both the companies as well as the shareholders. The company and the shareholders stand to gain an equal weight from a buyback offer making it an attractive option for both of them. Yet, it cannot be over-emphasized that in this era of corporate governance companies before resorting to buy back must ask them –is it really necessary? Are we going to create wealth for shareholders? In short, buyback should not be adhered to any ulterior motives and the spirit and objective of the buyback law should be upheld by the companies.

Buyback may prove to be a certain path to wealth maximization, restoring investor confidence & facilitate active trading in company's shares.

-Nikita Chirania

FINANCIAL INCLUSION FOR SME'S-POLICY AND BANK IMPETUS

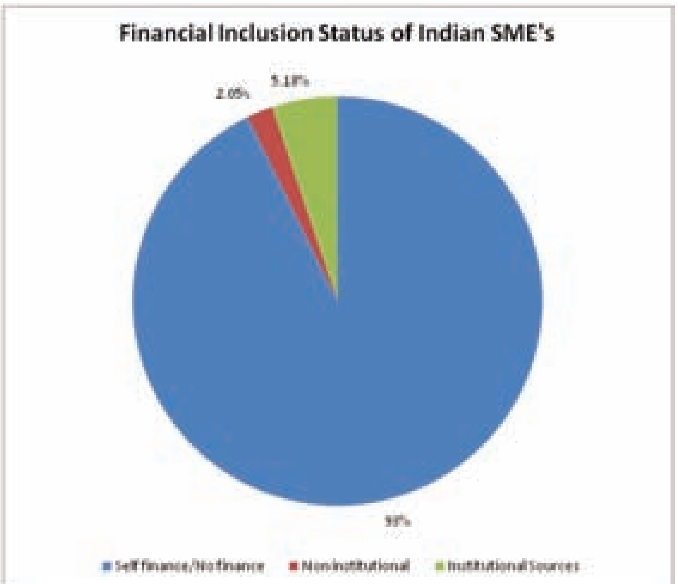
Introduction

The small and medium enterprises today constitute a very important segment of the Indian economy. The development of this sector came about primarily due to the vision of our late Prime Minister Jawaharlal Nehru who sought to develop core industry and have a supporting sector in the form of small scale enterprises. SMEs sector has emerged as a dynamic and vibrant sector of the economy. As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country which is next only to the agricultural sector.

The current economic situation, with political and economic integration and technological breakthroughs, warrants the need to make our Small and Medium Enterprises (SMEs) globally competitive. Instead of competing merely with local companies, SMEs now compete with various international competitors, be they MNCs or other SMEs. Competition brings pressures on SMEs to reduce costs, innovate and manage knowledge in similar ways to large companies, often without having surplus resources to invest for such activities, in a fast changing environment.

Thus it is quite evident that adequate and timely banking finance is the need of the hour. This need can be effectively serviced by financial inclusion which entails the delivery of financial services at affordable costs to these upcoming companies.

Current Status of Financial Inclusion in India



Source: 4th Census on MSMEs

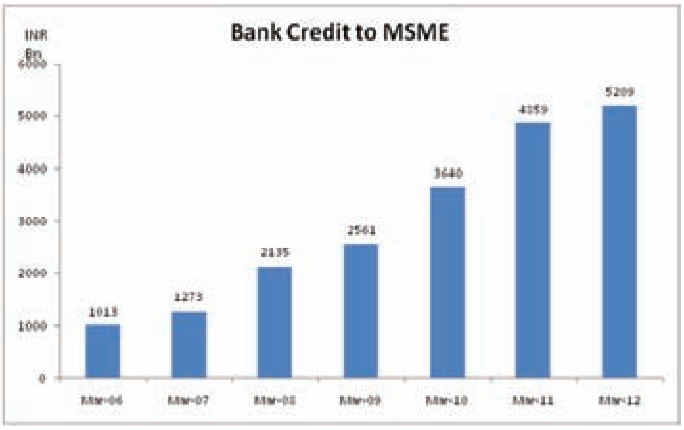
As high as three-fourth of India's Micro, Small and Medium Enterprises (MSMEs) do not have any access to banks or institutional financing channels making their businesses vulnerable. Only about 33 per cent of the country's MSMEs have access to banks or institutional financing channels, said a study jointly done by financial advisory firm Resurgent India and industry chamber ASSOCHAM.

Further, the extent of financial exclusion in the sector is very high as shown in Chart. The statistics revealed that only 5.18% of the units (both registered and unregistered) had availed of finance through institutional sources, 2.05% had finance from non-institutional sources the majority of units i.e. 92.77% had no finance or depended on self finance.

There is, therefore, a need to ensure access of banking facilities in the remote unbanked/under banked areas. Financial inclusion, including MSME finance and the drive to universal access is the national mandate. Financial inclusion makes growth broad based and sustainable by progressively encompassing the hitherto excluded population.

Status of bank lending to the sector

Bank's lending to the Micro and Small enterprises engaged in the manufacture or production of goods is specified in the first schedule to the Industries (Development and regulation) Act, 1951 and notified by the Government from time to time to be reckoned for priority sector advances. However, bank loans up to Rs.5 crore per borrower / unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006 are eligible to be reckoned for priority sector advances. Lending to Medium enterprises is not eligible to be included for the purpose of computation of priority sector lending.



Targets prescribed for lending by banks to MSMEs

As per extant policy, certain targets have been prescribed for banks for lending to the Micro and Small enterprise (MSE) sector. In terms of the recommendations of the Prime Minister's Task Force on MSMEs (Chairman: Shri T.K.A. Nair, Principal Secretary), banks have been advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises, a 10 per cent annual growth in the number of micro enterprise accounts and 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

Provision for grant of composite loans by banks

A composite loan limit of Rs.1crore can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window mechanism.

Cluster financing

Cluster based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the MSE sector which may be achieved through extending banking services to recognized MSE clusters. A cluster based approach may be more beneficial (a)in dealing with well-defined and recognized groups (b) availability of appropriate information for risk assessment (c) monitoring by the lending institutions and (d) reduction in costs.

The banks have, therefore, been advised to treat it as a thrust area and increasingly adopt the same for SME financing. United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country. The Ministry of Micro, Small and Medium Enterprises has also approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 Minority Concentration Districts. Accordingly, banks have been advised to take appropriate measures to improve the credit flow to the identified clusters.

Credit Guarantee Fund Trust Scheme for MSEs

The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals/ third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral- free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 85 per cent of the outstanding amount in default. The CGTMSE would provide cover for credit facility up to Rs. 100 lakh which have been extended by lending institutions without any collateral security and /or third party guarantees. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover. Presently the guarantee fee and annual service charges are to be borne by the borrower.

The Road Ahead

The MSME segment is a major contributor to both the economy and livelihood of people and has been duly recognized as worthy of sustained financial attention by the RBI and government. Even despite the above stated handholding via schemes and policies, there remains extensive scope to provide even greater financial support to these budding industries.

The rewards for building a firm providing these small businesses with financial management might be enormous. Banks should therefore, provide financial consultancy / financial management services to their MSE borrowers to give them holistic guidance and support and nurturing them. Banks could set up special industrial and management consultancy departments to address functional inadequacies and market gaps.

Bank branches need to ensure greater participation in the affairs of their MSME clients by convergence of credit services and non credit services. But for this, bank staff should be trained through customised training programmes to meet the specific needs of MSEs such as knowledge of markets, both domestic and global, use of technology, etc. Banks need to innovate to create products specifically suited to the requirements of MSMEs and should take a longer term view of its relationship with such entities while pricing such products.

As the availability of timely and adequate credit is a key requirement for this sector, banks should introduce single window facility for providing loans to MSMEs. For this purpose, they can set up Centralized Processing Centres specifically to cater to such clients, who will handle the appraisal, sanction, documentation, monitoring, renewal and enhancement activities

If banks begin to provide the above mentioned services as well, the Indian approach to financial inclusion will become more holistic and result in very rapid and sustained growth for these promising enterprises.

- Aanchal Parker

MACRO MARKET OUTLOOK

Many of us know that since 1st Jan 2009, the performance of Sensex and Nifty has been 15.39% CAGR and 14.68% CAGR respectively. In other words, the investments have more than doubled in around five years. But this performance usually gets subdued applause. And that is because many retail investors may not have availed this benefit due to the experiences of 2008.

The performance of CNX Nifty and BSE Sensex between 1st Jan 2008 and 2014 was around -0.28% cagr and -0.35% cagr respectively. The sharp decline from those heady days may have deterred many investors.

But this does not mean that market did not present investment opportunities even in 2008 peaks. For instance, the FMCG, Pharma, Healthcare, IT, Auto and Dividend sector indices, all, provided more than 12% cagr return during this 6 year period. Some of these sectors even grew in the 15-17% mark, implying that investments in them may have grown by more than two and a half times.

No doubt that the broad market got pulled down since 2008 because sectors like, Realty, Infra, Metals etc got beaten real bad. But the point must not be lost that the investment opportunities were readily available; and even in a very difficult market. Yet many of the retail investors may have lost out on this.

This has to do with the herd investment psychology observable in the retail investors segment. Herein, the retail investor waits for the market momentum to occur; then allows the investment climate to convert into the exuberance; and then, when climate is almost on a crescendo, rushes into the market on speculative advices. Thus, the retail investors usually end up buying at the market peaks.

On the other side, when the market is on a downward trend, the investor holds onto the investment on hope and faith, and continues to absorb loses, and sells it in despair, mostly when the bottom is being reached. Such experience can effectively exhaust the investor from any further investment ventures. And it is for this very reason, that objective-driven investments; backed by a well-thought out and disciplined asset allocation strategy is a must.

We are saying this because the upcoming years present sizeable investment opportunities in the equities market. In the immediate, while the repo-rate has been increased to 8% mark, what is being missed out is that fiscal deficit is getting reined in. Moreover, the CAD (expected to be around 1.5-2% of the GDP) is also improving structurally; with non essential imports declining - and exports expanding. Therefore, once the inflation is reined-in; and the policy issues with respect to infra-investments realized, Indian economy and Indian markets can look at next phase of the growth boom.

We believe that CPI core inflation is increasingly converging with RBI's expectation level; and therefore any further rate action (not likely before April-14) would be dependent on inflation and fiscal deficit numbers. More vitally, the central banker seems to have identified inflation as a structural issue plaguing growth sustainability. That is because high CPI inflation, inevitably mandates high deposit rate regime to attract depositors. This factor in-turn pushes up the cost of bank lending higher up, thus deterring industrial investments and individual expenditures. Ergo, to induce growth, reduced cost of lending is necessary. Therefore a more moderate deposit rate, as also a more moderate inflation rate, is vital. It is from this school of thought that RBI is addressing inflation.

"Ms. Lakshmi Iyer has been with Kotak Mahindra Asset Mgmt Co. Ltd since 1st November 1999" From 1999-2006 Lakshmi was performing the role of a fund manager where she was responsible for credit research as well as deal execution, managing fund performance across all debt funds and assisting sales in client interaction where required. From September 2006 till September 2008 she was Heading Products where her primary responsibilities were product related initiatives, product pricing and coordinating with the funds management and sales team in the role of a portfolio specialist. From September 2008 till date she is heading the Fixed Income and Products team. In her earlier stint, from November 1997-October 1999 in Credence Analytics Pvt Ltd. she has also worked as a Research Analyst where she was tracking corporate bond markets in India and generating research reports. She was also instrumental in conceiving various financial software tools for Indian markets through effective liasoning with software and technical team at Credence.

Ms. Lakshmi Iyer,
Chief Investment Officer (Debt) & Head Products
Kotak Mahindra Asset Mgmt Co. Ltd

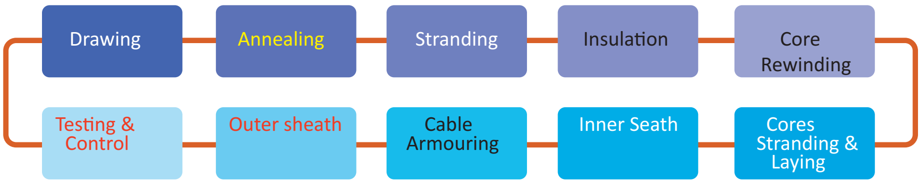

BSE
EXPERIENCE THE NEW
To see the future,
you must sometimes turn to the past.
As Asia's oldest exchange and India's first, the BSE has played an important role in India's financial history. Building on that rich past, the BSE is committed to being an important part of India's future. Today, the BSE trades on a variety of market segments and offers several advanced technology services. With the technologies now in place and an innovation-driven strategy to move forward, a bright new future is just around the corner.
Market Segments: Equities • Delivery-based Derivatives • Securities Lending & Borrowing • Mutual Fund Platforms • Exchange-traded Funds.
Technology Services: Internet-based Trading • Co-location Services • Mobile-based Trading • Real-time Risk Management • Smart Order Routing.
Issued in public interest by BSE Investors' Protection Fund

B.C. POWER CONTROLS LIMITED (INITIATING COVERAGE – IPO NOTE)

B.C. Power Controls Ltd (BCPCL) was incorporated in June 2008 to manufacture and trade cables. In 2010, the Company made the backwards integration installing the Copper and Aluminium wire drawing facility which, in turn, added value to the organization in terms of economies of scale and production of Copper and Aluminium wires.

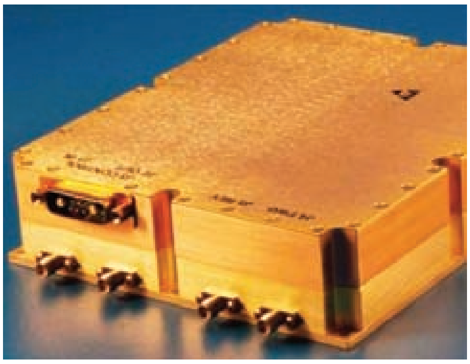
BCPCL is based out of Delhi and has a manufacturing plant of 4000 sq.m. at Rajasthan. It is an established player in the Wire & Cable Industry and is among the largest Wire & Cable manufacturers in India having more than five years of rich experience of the International Industry. Product portfolio includes amoured Cable, unarmoured Cable, flexible & house wires, submersible cable, control & instrumentation cable. The Company, based on its experience and standard, confirms to major specifications and customer requirements and accordingly manufacture the products which provide value addition and technical edge.

Manufacturing Process:



Key Highlights:

- Sizing and processing of conductor and insulated cores are done on latest technologies, in controlled manner. To have optimum values of capacitance, capacitance imbalance, image and cross talk attenuation and characteristic impendence
- High-end PVC insulation is used for long life and stable properties of cable
- To ensure minimum cross talk, staggered lays of twisted pairs are used
- Shielding protects cables from outside/ inter pair interference as per specific needs
- The Company adheres to high quality standards



Key Challenges:

Working Capital Requirement: BCPCL requires significant amounts of working capital for a continued growth which may affect the operations if not met

Defaults in Client Payments: Delays or defaults in client payables could result in a reduction of profits and result in operations

Permits, Licenses and Approvals: The Company requires several statutory and regulatory permits, licenses and approvals to operate the business. Failure to obtain and/ or renew any approvals or licenses in future may have an adverse impact on business operations

Mishaps or accidents: The products offered by BCPCL are subject to operating risks. Any mishaps or accidents could result in a loss or slowdown in operations and could also cause damage to life and property

Exchange Rate Fluctuations: Fluctuations in the exchange rates may affect the Company to the extent of cost of goods rendered in foreign currency terms. Any adverse fluctuations with respect to the exchange rate of any foreign currency for Indian Rupees may affect the Company's profitability, since a part of its service is rendered in foreign currency.

Issue Details	
Issue Size (Rs. Cr)	10.37
No. of shares on offer (Cr)	0.58
Price (Rs.)	18
Face value (Rs.)	10
MCap @ Rs.18 (Rs. Cr)	21.17

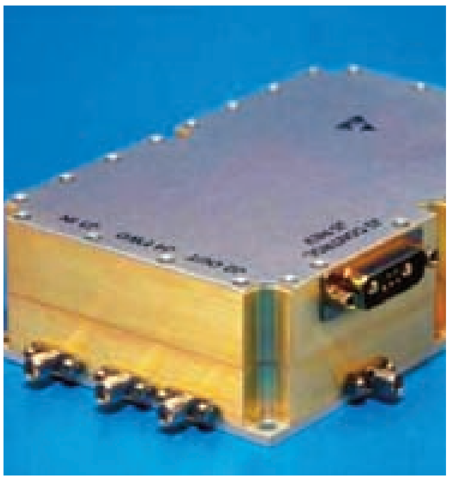
Objects of the issue (Cr)
Working Capital Requirements
General Corporate Purposes
Issue Expenses

Shareholding (%)	Pre IPO	Post IPO
Promoters	100	51.02
Others	-	48.98

Relative Valuation

B.C.Power has registered a topline CAGR of 171% from FY09 to FY13 as against the Wire and Cable Industry's growth of around 15%. The firm proposes to list its shares on PE of 6.43 of its 3 year weighted average earnings. The volume growth will be the key focus to company's future prospects. Increase in the working capital management cycle will be the key concern for the company.

Relative Valuation (Rs. In Cr)			
Y/E	2013	2012	2011
Sales	104.0	103.7	45.25
EBITDA%	1.84	0.99	0.37
PAT%	0.52	0.54	0.17
ROCE%	5.69	6.29	3.31
RONW%	5.47	10.94	1.50
ROA	1.00	2.24	0.84
Debtors days	95	16	26
Inventory days	42	36	50
Creditors days	102	42	74
Interest coverage	5.3	5.58	1.50
Debt/ Equity	2.1	0.4	0.0
EPS	1.6	3.5	4.9



ASHAPURA INTIMATES FASHION LIMITED (RESULT UPDATE)

Ashapura Intimates Fashion Limited (AIFL) was incorporated in 2006 and is engaged in the business of designing, branding, marketing and retailing intimate garments viz. loungewear, bridal night wear, honeymoon sets, bathrobes, night wear, sportswear and women's innerwear including lingerie.

Half Year ending September 2013 Results Update:

AIFL posted about 25% YoY increase in its Sales for the period, 6 months ending September 2013 and its PAT which stood at Rs. 2.39 Crores grew approx. 16% as compared to the same period of last year. EBITDA, which stood at Rs. 8.15 Crores grew at 48%

Below are some ratios which observed changes after the IPO:

Parameters	Post IPO (6 months ending Sept 2013)	Pre IPO (6 months ending Sept 2012)	YoY Change
Sales (Rs. In Crores)	71.64	57.47	25%
EBITDA (Rs. In Crores)	8.15	5.51	16%
PAT (Rs. In Crores)	2.39	1.65	48%

Expansion Plans:

AIFL plans to open 10 Exclusive Brand Outlets (EBO) in and around Mumbai, Navi Mumbai and Thane making available all the 6 brands in all the outlets. These EBOs will be owned by the Company itself.

Achievements:

- On a review of recent developments including operational and financial performance of the Company, AIFL has been assigned the rating "CARE BBB-" by CARE Ratings as against the earlier rating of "CARE BB+" for long-term facilities
- First time ever, CARE Ratings has rated AIFL as "CARE SME 1" which is the highest rating provided for the creditworthiness of the SMEs

Utilization of Issue Proceeds:

The Company raised an amount of Rs. 21.00 Crores through Initial Public Offer (IPO). IPO proceeds were to be utilized to incur expenses on branding and marketing set-up, investment in equity shares of Group Company, fund modernization of machinery, set up EBOs, incremental working capital requirements, general corporate purposes and issue expenses. The position of utilization of issue proceeds as on 31st January, 2014 is given below:

Particulars	Amount Allocated (Rs in Crores)	Current Status
Incur expenses on branding and marketing set-up	3.00	2.30
Investment in the equity shares of Group Company	1.50	1.59
To fund modernization of machineries	3.00	0.79
Set up 10 EBOs	3.00	0.00
To meet incremental working capital requirements	7.50	7.50
For general corporate purposes	1.25	1.25
To meet Issue expenses	1.75	1.83
Total	21.00	15.26

Stock Info

Sector : Other Apparels & Accessories	
CMP (Rs.)	96.20
MCap (Rs. Cr)	187
Book Value(Rs.)	12.78
52 week High/Low	101.00/ 46.40
Face value (Rs.)	10

Shareholding Pattern (%)

Promoters	67.72
Bodies Corporate	4.62
Individuals	23.91
Others	3.75
Total	100.00

Relative Valuation

AIFL is growing with a handsome compounded annual growth rate of 25%. The company has reported an EBITDA margin of around 11% in the September ending quarter and shown a growth of 48% YoY as against the industry average of 15% – showing an operating strength of the company in the basket of other peers. AIFL has reported ROE of around 12% as against the industry delivered a 6.6%.

Financials (Rs. In Cr)

Years	Sep-13	FY13	FY12
Sales	71.64	131.24	101.82
EBITDA%	11.37	10.99	9.42
PAT%	3.33	3.60	3.35
ROCE%	13.26	16.70	20.11
RONW%	11.49	26.03	31.08
ROA	3.82	2.96	5.90
Debtors days	120	139	64
Inventory days	171	162	94
Creditors days	90	132	29
Interest coverage	1.91	2.16	2.34
Debt/ Equity	1.70	3.46	3.13
EPS	2.40	3.33	6.43

Mr. Ajay Thakur
Head - SME Segment, BSE Ltd.

A professional with more than 18 years of experience in Capital Market. The key roles have been setting up the depository by the regional stock exchange, developing derivatives market and setting up SME Platform. Ajay started the career way back in 1994 with Stock Holding Corporation Ltd. In 1995 he joined Vadodara Stock Exchange and worked in various departments viz Market Operations, Bad Delivery Cell and Auction, setting up depository etc. He joined BSE Ltd in December, 1996 as Head – Arbitration and Business Development. He has developed the derivatives segment of BSE Ltd and also actively involved in opening of regional centers across the country. Presently as Head – BSE SME, responsible for the development of this segment of BSE Ltd. He very successfully launched the SME Platform on 13th March, 2012, the first in the country and has effectively lead the segment with ninety percent market share.

How the SME listing platform has emerged after two years of being launched?

BSE very well understand the importance of SME to Indian economy and therefore became the first Stock Exchange in India to launch SME Platform on 13th March, 2012. We have done a lot to create awareness about this platform by getting associated with CII, FICCI, ASSOCHAM, ICSI, ICAI and various other Industrial bodies and media houses. In the first year the response was not so good but the next year we have seen the platform gaining momentum and more and more entrepreneurs have now started approaching us for getting their companies listed.

What do you see this platform as in the next 10 years?

Going forward in next ten years we see at least thousand companies listed on this platform.

How it is beneficial for SMEs in India?

SMEs will benefit a lot by getting listed and some of the benefits are as follows:

- *Equity Financing lowers the Debt burden leading to lower financing cost and healthier balance sheet*
- *Provides the SMEs with equity financing opportunities to grow their business – from expansion to acquisition*
- *Expands the investors base, which in turn helps in*

> *"Yes I feel Indian SMEs are still to understand the benefits of listing. There is lack of awareness among the entrepreneurs about the equity market and today they are totally dependent on debt funding."*

getting secondary equity financing, including private placement

- *Enhances company's visibility: Media coverage provides SME with greater profile and credibility leading to increase in the value of its shares*
- *Greater incentive for the employees as they can participate in the ownership of the company and benefit from being its shareholders*
- *SME sector will grow better on two pillars of Financial system i.e. Banking and Capital Market*

Do you think, Indian SMEs are still to understand the benefits of being listed?

Yes I feel Indian SMEs are still to understand the benefits of listing. There is lack of awareness among the entrepreneurs about the equity market and today they are totally dependent on debt funding. We are trying to create awareness and once they will understand the benefits, they will come forward to get listed.

The SME IPOs are restricted for mass retail participants by SEBI by not allowing applications in the IPO less than Rs. One lakh, what is your take on this?

I think this has been done so that only informed and big investors should take the decision on the merits and fundamentals of the company and invest. These companies are in their early stage and needs hand holding. In the early stage of the company, a lot of risk is associated and those investors who understand the sector and have high risk appetite should invest. Therefore the decision to have big investors on the SME Platform has been taken.

Market Maker, a new concept introduced in SME IPOs, please explain the concept.

The concept of market making is not new in Indian capital Market. They were earlier called jobber. Even OTCEI has got the concept of market making. The job of market maker is to give two way quote 75 percent of the trading time. There were lot of apprehension earlier about the success of this model but in last two years, we have observed that on BSE SME Platform it has been a huge success.

What is BSE's strategy for the SME platform?

BSE is the pioneer in the capital market and in last 139 years have helped companies create a lot of wealth. During the period of listing many small companies become big and many big companies become large. We all are aware about the contribution of SMEs to the economy of the country and therefore for there development the SME platform has been established. We will be organizing and sponsoring seminars across the country for creating awareness about the platform and help the companies getting listed on our SME Platform.

Recently SEBI has notified norms for direct listing, what is your view on that platform?

This Direct listing platform is known as Institutional Trading Platform. This has been created for getting the companies listed without bringing IPO. The main purpose of this platform is to give visibility to the companies and create a platform to bring the demand and supply side together. The entrepreneurs can raise the funds by placing the shares to the investors. The listing will help in bringing corporate governance in the company and therefore the credibility of the companies may increase many folds which may attract long term investors like PEs, VCs and Angel Investors.

What is your advice to the emerging and smaller businesses?

Emerging and smaller businesses need to have a good business model with healthier balance sheet. They need to keep all the compliances done and take the help of good advisors so that they can create better visibility for their company

- RCI Industries & Technologies Limited engaged in trading of ferrous and non-ferrous metals such as copper wires, ingots, scrap, power cables and other related items used in various electrical and industrial applications as well as exporting Indian handicrafts opened the issue for subscription on 30th December, 2013. The Issue was subscribed 1.14 times out of which Retail category was subscribed by 0.20 times while Non Retail Investors category was subscribed by 1.16 times. The Issue is being Lead Managed by Sarthi Capital Advisors Private Limited and is it's fourth issue to be listed on BSE SME Platform.

- Chemtech Industrial Valves Limited engaged in the business of manufacturing carbon saeel and stainless steel industrial valves opened the issue for subscription on 15th January, 2014. The Issue was subscribed 1.18 times out of which Retail category was subscribed by 0.46 times while Non Retail Investors category was subscribed by 1.71 times.

- Anisha Impex Limited engaged in the business of trading of Fabrics filed a draft prospectus for a public issue of Rs. 6.50 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.

- Si. Vi. Shipping Corporation Limited engaged in the business of developing modern shipyards filed a draft prospectus for a public issue of Rs. 6.85 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, repaying certain unsecured loans availed and to meet issue expenses.

- Oasis Tradelink Limited engaged in the business of trading and marketing company of branded and packaged edible oils filed a draft prospectus for a public issue of Rs. 6.00 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to part-finance incremental working capital requirements, brand building, general corporate expenses and to meet the expenses of the issue.

- Ekdant India Limited engaged in the business of trading and manufacturing of Electrical equipments along with manufacturing of Biomass Briquettes filed a draft prospectus for a public issue of Rs. 4.03 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to raise funds for additional long-term working capital in the Briquettes Business and to meet the expenses of the issue.

- Karnimata Cold Storage Limited engaged in the business of cold storage and trading of agricultural commodities currently specializing in potatoes filed a draft prospectus for a public issue of Rs. 3.04 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to augment capital base for providing of Seasonal Loans to farmers/traders, meet issue related expenses and to fund general corporate purposes.

- Oceanaa Biotek Industries Limited engaged in the business of trading in aquaculture products filed a draft prospectus for a public issue of Rs. 2.10 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to set up a food testing analysis lab and to meet issue expenses.

- Anubhav Infrastructure Limited engaged in the business of providing land development, construction services and other related services for civil & structural construction and infrastructure sector projects filed a draft prospectus for a public offer of Rs. 9.00 crore. Equity shares are proposed to be listed on the SME Platform of the BSE.

- Autumn Builders Limited engaged in development, sale and lease of commercial, residential, retail and industrial properties, undertaking residential and commercial construction projects and earthworks including cutting, lifting, transportation and dozing etc. filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE.

- K D Trend Wear Limited engaged in the business of trading of various textile products filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE.

- Parnav Sports Academy Limited engaged in the business of imparting sports training, supply of sports goods such as cricket kits, tennis kits, football kits etc. filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE.

- Kanak Krishi Implements Limited engaged in the business of supplying agricultural equipment catering to Uttar Pradesh, Delhi and NCR regions of India filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.

- Jigyasa Infrastructure Limited engaged in the business of providing civil construction, land & site development services and trading of construction materials filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.

- Currently 50 companies are listed on SME platforms of BSE and NSE.

Forth Coming IPOs

Name of the Company	Exchange	Issue Size (Rs. crore)	Issue Price (Rs. Per Share)
Anisha Impex	BSE	6.50	10
Si. Vi. Shipping Corporation	BSE	6.85	25
Oasis Tradelink	BSE	6.00	30
Ekdant India	BSE	4.03	10
Karnimata Cold Storage	BSE	3.04	20
Oceanaa Biotek Industries	BSE	2.10	10
Anubhav Infrastructure	BSE	9.00	15
Prabhat Telecoms (India)	BSE	26.60	80

OTHER DEVELOPMENTS

Indian Overseas Bank ties up with industry bodies to boost lending

Chennai-based Indian Overseas Bank (IOB) is planning to collaborate with various stakeholders, including industry associations, rating agencies, traders' organisations and original equipment manufacturers (OEMs) to meet the demand of small and medium enterprises (SMEs) for funds.

Recently, the bank entered into a memorandum of understanding (MoU) with Bharatiya Yuva Shakti Trust (BYST), a not-for-profit organisation supported by the Confederation of Indian Industry (CII), to help young men and women become entrepreneurs. As per the MoU, IOB will extend finance of up to Rs 50 lakh for eligible manufacturing-sector entrepreneurs and Rs 25 lakh for service-sector entrepreneurs sponsored by BYST.

BYST will provide business mentoring, marketing, training and development support to youngsters, it said. In the past 20 years, BYST has set up eight regional clusters across the country and has financed around 2,900 entrepreneurs, it said.

Nabard pegs Punjab small units' credit needs at Rs 18,187 crore

Despite the economic slowdown, there is large potential for financing the micro, small and medium enterprise (MSME) sector in Punjab, which is the backbone of the state's economy. A Focus Paper prepared by the National Bank for Agriculture and Rural Development (Nabard) has estimated the state MSME sector's need for funds in 2014-15 - including term credit and working capital - at Rs 18,187 crore, a growth of nine per cent over that in 2013-14.

According to Nabard, the incentive-based new Industrial Policy announced by the state government in 2013 for MSMEs would be a catalyst for growth, and further development of the transportation network will facilitate marketing of produce manufactured by such enterprises. This means opportunities for bankers.

Economists say that the MSME sector has emerged as a vibrant sector of the Punjab economy over the last five decades. Micro and small enterprises (MSEs) in the state dominate the MSME sector, accounting for 47 per cent of the sector's output, 60 per cent of its exports and 21 per cent of the investment. MSEs generate 3.8 times the employment generated by medium and large enterprises.

North Indian states lead the way in MSME growth – CRISIL Report

CRISIL has analysed the growth performance of 3,850 micro, small, and medium enterprises (MSMEs) rated by it across India from 2010-11

“The MSME sector has emerged as a vibrant sector of the Punjab economy over the last five decades.”

to 2012-13 (refers to the financial year April 1 to March 31). The analysis reveals that the average sales per enterprise of these CRISIL-rated MSMEs grew from Rs 1,668.80 lakh in 201 0-11 to Rs 2,505.30 lakh in 2012-13, at a compound annual growth rate (CAGR) of 22.53 per cent.

"The effort is to provide better financing facility through SIDBI (a dedicated financial institution for micro, small and medium enterprises) for market makers dealing in shares of small and medium enterprises,"

The top 10 states, where enterprises registered the highest growth, are Delhi, Punjab, Rajasthan, Haryana, Gujarat, Andhra Pradesh, West Bengal, Maharashtra, Uttar Pradesh, and Tamil Nadu, in descending order. Enterprises in these states grew at a higher CAGR of more than 15 per cent. It is interesting to note that the top three states are from northern India. MSMEs in these states enjoy the benefits of being close to a large market and the fast-growing urban centre of Delhi NCR. They also benefit from a strong agricultural base and a growing population across northern India, which is fuelling demand for various products and services.

Need SME clusters on PPP model: SME forum

SMEs in Bhopal primarily manufacture engineering goods, power equipment or medicines. Bhopal is blessed with abundant raw material, skilled work force and holds tremendous potential for cluster development to regain investment in varied SME segments. But it has been grappling with lack of basic infrastructure especially transportation facilities and thus, there is an urgent need to develop an export hub on the Indore-Ratlam-Bhopal route and enhance the connectivity, opined the members.

Unavailability of cheaper labourers and increased mandatory minimum wage rates, coupled with devaluation of rupee has hindered growth of small scale and medium enterprise (SMEs) in Bhopal, Govindpura and Mandideep industrial areas.

The Madhya Pradesh government has assured consideration of apex industry body Assocham's proposal to set up SME clusters on public private partnership (PPP) model to boost industrial activities in the state.

SME platform market makers may get dedicated financing

In an effort to boost trading of shares on the small and medium enterprises platforms of the BSE and the NSE, the Finance Ministry plans to make better finance arrangements for market makers.

"The effort is to provide better financing facility through SIDBI (a dedicated financial institution for micro, small and medium enterprises) for market makers dealing in shares of small and medium enterprises," a senior Finance Ministry official said. The SEBI has permitted market making facility for the dedicated segment dealing with shares of small and medium enterprises on BSE and NSE.

India and Saudi Arabia to extend cooperation in SME sector

India and Saudi Arabia have agreed to step up cooperation in the small and medium enterprises (SME) sector for which a joint task force may be established.

The issue came up for discussion at the meeting of India and Saudi Arabia Joint Commission which concluded at Riyadh on 28th January 2014. The Indian side was represented by a delegation headed by Finance Minister P Chidambaram.

INTEREST RATE DERIVATIVES

INTRODUCTION

Interest rate futures contracts were first traded in the United States on Oct 29, 1975. And since then have become a fundamental risk management tool for financial markets worldwide. They are the most widely traded derivatives instrument in the world. The total turnover during Jan-Sep 2013 for Interest rate futures was around USD 9,63,750 billion, which is around 9.97 times higher than equity index futures.

Interest rate risk is the uncertainty in the movement of the interest rates. The volatility of interest rates has increased the manifold in the last couple of years. Such volatility increases risk and requires tools to manage risks. It would also provide the country's policymakers with a valuable gauge to measure market expectations for their future rate decisions.

INTEREST RATE DERIVATIVES

Under the guidelines issued by the Reserve Bank, interest rates derivatives have been launched in India on National Stock Exchange and Bombay Stock Exchange. This has enabled the Scheduled Commercial Banks (SCBs) (excluding Regional Rural Banks and Local Area Banks), Primary dealers and specified All India Financial Institutions, to hedge the interest rate risk in their underlying government securities portfolio by booking a future transaction on payment of a small premium to insure the unexpected liability that may arise in future.

It has been decided by RBI to start trading in only two kinds of interest rate futures contracts on the following underlying securities

Treasury Bills
10 year bonds (coupon bearing and non- coupon bearing)

USAGE BY DIFFERENT CATEGORY OF MARKET PARTICIPANTS

METHODOLOGY FOR INTEREST RATE DERIVATIVES

Derivative is an instrument, which derives its value from the underlying asset. As mentioned earlier, at present treasury bills and 10 years security bonds have been allowed as underlying instruments in the interest rate derivative market. There can be spot and futures contracts on these underlying securities. The spot market contract is a contract where the transaction settles at a current date whereas in the futures market contract, settlement of a transaction happens at a future date while all other financial aspects of a transaction are fixed today. For example, X agrees to buy 4000 notional 10-year bonds expiring on 31st October, 2014 @ Rs.50/-. On 31st October, if the price of the bond is Rs.60/-, he will get Rs.40,000/- i.e the difference between the agreed price and the market price. Similarly, if the price is Rs. 40/- he will have to pay Rs.40,000/-. This is because of "cash settlement" in the interest rate derivative market. There can be three kinds of transactions in the futures market:

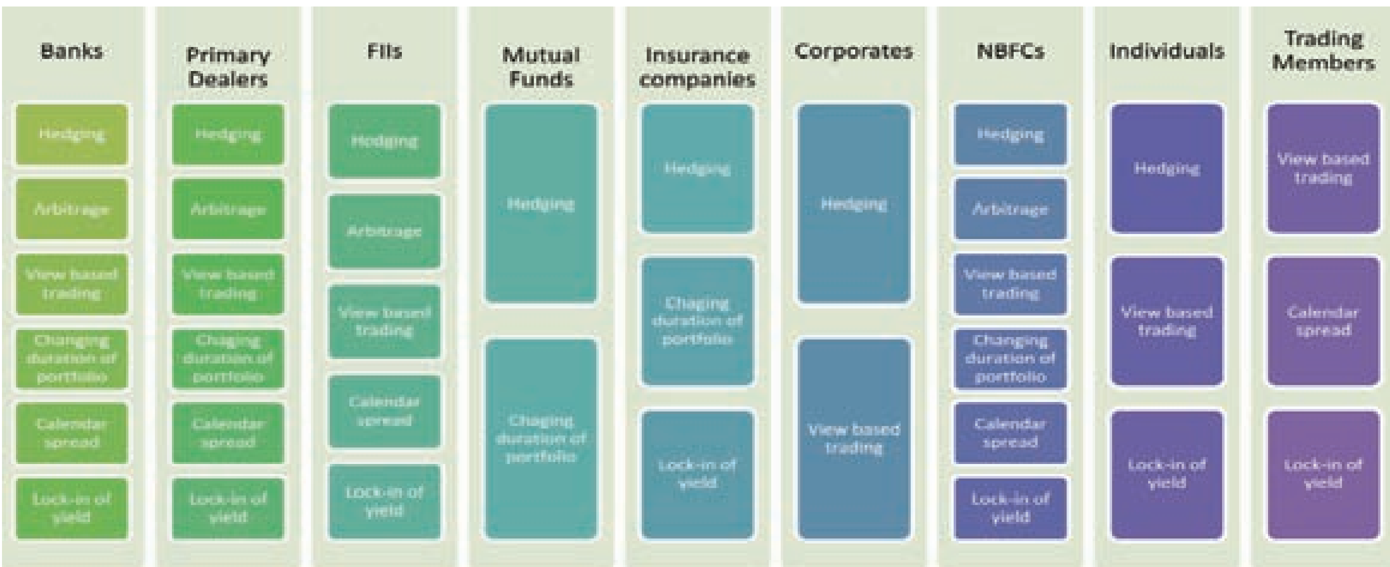
1. Speculation
2. Arbitrage
3. Hedging

Speculation

A speculator is one who enters into a transaction with his forecast about the market trend. If he takes a short position and markets fall, he ends up making money and vice versa. Similarly, if he thinks that the interest rates will go down and buys interest rate futures but if interest rates rise, he tends to lose.

Arbitrage

Arbitrage is a transaction where one creates a locked in position by entering into two transactions, simultaneously, one in spot market and the other in futures market, thereby making profit out of the difference between the two. On a future date both the transactions are reversed to square up the open positions.



Arbitrage opportunities arise out of inefficient market.

Hedging

Hedging is done to prevent unfavorable movement in interest rate, which may increase the liability of the borrower on the repayment date. The intention behind hedging is not to make profit but to contain the risk of loss. Therefore, if you have a payment liability on a future date and there is 1 base point rise in yield curve, you may have shortage of funds. To hedge this uncertainty, find a futures position, which completely offsets this loss. For example, if you have 100 crores with duration of 11 years. One base point rise in yield curve will increase your liability by Rs.11 lakhs (Rs.100 crore * 11 * 0.01%). You have to look for a short future position of Rs.110 crore which gains Rs.11 lakhs if the yield curve moves up by 1bps (considering the parallel shift of yield curve).

TRADING OF INTEREST RATE DERIVATIVES-PROCEDURE

Contract Period

10 year bond has serial monthly contracts with maximum maturity of 3 months and 91 day T-bills have 3 serial monthly contracts followed by one quarterly contract of the cycle March/June/September/December. New contracts are introduced on the trading day following the expiry of the next month contract.

Characteristics of a Contract

Contract underlying	Notional 10 year bond	Notional 91 day T-Bill
Contract Value	Rs. 2,00,000	Rs. 2,00,000
Lot size	2000	2000
Tick size	Rs. 0.0025	Rs. 0.0025
Price limits	Not applicable	Not applicable
Settlement Price	As may be stipulated by NSCCL in this regard from time to time.	

Expiry Day

Interest rate future contracts expire on the last Thursday of the expiry month. If the last Thursday is a trading holiday, the contracts expire on the previous trading day. Therefore, an interest rate futures contract can be entered for a minimum lot size of 2000 @ Rs.100/-(base price) leading to a minimum contract value of Rs.200,000. There are no price caps on futures contract as on date.

Base Price & Operating Ranges

Base price of the Interest rate future contracts on introduction of new contracts is theoretical futures price computed based on previous days' closing price of the notional underlying security. The base price of the contracts on subsequent trading days will be the closing price of the futures contracts. However, on such of those days when the contracts are not traded, the base price will be the daily settlement price of futures contracts. In this way there can be different closing and opening base prices of the interest rate futures contract if there is a gap due to trading holiday.

In times to come, we may foresee MIBOR as an underlying with many more maturities as against present 91 days and 10-year notional treasury bills and bonds. The interest rate derivative market has yet a long way to go.

There will be no day minimum/maximum price ranges applicable for the futures contracts. However, in order to prevent / take care of erroneous order entry, the operating ranges for interest rate future contracts is kept at +/- 3% of the base price. In respect of orders, which have come under price freeze, the members would be required to confirm to the Exchange that the order is genuine. On such confirmation, the Exchange at its discretion may approve such order. If such a confirmation is not given by any member, the order is not processed and as such lapses.

CLEARING AND SETTLEMENT

The clearing and settlement shall be done by National Security Clearing Corporation Limited (NSCCL). The positions in the futures contracts for each member shall be market-to-market to the daily settlement price of the future contracts at the end of each trade day. Daily market-to-market settlement in Interest rate futures contracts is cash settled. On the expiry of the future contracts, NSCCL marks all positions to the final settlement price and the resulting profit/loss is settled in cash.

STRENGTHS OF THE INTEREST RATE DERIVATIVE SYSTEM AND ITS FUTURE PERSPECTIVE

We have on-line and systematized exchange infrastructure and zero coupon bond is the simplest product for speculation and hedging. The cash settlement system avoids all concerns about short selling and clearing and settlement infrastructure of the bond market. In times to come, we may foresee MIBOR as an underlying with many more maturities as against present 91 days and 10-year notional treasury bills and bonds. The interest rate derivative market has yet a long way to go.

WHAT'S IN PRESS?

Govt launches India Inclusive Innovation Fund

The National Innovation Council and the Ministry of Micro, Small and Medium Enterprises (MSME) have jointly announced the creation of the India Inclusive Innovation Fund (IIIF). Approved by the Union Cabinet, the fund was conceived as a unique concept that seeks to combine innovation and the dynamism of enterprise to solve the problems of citizens at the base of the economic pyramid in India.

Speaking about the fund, Sam Pitroda, Chairman of the National Innovation Council (NInC) said: "The needs of the people at the base of the economic pyramid are today served by philanthropy and government grants and subsidies, which can never be either adequate or scalable. IIIF seeks to leverage the model of venture capital to transform the lives of the less privileged."

The IIIF seeks to create a new class of capital which helps set up and scale entrepreneurial skills and innovation. The fund will invest in innovative ventures that are scalable, sustainable and therefore profitable, but address social needs of the less privileged citizens in areas such as healthcare, food, nutrition, agriculture, education and skill development, energy, financial inclusion, water, sanitation employment generation, etc.

The fund will be registered under SEBI's Alternative Investment Fund Category I guidelines with an initial corpus of Rs. 500 crores, with the Ministry of MSME committing to 20 per cent (Rs 100 crores) and the balance being given by banks, insurance companies and overseas financial and development institutions.

The fund's eventual aim is to expand the corpus to Rs. 5,000 crores over the next 24 months. The NInC was set up by the Prime Minister to create an Indian model of innovation.

Lack of capital has been one of the major reasons why ventures and entrepreneurs seeking to address the needs at the base of the economic pyramid have failed to take off, with IIIF seeking to address exactly this gap. At least 50 per cent of its investments initially would be to enterprises that fall in the MSME stage.

The IIIF would also partner the entire ecosystem in this space, including incubators, angel groups, and also public research and development programmes and laboratories to support the commercialisation and deployment of socially relevant innovative technologies and solutions.

The government would not be involved in the day to day operations of the fund, and it would be entrusted to an Asset Management Company.

The Hindu Business Line

We need a much stronger effort in support of small and medium enterprises (SMEs) which can be a major source of good quality employment. Our manufacturing strategy gives high priority to this objective for the future.

Manmohan Singh
Prime Minister

I agree that the big investor is still hedging his bets, especially big industrial houses, but at SME (small and medium enterprise) level and at the medium industries level, bankers tell me that the demand for credit is still very high.

P Chidambaram
Finance Minister

The government must control rising red-tapism in the country for the welfare of industry especially small and medium enterprise (SMEs), the backbone of the Indian economy. Give industrialists an easy way to do the business. In India still the environment of doing business needs mass-scale corrections. And the best way to reduce red-tapism is to automate the system.

Dr. Jagdish N Sheth
Management Guru

SME Capital Market Watch

SME MARKET STATISTICS

Sl No	Company	Closing#	%Returns*	52 Week High	52 Week Low
1.	Anshus Clothing	6.65	-75.37	18.50	6.05
2.	BCB Finance	25.25	1.00	26.50	24.50
3.	Bronze Infra	14.60	-2.67	17.75	5.80
4.	Comfort Commotrade	24.00	140.00	45.95	19.25
5.	Jointeca Education	14.00	-6.67	16.00	13.50
6.	Jupiter Infomedia	29.30	46.50	29.30	23.50
7.	Max Alert	115.00	475.00	125.00	90.00
8.	Looks Health	436.00	990.00	437.00	145.00
9.	RCL Retail	37.30	273.00	49.85	7.55
10.	Sangam Advisors	22.50	2.27	25.85	19.00
11.	SRG Hsg Fin	59.00	195.00	110.00	20.95
12.	Eco Freindly	255.25	921.00	258.50	25.60
13.	Esteem Bio	199.00	696.00	199.00	25.25
14.	Sunstar Realty	146.70	633.50	170.65	21.20
15.	Kavita Fabrics	44.90	12.25	45.25	33.60
16.	Channel Nine	119.55	378.20	119.55	26.25
17.	Bothra Metals	26.35	5.40	34.20	24.85
18.	GCM Securities	302.00	1410.00	341.20	65.00
19.	Ashapura Intimates	96.65	141.63	101.00	46.40
20.	Samruddhi Realty	39.80	231.67	42.48	10.62
21.	Lakhotia Polyesters	35.90	2.57	36.60	33.85
22.	HPC Biosciences	160.00	357.14	166.00	37.25
23.	Onesource Techmedia	7.50	-46.43	13.00	3.95
24.	India Finsec	13.55	35.50	19.40	9.55
25.	eDynamics Solutions	58.00	480.00	84.85	25.40
26.	Money Masters Leasing & Finance	13.30	-11.33	19.65	13.30
27.	Alacrity Securities	7.10	-52.67	13.25	6.10
28.	GCM Commodity & Derivatives	11.50	-42.50	21.25	10.15
29.	Kushal Tradelink	33.50	-4.29	49.00	33.25
30.	Siverpoint Infratech	7.10	-52.67	14.80	5.70
31.	VKJ Infradevelopers	30.85	105.67	58.90	15.55
32.	Tiger Logistics	66.00	0.00	81.00	57.00
33.	RJ Biotech	34.70	73.50	48.75	21.00
34.	Ace Tours Worldwide	27.00	68.75	47.25	19.50
35.	VCU Data	27.90	11.60	52.20	26.00
36.	Amrapali Capital	92.95	-7.05	103.00	90.00
37.	Newever	30.25	202.50	35.50	12.20
38.	Stellar Capital	10.95	-45.25	21.10	10.95
39.	Subhtex	22.20	122.00	22.20	12.00
40.	Captain Polyplast	37.00	23.33	42.55	33.00
41.	RCI Industries & Technologies	31.05	-22.38	41.00	31.05
42.	Chemtech Industrial Valves	14.95	-0.33		
43.	Thejo Engineering	200.00	-50.25	405.00	199.00
44.	Veto Switch Gear	65.50	31.00	65.50	50.25
45.	Opal Luxury	115.00	-11.54	135.00	97.60
46.	Mitcon Consultancy	45.45	-25.49	60.00	37.95

***Absolute returns since IPO. # Closing prices as on 31st January, 2014**

GLOBAL SME MARKET

	Closing#	% Returns YTD
BSE SME IPO	517.24	275.41%
TSE MOTHERS	956.42	130.44%
CHINEXT PRICE INDEX	1,495.98	112.09%
FTSE AIM All Share Index	857.72	19.79%
TSX Venture Composite	951.32	-23.27%
Hong Kong GEM Index	510.53	33.82%

SME Capital Market Watch

MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	RCI Industries & Technologies	RCL Retail	SRG Housing	Eco-friendly	Sunstar Realty	VCU Data	Amrapali Capital
A. Valuation / Market Cap								(Rs. Crore)		
Pre Issue Net Worth	20.82	16.34	11.64	25.63	5.60	4.90	8.606	5.54	7.66	52.84
Issue Size	12.21	7.52	5.00	11.52	5.80	7.00	7.515	10.62	18.75	24.01
Market Capitalization*	48	27	32	33	45	47	252	293	43	90
B. Price Pattern								(Rs. 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 Rs.10)*	26.35	64.45	34.70	31.05	37.30	59.00	255.25	146.70	27.90	92.95

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	Chemtech Ind	Jupiter Info	Ace Tours Worldwide	Newever Trade	Stellar Capital	Captain Polyplast
A. Valuation / Market Cap										(Rs. Crore)
Pre Issue Net Worth	5.56	7.10	4.39	4.80	8.09	2.00	8.71	17.53	27.84	7.36
Issue Size	11.67	8.00	2.60	15.75	8.00	4.10	8.00	6.30	9.00	5.94
Market Capitalization*	185	105	33	255	18	10	34	72	18	27
B. Price Pattern										(Rs. per Share)
Issue Price	25.00	20.00	12.00	35.00	15.00	20.00	16.00	10.00	20.00	30.00
CMP (Face Value Rs.10)*	119.55	115	39.80	160	14.95	29.30	27.00	30.25	10.95	37.00

Particulars	Esteem Bio	Kushal Tradelink	Alacrity Securities	VKJ Infradevelopers	Silverpoint Infratech	Subh Tex	Ashapura Intimates	Opal Luxury	Veto Switch Gear	Thejo Engineering	Mitcon Consultancy
A. Valuation / Market Cap											(Rs. Crore)
Pre Issue Net Worth	8.56	20.90	18.51	5.40	40.27	16.43	10.98	11.82	32.70	25.8	54.42
Issue Size	11.25	27.75	9.00	12.75	12.00	3.50	21.00	12.00	25.00	19.00	25.01
Market Capitalization*	296	79	14	55	14	24	188	39	120	69	55
B. Price Pattern											(Rs. per Share)
Issue Price	25.00	35.00	15.00	15.00	15.00	10.00	40.00	120.00	50.00	402.00	61.00
CMP (Face Value Rs.10)*	199.00	33.50	7.10	30.85	7.10	22.20	96.65	115.00	65.50	200.00	45.45

*Closing prices as on 31st January, 2014

Upcoming Events

Name of Event	Place	Date	Organizer
Maharashtra Industry & SME Summit	Nashik	21st February 2014	SME Chamber of India
India SME Banking Conclave	Mumbai	February 2014	SME Chamber of India
Annual Flagship Activity - Madhya Pradesh Industry & SME Summit	Indore	February 2014	SME Chamber of India
Annual Flagship Activity - Gujarat Industry & SME Summit	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 Awards	Mumbai	April 2014	SME Chamber of India

RCI INDUSTRIES & TECHNOLOGIES LTD – LISTING CEREMONY

RCI Industries & Technologies Ltd, got listed on BSE SME Exchange on January 21, 2014. The Issue was being Lead managed by Sarthi Capital Advisors Private Limited and is its fourth issue to be listed on BSE SME Platform. The issue was subscribed 1.14 times.

LAMP LIGHTING CEREMONY

MR. ASHISH CHAUHAN, MD, BSE, ADDRESSING THE AUDIENCE

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

SARTHI BEING FELICITATED

MR. MANISH GUPTA, ASSOCIATE DIRECTOR, SARTHI, GIVING VOTE OF THANKS

THE MOMENT OF GLORY

SARTHI

Bridging the Gap

Sarthi Capital Advisors Private Limited
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SEBI Registration No : INM000012011

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