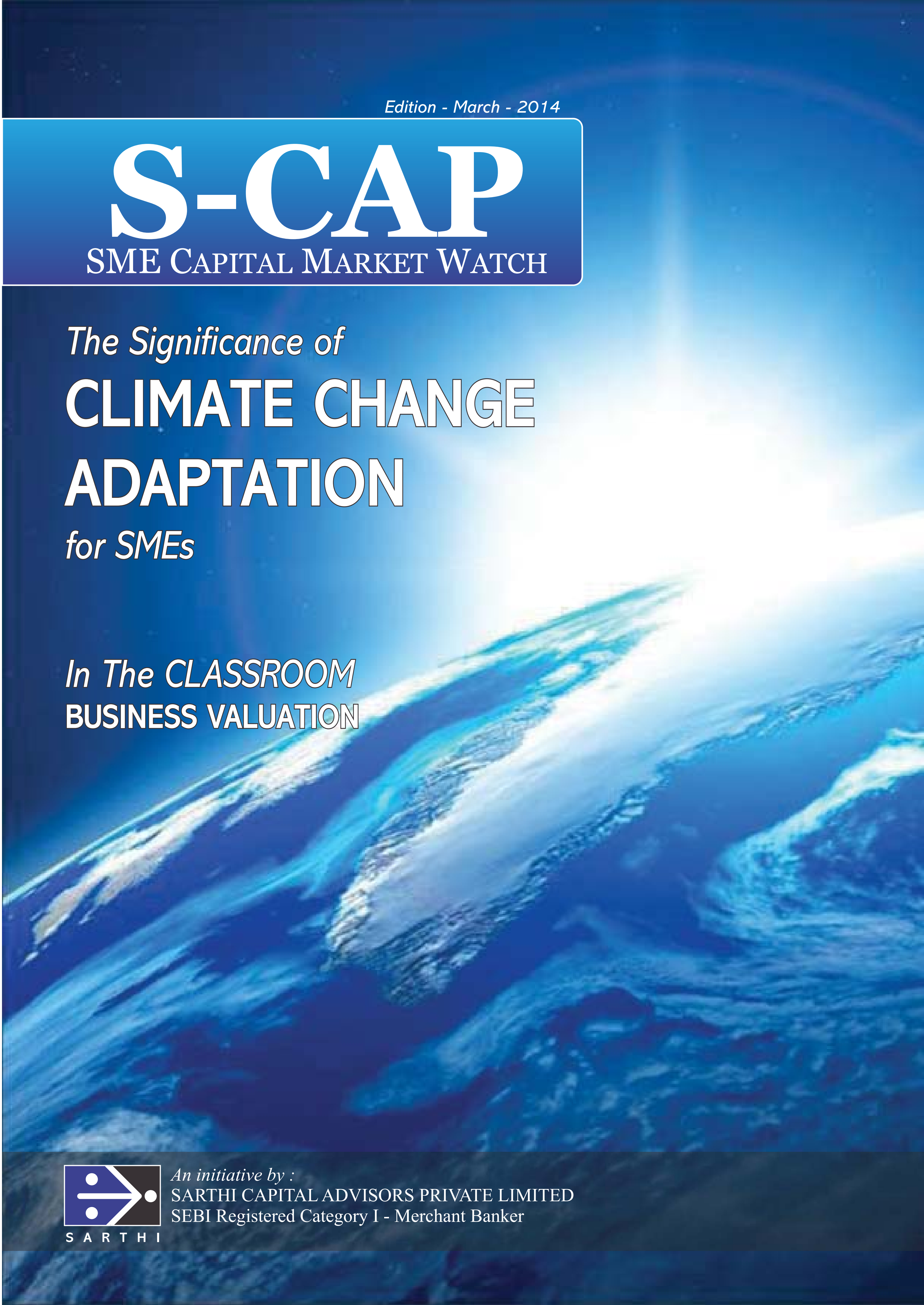
Edition - March - 2014

S-CAP
SME CAPITAL MARKET WATCH



The Significance of
CLIMATE CHANGE ADAPTATION
for SMEs

In The CLASSROOM
BUSINESS VALUATION

SARTHI

An initiative by :
SARTHI CAPITAL ADVISORS PRIVATE LIMITED
SEBI Registered Category I - Merchant Banker

PREFACE

50th company successfully listed on the BSE SME Exchange, a milestone. It is just the beginning and expects many smaller businesses to come forward to get listed on the exchanges.

All asset classes rallied. Capital markets touched all time high index marks, bond rallied due to fall in yields, Indian rupee strengthened and gold appreciated even in US $ terms. There is a new strong interest of FIIs on the Indian Economy which is clearly reflected on market indices.

General Election dates have been announced from April 10th to May 16th in various parts of the country and we all can expect large scale activities on political front including some surprises even before election results. The silver lining is the expected expenditure on election activities estimated at approximately 30K crores which may boost various businesses.

As we entered the last month of the financial year 2013-14, a lot of activities (so called last moment) can also be expected from corporate houses before they finalise their balance sheet for the year.

In this issue of S-Cap, we have covered the write-up on the dynamic environment for SMEs and the readiness for the "Climate Change", the "Takeover Code" for listed companies and "Business Valuations" 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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- 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...

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The Significance of CLIMATE CHANGE ADAPTATION for SMEs

Preface

Facing the impacts of climate change is a key challenge of this century – not only for governments, but also for communities and businesses. In India, expected impacts are particularly great. Due to its geographic characteristics and its socio-economic conditions, India is one of the most vulnerable countries to climate change worldwide. Rising temperatures, changes in rainfall patterns, rising sea levels and more frequent and more intense extreme weather events such as floods, droughts or cyclones can already be observed, and are projected to intensify in the future. These impacts will affect the fundamentals of India's natural environment, with strong repercussions for its society and economy.

It is essential to prepare for climate change impacts which can be felt already today, and for likely impacts in the future. The business sector in India, and in particular the large number of small and medium enterprises (SMEs), plays an important role for the Indian economy. Businesses which prepare for, or "adapt" to, climate change impacts, first and foremost assure their business survival in times of a changing climate. Businesses can be severely threatened both by gradual changes such as slowly rising temperatures, and by single extreme weather events such as heavy rains and flooding. Companies can also make use of business opportunities resulting from a changing climate, e.g., by developing adaptation products and services for people and organisations.

Climate Change and SMEs

SMEs in India are particularly vulnerable to climate change, as many rely on old machinery, have limited awareness and skills on issues such as resource efficiency, and are located in areas with insufficient infrastructure. Impacts can affect their physical infrastructure, production processes and supply chain, their employees and neighbouring communities, but also the demand for their products and their access to finance. Indian SMEs often lack the resources to assess, monitor, and adapt to climate change related risks. As the capacity to deal with financial losses or business disruptions is relatively low, climate change impacts can even threaten SMEs' business survival.

The impacts of climate change are already felt by SMEs today, for instance the frequent energy and water shortages in summer months. However, SMEs do not yet connect these impacts to climate change, neither are they developing response strategies for adapting to projected impacts. To address climate related risks and opportunities, many companies – particularly SMEs with limited resources – will start with single adaptation measures such as the construction of a dyke to protect company premises from flooding. A more advanced approach consists of developing a comprehensive adaptation strategy which combines measures in the short-, medium- and long-term and can even involve changes to the overall business strategy, including the company's portfolio of products and services.

Impact areas of climate change for Indian SMEs

Climate change can have both direct and indirect impacts on a business. Both have to be taken into account when assessing the company's vulnerability. Direct impacts of a climate phenomenon affect the company without any intermediary. For example, machinery and raw materials may be damaged and workers may be less productive during heat waves. Indirect impacts affect a company by way of an impact on another system outside of the company's control, for example changes in supply and demand, logistics, regulations, impacts on wider stakeholders, such as the surrounding community, and financing. Processes and buildings may also be affected by indirect impacts. For example, if the sewage system of a company overflows because a flood affects surrounding plants, but not its own premises, this would be an indirect impact.

Examples of Direct and Indirect Impacts on Businesses:

DIRECT IMPACTS Damage Buildings & Plant Processes Straightaway.	INDIRECT IMPACTS Affect a company by way of an impact on another system outside of the company's control.
• Rooftops are damaged during heavy storms • Raw materials in stock become spoiled by fungi after heavy rains • Machinery overheats during periods of extreme heat • Workers' health deteriorates during heat waves	• Reduced availability of energy / water from the grid • Delayed deliveries from suppliers whose premises had been flooded • Stricter regulation concerning energy efficiency and water use • Reduced demand for specific products due to changed weather conditions

Businesses have seven impact areas of climate change:

Distinguishing between these seven impact areas allows a company to assess climate change impacts on the business in a comprehensive and structured manner.

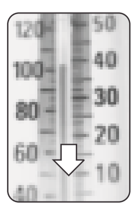
- **Building/Location:** includes all physical assets of a company.
- Processes: includes provision/consumption of resources in the production process.
- **Logistics and stock:** involves the provision with raw materials and other supplies, the storage of stock and the transport of supplied and manufactured goods.
- **Employees and community:** covers the working conditions of employees as well as the relations with neighbouring communities.
- **Government and regulation:** looks at upcoming regulations and government programmes developed in response to climate change impacts (e.g., insulation).
- **Market:** considers short-, medium- and long-term changes of the sales market.
- **Finance:** considers impacts on the financial situation, insurance needs and access to financing.

Mitigation and Adaptation

Even if SMEs are aware that the climate is changing and that this has a range of impacts on their company, they usually lack the skills and tools which allow them to respond to these impacts in a comprehensive, structured, effective and efficient way.

Mitigation: Mitigation is an "inside-out" process - the company's greenhouse gas emissions accelerate climate change. Reducing these emissions thus reduces the effect of the company on the climate. Mitigation slows down climate change dynamics and the need for adaptation. The UN defines CCM as all human interventions to reduce the sources of carbon emissions or enhance the "sinks". Sinks, most importantly rainforests, store and neutralize carbon. For businesses, mitigation refers to measures which reduce energy use and strengthen carbon sinks, for example:

- Introducing more energy efficient machinery and equipment.
- Installing solar panels to substitute conventional power sources
- Reducing air travel for business trips
- Planting trees



Adaptation: Adaptation is an "outside-in" process - climate change has an impact on the company. Adaptation means that a company reduces its vulnerability to changes in the climate. Through the development of adaptation measures, SMEs can reduce climate related risks and seize opportunities from changing climate adaptation for their business. Adaptation measures for reducing risks build on the risk assessment conducted for the company; they can create competitive advantages for instance through cost savings or reputational gains. Additionally, companies can derive measures for their adaptation strategy by looking at new growth markets for adaptation products and services they could offer. Adaptation measures can take many forms. A few examples include:

- Storm-proofing the rooftop of factory buildings to be less vulnerable to hurricanes
- Reducing the water use in production processes to be less vulnerable to drought
- Diversifying the supplier base and shortening transport routes to be less vulnerable to climate change risks in logistics
- Briefing employees on health risks and behaviour during periods of extreme heat
- Monitoring regulatory changes concerning e.g., energy efficiency or water reuse
- Developing products which are especially heat resistant

Many adaptation measures have a "mitigating side effect" by reducing GHG emissions:

- Introducing energy efficiency measures which reduce vulnerability to power cuts often occurring in heat periods and extreme weather
- Installing solar panels which render a business less vulnerable to electricity cuts
- Improving insulation of workspaces and storage rooms which protects employees and the stock from cold or heat
- Installing green areas as buffer zones in order to protect the site from flood water.

Challenges to Adaptation in the SME sector

The common challenges to implementing or progressing in climate change adaptation planning include the following:

UNCERTAINTY OF THE BUSINESS CASE

SMEs cite lack of time and resources for adaptation planning. This reveals a lack of evidence for a business case and return on investment which relates to limited understanding (or uncertainty) of connections between potential climate change impacts and business operations.

COMPETING PRIORITIES

Financial sustainability is crucial for businesses, who already juggle competing priorities such as responsibility in business practice and financial sustainability. If environmental management is seen as a non-core business issue, resources are less likely to be directed towards concerns such as adaptation.

LIMITED MOTIVATION OF OWNER/ MANAGER

SMEs often take on the values and motivations of the owner/ manager, thus if this person sees no benefits in integrating adaptation planning, progress and behaviour change is unlikely to occur

UNCERTAINTY OF LOCAL CLIMATE CHANGE IMPACTS

The uncertainty of how climate change will manifest provides a challenge to adaptation activities. The lack of relevant and specific (geographically and temporal) climate information for businesses, contributes to the challenge of implementing adaptation initiatives

LACK OF EXPERTISE

Many SMEs lack personnel to initiate and maintain the adaptation process. Furthermore, many SMEs are unaware of environmental management systems thus are starting from a low baseline. Up-skilling in environmental management is often perceived as non-core business thus not prioritised

COMPLEX REGULATORY LANDSCAPE

Procedures of measurement and reporting against a growing number of regulations as well as additional bureaucratic frustrations can also provide a challenge to SMEs engaging with environmental compliance issues. Translation of national adaptation plans into relevant policy for the private sector is reported as a challenge in other regions of the world

VAST AND HETEROGENEOUS GROUP

The structure, size, industry and location of SMEs varies widely, as does the various stakeholders in the supply chain of SMEs, making communication with this sector challenging

LIMITED ACTIVITY IN INDUSTRY GROUPS

SMEs are reported to be less active in organisations that could potentially assist in adaptation and other environmental compliance issues e.g. trade associations.

RESOURCE COSTS

Tools may exist to assist with adaptation planning but these have usually been developed for larger firms where financial costs are less of an issue

Opportunities and Enablers to Adaptation in the SME sector

Global studies have shown that at the macro-level, SMEs that implement effective adaptation initiatives are contributing to driving whole countries towards resilient economies. This may occur in localised operations, via supply chains, in partnership with surrounding communities and even in collaboration with the global community. More specific opportunities or enablers of climate change adaptation planning and implementation are provided:

New Business Opportunities	Demand for new products and systems are likely to emerge as a result of climate change e.g. water saving technology, efficient cooling systems, risk management systems, thus businesses positioned to tackle these needs are better positioned to capture the emerging market
Consumer And Investor Pressure	Pressure from consumers and investors provides an opportunity to proactively take up adaptation initiatives that result in consumer and investor loyalty
Education And Awareness	Education and awareness raising is a powerful facilitator of change in the SME sector, however motivation is needed from the SME owner/ manager. Upskilling is also an enabling activity that allows SMEs to assess their risks to climate change and implement appropriate adaptation strategies.
Flexibility Of Smes	Due to their small size, SMEs can be flexible and responsive to emerging issues in the business environment. This can maximise opportunities relating to new and innovative technologies, processes or practices. SMEs may also have less restrictions on accessing financial resources for new opportunities
Cost Savings	Most cost savings are related to reduced energy costs by implementing enhanced energy/ water efficient technology, which can directly benefit the SME.
Diversification Of Operations	Diversifying business operations acts to spread risks by reducing exposure to specific hazards.

Concluding Remarks

Just like big businesses, SMEs recognize the link between sound environmental practices, long-term business profit and growth, and a healthy economy. According to a recent survey, SMEs have expressed a strong faith that protecting the environment and growing the economy can certainly go hand in hand. Although SMEs may not have the influence and resources of big enterprise, they are well positioned to implement and inform the development of innovative and practical approaches to addressing the environmental issues.

The key learning while highlighting the climate change management approaches of big companies can serve as a guide to SMEs on how to strategise and integrate sustainability and green house gas reduction into their own business, irrespective of the industry/ sector to which they belong. As with big companies, SMEs who take action on climate change may experience cost, competitive and operational benefits.

Moreover, as big companies continue to integrate sustainability into their corporate practice, it will recognize that climate change management strategies must include the impact of SMEs along the cluster supply chain. SMEs that actively assess and manage the risks and opportunities of climate change will be better equipped to get access to new markets that emerge from this shift towards sustainability, which is already taking place. Working together to raise standards, increase innovation and gain new competitive advantage offers a win-win situation for both big and small companies in the new economy.

-Sudeep Mendjoge

SECURITIES AND EXCHANGE BOARD OF INDIA (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 2011

Takeover Regulations are a set of guidelines framed by SEBI to define the roles of shareholders whenever their holdings in a particular company crosses a specified level. The objective of the regulations is to have uniform criteria and ensure fair play amongst investors. The regulation ensures that whenever there is acquisition of a significant stake in the company with or without a view to change the management or control the management, the minority shareholders get a fair deal in terms of price. The existing SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 2011 were promulgated on 22nd October, 2011 to replace the decade-old Takeover Regulations 1997. The regulations addresses several challenging issues which have emerged over the years and aims at providing a transparent legal framework for facilitating takeover activities, protect the interests of investors in securities and the securities market, balance the conflicting objectives and interests of various stakeholders in the context of substantial acquisition of shares in, and takeovers of, listed companies, providing each shareholder an opportunity to exit his investment in the target company when a substantial acquisition of shares in, or takeover of a target company takes place and ensure that fair and accurate disclosure of all material information is made by persons responsible for making them to various stakeholders to enable them to take informed decisions.

Substantial Acquisition of shares or takeover of a listed company impacts a host of stakeholders, such as the acquirer, the target company, the management and the public shareholder. Thus, Takeover Regulations are meant to ensure fair and equal treatment of all shareholders in relation to substantial acquisition of shares and takeovers and that the process does not take place in concealed manner without protecting the interest of the shareholder. Takeover regulation in India does not prohibit acquisitions rather it only regulates the acquisition process and facilitates the takeover market by providing fair and equal opportunity to every interested party. Underlying idea for any acquisition under Takeover Regulations is to make a transparent and informed acquisition, and, hence, acquisition which carries substantial shareholding can only be made through open offer, so that shareholder who want to exercise their exit option and discontinue with the new control can do it as their right. However, it is difficult to frame an exhaustive regulation as takeovers are always multifaceted and interrelated to the dynamic forces of the market place.

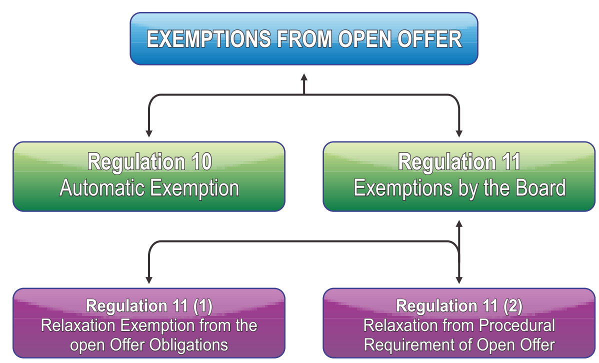
Open Offer Requirement

As provided in the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) regulations,

REGULATION 3(1)	REGULATION 3(2)	REGULATION 4	REGULATION 5	REGULATION 6
Open offer on crossing initial threshold of 25%	Open offer for crossing creeping acquisition limit of 5%	Change in Control	Indirect Acquisition of share or control	Voluntary Offer

2011, the Exemptions from making Open Offer are as follows:

REGULATION 10 - AUTOMATIC EXEMPTION



(1)(A)Acquisition pursuant to inter se transfer of shares amongst qualifying persons

In the above cases the persons should be named as promoters or persons acting in concert or shareholders of a target company who have been persons acting in concert as the

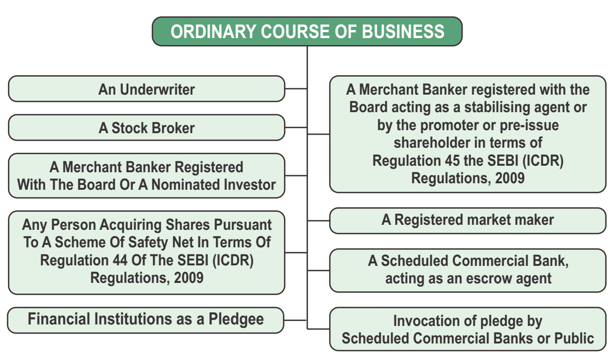
INTER SE TRANSFER

- Immediate Relatives.
- Persons acting in concert.
- Persons named as Promoters in the shareholding Pattern.
- A Company, its subsidiaries, its holding company, other subsidiaries of such holding company.
- Shareholders of a target company who have been persons acting in concert for a period of not less than 3 years prior to the proposed acquisition

case may be, in the shareholding pattern filed by the target company in terms of the listing agreement for not less than three years prior to the proposed acquisition. The persons holding not less than 50% of the equity shares of such company, including those companies in which such persons hold not less than 50% of the equity shares, and their subsidiaries subject to control over such qualifying persons being exclusively held by the same persons. The companies in which the entire equity share capital is owned by shareholders of a target company, who have been persons acting in concert, in the same proportion as their holdings in the target company without any differential entitlement to exercise voting rights in such company are also covered.

(B) Acquisition in the ordinary course of business by—

For the above set out exemptions the stock broker should be registered with the Board on behalf of his client in exercise of lien over the shares purchased on behalf of the client under the bye-laws of the stock exchange where such stock broker is a



member and a nominated investor should be in the process of market making or subscription to the unsubscribe portion of issue in terms of Chapter XB of the SEBI (ICDR) Regulations, 2009;

(C) Acquisitions at subsequent stages, by an acquirer who has made a public announcement of an open offer for acquiring shares pursuant to an agreement of disinvestment.

(D) Acquisition pursuant to a scheme

(E) Acquisition pursuant to the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002,

(F) Acquisition pursuant to the provisions of the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009;

(G) Acquisition by way of transmission, succession or inheritance;

(H) Acquisition of voting rights or preference shares carrying voting rights arising out of the operation of sub-section (2) of section 87 of the Companies Act, 1956

(2) If a scheme of corporate debt restructuring in terms of the Corporate Debt Restructuring Scheme provided such scheme has been approved by shareholders by way of a special resolution passed by postal ballot, then, the acquisition of shares of a target company, not involving a change of control over such target company, shall be exempted from the obligation to making an open offer.

(3) An increase in voting rights in a target company of any shareholder beyond the limit attracting an obligation to make an open offer, pursuant to buy-back of shares shall be exempted provided the conditions provided in Regulations are satisfied.

(4) The following acquisitions shall be exempt from the obligation to make an open offer under sub-regulation (2) of regulation 3,—

(A) acquisition of shares by any shareholder of a target company, upto his entitlement, pursuant to a rights issue;

(B) acquisition of shares by any shareholder of a target company, beyond his entitlement, pursuant to a rights issue, subject to fulfillment of the conditions in the Regulations;

(C) increase in voting rights in a target company of any shareholder pursuant to buy-back of shares provided the conditions as per the Regulations are fulfilled;

(D) acquisition of shares in a target company by any person in exchange for shares of another target company tendered pursuant to an open offer for acquiring shares under these regulations;

(E) acquisition of shares in a target company from state-level financial institutions or their subsidiaries or companies promoted by them, by promoters of the target company pursuant to an agreement between such transferors and such promoter;

(F) acquisition of shares in a target company from a venture capital fund or a foreign venture capital investor registered with the Board, by promoters of the target company pursuant to an agreement between such venture capital fund or foreign venture capital investor and such promoters.

In respect of any acquisition made pursuant to exemption provided in the regulations, the acquirer shall file a report with

- Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985

- Arrangement involving the target company as a transferor company or as a transferee company
- Reconstruction of the target company, including amalgamation, merger or demerger, pursuant to an order of a court or a competent authority

- Arrangement not directly involving the target company as a transferor company or as a transferee company,
- Reconstruction not involving the target company's undertaking, including amalgamation, merger or demerger, pursuant to an order of a court or a competent authority

the stock exchanges where the shares of the target company are listed, in such form as may be specified before the days specified in the Regulations, and thereafter, stock exchange shall provide such information to the public.

REGULATION 11 - EXEMPTIONS BY THE BOARD

The Board may after recording the reasons as specified in the Regulations reasons recorded in writing, may grant a relaxation from strict compliance with any procedural requirement with respect to the Open Offer Process as provided in the Regulations. The target company shall file an application with the Board, supported by a duly sworn affidavit, giving details of the proposed acquisition and the grounds on which the exemption has been sought and also pay a non-refundable fee of INR 50,000, by way of a banker's cheque or demand draft payable in Mumbai in favour of the Board. The order passed by the Board shall be hosted by the Board on its official website.

PROMINENT CASES

Trustee Companies Not Exempted Under Takeover Regulations

Takeover Regulations has provided specific exemptions from making an open offer and/ or disclosure requirements in case of pledge of shares in favour of banks or public financial institutions (“PFI's”) even if, upon invocation of such pledge, the prescribed threshold shareholding percentages and/ or open offer obligations get triggered. Since such exemption is expressed to be limited only to banks and PFIs, an informal guidance was sought by IL&FS Trust Company Limited and IDBI Trusteeship Services Limited from SEBI on the issue whether a trustee acting on behalf of banks and PFIs and in whose favour shares have been pledged as security, would also be exempt from the obligation of making an open offer and/or from the disclosure requirements on invocation of such pledge.

SEBI has opined that there are no express provisions under the Takeover Regulations which exempt “debenture trustees” holding the pledged shares, as custodian or agent for and on behalf of the lenders, from the obligations under the Takeover Regulations. SEBI thus concluded that the exemption granted to the banks and PFI's under the Takeover Regulations cannot be extended to 'debenture trustees' even if such debenture trustee is holding the pledged shares for and on behalf of such exempted banks and PFI's.

Analysis

SEBI's view on the matter could be a hurdle for trustees and custodians who act on behalf of several banks and PFI's as their agents as they will now be bound by the disclosure obligations under the Takeover Regulations and also be required to make an 'open offer' if upon invocation of the pledge, the prescribed threshold is breached. SEBI thus seems to have disregarded the beneficial interest of banks and PFIs on the pledged shares to obligate the trustee to undertake such obligations under the Takeover Regulations.

Exemption under Takeover Regulations is available only after three years of listing

Equity shares of Commercial Engineers and Body Builders Company Ltd. ("CEBBCO") were listed on NSE and BSE on October 18, 2010. The promoters and the promoter group collectively hold 55.81% of the paid-up share capital of CEBBCO. Mr. Ajay Gupta ("AG"), one of the promoters of the Company, intends to sell shares of CEBBCO constituting 17.61% of the paid up share capital to Mr. Kailash Gupta ("KG") another promoter of the Company and also father in law of AG. Since, the proposed transfer will trigger the open offer obligations under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (the "Takeover Regulations"), parties want to avail the benefit of exemption under Regulation 10(1)(a)(ii) of the Takeover Regulations.

CEBBCO had argued that the condition of continuous disclosure of persons as promoters for three years prior to the proposed transaction has been prescribed under Regulation 10(1)(a)(ii) to ensure that only persons holding long term interests in target companies were eligible for the exemption. If such a condition was not prescribed then persons could identify themselves as promoters immediately prior to the transfer and would avail the benefit of the exemption under Regulation 10(1)(a)(ii). In this case AG and KG were promoters of CEBBCO since December 23, 2006 and October 3, 2005, respectively and they clearly held long term interest in the target company. CEBBCO also clarified that it was impossible to mention AG and KG as promoters in its shareholding pattern for three years as the company was listed only two years prior thereto. It was argued that the AG and KG should not be denied the exemption under Regulation 10(1)(a)(ii) of the Takeover Code merely on account of a technical impossibility.

SEBI, however, did not accept the arguments of CEBBCO and vide its interpretative letter dated December 5, 2012 clarified that the exemption under Regulation 10(1)(a)(ii) of the Takeover Code could be availed only if all the compulsory conditions were duly fulfilled. SEBI clarifies that the exemption for inter se transfer of shares amongst promoters can only be availed by persons who are disclosed as promoters in the shareholding pattern of the target company for the last three years even in cases where the target company has not completed three years of listing on a stock exchange.

Analysis

In light of this interpretative letter, it would appear that the earliest the exemption under Regulation 10(1)(a)(ii) of the Takeover Code can be availed by promoters desirous of transferring shares inter-se is after 3 years of listing of the target company. Though SEBI has relied on literal interpretation of Regulation 10(1)(a)(ii) of the Takeover Regulation, such situations may be fit for seeking specific exemption from SEBI under Regulation 11 of the Takeover Code. It may also be noted that in the present set of facts since KG is AG's father in law, the proposed transaction may also be eligible for automatic exemption under Regulation 10(1)(a)(i) of the Takeover Code, being inter se transfer between two 'immediate relatives'. The definition of 'immediate relative' under Regulation 2 (1)(l) of the Takeover Code includes the father of the spouse of a person.

Exemption under Takeover Regulations available to the promoters and not to the nominees of the promoters

Regulation 10(4)(f) of Takeover Regulations provides an exemption from making an open offer under Regulation 3(2) of Takeover Regulations, if –

"in case of acquisition of shares in a target company from a venture capital fund or a foreign venture capital investor registered with the Board, by promoters of the target company pursuant to an agreement between such venture capital fund or foreign venture capital investor and such promoters.",

Shrishti Infrastructure Development Corporation Limited, sought a No-action Letter under SEBI (Informal Guidance) Scheme, 2003 vide letter dated August 02, 2012. Opulent Venture Capital Trust, SEBI registered Venture Capital Fund, invested in the equity shares of the company through its Sivana Scheme. Simultaneously, they entered into an Investment Agreement containing a 'Buy Back Clause' which casted an obligation on Mr. Sujit Kanoria as a promoter of the company to buy back the entire equity shares held by Opulent as on notice date either by himself or through his nominee(s), at a price to be calculated as per the formula prescribed in the Investment Agreement.

Therefore, the clarification was sought that whether the acquisition of shares from Opulent either by Mr. Sujit Kanoria or his nominees will qualify for the exemption from making open offer under Regulation 10(4)(f) of Takeover Regulations, since the acquisition would be pursuant to the Investment Agreement.

Analysis

In the particular case, SEBI clarified that the stated exemption is available in respect of the acquisition by the promoters who are under obligation to acquire under the Investment Agreement and not to the nominees of the promoters. Further, SEBI clarified that the acquirer can acquire only upto maximum permissible non public shareholding limit.

- Abhishek Jain

Ravi Varanasi

At present working as Chief-Business Development of National Stock Exchange of India Ltd, heading Business Development, Membership, SBU Education and SME function of the Exchange. He has been with the Exchange since 1995 and has wide ranging experience in operational, Regulatory and business development roles. He has earlier worked with State Bank of India and Vysya Bank.

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

NSE launched its SME platform, EMERGE, in September 2012 and since then five companies have been listed with an approximate fund raising of Rs.87 crore. NSE has always endeavored to build a credible platform for SMEs which would help them raise risk capital from informed investors who are looking for investing early in promising companies.

We believe EMERGE has an important role to play in facilitating capital raising by SMEs. These are early days yet. But the eco system is slowly but steadily shaping up. We have seen enthusiasm for and understanding of the platform in stakeholders from Entrepreneurs to Intermediaries to Investors.

We have a promising pipeline of companies that are in the process of coming on board and we expect the momentum to sustain and strengthen. We are hopeful that as the overall trends in the capital markets improve, the transparency of EMERGE will attract more Entrepreneurs and Investors.

Where do you see this platform in the next 10 years?

It is a well established fact that the SMEs in every country play a very important role in the economy of that country. Globally, many countries have attempted junior platforms where risk capital can be raised, each having different structures and different levels of success.

In India, an alternative avenue for raising risk capital is very much the need of the time. As investors understand SME as an asset class, we expect increased interest and activity on this platform. With a sustained focus on credibility, EMERGE is poised to be a vibrant market place where growing companies will be able to raise capital for their varied needs. We strongly believe that in the coming decade EMERGE would be the principal source of funding for SMEs in their quest for growth.

How it is beneficial for SMEs in India?

EMERGE is a credible and efficient market place which bring together sophisticated investors and emerging corporates in the country. SMEs are often constrained by limited access to risk capital. Most young companies struggle to get funding to scale up their businesses. They now have an alternate avenue for raising equity for capex, innovation, etc. EMERGE will also provide liquidity/ exit to early risk investors in smaller companies thus acting as a catalyst in building a vibrant venture capital eco system.

Apart from the above there are several other benefits of listing for SMEs. Listing provides high visibility to emerging companies among customers and other stake holders. It will also enable them to catch the attention of domestic and global strategic partners. EMERGE allows unlocking of value which could be effectively used for ESOPS for hiring & retaining quality talent and as currency in mergers and acquisitions.

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

As in case of any new product, the awareness drive will take a few years to sink in across the length and breadth of the country. NSE has always believed in empowering stakeholders through imparting knowledge. SME space is no different and we expect that the knowledge drive which we have initiated would slowly but surely dispel some of the misconceptions of some SMEs about being on a public platform. The effort is also on to build capacity among SMEs to adhere to the requirements of public listing such as periodic filings, corporate governance etc.

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?

Investors who invest in different asset classes need to be aware of the risks associated with investments in such asset classes. SMEs which are still in their growth phase would have a different risk profile compared to larger businesses that are listed on the main Exchange platform. It may therefore be prudent to allow informed investors to undertake such investments. The focus is on information availability to the investors and ability to process the information to take informed investment decisions. The offer document for SME stocks is similar to main board stocks and as such carries all relevant information.

However, there are suggestions for reviewing lot size of trading post listing of the shares on the Exchange platform as a means to improve liquidity in secondary market. Lot size reduction after 6 months to 1 year after listing could be contemplated since sufficient information and track record of the company are in the public domain for investors to take informed decisions to enter or exit the stock of SMEs. **Market**

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

SEBI regulations for the SME Platforms stipulate compulsory market making for a period of three years from listing. This means that there will be a market maker providing two-way quotes on a daily basis, for 75% of the time. Market makers presence facilitates existing investors wanting to exit the stock to find a buy quote and a new investor wanting to enter the stock to find a sell quote.

What is NSE's strategy for the SME platform?

The sustained high growth in Indian economy has opened windows of opportunities to a large number of SME companies across different sectors and geographical locations. However, availability of risk capital for growth is one of the key requirements to enable the deserving SMEs to exploit opportunities and grow exponentially. While India today can boast of a very large banking sector which meets a reasonable level of the debt requirements of the SME sector, the avenues of risk capital for smaller companies are still limited, especially for companies in the new economy sectors which do not have sufficient assets.

NSE is committed to creating a credible and vibrant market place to provide an alternate viable option for the smaller companies to raise risk capital from informed investors looking for opportunities to invest early in promising companies. NSE is continuously engaged in spreading awareness about the platform in the investor communities and creating interest in the platform. NSE has also aligned its admission process to meet the expectations of sophisticated investors to instil confidence and attract them to the platform.

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

The Hon'ble FM, in his budget speech in 2013, had spoken about creating an enabling environment to encourage start-ups to have better access to risk capital. Subsequently, SEBI, announced the regulations for the Institutional Trading Platform in October 2013. NSE, launched EMERGE-ITP in December 2013.

India's demography and strong entrepreneurial presence makes it imperative to establish a regulated platform for channelizing risk capital to start-ups. EMERGE-ITP aims to bring young, innovative, fast growing businesses on the platform and offer them high visibility and opportunity to attract investments from sophisticated investors. On the other hand, there is a growing Angel and Venture Capital Industry providing much needed equity capital to these businesses, but they do not have access to diverse early stage opportunities. Further, as these investments mature, it becomes essential for the initial investors to exit and look for new opportunities, and new investors to step in and fuel the next phase of growth. Emerge-ITP will facilitate churn in the investment portfolios and create a more active market for channelizing funds to start-ups and small companies.

How do you motivate SMEs in India to be part of this concept?

EMERGE-ITP is very different from the Main Board or SME platforms which the capital markets are associated with. The participants are entirely a new breed of companies as well as investors, which are currently far removed from the public capital markets. NSE's priority is to create awareness about the platform amongst the new user base. There is also a need to handhold the small companies, address their concerns and inhibitions and help them prepare to be in public space. NSE is working closely with the start-up ecosystem to create awareness about this platform.

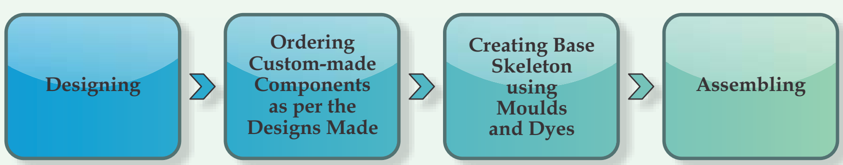
What is your message to the SMEs

Every Entrepreneur strives to convert his / her dreams into a viable business proposition. This requires enormous amount of energy, dedication and focus. However, to build a scalable business which would prosper beyond initial growth phase requires unwavering focus on organizational structure, processes, professional management, transparency and corporate governance. It is critical to strike the right balance between the innovative streak and discipline required to build a lasting business organization.

Opal Luxury Time Products Ltd

Opal Luxury Time Products Ltd. (OPAL) was incorporated in the year 2007. OPAL is headquartered in Pune and has a manufacturing facility in the industrial area of Roorkee, Uttarakhand. OPAL is primarily operated in the market of premium clocks, with in-house expertise in designing complemented by quartz technology. It has a wide presence with the products marketed by a network of 9 distributors, 242 dealers and 91 organised retailers which includes popular brands such as Shoppers Stop, Home Town, etc. The company has also ventured into online sales by way of popular online shopping portals and currently has tie ups with 10 online portals and also has their own shopping portal www.opalclocks.com. OPAL has recently started exporting both its brands, 'Opal' and 'Caliber', to the United States.

Business Operations



Revenue Drivers:

- First-mover advantage, aesthetic designs and consistent product innovation positions OPAL as an established player in the premium wall clock industry in India
- OPAL'S promoters have a long-standing experience in the clock industry, which has enabled them to better understand the consumers' tastes and preferences which, in turn, has helped the company expand its product portfolio
- OPAL is poised to benefit from the changes in consumption dynamics following increased discretionary spending by the Indian middle class on the back of higher disposable income, desire for better standard of living, housing growth and growing penetration of organised retail
- The company is present in the economy (price below Rs. 700) range via Caliber brand and in the premium range (above Rs. 1,500) through Opal brand
- It has an extensive pan-India distribution network - nine distributors (catering to over 207 dealers), 35 direct dealers and 91 shop-in-shops. It plans to market its products through 21 stores of Nilkamal Group and 15 Nesta furniture stores of Century Plywood. It has also ventured into online sales via online shopping portals and has tie-ups with 10 online portals besides its own shopping portal

Key Challenges:

- While OPAL leverages on a decent brand recall, competition from unorganised players is high
- It imports more than 70% of its raw materials (moulds for critical components and movements); its lead time to procure raw materials for any model is over three months which limits its ability to deliver bulk orders at a short notice
- The small size of operations weakens OPAL's bargaining power vis-à-vis big retail players.
- OPAL has high working capital cycle and has high debtor receivable as well as inventory turnover ratio because of import dependency which requires an inventory of three months

STOCK INFO.

Sector	Consumer Discretionary
CMP (₹)	115.00
M.Cap (₹ Cr.)	27.13
Book Value (₹)	66
52 Week High / low	135 / 97.6
Face Value (₹)	10

SHAREHOLDING (%)

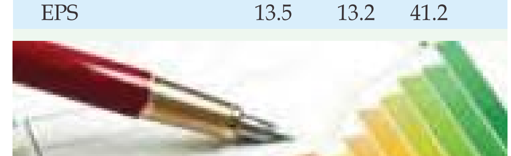
Promoters	25.27
Mutual Funds / UTI	3.96
Book Corporate	42.73
Individual Shareholders	10.03
Other	18.01

RELATIVE VALUATION

Opal's net revenues grew to Rs. 226.91 mn in FY13 at a three-year CAGR of 28% (~32% y-o-y growth in FY13), primarily driven by higher volumes and expansion of the distribution network. EBITDA margin improved from 20.4% in FY11 to 23.4% in FY13 because of lower raw material and marketing expenses. Raw material costs as a percentage of sales declined because of lower imports coupled with increase in realisation rates of brand Opal.

FINANCIALS (₹ in Cr)

Y/E	2013	2012	2011
Sales	22.69	17.22	16.90
EBITDA%	23.4%	27.6%	20.4%
PAT%	14.1%	16.7%	13.3%
ROCE%	30.3%	38.0%	42.3%
RONW%	20.6%	24.3%	31.5%
ROA%	11.4%	11.9%	12.0%
Debtors days	123	153	129
Inventory days	114	128	90
Creditors days	32	44	48
Working cap days	46	35	3
Interest coverage	2.9	2.7	3.1
Debt/Equity	0.5	0.8	1.2
EPS	13.5	13.2	41.2



Mitcon Consultancy & Engineering Services Ltd

Mitcon Consultancy & Engineering Services Ltd. (MITCON) was incorporated in 1982 jointly by ICICI, IDBI, IFCI, SICOM, MIDC, MSSIDC and various banks. Mitcon is headquartered at Pune and has a presence across the country through regional offices at Mumbai, New Delhi, Ahmedabad, Chennai, Bangalore and Nagpur. As of June 30, 2013, Mitcon has commissioned 42 power/ co-generation projects aggregating to 526.70 MW based on biomass, biogas, waste heat & coal and another 35 projects aggregating to 453.70 MW under various stages of implementation. Mitcon is empanelled with Maharashtra Energy Development Agency (MEDA) as an "Energy Planner & Energy Auditor" under the Save Energy Programme of MEDA. It is also accredited by Quality Council of India under the National Accreditation Board for Education and Training scheme (NABET scheme) as EIA consultants.

Services

- Power Plant Consultancy & Engineering Services
- Energy & Carbon Services
- Environment Management & Engineering Services
- Infrastructure Consulting Group
- Banking & Finance
- Securitization & financial Restructuring
- Biotechnology and pharmaceutical Centre

Key Growth Drivers:

- Mitcon has an experience of over three decades, which edges it on the top in terms of the technical know-how, brand value etc. against the other players available in the market
- Mitcon is providing services to various sectors and hence, business risk is diversified to some extent, which helps the company to boost its revenue with the minimum risk
- Mitcon has strong customer portfolio like GSPC Pipavav Power Company Ltd, Ajanta Pharma Ltd, VRL Logistics Ltd, Sterling Biotech Ltd, Adlabs Entertainment Ltd, HPCL Biofuels Ltd and Maharashtra State Police Wireless etc.
- The contribution of the top 10 clients of the consulting business has decreased to 29.6% of total consulting revenues in FY13 compared to 44.6% in FY11. Moreover, no single client contributed to more than 12% of the total revenues in FY13. This shows the client level dependency on the Mitcon's revenue number, which is not significant and hence reducing the operating risk of the company.
- The company's planned expansion in other major cities across the country is expected to (i) open up new growth opportunities, (ii) reduce the risk of geographic concentration and (iii) further widen the client and revenue base.

Key Challenges:

- Competition can affect profitability which could have a material adverse effect on business, financial condition and results of operation
- Providing consultancy services to the energy, infrastructure, banking and securitization sectors, is performed by hired third parties. If such a third party fails to provide services as required for any reason, Mitcon be required to source these services on a delayed basis or at a higher price than anticipated, which could impact contract profitability
- Slowdown in infrastructure spending and muted economic growth can hurt the profitability of the company

STOCK INFO.

Sector	Services Other
CMP (₹)	43.05
M.Cap (₹ Cr.)	52.09
Book Value (₹)	70
52 Week High / low	60 / 37.95
Face Value (₹)	10

SHAREHOLDING (%)

Financial institutions / banks	56.23
Government	6.78
Book Corporate	8.43
Individual Shareholders	8.23
Trust	20.31

RELATIVE VALUATION

MITCON's operating income grew at a CAGR of 27.1% over FY08-12 to Rs. 538 mn led by strong growth across all the four segments – consulting, vocational training, IT training and laboratories. EBITDA grew at a five-year CAGR of 17.1% to Rs. 136 mn in FY13. Over the past five years, MITCON reported healthy RoE of 25.4% on an average and recorded an average PAT margin of 18.4%. Company has no leverage on its balance sheet.

FINANCIALS (₹ in Cr)

Y/E	2013	2012	2011
Sales	46.67	53.84	48.11
EBITDA%	29.0	27.6	31.1
PAT%	19.7	16.5	20.9
ROCE%	23.4	30.7	43.6
RONW%	18.0	21.4	31.2
ROA%	15.8	18.1	25.1
Debtors days	130	89	73
Creditors days	68	82	114
Working cap days	113	54	17
Interest coverage	226.6	148.1	258.4
Debt/Equity	-	-	-
EPS	11.5	11.1	12.3

- Shri Krishna Prasadam Limited engaged in the business of manufacturing, exporting and supplying of gemstones, stone jewelry, rudraksha beads, shivlings, shri yantras, sphatik ganesh, rudraksha pendant, rudraksha mala, etc. in India filed a draft prospectus for a public issue of Rs. 2.16 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 for the business of trading of agricultural products and to meet issue expenses.

- Women's Next Loungeries Limited engaged in the business of designing, manufacturing, branding and marketing of lingerie wear, honeymoon set, intimate wear, etc. 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 for upgradation of unit, repayment of loan, working capital requirements, to meet issue expenses and for general corporate purposes.

- SPS Finquest Limited engaged in the business of advancing loans and investing/trading in securities filed a draft prospectus for a public issue of Rs. 25.08 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, to repay existing high interest cost debt and to meet issue related expenses.

- R&B Denims Limited engaged in the business of manufacturing and sale of quality denim textile filed a draft prospectus for a public issue of Rs. 3.71 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to reduce overall indebtedness of company by partial repayment of the outstanding Term Loan from Bank of India and to meet the issue expenses.

- Madhuban Constructions Limited engaged in the business of development of residential, commercial, retail and other projects; & trading of construction materials such as bricks, sand, murrum etc. filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.

- Shriji Polymers Limited engaged in the business of production of HDPE bottles (Containers) and Polypropylene (PP) Closures (PP-Closures Caps) used by pharmaceuticals packaging industry filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.

- Learning Edge Academy of Professionals Limited engaged in the business of E-learning, educational technology that electronically or technologically supports learning and teaching filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange. The Issue is being advised by Sarthi Capital Advisors Private Limited and is its first issue to be listed on BSE ITP Platform.

- Greenvalue Agrofarms Limited engaged in the business of trading of products produced through nursery activities and including non food crops filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.

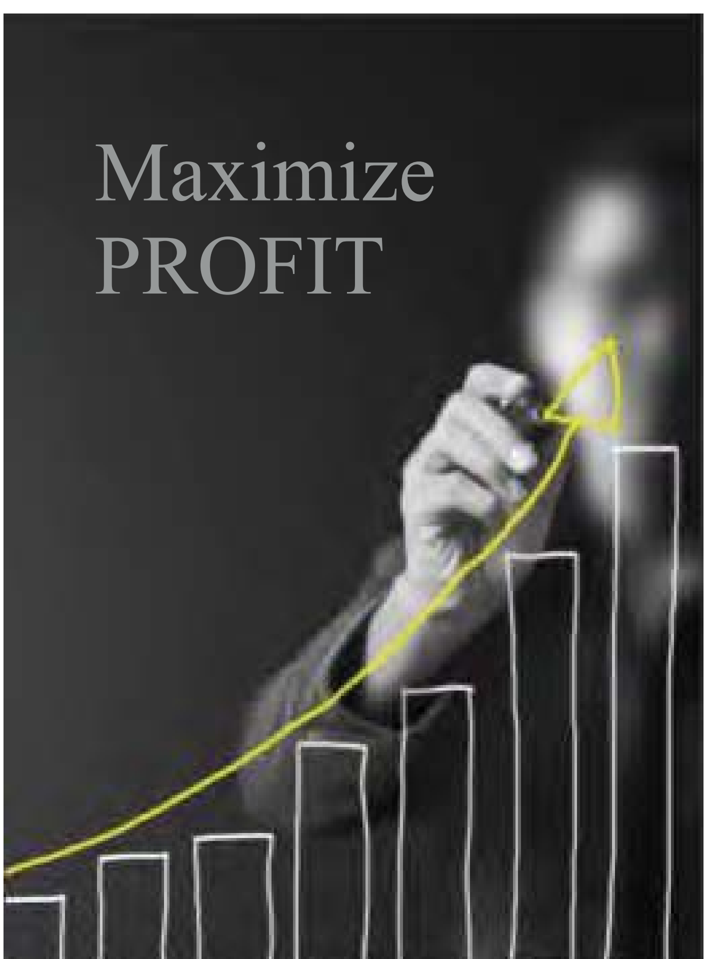
- Dekson Castings Limited engaged in the business of producing aluminum sand castings and gravity die castings filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange. The Issue is being advised by Sarthi Capital Advisors Private Limited and is its second issue to be listed on BSE ITP Platform.
- Sagitarius Advertising Limited engaged as advertising contractors, advertisers, advertising agents filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.
- Currently 54 companies are listed on SME platforms of BSE and NSE and 1 company on BSE ITP Platform.

FORTH COMING IPOS

Name of the Company	Exchange	Issue Size (Rs. crore)	Issue Price (Rs. Per Share)
R&B Denims	BSE	3.71	10
SPS Finquest	BSE	25.08	75
Women's Next Loungeries	BSE	6.50	65
Shri Krishna Prasadam	BSE	2.16	10
Anisha Impex	BSE	6.50	10
Oasis Tradelink	BSE	6.00	30
Ekdant India	BSE	4.03	10
Oceanaa Biotek Industries	BSE	2.10	10
Anubhav Infrastructure	BSE	9.00	15
Prabhat Telecoms (India)	BSE	26.60	80

6 Companies that have been listed on SME Exchanges:

Company Name	Date of Issue Open	Date of Issue Close	Subscription		
			Retail Investors	Non-Retail Investors	Total
B C Power Controls	24th Feb 14	28th Feb 14	0.23	2.21	1.21
Sanco Industries	24th Feb 14	26th Feb 14	1.31	1.66	1.46
SI VI Shipping Corporation	18th Feb 14	21th Feb 14	1.09	1.93	1.48
Unishire Urban Infra	10th Feb 14	12th Feb 14	2.22	2.22	2.16
Polymac Thermoformers	6th Feb 14	12th Feb 14	0.86	0.89	1.00
Agrimony Commodities	31st Jan 14	4th Feb 14	1.18	1.19	1.18



MSME Ministry launches virtual network to link clusters

The MSME Ministry launched a virtual network wherein different clusters of micro, small and medium enterprises (MSMEs) can connect on a common platform and share information to help them expand their businesses.

"This virtual network of clusters will provide a networking platform for all stakeholders to connect with micro, small and medium enterprises," MSME Secretary Madhav Lal said at the launch of the virtual cluster initiative here.

"The MSMEs, academic institutions, research institutions, NGOs and professionals can become members and relate to each other. We want to generally invigorate the entire environment for small enterprises. We hope the virtual cluster will keep growing," he added.

PM Manmohan Singh seeks innovative solutions from industry groups for MSMEs

Prime Minister Manmohan Singh today asked industry chambers and associations to come up with innovative solutions to address problems of the MSME sector and provide inputs for policy formulation.

Singh also emphasised the need to promote exports from micro, small and medium enterprises (MSMEs).

The MSME sector is of vital importance to the national economy, he said, adding the government's initiatives can be successful only with the participation of the private sector and civil society.

MSME Ministry for tax relief measures in FTP for MSMEs

The MSME Ministry has suggested incorporation of tax relief measures in the Foreign Trade Policy 2014-19 to boost exports of micro, small and medium sector enterprises.

The Commerce Ministry has initiated the process for formulating the foreign trade policy (FTP) for 2014-19 which will be unveiled by the new government. The current policy provided fiscal incentives including interest subsidy and other duty neutralisation schemes.

The new policy will include a long and medium term strategy to enhance trade competitiveness and overall growth of India's foreign commerce.

SIDBI and Bahrain Development Bank seal deal to help SME

The government-run Small Industries Development Bank of India (SIDBI) Wednesday signed an agreement with Bahrain

Development Bank (BDB) to assist small businesses in establishing operations.

Bahrain's Finance Minister Ahmed bin Mohamed on behalf of Bahrain Development Bank and SIDBI deputy managing director N.K. Maini signed a Memorandum of Understanding (MoU) here in the presence of Bahrain's King Hamad bin Isa Al-Khalifa.

As per the agreement, SIDBI would provide technical assistance and facilitate activities of BDB Group in the areas of risk management and credit appraisal. It will also provide training to BDB Group officials in SME credit risk appraisal and related areas, in framing a suitable monitoring policy and NPA management system and in exploring tie up of Indian micro, small and medium enterprises with SMEs in Bahrain for mutual benefit.

Digital storage major Western Digital targetting UP SMEs

Global digital storage major Western Digital (WD) is targetting Small and Medium Enterprises (SME) in Uttar Pradesh. The company produces hard disk drives and solid state drives for consumers, SMEs and enterprises.

The company is ramping up its presence in the state through a wider distribution network and retailers, including shop-in-shops.

"UP has a strong service sector and houses some of the best educational institutions in India. Cities like Lucknow, Kanpur and Varanasi boast of sizeable number of students, which translates in to a high adoption level of storage products," WD senior sales director Khwaja Saifuddin Ahmad said.

Service-sector MSMEs provide maximum job opportunities – CRISIL Report

CRISIL has analysed the employee strength in 3,500 micro, small, and medium enterprises (MSMEs) in the manufacturing and service sectors in 2012-13 (refers to the financial year, April 1 to March 31). The study was conducted to compare their individual employment generation potential and the composition of permanent versus contractual workforce. The study indicates that employment-intensity in service-sector MSMEs is more than double that in the manufacturing sector.

On average, service-sector enterprises employ 168 people per unit, as compared to 80 people per manufacturing unit. However, the ratio of permanent and contractual employees among MSMEs in both sectors is almost the same, at Approximately 2:1.

Healthy growth by MSMEs in major industrial sectors – 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 to 2012-13 (financial year April 1 to March 31). The analysis reveals the average sales for each enterprise of these.

CRISIL-rated MSMEs grew to Rs 2,505.30 lakh in 2012-13 from Rs 1,668.80 lakh in 2010-11, at a compound annual growth rate (CAGR) of 22.53 per cent.

The analysis further revealed enterprises in the agro- and food-processing sectors registered an impressive growth of 40 per cent - far outpacing the 22.53 per cent growth rate recorded by CRISIL-rated MSMEs across various sectors in India. The other industrial sectors in the CRISIL sample that recorded high growth are electrical components and equipment (26 per cent), chemicals (23 per cent) and construction (20 per cent), followed by textiles (19 per cent) and auto-ancillary and engineering/capital goods (18 per cent each).

Businesses need to be valued for a number of reasons such as their purchase and sale, obtaining a listing, inheritance tax and capital gains tax computations. Generally, valuation difficulties are restricted to unlisted companies because listed companies have a quoted share price. However, even listed companies can present valuation challenges for example when one is trying to predict the effect of a takeover on the share price.

In pure sense, business valuation refers to estimation of business value.

> *Valuation is just to estimate,*
> **What (Cash Flow) + When (Time Period) + How (Risk), we receive in future out of a subject property**

The economic returns or the assets involved frames the value of specific business stream and this value can be generally more than the value of individual asset valued as a standalone basis. The value of Business enterprise containing more than one stream is generally more than just a sum total of values of every such stream. So, the business value is affected by tangible as well as non-tangible factors. The value of these intangible factors is generated by collective usage of assets and joint operations of several business streams.

While valuing a company there are various factors that need to be considered such as promoter's capability, integrity, background, experience, etc. and also include other parameters such as business segment & its placement in the value chain, balance sheet, orders completed till date, orders in hand, future scalability of its operations, demand/supply scenario in the industry and the stage of development of the enterprise. While valuing a company other than the factors mentioned above one must understand the nature of industry and current market and will have to make such other adjustments unique to the subject enterprise based on informed and experienced judgments.

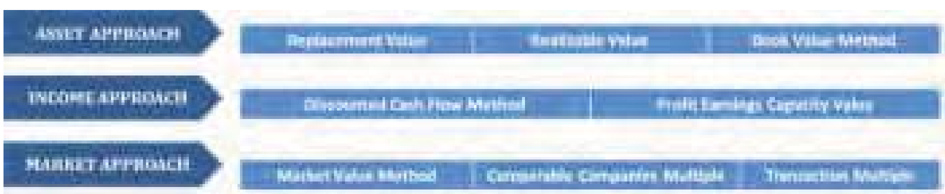
Historically, most of a company's value was in tangible assets such as property, stock, machinery or land. However in today's scenario, if one wants to create value for its business then the company has to focus on building of brand & customer relationships. The increasing recognition of the value of intangibles came with the continuous increase in the gap between companies' book values and their stock market valuations, these brand owning companies are earning huge returns on their capital and are growing faster, unencumbered by factories and masses of manual workers. Those are the things that the stock market rewards with high price/earnings ratios. Intangible business value is a highly judgmental aspect of business valuation and requires conscientious attention.

Valuation Process

Valuation of business is not a precise art and the conclusions arrived at are subjective and dependent on the exercise of individual judgment. The objective of the valuation process is to make reasonable judgment of the value of the business and ass ets of the company. The best reasonable judgment of the value can be referred as the "Fair Value".

The Valuation Process starts with an understanding of the purpose for the valuation and the standard of the valuation to use. Then there is an analysis of the economy, th e industry, and the company. At that point, the various valuation methodologies are considered to determine the most appropriate approaches given the circumstances and a conclusion is reached.

Valuation Methodologies



Choosing the right model to use in valuation is as critical to arriving at a reasonable value as understanding how to use the model. In broadest possible terms, there are three approaches to value any asset, business or business interest:

Asset Based Approach

This valuation approach assumes that the Fair Value is determinant of the Net Assets held up in the business. Asset Approach is particularly relevant for the valuation of asset heavy businesses.

The Asset Approach is broadly considered to yield the minimum benchmark of value for an operating enterprise as it computes the value of business on the basis of its assets. Under Asset Approach, Fair Value could be arrived at through various methods and the following are the three commonly used ones depending on the exact facts such as start-up company, liquidation situation and the like:

- Book Value Method – Assets & Liabilities are valued at book values
- Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair values
- Liquidation Value of the business represents the net cash flows from liquidating the Company's assets in a quick and orderly sale and paying off its liabilities

Income Approach

Income Approach determines the value of a business based on its ability to generate desired economic benefit for the capital providers. The Income Approach involves valuation methods that convert future anticipated economic benefits into a single present value. The key objective of this approach is computation of business value as a function of the future economic benefit.

As Income Approach involves discounting of future forecasted earnings to the stakeholders discounted at relevant cost of capital to arrive at present value, it reflects the true economic rational of the business. In general, Income Approach is a widely accepted valuation tool which captures future growth potential and forward earnings, and hence can be applied to wide array of businesses where true value may not be reflected based on the historical accounts. Thus Income Approach is significant for the valuation of a company

Under Income Approach, Fair Value could be arrived at through the following alternative methods

- DCF Method – The value to equity holders or firm is determined by discounting a stream of cash flows
- PECV Method – The value of the business is arrived at by capitalizing its future maintainable profits by an appropriate PE Ratio

Market Approach

The Market Approach technique is based on the value of the Company on the basis of Company's shares trading on a recognized stock exchange, or comparing the Company's multiple with those of its Peers. The methods are as under;

- **Comparable Company's Multiple –** Using multiples derived from valuations of comparable listed company
- **Transaction Multiple –** On the basis of similar deals matured in the market
- **Market Value Method –** On the basis of share prices of a company quoted on the stock exchange

Irrespective of approach being used, the appraiser has to apply his mind in choosing applicable premise of value, standard of value and based on these selecting the techniques to apply so as to serve the purpose of valuation.

Concluding Remarks

While valuing a business is not an exact science, it is not a total mystery. A realistic business valuation requires more than merely looking at past years' financial statement. Banking a business's value solely on current operating results is risky business to say the least. A valuation requires a thorough analysis of several years of the business operation and an opinion about the future outlook of the industry, the economy and how the subject business will compete.

The quality of any value analysis or value appraising is a function of the accuracy of the data and assumptions that form the basis for any conclusion reached. Estimates of a business' value by various experts can vary significantly, if the fundamental assumptions are applied differently. If available, it is always better to use actual data or historical results than to rely on assumptions.

What's in Press?

Google to focus on SMEs in India

The world's most-used web search engine Google plans to help half a million Small and Medium Enterprises (SMEs) in India to go online by the end of next year.

With India set to become second largest internet market in the world overtaking the US by 2015, Google sees India as a key market and is focusing on SMEs, which contribute significantly to its global revenues.

Allan Thygesen, Vice President and Global Head of SMEs for Google Inc, told the media here that the firm has already launched an initiative to give SMEs a cost-effective way to reach out to customers.

With over 200 million Internet users, India is on its way to become the second largest Internet market in the world after China.

K. Suryanarayana, Head of SMEs, Google India, said the surge in affordable smartphone was bringing more users online. The e-commerce industry, which was roughly at USD 10 billion in 2013 is projected to touch USD 80-100 billion by 2020.

Out of the 50 million SMEs in India, only five percent have online presence.

"Indian SMEs have been slower to adopt online strategies because of lack of time and understanding of the Internet medium and self service model," he said.

Google helps SMEs to get started online by creating a website, a social page, a mobile ready site and also bring them on Google

QUOTES

Manmohan Singh
Prime Minister of India

"I would urge industry associations and chambers of commerce in India to come forward with innovative solutions to address constraints that still hinder the development of the MSME sector and provide constructive inputs for policy formulation and implementation"

Madhav Lal
MSME Secretary

"We are trying to promote MSMEs and remove difficulties they face so that exports from MSMEs can be enhanced. There are a number of suggestions... connected with duty structures, inverted duties etc."

"Odisha has great MSME feasibility to provide raw materials to the large scale industries. If the major corporate houses cooperate, Odisha can have significant development in the MSME sector"

Damodar Rout
Odisha State MSME Minister

"SMEs must understand the importance of branding. Now, branding is not only restricted to advertising for television, print media or radio. SMEs must promote its products through social media which is very effective.

Prahlad Kakkar
Advertisement Guru

"It's a key growth initiative in India, which is the fastest growing market for us among top 20 markets," he said.
Google has already made significant investment in India in terms of increasing the headcount and developing new products to drive the growth in SMEs sector. It is also offering services in English and nine regional languages in India.

Google has 1,200 partners across India to help SMEs manage their businesses online. In the last two years, it enabled 300,000 SMEs to go online. Its premier partners cover 65 cities and this number is expected to go up to 100 this year.

search, Google maps and on other medium like the YouTube. The SMEs may also track their efforts through Google analytics.

Google has designed products like AdWords Express, that makes it easy for SMEs to run advertising campaigns online.

Source: SME Times

SME Market Statistics

Sl No	Company	Closing#	%Returns*	52 Week High	52 Week Low
1	Agrimony Commodities	10.40	4.00	15.75	8.6
2	Alacrity Securities	7.40	-50.67	13.25	6.1
3	Amrapali Capital	40.05	-59.95	103	40
4	Anshus Clothing	5.30	-80.37	18.5	4.8
5	Ashapura Intimates	120.90	202.25	121	46.4
6	Ace Tours	27.00	68.75	47.25	19.5
7	BCB finance	25.30	1.20	25.45	25.05
8	Bothra Metals	27.00	8.00	34.2	22.6
9	Bronze Infra	14.30	-4.67	17.75	5.8
10	Captain Polyplast	42.50	41.67	46	33
11	Channel Nine	236.35	845.40	236.35	26.25
12	Chemtech	14.95	-0.33	15.5	14.25
13	Comfort Commotrade	26.75	167.50	45.95	23
14	Eco Friendly	499.00	1896.00	500	35.85
15	eDynamics Solutions	98.85	295.40	98.85	25.4
16	Esteem Bio	436.15	1644.60	436.5	44.95
17	GCM Securities	330.00	1550.00	341.2	65
18	GCM Commodity	10.50	-47.50	21.25	7.55
19	HPC Biosciences	461.00	1217.14	461	37.25
20	India Finsec	13.55	35.50	19.4	9.55
21	Jointeca Education	14.75	-1.67	16	10.95
22	Jupiter Infomedia	28.80	44.00	29.5	23.5
23	Kavita Fabrics	40.50	1.25	45.25	33.6
24	Kushal Tradelink	34.50	-1.43	49	33.25
25	Lakhotia Polymers	35.90	2.57	36.6	33.85
26	Looks Health	160.75	301.88	437	160.5
27	Max Alert	123.00	515.00	125	90
28	Money Masters	12.65	-15.67	19.65	12.65
29	Newever	29.70	197.00	36.85	12.2
30	Onesource Techmedia	7.00	-50.00	13	3.95
31	Polymac Thermoformers	35.50	1.43	37	34.75
32	RCI Industries	32.00	6.67	41	23.1
33	RCL Retail	40.90	309.00	49.85	7.55
34	RJ Biotech	34.70	73.50	48.75	21
35	Samruddhi Realty	49.95	316.25	49.95	10.62
36	Sangam Advisors	22.50	2.27	25.85	19
37	Satkar Finlease	41.25	129.17	50.75	19.9
38	SI VI Shipping	26.10	4.40	26.1	26.1
39	Silverpoint Infratech	7.10	-52.67	14.8	5.7
40	SRG Housing	44.00	120.00	110	21
41	SRG Securities Finance	20.00	0.00	25.05	20
42	Stellar Capital	9.35	-53.25	21.1	9.35
43	Subhtex	19.70	97.00	25.65	12
44	Sunstar Realty	149.70	648.50	170.65	21.2
45	Suyog Telematics	25.00	0.00	26.9	24.5
46	Tentiwal Wires	7.75	-40.38	13.5	7.75
47	Tiger Logistics	68.00	3.03	81.00	57.00
48	Unishire	10.85	8.50	12.05	9.45
49	VCU Data	25.00	0.00	52.20	23.10
50	VKJ Infra	45.25	81.00	58.90	15.55
51	Mitcon Consultancy	43.05	-29.43	60	37.95
52	Opal Luxury	115.00	-11.54	135	97.6
53	Thejo Engineering	200.00	-50.25	405	199
54	Veto Switch Gear	56.45	12.90	65.5	50.25

**Absolute returns since IPO. # Closing prices as on 10th March, 2014 *Source: BSE India Limited*

	Closing#	%Returns YTD
BSE SME IPO	653.04	373.97%
TSE MOTHERS	865.51	108.54%
CHINEXT PRICE INDEX	1,407.07	99.49%
FTSE AIM All Share Index	896.82	25.25%
TSX Venture Composite	1043.01	-15.88%
Hong Kong GEM Index	576.34	51.07%

 # Closing Values as on 10th March, 2014

MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	RCI Industries & Technologies	eDynamics Solutions	RCL Retail	SRG Housing	Eco-friendly	Sunstar Realty	Polymac Thermoformers
A. Valuation / Market Cap	(₹ Crore)									
Pre Issue Net Worth	20.82	16.34	11.64	25.63	8.55	5.60	4.90	8.606	5.54	3.05
Issue Size	12.21	7.52	5.00	11.52	15.60	5.80	7.00	7.515	10.62	7.70
Market Capitalization*	49	28	32	34	214	50	35	494	353	16
B. Price Pattern	(₹ per Share)									
Issue Price	25.00	66.00	20.00	40.00	25.00	10.00	20.00	25.00	20.00	35.00
CMP (Face Value Rs. 10)*	27.00	68.00	34.70	32.00	98.85	40.90	44.00	499.00	149.70	35.50

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	SI VI Shipping	Jupiter Info	Ace Tours Worldwide	Newever Trade	Unishire Urban Infra	Captain Polyplast
A. Valuation / Market Cap	(₹ Crore)									
Pre Issue Net Worth	5.56	7.10	4.39	4.80	3.09	2.00	8.71	17.53	5.46	7.36
Issue Size	11.67	8.00	2.60	15.75	6.86	4.10	8.00	6.30	6.43	5.94
Market Capitalization*	366	113	42	735	15	10	34	71	26	31
B. Price Pattern	(₹ per Share)									
Issue Price	25.00	20.00	12.00	35.00	25.00	20.00	16.00	10.00	10.00	30.00
CMP (Face Value Rs. 10)*	236.35	123.00	49.95	461.00	26.10	28.80	27.00	29.70	10.85	42.50

Particulars	Esteem Bio	Agrimony Commodities	VKJ Infradevelopers	Subh Tex	Ashapura Intimates	Comfort Commotrade	Veto Switch Gear	Thejo Engineerin g	Mitcon Consultancy	Opal Luxury
A. Valuation / Market Cap	(₹ Crore)									
Pre Issue Net Worth	8.56	1.75	5.40	16.43	10.98	4.43	32.70	25.8	54.42	11.82
Issue Size	11.25	3.02	12.75	3.50	21.00	6.00	25.00	19.00	25.01	12.00
Market Capitalization*	650	11	80	21	235	26	109	34	54	39
B. Price Pattern	(₹ per Share)									
Issue Price	25.00	10.00	15.00	10.00	40.00	10.00	50.00	402.00	61.00	120.00
CMP (Face Value Rs. 10)*	436.15	10.40	45.25	19.70	120.90	26.75	56.45	200.00	43.05	115.00

*Closing prices as on 10th March, 2014
* Source: BSE India Limited

UPCOMING EVENTS

Name of Event	Place	Date	Organizer
Annual Flagship Activity - Madhya Pradesh Industry & SME Summit	Indore	26 March 2014	SME Chamber of India
Bhavnagar Industry & SME Summit	Bhavnagar	March 2014	SME Chamber of India
SME Business Club Meet	Mumbai	March 2014	SME Chamber of India
Surat Industry & SME Summit	Surat	April 2014	SME Chamber of India
SME Finance & Investment Summit	Mumbai	April 2014	SME Chamber of India
Roundtable on Govt Procurement Policy – Advantages for SMEs	Mumbai	May 2014	SME Chamber of India

A Presentation on Institutional Trading Platform and Developments on REITs in India was organized by Sarthi in association with BSE at New Delhi on February 21, 2014.

Mr. Deepak Sharmaa,
Group MD, Sarthi -

featured on the cover story of SME World magazine, March 2014 edition

SARTHI
Bridging the Gap

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