

Edition - April - 2014

# S-CAP

SME CAPITAL MARKET WATCH



## Glimpse of Companies Act 2013

## In the Classroom CROWDFUNDING



SARTHI

An initiative by :

SARTHI CAPITAL ADVISORS PRIVATE LIMITED  
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# PREFACE

New financial year begins, with new hopes. Hope on change in the government, new reforms, better growth, lower interest rates, revival of capital markets, stable currency and many more. Whether hopes become reality or not, only time has to tell. Sometimes it does happen that you win all the league matches and loose in the finals, this is what happened with our cricket team, loosing in T20 world cup final.

New financial year began with RBI policy, no change on its stance on interest rate but still close watch on inflation numbers. Equity markets have been bubbling with FII money pouring in, better GDP forecast for India by IMF. The equity market index touched new highs. Rupee appreciated and has been stable, with CAD reduction and FII inflow and ofcourse due to the tamed lesser demand for yellow metal.

More changes on Company's Law, as the New Companies Act 2013 is applicable from April 01, 2014. Related party transactions, more compliance for private limited companies, share application money, director's report, postal ballot even for unlisted companies and maintenance of company records electronically are the some key changes in the new Act.

In this issue of S-Cap, we have covered the key changes in the Companies Act alongwith a note on the concept of Crowd Funding for smaller businesses. We look forward to your valuable views and suggestions to help us improve the content of S-Cap to make it more informative.

With a thought, "Opportunities are always more than Problems".

All the best!

**Deepak Sharmaa**  
Group Managing Director

## A FACILITATIVE PLATFORM FOR CREATING A VIBRANT ENTREPRENEURIAL ECO SYSTEM IN INDIA

### SALIENT FEATURES

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



## BRIDGING THE GAP BETWEEN ENTREPRENEURS AND ANGELS

### A ONE STOP COMPREHENSIVE SOLUTION TO SME LISTING

## Smelisting.net

Knowledge Portal



### SALIENT FEATURES

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

& many more...



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## Glimpse of Companies Act, 2013

The Ministry of Corporate Affairs (MCA) has notified 283 sections out of 470 and rules relevant for some of these sections. While it is indeed a positive step forward by the MCA in implementing the reformatory new company law, it also creates some significant challenges for the India Inc. and the professionals to adopt the new requirements in such a short time.

The New Companies Act, 2013 is expected to bring more transparency in corporate governance, while allowing flexibility to companies in exceptional situations. Replacing the 58-year-old legislation, the new law has stricter norms for independent directors, auditors, key managerial persons and standards of conduct. All the notified sections of the new Companies Act, 2013 are either already effective or will be effective from April 1, 2014.

### SOME KEY POINTS TO BE NOTED:

- **Immediate Change in the Letterhead**, bills or other official communications, as if full name, address of its registered office, Corporate Identity Number (21 digit number allotted by Government), Telephone number, fax number, Email id, website address if any. In case of non-compliance, there is a penalty of minimum of Rs 1000/- per day and maximum of Rs 1 Lac on the Company and Officer in Default.
- **Financial year**- Under the new Act, all companies have to follow a uniform Financial Year i.e. from 1st April to 31st March. Those companies which follow a different financial year have to align their accounting year to 1st April to 31st March within 2 years.
- **One Person Company (OPC)**: It's a Private Company having only one Member and at least One Director. No compulsion to hold AGM. Conversion of existing private Companies with paid-up capital up to Rs 50 Lacs and turnover up to Rs 2 Crores into OPC is permitted.
- **Small Company** means a company (other than a public company) whose paid-up capital does not exceed Rs 5 million (or such other higher amount as may be prescribed, not exceeding Rs 50 million) or whose turnover does not exceed Rs 20 million (or such other higher amount as may be prescribed, not exceeding Rs 200 million) as per last profit and loss account. Small Company cannot be a holding or a subsidiary company. The 2013 Act provides exemptions to Small Companies primarily from certain requirements relating to board meeting, presentation of cash flow statement and certain merger process.
- **Articles of Association** - In the next General Meeting, it is desirable to adopt Table F as standard set of Articles of Association of the Company with relevant changes to suite

the requirements of the company. Further, every copy of Memorandum and Articles issued to members should contain a copy of all resolutions / agreements that are required to be filed with the Registrar.

- **Private Limited Companies** need to comply with the provisions of Private Placement for acceptance of security application money or allotment of securities.
- **Acceptance of Public Deposits**: The 2013 Act provides more stringent requirements to enable the company to accept deposits from public. Section 74 (1) requires companies to repay the deposits (including interest thereon) accepted under the 1956 Act within one year from the commencement of this section.
- **Related Party Transactions**:
  - ★ With respect to related parties in relation to the Company, the coverage of related parties rationalized to include only Directors and Key Managerial Personnel of the Company and its holding Company, and not its subsidiary and associate companies. Further, senior management personnel are no longer covered as related parties. Further definition of relative changed to cover fewer relationships.
  - ★ In relation to the approval of the Board for related party transactions- management need to provide basis of pricing and commercial terms, as well as factors considering in determining the price and other related aspects considered irrelevant by them. This will compel management to maintain details and rationale in relation to determining the pricing and other terms of every transaction in order to demonstrate whether prices are at arm's length.
  - ★ However, the new Act has exempted related party transactions which are in ordinary course of business and are at arm's length. All related party transactions need to be approved by Audit Committee.
  - ★ In addition to the above, the limits for approaching the shareholders to seek an approval for related party transaction have been revised upwards such that the shareholder approval is a higher bar.
  - ★ No relief has been provided in the final rules for transactions between fellow subsidiaries and transactions with a joint venture, where all the shareholders would be precluded from voting on the transactions.
  - ★ **Inter- Corporate Loans and Investments**: Section 185 of the Act, amongst other matters states that no company shall, directly or indirectly, advance any loan to any other person in whom the Director is interested, or give any guarantee or provide any security in connection with a loan taken by any other person in whom the director is interested. The expression 'any other person in whom the director is interested' could potentially cover amongst others, a subsidiary company. The final Rules exempts, loans made by, guarantees given or security provided by a holding company to its wholly owned subsidiaries, from the requirements of section 185. Further, guarantee given or provided by a holding company to a bank or financial

institution for the purpose of loan taken by a subsidiary is also exempt. These loans should, however, be utilized by the subsidiary company for its principal business activities. The final Rules exempt a company's investment in a wholly owned subsidiary, loan or guarantee given or security provided to its wholly owned subsidiary company or a joint venture company, from calculating the limits prescribed under Section 186.

- **Appointment of Statutory Auditors** - Every Listed Company can appoint an individual auditor for 5 years and a firm of auditors for 10 years. This period of 5 / 10 years commences from the date of their appointment. An auditor/audit firm should mandatorily rotate at the expiry of the term and can get appointed only after a cooling off period of five years. The New Companies Act provides for a transition period of three years, from April 01, 2014, to comply with the mandatory rotation requirement.

- **Appointment of Internal Auditors:**

The Rules require all listed companies to appoint an internal auditor. In addition, unlisted public companies were also required to appoint an internal auditor if certain criteria related to share capital, turnover and outstanding borrowings were achieved. The Rules now also require private limited companies to appoint internal auditors based on the turnover and borrowings criteria. Refer Table 1 and 2 for the criteria's for appointment of internal auditors in private limited and unlisted public

Table 1: Appointment of Internal Auditor for Private Companies	
Criteria	Final Rules
Turnover; or	≥ INR 200 crore
Outstanding loans or borrowings from banks or public financial at any point of time during the preceding financial year	≥ INR 100 crore

Table 2: Appointment of Internal Auditor in Unlisted Public Companies	
Criteria	Final Results
Paid up share capital; or	≥ INR 50 crore
Turnover; or	≥ INR 200 crore
Outstanding loans or borrowings from banks or public financial at any point of time during the preceding financial year	≥ INR 100 crore
Outstanding deposits at any point of time during the preceding financial year	≥ INR 25 crore

- **Woman Director:** Every Listed Company/Public Company with paid up capital of Rs 100 Crores or more/ Public Company with turnover of Rs 300 Crores or more shall have at least one Woman Director.
- **Resident Director:** Every Company must have a director who stayed in India for a total period of 182 days or more in previous calendar year. For existing companies, compliance to be made before March 31, 2015.
- **Independent Director** : companies will have to be extra careful of the Independent Directors they choose. Each Independent Director needs to issue a certificate of his independence annually. Companies will also have to implement succession planning for this category, as they are required to be rotated after 10 years of overall service on the board. Further, all the companies need to

implement code of conduct for Independent Directors. Refer Table 3 for the threshold limits for appointment of independent directors.

- **Board Committees** : Every listed company or such prescribed class of companies needs to constitute Audit Committee and Nomination & Remuneration Committee. Refer Table 3 for the criteria of constitution of committees

Table 3: Criteria for appointment of Independent Directors, Audit Committee and Nomination & Remuneration Committee	
Criteria	Final Results
Paid up capital; or	≥ INR 10 crore
Turnover; or	≥ INR 100 crore
Aggregate outstanding loans , debentures, deposits	> INR 50 crore

- **Corporate Social Responsibility:** While there is a mandatory provision on spending for CSR, companies can explain if they want to digress from the norm. From April 1, 2014, Companies with a net worth of more than Rs 500 crore or revenue of more than Rs 1,000 crore or net profit of more than Rs 5 crore will have to mandatorily spend two per cent of their average net profit over the three preceding years on CSR activities.

#### Other Changes

- Need to file return with ROC on changes in the top ten shareholders of the Company.
- Companies need to file specified Board Resolutions with ROC which includes for borrowing money, to make investments, to grant loan, to approve financial statement and Board Report, appointment of key managerial personnel, etc.
- In addition to the various other conditions, the final Rules additionally prescribe that companies would be prohibited from issuing any shares with differential voting rights, if they have defaulted on repayment of loans from banks and public financial institutions or interest thereon, payment of dividend on preference shares, payment of statutory dues for employees, or in depositing moneys into the Investor Education and Protection Fund. Since there is no reference period for such default, it appears that any default, even if subsequently rectified, would preclude a company from issuing such shares.
- E-voting is now made mandatory for listed companies and other companies having not less than 1000 shareholders.
- The Rules prescribe additional matters which shall not be considered in a board meeting through video conferencing or other audio visual means like the approval of the prospectus, the Audit Committee Meetings for consideration of accounts; and the approval of the matter relating to amalgamation, merger, demerger, acquisition and takeover.
- Any person making false statement knowing to be false or omitting to state any material fact knowing to be material in any return, report, certificate, financial statement, prospectus, statement or any other document required under Companies Act, 2013 would be liable to action u/s 447 for fraud.

- Nikita Chirania



## New Norms for Listed Companies Companies Act 2013

The Companies Act, 2013 is definitely a milestone in the history of Corporate India. The Act has a significant implication on the Corporate Governance & enhanced disclosures. An attempt has been made for see through transparent working ethics by implementation of broad framework through periodic reporting and disclosures. The Act is an attempt to meet the changing environment and is progressive and futuristic duly envisaging the development in Indian corporate regulatory standard.

Compliance of these rules forms a very integral part of ethical working culture. The Act is a simplified legislation with ease to corporate restructuring and arrangements. On the other hand, the Act has imposed greater responsibilities with regards to operations on the management of the company. Various new provisions have been introduced which has a far reaching impact on the working of the

company but needs to be mandatorily implied for better Corporate Governance. For building a better horizon for Indian Corporate culture it is necessary to implement the rules and notifications and thus abide by the act in true letter and spirit.

The Act is simple and clear as to its intention and purpose, the Act is divided in to 470 Clauses comprising of 29 Chapters and 7 Schedules. Even the Listing agreement is in the process of change from October 1, 2014 to be in line with the new Companies Act, 2013. The Companies Act is Rule based Legislation, as most of the clauses are notified in the form of Rules. Several new concepts are introduced as well as the old provisions are modified and few of the concepts are now out of the purview of the act, following are the important provisions applicable to Listed Company:

### VITAL PROVISIONS AFFECTING LISTED COMPANIES:

Sr. No.	PROVISIONS	SECTIONS
1	Definition - Listed Company	2(52)
2	Report on Annual General Meeting	121
3	Statement in Board Report on the formal evaluation of Board & Individual Director	134(3)(P)
4	Directors Responsibility Statement	134(3)(C )
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**Definition: Sec 2(52)**

*“Listed Company means a Company which has any of its securities listed on any recognized stock exchange”*

**REPORT ON ANNUAL GENERAL MEETING : SEC 121**

Listed Companies are required to file with the ROC a report on each annual general meeting including the confirmation to the effect that the meeting was convened, held and conducted as per the provisions of this Act and the rules made thereunder.

As per the notified rules, the copy of the report prepared pursuant to the provisions of sec 121(1) shall be filed with the Registrar in Form No. MGT.15 within 30 days of the conclusion of the annual general meeting.

The report shall contain fair and correct summary of the proceedings of the meeting and shall include the day, date, venue of the meeting, confirmation with regards to appointment of Chairman of the meeting, number of members attending the meeting, quorum of the meeting, compliances with respect to calling and convening the meeting, business transacted at the meeting and the result thereof, particulars with respect to any adjournment, postponement of meeting and change in venue

**STATEMENT IN BOARD REPORT ON THE FORMAL EVALUATION OF BOARDS AND INDIVIDUAL DIRECTORS : SEC 134(3)(P)**

Every Listed Company and every other public company having paid up share capital of ₹ 25 crore or more calculated at the end of the preceding financial year shall include, in the report by its Board of directors, a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors.

**DIRECTORS RESPONSIBILITY STATEMENT: SEC 134(3)(C)**

Every Listed Company shall state in the Director's Responsibility Statement that the directors of the company had laid down internal financial controls to be followed by the company and such internal controls are adequate and were operating effectively. Internal financial control can be explained as the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of the business, including adherence to company's policies, the safeguarding of assets, prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

**OPTION AVAILABLE TO LISTED COMPANIES TO SEND SALIENT FEATURES OF FINANCIAL STATEMENTS INSTEAD OF FINANCIAL STATEMENTS : SEC 136**

Listed Companies have an option not to send financial statements to persons entitled to receive them if the copies of the documents are made available for inspection at its

registered office during working hours for a period of 21 days before the date of the meeting and a statement containing the salient features of such documents in the prescribed form or copies of the documents, as the company may deem fit, is sent to every member of the company and to every trustee for the holders of any debentures issued by the company not less than 21 days before the date of the meeting unless the shareholders ask for full financial statements.

For this purpose the statement may be sent by electronic mode to such members who have positively consented in writing for receiving by electronic mode and by dispatch of physical copies by any other recognised mode of delivery as specified under section 20 of the Act, in all other cases.

Listed Companies are required to have its financial statements including consolidated financial statements.

**RESTRICTION ON APPOINTMENT OF AUDITOR : SEC 139 (2)**

Listed Company shall not appoint or re appoint-

- a) **An individual as auditor for more than one term of five years; and sec 139(2)(a)**
- b) **An audit firm as auditor for more than two terms of five consecutive year.139(2)(b)**

An individual auditor who has completed his term under section 139(2)(a) shall not be eligible for re-appointment as auditor in the same company for 5 years from the completion of his term; an audit firm which has completed its term under section 139(2)(b) shall not be eligible for re-appointment as auditor in the same company for 5 years from the completion of such terms.

As on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years

Listed Companies shall comply with the requirement of this section within 3 years from the commencement of the act.

**COMPOSITION OF BOARD: SEC 149**

1) All listed Company to have 1/3rd of the Board to be of independent director however, if the Chairman of the Board is the executive director half of the Board members to be independent directors (Clause 49 of the listing agreement)

**TERM RESTRICTION : SEC 149**

- Not more than 2 consecutive terms of 5 years each;
  - 3 year cool-off (no association with the company) before becoming eligible again
- 2) All the Listed Company shall appoint one women director on the Board( Appointment to be made within 1 year from the commencement of the Act)
  - 3) 1 director required to be resident in India for at least 182 days in a calendar year sec 149(3)



## **APPOINTMENT OF SMALL SHAREHOLDERS DIRECTOR: SEC 151**

A listed company may suo motu or upon the notice of not less than 1000 or one-tenth of the total number of small shareholders, whichever is lower have one director elected by small shareholders. For this purposes small shareholders means a shareholder holding shares of nominal value of not more than twenty thousand rupees.

## **ANNUAL RETURN: SEC 92**

*Disclosure to be made in Annual Return:*

In addition to the information required to be provided earlier under the Companies Act 1956, every annual return under this Act shall contain the following additional information:

- Principal business activities of the Company along with particulars of its holding, subsidiary and associate companies;
- Details about securities issued by the company;
- Details of its promoters, Key Managerial Personnel along with changes therein since the closure of the last financial year;
- Details of meeting of members or class thereof, Board and its various committees along with attendance details;
- Remuneration of the Directors and Key Managerial Personnel;
- Penalties or punishment imposed on the Company, its Directors or officers and details of compounding of offences and appeals made against such any penalty or punishment;
- Details related to certification of compliances, disclosures etc;
- Details as may be prescribed, in respect of shares held by or on behalf of the Foreign Institutional Investors indicating their names, registration and percentage of shareholding held by them;
- Such other matters as may be prescribed from time to time.

Annual return to be mandatorily signed by a practicing Company Secretary for such Companies with a paid up Share Capital of Rs. 10 Crores or more or a turnover of Rs. 50 Crores

## **RETURN TO BE FILED IN CASE OF CHANGE IN PROMOTERS & TOP TEN SHAREHOLDER STAKE : SEC 93**

Listed company to file return in prescribed form with ROC within 15 days in case of change in number of shares held by promoter or top ten shareholders

## **AUDIT COMMITTEE: SEC 177**

Every listed company shall constitute an Audit Committee.

**Composition:** The audit committee shall consist of minimum three directors with independent director

forming the majority.

Majority of the members of audit committee including its chairperson shall be able to read and understand the financial statement.

The committee shall be constituted in accordance with the provisions of the act within one year from the commencement of the act.

**Role :** The audit committee shall recommend for appointment , remuneration and terms of appointment of the auditors , review and monitor the auditor's independence and performance, and effectiveness of audit process; examination of financial statement and auditors report thereon , scrutiny of inter corporate loans & investments, valuation of undertakings or assets of the company, evaluation of internal financial controls & risk management system, monitoring the end use of fund raised through public offers and related matter

The Board Report under sub-section (3) of section 134 shall disclose the composition of Audit Committee and if the Board had not accepted any recommendation of Audit Committee the same shall be disclosed in such report along with the reason.

## **NOMINATION & REMUNERATION COMMITTEE : SEC 178**

Every listed company shall constitute Nomination and Remuneration Committee.

**Composition:** The Nomination and remuneration committee shall constitute of three or more non-executive directors out of which not less than one half shall be independent directors. The chairperson of the company may be appointed as a member of the nomination committee but shall not chair such committee.

**Role:** The nomination and remuneration committee shall identify persons who are qualified to become director & who may be appointed in senior management, evaluation of every director's performance, frame policy with regards to remuneration of Directors, key managerial personnel and other employees.

## **CORPORATE SOCIAL RESPONSIBILITY (CSR): SEC 135**

Corporate Social Responsibility (CSR) which was earlier a voluntary concept as to contribution by

corporates towards social activities has now been made mandatory for certain class of companies.

The provision of the section are explained in detail as follows:

### **Applicability**

Networth  $\geq$  ₹ 500 Cr OR

Turnover  $\geq$  ₹ 1000 Cr OR

Net Profit  $\geq$  ₹ 5 Cr

In case any one of the three criteria are triggered during any financial year, the company shall constitute a Corporate Social Responsibility Committee consisting of three directors out of which one directors shall be the independent director.

The Corporate Social Responsibility committee shall formulate and recommend to the Board, a Corporate Social Responsibility policy which shall indicate the activities to be undertaken by the company, recommend the amount of expenditure to be incurred on the activities recommended, monitor the corporate social responsibility

#### **AMOUNT TO BE SPENT ON CSR**

At least 2% of the average net profits of the company made during the three preceding financial year, to be spent every year.

#### **AMBIT OF CSR AREAS:**

Preference to be given to local areas, where the company operates to spend the CSR amount.

#### **As per (schedule VII)**

- I) Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;
- ii) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;
- iii) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- iv) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water
- v) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
- vi) Measures for the benefit of armed forces veterans, war widows and their dependents;
- vii) Training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports;
- viii) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the

Scheduled Tribes, other backward classes, minorities and women;

- ix) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government
- x) rural development projects."

#### **SECTIONS APPLICABLE TO COMPANIES UNDER THE PROCESS OF LISTING:**

##### **PROSPECTUS**

The Companies Act, 2013 has enhanced the disclosures to be made in the prospectus; additional important disclosures mandated in the prospectus are as follows: Sec 26

- Any litigation or legal action pending or taken by a government department or a statutory body against the promoter of the company during the last five years immediately preceding the year of the issue of prospectus
  - Sources of promoter's contribution
- a) the total shareholding of the promoters, clearly stating the name of the promoter, nature of issue, date of allotment, number of shares, face value, issue price or consideration, source of funds contributed, date when the shares were made fully paid up, percentage of the total pre and post issue capital;
  - b) the proceeds out of the sale of shares of the company and shares of its subsidiary companies previously held by each of the promoters;
  - c) the disclosure for sources of promoters contribution shall also include the particulars of name, address and the amount so raised as loan, financial assistance etc, if any, by promoters for making such contributions and in case of own sources, complete details thereof.
  - d) Project details like Management perception of Risk factors specific to the project, gestation period of project, extent of progress made in the project, deadlines for completion of project

##### **Variation in terms of contract: Sec 27**

- Special resolution is Required to vary the terms of a contract referred to in the prospectus or objects for which the prospectus was issued
- Dissenting shareholders shall be given an exit offer by promoters

##### **Advertisement of Prospectus: Sec 30**

- Advertisement of Prospectus to specify main objects, liability of members, amount of share capital, details of subscribers to MOA and Capital Structure

--Karishma Shah

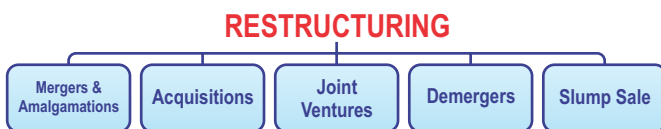


## MERGERS & ACQUISITIONS

Restructuring, reengineering, transformation, renewal, and reorientation are words that describe the same general phenomenon - a change in how business is piloted. Only the firms which are ready and able to realize incessant changes - the firms which approach actively to a process of restructuring and (or) reengineering can successfully sustain in the present dynamic competitive world.

“**Restructuring** - change of a particular economic area structure, change of production programmes and enterprising activities”. When dealing with a structural change of a national economy particular field we use the term of a **Macroeconomic Restructuring**. If a change is being witnessed in an enterprise structure, we then use a term - a **Microeconomic Restructuring**. Restructuring is also perceived widely as (i) **Organic Restructuring**, which refers to an internal change in the structure of the company without a change in the actual corporate entity undergoing the restructuring, and (ii) **Non Organic Restructuring**, which involves the corporate entity being restructured, itself undergoing a change.

**Non Organic Restructuring** can be done using the following techniques -



### MERGERS AND ACQUISITIONS CASES

The concept of merger and acquisition in India was not popular until the year 1988. During that period a very small percentage of businesses in the country used to come together, mostly into a friendly acquisition with a negotiated deal. The year 1988 witnessed one of the oldest business acquisitions or company mergers in India. It is the well-known ineffective unfriendly takeover bid by Swaraj Paul to overpower DCM Ltd. and Escorts Ltd. Further to that many other Non-Residents Indians had put in their efforts to take control over various companies through their stock exchange portfolio.

The expedition began when Tata Tea took over a company twice its own size, Tetley Tea in 2000. From 2003 onwards, the trend of taking over other companies by Indian companies gained substantial pace.

Some appreciated global acquisitions done by Indian companies include the following-

The biggest and the one which is called the predecessor of all acquisitions in India, is Tata Steel acquiring Anglo-Dutch

firm Corus Group in 2006 to create the fifth largest steel company of the world. The deal was worth \$7.6 billion (36,650 crore).

Aditya Birla Group's Hindalco Industries, India's largest non-ferrous metals company, acquired the Canada based firm Novalis in an all-cash transaction for \$6 billion.

In 2008, the acquisition of Britain's most famous automobile manufacturers Jaguar and Land Rover Tata brought turmoil in the automobile market. In a \$2.3 billion deal with Ford, their American owners Tata Deal swept the limelight.

In 2006, Ranbaxy Laboratories (RLL) created quite a stir when it announced the acquisition of 3 drug-makers in Europe, all within a week's time. Allen S.p.A, a division of GlaxoSmithKline (GSK) in Italy, Romania's largest independent generic drug producer Terapia and drug maker Ethimed NV in Belgium.

In 2007, Wockhardt snatched the top notch and became the largest Indian pharmaceutical company in Europe when Pharmaceutical and biotechnology major bought the fourth largest independent, integrated pharmaceutical group in France, Negma Laboratories. The deal consummated in \$265 million.

Bennett Coleman & Co, India's largest media group and the holding company of the Times of India group, bought Virgin Radio in the UK in a \$53.2 million (Rs 445cr approx) deal with SMG Plc. in 2008.

Mahindra & Mahindra acquired 90 percent stakes of Schoneweiss, a leading company in the forging sector in Germany. The deal took place in 2007, and consolidated Mahindra's position in the global market.

Sterlite Industries, a part of the Vedanta Group signed an agreement regarding the acquisition of copper mining company Asarco for \$ 2.6 billion in 2008. The deal surpassed Tata's \$2.3 billion deal of acquiring Land Rover and Jaguar. After the finalization of the deal Sterlite would become third largest copper mining company in the world.

The much needed booster for India's embryonic ecosystem was provided when Social media firm Facebook Inc. bought its first company in India, Bangalore-based Little Eye Labs that uses analysis and monitoring tools to help improve mobile apps.

Tanti group of companies jointly with Bahrain-based Arcapita Bank, has acquired Honiton Energy Holdings, a Chinese wind energy firm. The joint venture partners invested around U.S. \$2 billion which help to develop a 1,650-MW portfolio of wind farms in China. Tulsi R. Tanti, Chairman Tanti Group felt that the acquisition would reinforce their commitment towards the renewable energy sector. And also would have a potential growth of wind energy in developing countries like India and China.



**RECENT M&A DEALS (INBOUND)**

Date	Target	Acquirer	Deal Value (\$ mn)
May 2010	Piramal	Abbott	3,720
June 2008	Ranbaxy	Daiichi Sankyo	4,538.6
March 2009	Matrix	Mylan	736
December 2010	Paras	Reckitt Benckiser	720.9
July 2009	Shantha	Sanofi Aventis	625.18
December 2009	Orchid	Hospira	400
April 2008	Dabur	Fresenius Kabi	220

**MERGERS UNDER COMPANIES ACT, 2013**

The following enumerates the types of Merger (Including Demerger) under Companies Act, 2013

**SECTION 230**

• Scheme of Arrangement.

**SECTION 232**

• Merger / Demerger of companies.

**SECTION 233**

• **Fast Track Merger** - Merger of Small Companies & Merger between Holding and Wholly - owned Subsidiary Company

**SECTION 234**

• **Cross Border Merger** - Merger between Indian Company and Foreign Company

**SECTION 237**

• Merger in public Interest by Central Government

**PROCEDURAL ASPECTS**

The legal procedures for Mergers & Acquisitions under the Companies Act, 1956 sums up as follows –

**Permission For Merger**

In the memorandum of association of both the companies, else it is necessary to seek the permission of the shareholders, board of directors and the Company Law Board before affecting the merger/ amalgamation.

Information to the stock exchanges where the companies are listed.

**Approval of Board of Directors**

to the draft proposal for merger/ amalgamation and authorise the managements of the companies to further pursue the proposal.

**Application in the High Court**

For approving the draft merger/amalgamation proposal duly approved by the Board of Directors of the individual companies.

**Filing of the Court order**

certified true copies will be filed with the Registrar of Companies.

**Transfer of assets and liabilities**

The assets and liabilities of the acquired company will be transferred to the acquiring company in accordance with the approved scheme, with effect from the specified date.

**Payment by cash or securities**

As per the proposal, the acquiring company will exchange shares and debentures and/or cash for the shares and debentures of the acquired company. These securities will be listed on the stock exchange.

**FAST TRACK MERGERS** under Companies Act, 2013 involves the following steps:

**Approval of Board of all the Companies Involved**

A notice of proposed Scheme inviting Objections or Suggestions, if any,

- From the ROC
- Official Liquidators (OL)
- Persons affected by the scheme
- Within Thirty Days of Approval is issued by the transferor company and the transferee company

Transferor & Transferee Companies will give General Meeting Notice to Members

For approval and considering any objection and suggestion received from ROC / OL

Members holding at least 90 Percents of Total Share Capital of the Company will approve the scheme and

**Creditors** :Creditors having majority representing nine-tenths in value will approved the scheme

Transferor & Transferee Company has to File Declaration of Solvency in Form No. 15.12 with ROC before the meetings of Members and Creditors.

The Transferee Company shall, within seven days after the conclusion of the meeting(s) file in Form No. 15.13 a copy of the approved scheme along with report of the result of each of the meetings with the Central Government / ROC / Official Liquidator (OL)

ROC / Official Liquidator (OL) will communicate objection and suggestions in writing to the Central Government within a period of Thirty Days

(a) No objection of ROC/OL/CG then CG shall issue in Form No. 15.14, a confirmation order

(b) If there is any objection by ROC/OL then confirmation order issued by C.G or Tribunal, shall be filed by Transferor and Transferee Companies in Form No. 15 with the ROC

© If it is not approved by C.G. the same shall be referred to NCLT



## THE CHANGES IN THE PROCESS

S.no	Premises	Companies Act, 1956	Companies Act, 2013
1	<b>Regulatory/Third party approvals</b>	The 1956 Act, contemplates issue of a notice to shareholders' and creditors' since, their consents are essential	The 2013 Act requires service of the notice of the merger along with documents (such as copy of the Scheme and valuation report) not only upon the shareholders and creditors but also on various regulators including the Ministry of Corporate Affairs (through Regional Director, Registrar of Companies and Official Liquidator), RBI, SEBI, Competition Commission of India, Stock Exchanges, Income Tax authorities, depending on the particular cases, and other sector regulators or authorities which are likely to be affected by the merger.
2	<b>Time Frame for Approvals</b>	The courts have made mergers subject to approval of the regulators.	The time frame of 30 days is prescribed for the regulators to make representations, failing which the right would cease to exist.
3	<b>Approval of the Scheme through postal ballot</b>	The 1956 Act required presence of the shareholders and creditors in the physical meetings, either in person or by proxy, to cast vote for/against the Scheme.	The shareholders and creditors also have the option to cast vote through postal ballot while considering a Scheme.
4	<b>Valuation Report</b>	The Act is silent on disclosing the valuation report to the stakeholders.	The 2013 Act now mandates annexing of the valuation report to the notices for the meetings to enable ready access to the shareholders and creditors.
5	<b>Objections</b>	It permitted the individual shareholders and creditors to raise frivolous objections to arm-twist and unnecessarily harass the companies.	Objections can be raised by shareholders holding 10% or more equity and creditors whose debt represent 5% or more of the total debt as per the last audited financial statements ensuring that the frivolous objections/litigation can be avoided.
6	<b>Accounting Standards</b>	The Scheme provided for accounting treatment that would deviate from the prescribed accounting standards necessitating a note to this effect in the balance sheet of the company. This was required in case of listed companies for seeking approval of the stock exchanges	The 2013 Act makes such prior certification from an auditor mandatory for both listed and unlisted companies.
7	<b>Merger of a listed company into an unlisted one</b>	The 1956 Act was silent on this aspect.	The 2013 Act specifically provides for the Tribunal's order to state that the merger of a listed company into an unlisted company will not ipso facto make the unlisted company listed. It will continue to be unlisted until the applicable listing regulations and SEBI guidelines in relation to allotment of shares to public shareholders are complied with. Further, in case the shareholders of the listed company decide to exit, the unlisted company would facilitate the exit with a pre-determined price formula which shall be within the price specified by SEBI regulations. The Indian securities law prescribes strict enforcement of listing requirements by companies intending to get listed. SEBI had, however, eased these requirements for listed companies proposing merger by granting them exemptions from complying with the initial public offering requirements on a case-to-case basis. Recently SEBI had issued guidelines stating that if the Scheme provides for listing of shares of an unlisted company without complying with the initial public offering requirements, then, upon court approval of the Scheme, the unlisted company has to file a specific application seeking such exemption from SEBI. Such an application has to be filed upon, inter-alia, allotment of equity shares to the holders of securities of the listed company. The changes under the 2013 Act are in line with SEBI requirements.
8	<b>Penalties</b>	The penalties for contravention of the provisions under the 1956 Act were a maximum of INR 50,000 (approximately US\$ 80617) which apply to the company as well as officer-in-default.	Separate penalties have been levied on the company and its defaulting officer, simultaneously raising quantum.

The Companies Act, 2013 also explicitly lay down that any intercompany investment would have to be cancelled in a scheme and holding shares in the name of transferee through a trust, whether on its behalf or on behalf of any of its subsidiary or associate companies, would not be allowed. The practice of companies to hold their own shares through a trust, which could provide them liquidity in future, while still permitting the promoters to retain a controlling stake over the company shall be obliterated. Thus, companies will look for other alternatives to retain control and to sustain liquidity as post-merger all the intercompany investment will be cancelled and no further shares will be issued in lieu of the intercompany investment.

– Prabhjyot Kaur

## 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.

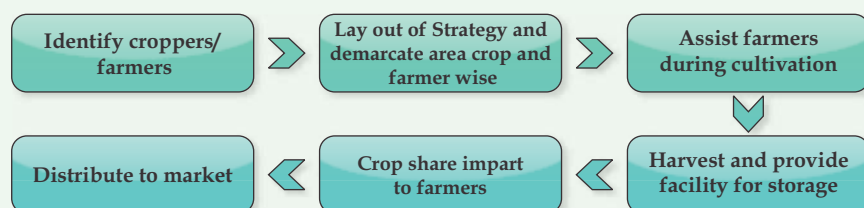
**Technology Services:** Internet-based Trading • Co-location Services • Mobile-based Trading  
• Real-time Risk Management • Smart Order Routing.



## Eco Friendly Food Processing Park Ltd

Eco Friendly Food Processing Park Limited (EFFPL) was incorporated on 21st July, 2008 by Mr. Rakesh Kumar Mishra and Mr. Tapas Kumar Pal. EFFPL is engaged into agriculture operations, wherein the company cultivates wheat, paddy, sugar cane, fruits, vegetables and flowers. EFFPL is also engaged in the operations of wood plantation. Eco Friendly Food Processing Park Ltd has been continuously raising the bar in competence and gaining recognition as a leader and innovator in Indian agriculture industry. EFFPL operates one of the largest agriculture unit in India at Pantnagar (Kichha), Udham Singh Nagar in Uttaranchal. A pioneer and market leader in the agriculture industry, the company is among the largest producers of wheat, rice, pulse and vegetables in India. Mr. Brij Kishore Sabharwal and Mr. Amar Singh Bisht acquired majority stake and control of the company in 2012.

### Process:



### Key Growth Drivers:

- The company has transformed into organic farming. Due to the awareness of the general public and their preference towards the organic crops, the company's revenue will boost in the years to come
- EFFPL has vast land network of 187 acres. It has experienced management team and a motivated efficient work force to move the organization into the next ladder of growth
- The company has location advantage of the farm land. The farm land of the company is situated at Pargna Rudrapur, Tehsil, Kichha District, Udham Singh Nagar, and Uttarakhand, where water is available in plenty and the climate is conducive for farming. Man power in the form of skilled farmers and unskilled workers are easily available in the proximity of the farm, which reduces the overall business risk
- EFFPL has extensive array of Agri Products. It cultivates wide range of agriculture products which differentiate it from other agriculturist and agriculture companies.
- At present, the company is engaged into agriculture operations, where it cultivates wheat, paddy, pulses along with fruits, vegetables, flowers among others. EFFPL plans to establish a food processing facility at its own farm land in order to enable themselves to process food grains further to deliver the variety of agro products to its customers. This entire set of activities would complete the value chain by providing the synergy of backward as well as forward integration.

### Key Challenges:

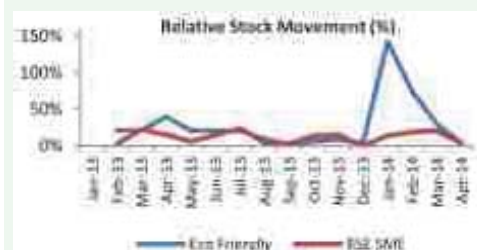
- Competition can affect profitability which could have a material adverse effect on business, financial condition and results of operation
- The company has limited geographic coverage; it is primarily focused in North India, predominately in the state of Uttarakhand. Any adverse movement in that state will lead the company's profitability southwards
- As the company is involved in agricultural production, which is heavily dependent on the monsoons, any adverse movement can reduce the company's profitability
- Crops are perishable in nature, any inability on the part to deliver crops at the right time in the markets could have a material adverse effect on the business, results of operation and financial condition

### STOCK INFO

Sector	Other Agriculture Products
BSE code	534839
No of shares (Mn)	9.9
CMP (Rs.)	603.50
M.Cap (Rs. Cr)	597.83
Book Value (Rs.)	18
52 week High/Low	603.50 / 43.45
Face Value (Rs.)	10

### SHAREHOLDING (%)

Promoters	20.37
Others	79.63



### RELATIVE VALUATION

EFFPL's operating income grew at a CAGR of 27.6% over a period of FY09-13 to Rs. 23 mn led by strong growth across all the segments. Over the past five years, EFFPL reported healthy RoE of 48.3% on an average. As the company is focusing more on the organic farming and hence, it is going to have more capital expenditure in the years to come, which will generate high return on investment few years down the line. The company has come up with right issue, which led downward movement on the earning available to equity shareholders in FY13. The company has low financial leverage on its balance sheet as compared to other peers available in the market.

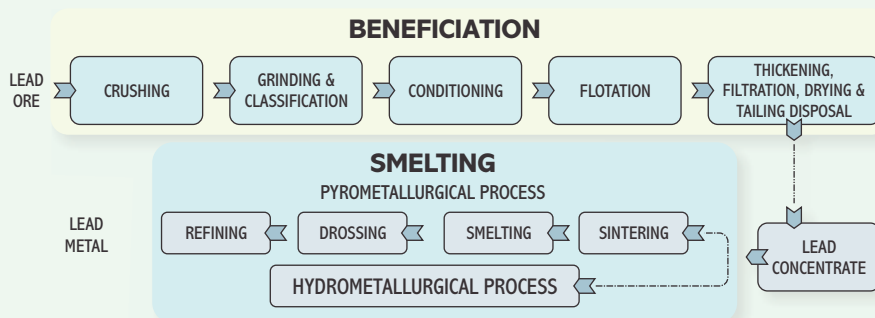
### FINANCIALS (₹ in Lacs)

Y/E	2013	2012	2011
Sales	274.31	387.79	79.26
EBITDA%	83.9	48.5	188.6
PAT%	63.7	48.3	187.5
ROCE%	10.4	31.3	43.6
RONW%	10.3	31.3	43.6
ROA %	7.6	20.8	16.4
Debtors days	147	95	45
Creditors days	15	7	NA
Debt/ Equity	0.3	0.5	1.5
EPS	1.8	62.4	297.3

## Starlit Power Systems Ltd (Initiating Coverage – IPO note)

Starlit Power Systems Limited is a group company of the diversified Starlit Group. The company was incorporated in the year 2008 with its focus on Lead and based products. It is engaged in Smelting of Battery & Lead Scrap, manufacture, supply and export of pure lead, different Lead Alloys like Calcium Aluminum alloy Antimonial Alloy and Selenium Alloy, Lead Oxides like Lead Sub Oxide and Red Lead. It has smelting capacity of 15000 MT per annum and refining/ alloying capacity of over 12000 MT per annum with technical capacity to convert assorted heterogeneous lead scrap into pure lead of upto 99.98 % purity. Its plant has been selected as successful demonstration manufacturing plant by United Nations Environment Program (UNEP), Japan for efficient energy operation. The company is an ISO 9001:2008 & ISO 14001:2004 certified company and all the systems & procedures are documented as per certification requirements.

### Process



### Key Growth Drivers:

- Lead, presently is not substituted by any other metal in the production of lead acid batteries, which are vital for automobiles eventually driving the lead industry forward in near future.
- Lead when used as metal in batteries, cable sheathing and sheathing for containing radiation is fully recyclable without losing its properties. Therefore, there is a thriving industry of lead recycling in the country.
- The company has strong in-house Engineering, Management and Legal Resources, which will increase the value of the business over a period of time.
- The Company uses producer gas as a fuel for all smelting and refining operations. The producer gas is generated by captive biomass gassifier plant thereby considerably reducing dependence on Hydro-carbons like furnace oil and diesel, which in a way reduces the operating cost of the company and increases the probability to provide handsome operating margin in the years to come
- Starlit has a strong relationship with the Vendors and clients, which gives them the opportunity to move to the next ladder of success in the foreseeable future

### Key Challenges:

- The company's revenue is affected with the currency movement as the price of lead is linked with the London Metal Exchange. Hence, volatility in lead prices can affect the profitability of the company.
- As the company is involved into Smelting of Battery & Lead Scrap, there could be possibility of environment disturbances, which can lead government to interfere in the business of the company.
- Lead is globally traded commodity and hence, global demand scenario can affect the financial performance of the company.
- Top 10 clients contribute around 90% to the top line and hence, any dismissal of the client from the portfolio will reduce the top and bottom line of the company. 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.

### STOCK INFO.

Sector	Metal
Issue Size (Rs. Cr)	2.95
No of shares on offer (Cr)	0.16
Price (Rs.)	18
Face value (Rs.)	10
Mcap @ Rs.18 (Rs. Cr)	11.01

### OBJECTS OF THE ISSUE (CR)

Working capital requirement	2.30
General Corporate Purposes	0.20
Issue Expenses	0.45

### PRE-ISSUE SHAREHOLDING (%)

Promoters	52.59
Bodies Corporate	47.41

### RELATIVE VALUATION

Starlit's operating income grew at a CAGR of 192.2% over the period of FY10-13 to Rs.7.2 mn and company's Net income grew at a CAGR of 129.5% for the same period. The growth of the business led company to give shining picture over the years. As the company is involved into the metal industry and hence, more capital investment is needed, which is more financed by long term and short term debt and hence, more interest outflow seen by the company in the previous years. The shining picture of an industry and better business outlook will reduce the debt burden in the years to come and financial leverage to the extent.

### FINANCIALS (₹ IN CRS)

Y/E	2013	2012	2011
Sales	30.58	19.65	1.48
EBITDA%	2.4	3.3	8.3
PAT%	1.0	1.5	(1.8)
ROCE%	5.7	10.9	0.4
RONW%	7.9	10.5	(1.2)
ROA %	2.5	3.8	(0.7)
Debtors days	36	35	130
Creditors days	11	3	14
Working cap days	18	20	94
Interest coverage	0.5	0.8	0.2
Debt/ Equity	1.7	1.6	0.7
EPS	1.0	1.3	(0.1)

# MARKET DEVELOPMENTS



- GCM Capital Advisors Limited engaged in the business of providing financial advisory & consultancy services and engaged in treasury operations by providing funding solutions to its clients both in the form of Debt & Equity and investment activities filed a draft prospectus for a public issue of Rs. 9.00 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 augmenting long term working capital and meeting public issue expenses.
- Shareway Securities Limited engaged in the business of providing a wide range of products & services covering equity broking, F & O and currency derivatives to all kinds of investors viz. retail, high net worth individuals and corporate filed a draft prospectus for a public issue of Rs. 4.99 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 obtaining membership of BSE Limited, expanding domestic operations and networks of branches, enhancement of margin money maintained with the exchanges, general corporate purposes and to meet public issue expenses.
- Starlit Power Systems Limited engaged in the business of smelting of Battery & Lead Scrap, manufacture, supply and export of pure lead, different Lead Alloys and Lead Oxides filed a draft prospectus for a public issue of Rs. 2.95 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 working capital requirements, general corporate purposes and to meet issue expenses.
- Sirohia & Sons Limited engaged in the business of dealing in fertilizers and pesticides catering to primarily to Tea Industry located in the North East region of the Country particularly the state of Assam and West Bengal filed a draft prospectus for a public issue of Rs. 3.60 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 augmenting long term working capital requirements, general corporate purposes and to meet issue expenses.
- Dhanuka Commercial Limited, an NBFC registered with RBI engaged in the business of advancing loans and investing/trading in securities filed a draft prospectus for a public issue of Rs. 4.44 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 augmenting capital base and providing for fund requirements for increasing its operational scale with respect to NBFC activities and to meet issue related expenses.
- Cityon Systems (India) Limited engaged in the business of of import, export, purchase, assemble, stockist, distributors, agents, dealers, traders, designers and jobbers in all type of computers, computers software, computer hardware, data entries etc. filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.
- Currently 60 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)
GCM Capital Advisors	BSE	9.00	20
Shareway Securities	BSE	4.99	14
Starlit Power Systems	BSE	2.95	18
Sirohia & Sons	BSE	3.60	12
Dhanuka Commercial	BSE	4.44	10
R&B Denims	BSE	3.71	10
SPS Finquest	BSE	25.08	75
Women's Next Loungeries	BSE	6.50	65
Oasis Tradelink	BSE	6.00	30
Ekdant India	BSE	4.03	10
Anubhav Infrastructure	BSE	9.00	15
Prabhat Telecoms (India)	BSE	26.60	80

### 4 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
Oceanaa Biotek Industries	18th Mar 2014	20th Mar 2014	1.34	1.27	1.29
Shri Krishna Prasadam	11th Mar 2014	14th Mar 2014	1.71	1.71	1.67
Anisha Impex	3rd Mar 2014	5th Mar 2014	1.41	1.42	1.39
Karnimata Cold Storage	25th Feb 2014	3rd Mar 2014	2.34	2.34	2.38

*small*  
Many parts can make a whole.  
INVEST THAT MONEY TO  
REACH YOUR  
**BIG GOAL.**



#### SYSTEMATIC INVESTMENT PLAN (SIP)

Little by little, it can build up to a whole lot more. It all depends on fitting the small parts together with the right plan. SIP allows you to **put aside fixed amounts at regular intervals** over a pre-set term.

By cashing in on the **power of compounding** over a period, it rewards you for your disciplined & responsible approach.

#### Benefits of Systematic Investment Plan (SIP)

Allows you to invest small fixed sum of money at regular intervals - **light on the wallet**

SIP makes volatility work in your favour - **reduces risk**

Benefit of Rupee Cost Averaging - **get more units at lower NAV, less units at higher NAV**

Power of compounding comes into play - **the early you start higher are the returns**

Imparts time - tested discipline to investing - **key to financial success**

An Investor Education and Awareness Initiative by Taurus Mutual Fund

**TAURUS**  
Mutual Fund

Mutual Fund investments are subject to market risks, read all scheme related documents carefully

**RELIANCE**  
Mutual Fund

Spot multiple Opportunities

**Reliance Equity Opportunities Fund**  
(An Open ended Diversified Equity Scheme)

Multiple Opportunities indicates the scheme will invest in large cap and growth oriented mid & smallcap companies belonging to emerging themes/sectors depending on opportunities arise. This product is suitable for investors who are seeking\*

- long term capital growth.  
- investment in equity and equity related securities.  
- high risk. (BROWN)

\*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

Note: Risk may be represented as:  
■ (BLUE) investors understand that their principal will be at low risk  
■ (YELLOW) investors understand that their principal will be at medium risk  
■ (BROWN) investors understand that their principal will be at high risk

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

# OTHER DEVELOPMENTS



### **SMEs should adopt IT to achieve higher growth: Microsoft**

Calling small and medium enterprises (SMEs) critical for job creation and economic growth, Microsoft India said that such businesses in the country should adopt information technology (IT) in a big way to achieve more revenue growth.

"Indian SMEs are not adopting IT and lack of its adoption is impeding their growth," Microsoft India General Manager (SMS&P) Meetul Patel said here. Quoting a report of management consulting firm Boston Consulting Group, he said that SMEs that adopted IT created more new jobs and drove more revenue growth over the past three years compared to SMEs using little technology.

The report highlighted if more SMEs in India adopted the latest IT tools there was a potential for SME revenue to grow by USD 56 billion and create 1.1 million new jobs. Patel said IT-enabled SMEs saw their revenue growing by 15 percentage points faster than those that used less technology in their businesses.

### **Pharma SMEs from Gujarat see 20% growth in exports**

While big pharma companies are facing hurdles on the export growth front thanks to the issues with the US drug regulator, in contrast, small and medium enterprises (SME) have seen a good growth in formulations exports this fiscal.

Pharma SMEs in the state of Gujarat, which is considered a pharmaceutical manufacturing hub and houses over 200 WHO-GMP certified manufacturing facilities, have clocked a 15-20 per cent growth in exports to semi-regulated markets this year.

### **Uttarakhand notifies new policy for small units**

The Uttarakhand government has come out with a new purchase preference policy for micro and small enterprises (MSEs) in the hill state.

The policy was finalised after the government received suggestions from industrial promotional bodies like the Confederation of Indian Industry (CII) and Industries Association of Uttarakhand (IAU).

Under the new policy, the government will give purchase preference to all the state-based local MSEs in case their tenders are within the range of 20 per cent of the L1 (lowest quotation). The measure would benefit the state's khadi and village industry, particularly in the handicraft and handloom sectors.

Another big suggestion which came from IAU was that the even in the various government turnkey projects, it will be mandatory for the company to purchase 30 per cent of the material from local MSEs.

## Microsoft bets big on SMEs in India

Microsoft is betting on the small and medium enterprises segment for the expansion and adoption of its cloud offering like Windows Azure, Office 365 and Dynamic CRM Online. India, according to Microsoft, has over 40 million small businesses that contribute about 45% of India's industrial output.

In fact, Microsoft's Office Productivity Suite is used by 94% of Indian SMBs considered to be leaders in IT adoption and almost 70 per cent of these leaders use Internet Explorer, and nearly 40 per cent use Dynamics for business applications.

To attract Indian SMEs, Microsoft recently announced a first of its kinds move, and launched 'Trade-In' scheme for its cloud platform, Windows Azure. Under the scheme, which is currently limited only to India, SMEs can sell their old hardware and opt to use proceeds from the same to migrate to Windows Azure.

## MSME proposes to set up Rs 10,000-cr fund for tech acquisition and support

The ministry of micro, small and medium enterprises has proposed to set up a fund for technology acquisition and support to assist the indigenous technology and acquisition of global technology by the India MSMEs. To this effect, A Technology Development Fund of Rs.10,000 crore is proposed for supporting MSMEs to undertake technology upgradation, acquisition, adaptation and innovation to enable them to move up the value chain.

The ministry also proposes to refine the current FDI policy in vogue to bring up capacity, capability and technology development of the SMEs. In respect of all large projects involving FDI, ancillary development should be made a condition, as per the recommendations of the report.

## Small enterprises flock to Taiwan machinery show

In order to explore the trade potential for the import of machinery by Indian micro, small and medium enterprises (MSMEs), a two-day Taiwan Machinery Catalogue Show, 2014 was organised by the PHD Chamber of Commerce and Industry in association with Taiwan Association of Machinery Industry (TAMI) in Chandigarh.

About 400 small and medium-scale entrepreneurs participated, to gain insights into the technology that state-of-the-art Taiwanese machinery could offer them. The exhibitors displayed opportunities for industrial and technological transfer, besides trade in machinery, in addition to providing information on the latest, innovative, high-precision and high-technology machine tools for improving manufacturing efficiency, and the growth of MSMEs in India.

## Andhra Bank's new initiative, SME Express, for speedy flow of credit to SMEs

Andhra Bank has announced a new initiative, SME Express, for facilitating speedy flow of credit to the sector and stating its focus areas are SME, retail and priority sector lending.

"A similar centre was functioning successfully in Hyderabad and loans ranging from Rs 50 lakh to Rs. 5 crore would be processed at these centres," Executive Director, K K Misra, said while addressing the media, after launching SME Express, a centralised processing centre at its Zonal Office in Chennai.

## BHEL exempts bid fees for MSMEs registered with NSIC

Bharat Heavy Electricals Limited (BHEL) has exempted the micro, small and medium units registered with National Small Industries Corporation (NSIC) under single point registration scheme from payment of bid fee.

The power house wants to purchase fuses for its vendors and is inviting bids from suppliers registered with NSIC as service providers. The policy has the objective of achieving an overall procurement of minimum of 20 per cent, of total annual purchases of products produced and services rendered by MSEs in a period of three years.

**Invest regularly to achieve your dreams.**

HDFC MF Systematic Investment Plan (SIP) is a simple, convenient and disciplined plan that helps you meet your financial goals by investing a fixed sum regularly. It invests a minimum of ₹ 500 monthly, irrespective of market conditions thus reducing the risk of investing a large sum at a high price. SIP adopts Rupee Cost Averaging wherein more units are purchased when prices are low and fewer when prices are high. So, don't let an unpredictable market compromise your dreams anymore.

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,  
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.





# CROWDFUNDING

## Introduction

Crowdfunding is an emerging and innovative online platform that provides small startups and businesses with opportunities to increase their social media presence, investment base, and funding prospects. Crowdfunding, a popular concept started in the US and the UK, is a way of raising capital, entailing the use of internet or social networking sites such as Facebook or LinkedIn or Twitter or even some dedicated websites. Crowdfunding means asking a crowd to donate a defined amount of money for a specified cause, project or other use in exchange for various rewards. Social media and Internet growth has increased the awareness and viability of such platforms. So, if an entrepreneur wants to raise funds, he need to create an online profile and explain the project and fund-raising goals and share the same with public at large which could include peers, relatives, friends of friends, and so forth. Start-ups can use crowdfunding to make a pitch that can be accessed by investors subscribing to the service. The investors range from professional ones to business people.

Crowdfunding is the process of one party financing a project by requesting and receiving small contribution from many parties in exchange for a form of value to those parties. Crowdfunding connects investors with small business startups and projects through an online transaction portal that removes barriers to entry.

## Types of Crowdfunding

1. Equity based: In this mode of crowdfunding, investors take a share of equity in the project or startup.
2. Donation based: The platform accepts a donation from many donors for projects. In most cases, the return involves finished goods like a signed DVD of the movie backed by the crowd. Sites like Ketto do this kind of crowdsourcing in India.
3. Debt based: These crowd funds take money from different people and facilitate loans or microfinance to the needy. Microfinance platform Milaap is an example of such crowd sourcing in India.

### EQUITY

Asking a crowd to donate to a business or project in exchange for equity

Great For: Entrepreneurs, Start-ups, Business Owners

Crowd: Investors, Stockholders, Shareholders

Major Platforms: Symbol, Crowdcube, GrowVC

### DONATION

Asking a crowd to donate to a project in exchange for rewards of value such as an ecard, a credit on a movie or t-shirt or any other finished goods

Great For: Artists, Inventors, Filmmakers, Musicians, Writers, Non-Profits

Crowd: Philanthropists, Inventors, avid fans, gadget lovers

Major Platforms: Kickstarter, Indiegogo, RocketHub

### DEBT

Asking a crowd to donate to a business or for financial return and/or interest at a future date

Great For: Entrepreneurs, Inventors, Start-ups, Business Owners

Crowd: Investors, Entrepreneurs

Major Platforms: Prosper, Lending Club, People Capital

Of the three crowdfunding models, donation based crowdfunding is the most pragmatic approach as of now. The RBI in 2011 approved Milaap, a non-profit microfinance institution to crowd source funds from overseas. The approval, a first in the industry, was seen as a major boost to crowd funding.

### Indian Scenario

Interestingly, it can be said that India has seen a massive crowdfunding success story many years before the term was coined: the story of the Reliance Industries founder Dhirubhai Ambani. His small yet growing textile business was crowd funded by communities across the Indian state of Gujarat. Today's India with its huge market and human capital has become a popular destination for global business and other investments that have identified opportunities. Its crowdfunding however has been restricted to microfinancing category projects, and the occasional donation-reward funding category.

Then there are legal issues around crowdfunding in India. A few Indian companies have successfully raised funds from crowdfunding platforms till now including GSF India-backed Biosense Technologies, Bangalore-based Gecko and Fin smart ring..

At the moment Equity Crowdfunding is the least developed form of Crowdfunding. In part this is due to the legal liability that the collection of equity raises, which in many countries would not be legal, unless a specific regulation is set in place. In India, capital markets law and regulators such as SEBI doesn't allow raising money from the public in this way with a promise of return on investment of any nature.

Here in India, the concept is catching up fast and is posing a danger at the same time, as very soon these funds could scale up. Many money laundering schemes might run in the name of crowdfunding via social media, pushing SEBI to set up a regulatory framework.

Few of crowdfunding websites in India

- **Wishberry** – Mostly projects related to art
- **IgniteIntent** – Mostly hardware related; quite a few campaigns in the auto sector
- **Milaap** – Micro-financing
- **RangDe** – Micro-financing
- **Catapooolt** – Mostly projects related to art
- **TheHotStart** – Mostly projects related to art
- **BitGiving** – Issue based
- **Start51** – mixed bag
- **PikAdventure** – Still in beta
- **Ketto** – Social causes

### International Scenario

In the USA, crowdfunding is a legally recognized capital market transaction - and the investors can get shares in the company they are funding - and therefore profit from the idea becoming successful. The US Securities and Exchange Commission (SEC) has come up with a proposal for crowdfunding, the highlights of which are as follows:

The JOBS Act has put much restriction on the amount that can be borrowed via crowdfunding. The Act has put an audit compulsion by certified public accountant in some cases of crowdfunding. Disclosures need to be made by the company raising funds and utilising it. The company needs to explain everything about its project for which it is raising funds. The fund utilisation plan needs to be disclosed.

### Outlook

In the next six months or so, many crowdfunding platforms are expected to be launched in India. Worldwide, nearly a thousand such platforms will be launched. Recently, platforms such as Wishberry and Ignite Intent have been launched in the country. Most of them are in the rewards and donation space, as there are not too many regulatory issues associated with it. Crowdfunding is slowly becoming an alternative funding channel for the film industry. The Indian industry is also not very investor-friendly. It seems people are still not ready for this concept. Low trust levels of doing the things online is also a challenge. India's ecommerce space needs to really mature before anything substantial can happen in this space. People need to be spending more and more online for them to even start thinking about backing online projects online. As long as the crowdfunding platforms are not making any financial promises to the contributors, they should be theoretically safe to operate. However to build a credible case for the industry to grow in India, it would do help if these platforms proactively approach the regulators and work with them to processes so as to build long-term credibility and transparency. Crowdfunding will probably have to look at building an offline base to finally induce mass awareness and encouraging larger participation. There is no doubt that crowdfunding is rapidly being looked upon as a serious way of raising funds for startups and new businesses. The US and European agencies have started implementing laws for this to function. SEBI is soon expected bring in the requisite laws to support this in a big way, as efficient crowdfunding system can really play the role of catalyst in bringing the startup ideas into reality.

## What's in Press?

### Private banks turn to SMEs to drive growth

India Inc's reluctance to borrow money and emerging credit quality stress in retail segments such as commercial vehicle and commercial equipment finance have prompted private sector banks to turn to small and medium enterprises (SME) to drive their business growth.

"Growth in retail credit, especially in the high-profit segments like credit cards and auto loans, has tapered down. Also, increased competition in the home loan segment has forced private banks to guide for lower growth from retail going forward. We believe MSME (micro, small and medium enterprises) or business banking will spur the next leg of growth for private banks as capital constraints weigh down public sector banks," Saikiran Pulavarthi, analyst with Espirito Santo Securities, said in a note to clients.

Bankers claim the quality of SME loan book has improved in recent years, with lenders following a strict credit appraisal process in an uncertain economic environment. In fact, a few of them even suggested that whatever stress that is seen in their business banking and SME loan portfolios relates to credit offered three or four years ago and does not pertain to recent advances to this segment.

Also, with the slowdown in large corporate loan disbursement, many lenders are now betting big on the SME segment.

"We want to be known as the SME bank of the country. The share of SME loans in our total advances has now improved to 25 per cent from 20 per cent a year earlier. We have seen good growth in this business and expect around 22 per cent rise in our SME advances in the current financial year," Antu Joseph,

head of SME, agri and financial inclusion businesses at Federal Bank, told Business Standard.

EXIM Bank of India expects to do around Rs 2,000-crore SME refinancing in 2013-14 (April-March), compared with Rs 685 crore last year.

"We realised that there is a gap in demand and supply of foreign currency loans for the SME exporters. If they opt for foreign currency loans, in the current environment it works out cheaper than rupee borrowing. We have set up a programme where we partner commercial banks and offer them foreign currency funds to on-lend to SMEs," said Sudatta Mandal, general manager of EXIM Bank of India.

While state-run lenders still control a majority of the SME loan market share, industry analysts believe large private lenders such as HDFC Bank and Axis Bank have already stepped up efforts to accelerate growth in this business. "The MSME segment offers high growth potential and is performing well on the asset quality front... It is already one of the most profitable divisions for the likes of HDFC Bank and Axis Bank," said Pulavarthi.

A few bankers, however, expressed caution. According to Mahesh Dayani, country head (retail assets) at ING Vysya Bank, lenders need to ensure that they do not have over exposure in this segment.

"It is a different business. While SMEs do have a corporate structure, most of them are still run as sole proprietorship or family-owned. Hence, bankers need to engage with the promoters. Also, it helps if lenders take advice from local experts who have knowledge about the business," he said.

Source: Business Standard.

## Quotes



**Meetul Patel**  
General Manager - SMS&P, Microsoft India

"SMEs are a critical growth engine for jobs and economies today. The need for investment in hardware, software, and technical expertise were previously barriers to Indian SMEs fully leveraging IT. Today, the availability of services delivered through pay-as-you-use cloud computing is enabling SMEs to substantially reduce upfront investments in server and networking infrastructure, and allowing them to direct capital to other areas that can drive growth"



**Ashish Chauhan**  
BSE MD & CEO

"BSE has been able to create an eco system for SME financing in India and USD 1 billion of market capitalisation for SME segment is an important milestone in this journey. BSE will continue to strive to help Indian SME and large cap companies to raise funds with its innovative and market leading E-IPO platform as well as the fastest trading system in India with 200 micro seconds response time"



**Sanjay Bhatia**  
FICCI-CMSME President

"We need to work towards removing the bottlenecks inhibiting the growth of MSMEs so as to enable the sector to respond effectively to challenges. Providing a favourable ecosystem is a necessary part of enabling growth of MSME sector. This in turn required reliable partners who could provide these enterprises with requisite help in scaling up their business and making them competitive for entry into the global value chain."



**H.P. Kumar**  
Director, National Small Industries Corporation

"Quality of products made by Indian Micro, Small and Medium Enterprises (MSME) is much better than that of Chinese goods. Several least developed and emerging economies have sought help of India to develop their small industries"



Sr No	Company	Closing#	%Returns*	52 Week Low	52 Week High
1.	Ace Tours	29.70	85.63%	19.50	47.25
2.	Agrimony Commodities	10.50	5.00%	8.60	15.75
3.	Alacrity Securities	6.10	-59.33%	6.10	13.25
4.	Amrapali Capital	46.30	-53.70%	39.00	103.00
5.	Anisha Impex	14.30	43.00%	12.95	19.50
6.	Anshus Clothing	3.60	-86.67%	3.60	18.50
7.	Ashapura	127.05	217.63%	46.40	135.00
8.	BC Power	18.30	1.67%	25.05	25.45
9.	BCB Finance	25.25	1.00%	17.15	18.30
10.	Bothra Metals	25.75	3.00%	22.60	34.20
11.	Bronze Infra	14.25	-5.00%	5.80	17.75
12.	Captain Polyplast	43.00	43.33%	33.00	46.00
13.	Channel Nine	420.05	1580.20%	31.80	420.05
14.	Chemtech	14.95	-0.33%	14.25	15.50
15.	Comfort Comtrade	25.50	155.00%	23.00	45.95
16.	Eco Frendly	627.70	2410.80%	43.45	627.70
17.	eDynamics	181.85	1718.50%	25.40	181.85
18.	Esteem Bio	590.20	2260.80%	57.20	590.35
19.	GCM Comm	9.70	-51.50%	7.55	21.25
20.	GCM Securities	355.00	1675.00%	65.00	461.00
21.	HPC Biosciences	578.75	1553.57%	47.50	579.50
22.	India Finsec	13.45	34.50%	9.55	19.40
23.	Jointeca Education	16.50	10.00%	10.95	19.80
24.	Jupiter Infomedia	28.90	44.50%	23.85	29.50
25.	Karnimata Cold Storage	22.15	10.75%	33.60	45.25
26.	Kavita Fabrics	40.50	1.25%	21.10	30.00
27.	Kushal Tradelink	49.05	40.14%	33.05	53.25
28.	Lakhotia Polymers	35.90	2.57%	33.85	36.60
29.	Looks Health	93.00	132.50%	93.00	437.00
30.	Max Alert	100.00	400.00%	90.00	125.00
31.	Money Masters	10.90	-27.33%	10.90	19.65
32.	Newever Trade	31.00	210.00%	12.20	36.85
33.	Oceanaa Biotek	10.20	2.00%	9.30	10.20
34.	Onesource	5.50	-60.71%	3.95	13.00
35.	Polymac Thermoformers	42.00	20.00%	34.75	42.00
36.	RCL Industries	34.00	-15.00%	22.55	43.00
37.	RCL Retail	22.80	128.00%	10.05	49.85
38.	RJ Biotech	30.00	50.00%	21.00	48.75
39.	Samrudhi	40.00	233.33%	10.62	49.95
40.	Sangam Advisors	20.10	-8.64%	19.00	25.00
41.	Satkar Finlease	54.45	202.50%	26.10	43.35
42.	Shri Krishna Prasadam	12.45	24.50%	19.90	54.45
43.	SI VI Shipping	35.00	40.00%	11.90	12.45
44.	Silverpoint Infra	7.10	-52.67%	5.70	14.80
45.	SRG Housing	46.75	133.75%	25.40	110.00
46.	SRG Securities Finance	20.00	0.00%	20.00	25.05
47.	Stellar Capital	7.65	-61.75%	7.65	21.10
48.	Subhtex	19.30	93.00%	12.00	25.65
49.	Sunstar Realty	202.00	910.00%	35.60	210.75
50.	Suyog Tele	25.40	1.60%	24.50	26.90
51.	Tentiwal Wires	10.00	-23.08%	7.00	13.50
52.	Tiger Logistics	71.50	8.33%	57.00	81.00
53.	Unishire Urban Infra	11.00	10.00%	9.45	14.90
54.	VCU Data	26.00	4.00%	23.10	52.20
55.	VKJ Infradevelopers	51.30	242.00%	15.55	60.15
56.	Mitcon	41.50	-31.97%	37.95	60.00
57.	Opal	127.90	-1.62%	97.60	135.00
58.	Sanco	18.00	0.00%	16.55	19.00
59.	Thejo	200.00	-50.25%	199.00	405.00
60.	Veto	57.00	14.00%	50.25	65.50

\*Absolute returns since IPO. # Closing prices as on 11th April, 2014 \*Source: BSE India Limited

	Closing#	% Returns YTD
BSE SME IPO	786.22	470.63%
TSE MOTHERS	702.64	69.29%
CHINEXT PRICE INDEX	1,363.90	93.37%
FTSE AIM All Share Index	934.89	30.57%
TSX Venture Composite	997.77	-19.52%
Hong Kong GEM Index	511.62	34.11%

# Closing Values as on 10th March, 2014



## MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	RCL Industries & Technologies	B C Power	eDynamics Solutions	RCL Retail	SRG Housing	Eco-friendly	Sunstar Realty
<b>A. Valuation / Market Cap</b>	(₹ Crore)									
Pre Issue Net Worth	20.82	16.34	11.64	25.63	10.29	8.55	5.60	4.90	8.606	5.54
Issue Size	12.21	7.52	5.00	11.52	10.37	15.60	5.80	7.00	7.515	10.62
Market Capitalization*	47	30	28	37	21	394	28	37	621	477
<b>B. Price Pattern</b>	(₹ per Share)									
Issue Price	25.00	66.00	20.00	40.00	18.00	25.00	10.00	20.00	25.00	20.00
CMP (Face Value Rs. 10)*	25.75	71.50	30.00	34.00	18.30	181.85	22.80	46.75	627.70	202.00

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	SI VI Shipping	eDynamics	Ace Tours Worldwide	Newever Trade	Looks Health	Captain Polyplast
<b>A. Valuation / Market Cap</b>	(₹ Crore)									
Pre Issue Net Worth	5.56	7.10	4.39	4.80	3.09	8.55	8.71	17.53	0.75	7.36
Issue Size	11.67	8.00	2.60	15.75	6.86	15.60	8.00	6.30	7.20	5.94
Market Capitalization*	652	91	33	923	20	394	37	74	55	32
<b>B. Price Pattern</b>	(₹ per Share)									
Issue Price	25.00	20.00	12.00	35.00	25.00	10.00	16.00	10.00	40.00	30.00
CMP (Face Value Rs. 10)*	420.05	100.00	40.00	578.75	35.00	181.85	29.70	31.00	93.00	43.00

Particulars	Esteem Bio	Satkar Finlease	VKJ Infradevelopers	Subh Tex	Ashapura Intimates	Comfort Commotr-ade	Sanco Industries	Veto Switch Gear	Thejo Engineering	Mitcon Consultancy	Opal Luxury
<b>A. Valuation / Market Cap</b>	(₹ Crore)										
Pre Issue Net Worth	8.56	21.16	5.40	16.43	10.98	4.43	16.43	32.70	25.8	54.42	11.82
Issue Size	11.25	13.51	12.75	3.50	21.00	6.00	4.32	25.00	19.00	25.01	12.00
Market Capitalization*	880	103	91	21	247	25	15	95	34	50	43
<b>B. Price Pattern</b>	(₹ per Share)										
Issue Price	25.00	18.00	15.00	10.00	40.00	10.00	18.00	50.00	402.00	61.00	120.00
CMP (Face Value Rs. 10)*	590.20	54.45	51.30	19.30	127.05	25.50	18.00	57.00	200.00	41.50	127.90

\*Closing prices as on 11th April, 2014

\* Source: BSE & NSE Websites

## UPCOMING EVENTS

Name of Event	Place	Date	Organizer
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
SME (Manufacturing Sector), Packaging and Food Processing Industry Delegation to Germany, Denmark, Sweden, Finland, Poland	European Countries	8 – 10 May 2014	SME Chamber of India
India SME Manufacturing Summit	Mumbai	June 2014	SME Chamber of India
India SME Manufacturing Excellence Awards	Mumbai	June 2014	SME Chamber of India
Improving access to Finance Stimulating Growth for MSMEs	Hotel Le Meridien, New Delhi	25 June 2014	ASSOCHAM

# EVENT MEDIA COVERAGE



Sarathi participated in the 35th SKOCH Summit held on March 21, 2014 at New Delhi. Seen in the picture is Mr. Deepak Sharma, Group MD, Sarathi giving a presentation on "How to prepare for an IPO" at the event.



Sarathi Angels made its first investment in Learning Edge Academy of Professionals (LEAP)







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Bridging the Gap

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