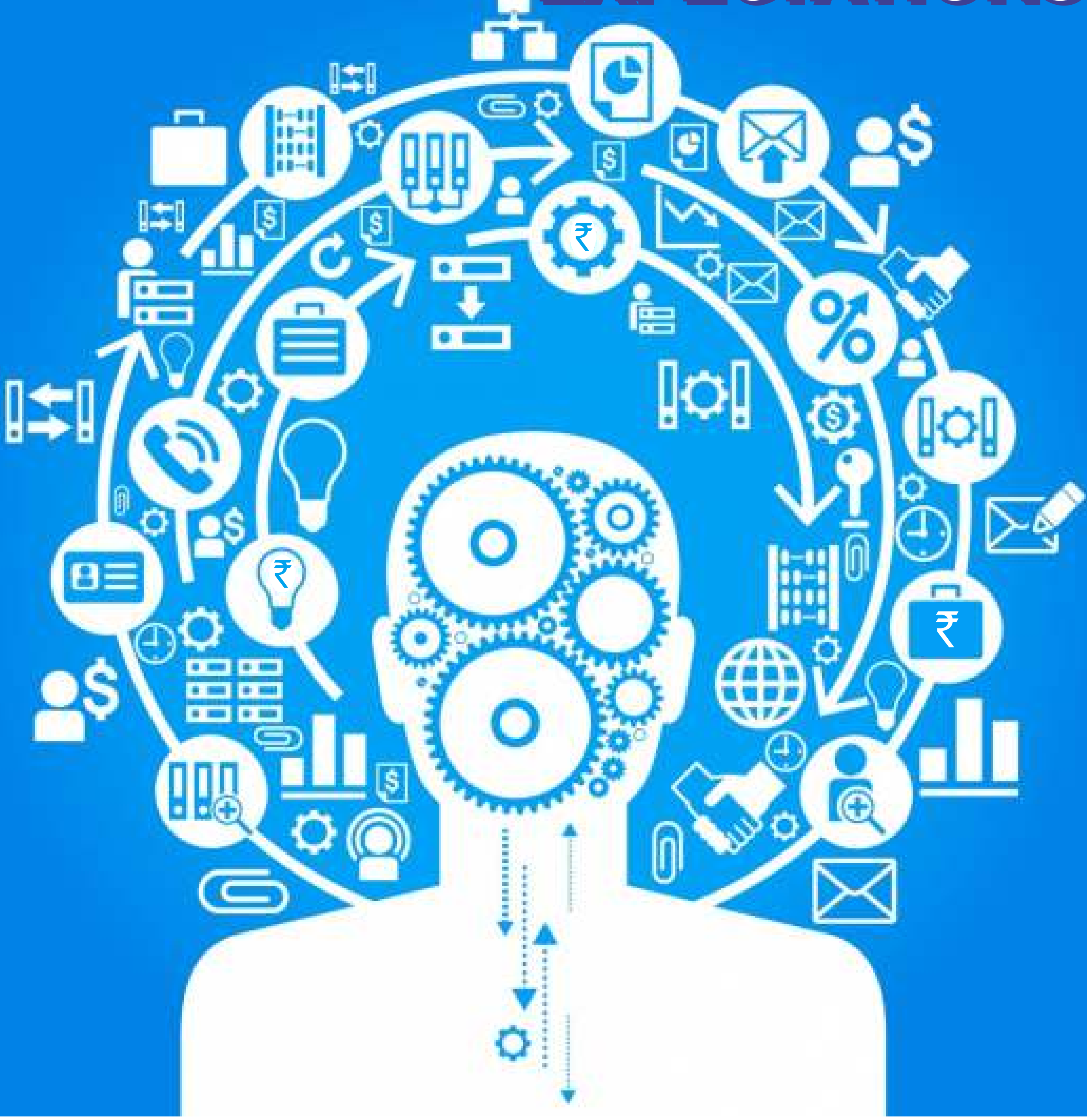
Edition - June - 2014

S-CAP

SME Capital Market Watch

BUDGET EXPECTATIONS



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PREFACE

The victory of the new government in the parliament elections has been felt celebrated all across the country. This has brought new hopes for the people in the country and world over. The most important part of the victory, I believe is that the young population of India has voted for the Economic Growth agenda, which is the phenomena of the developed economies and usually the developing country's population vote for agenda on basic needs. This has given a huge confidence for the future of the country among everyone and especially the international investors.

The markets are too cheering the victory of the new government. Monthly domestic industrial production, highest in last thirteen months, has added the fuel to the party. International geo-political scenario is a cause of worry. The rebels reaching the capital of Iraq and expectation of UN forces to react has triggered the crude prices and caution among the international investors.

With this new confidence, the Indian economy may attract money from both domestic and international investors. In coming days, more venture capital and private equity mangers would be able to pool more funds from investors for India focused businesses. More funds, more capital, more growth.

As budget will be presented soon by the new government, this edition of S-Cap, covers the challenges to the new government and help to set expectation from the budget especially for SMEs. This edition also covers the interview of Dr S.D. Israni, an eminent corporate lawyer. We look forward to your valuable views and suggestions to help us improve the content of S-Cap to make it more informative.

All the best in the new democratic victory for Economic Growth!

Deepak Sharmaa
Group Managing Director

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CHALLENGES FOR THE NEW GOVERNMENT

Preamble:

The results of the general elections were a pleasant surprise. With BJP winning 282 seats (and NDA winning 336 seats) it has set itself up for a firm and stable political mandate for the next five years. The strong single party mandate gives power to the new government to work on bold reforms and turn around the economy much faster than earlier anticipated. Mr. Arun Jaitley has taken up the charge of finance ministry and will present his first union budget in the second week of July.

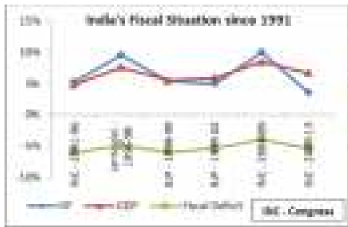
Budget is an important tool in the hands of any government to shape the future of an economy. This budget would be the first major economic statement from the Narendra Modi government and is likely to signal the coalition's stance on various issues such as fiscal consolidation, reviving growth and investment and tax policies. Investors are keenly awaiting the budget for policy cues and the government's strategy on reviving growth, containing inflation, trimming subsidies and measures for the farm and manufacturing sectors.

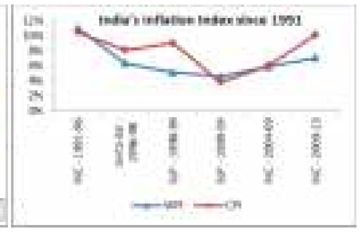
The Performance of Indian Economy since 1991:

None of the parties have won the Lok Sabha elections without the support of any of the alliances since 1989. The 16th Lok Sabha election had created history in India in terms of youth voting as well as the seats won by a single political party. There are many political pandits in India, who would be analyzing the move of Narendra Modi and comparing with that of Atal Bihari Vajpayee. The investment activity was ramped up at the time of Atalji's leadership in 1999-04. India has seen current account surplus during his tenure for the first time since 1991. However, India is still at the same position from where it began its journey in 1991. We may see some reversal trend in the investment activities going forth under the leadership of Narendra Modi.

India was hovering at double digit inflation during 1991. The inflation was moderated few years down the line due to strong policy measures implemented by Manmohan Singh. The Consumer Price Index (CPI) was trailing well below the Wholesale Price Index (WPI) during the tenure of Atalji's government in 1999. This happened for the first time in the Indian history since 1991. The gap between the WPI and CPI has been widened in the recent years. BJP seems to be the believer of lowering inflation index in its ruling as can be seen in the below graph. However, the growth has been compromised during that period as against the congress party having high inflation with moderated growth in its leadership.

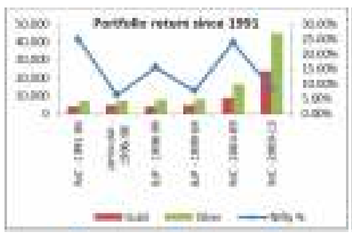
We can see some cooling effect of inflation in the coming period with the expectation of strong policy measures by the RBI as well as the Prime Minister.

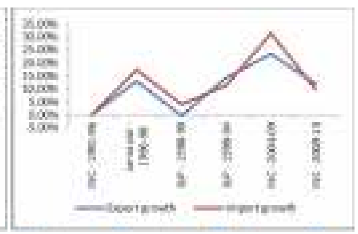




Source: Planning commission, RBI & Ministry of Finance

The economy is experiencing high inflation, high fiscal as well as current account deficit since 1991. There was good policy implementation by the congress party during the 2004-09 tenure, which made the Indian stock market outperform and register an average return of 24 per cent. There was handsome GDP and IIP growth at that time with sustainable inflation level, which boosted the confidence of foreign investors but, the trade deficit has been widened during that period due to imports exceeding exports.





Source: Planning commission, RBI & Ministry of Finance

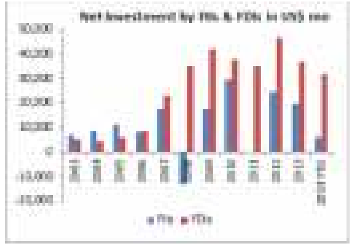
Services basket contributes around 64 per cent, Industry activity contributes around 20 per cent, while the rest is contributed by Agriculture sector to the Indian GDP. HSBC India service PMI is less than 50 since last few quarters (Below 50 shows contraction). Due to the descent performance of Industrial activities, IIP has been at a steady level since few months. The GDP has also been truncated in the last five years. The government expenditure had increased rapidly in the period of 2009-13 but India did not see any investment activities or reforms during that time due to numerous scams taking place, which eventually led to lower growth, high inflation, high fiscal deficit, and high unemployment etc.

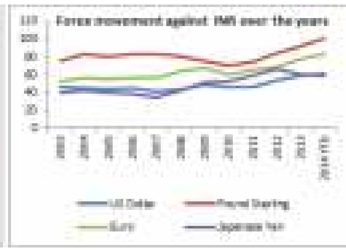
The new government has to come up with a strong growth model, which will increase the business activity as well as the confidence of Indian retail consumers. The agricultural minister needs to think of ways to improve the growth of agriculture sector. India has a few number of warehouses, which has led to unnecessary wastage of crops every year. If one can manage the buffer stock in a well-mannered way, the food inflation can drop to a single digit. If 'El nino' impact gets severe this year, there will be high food as well as consumer inflation going forward. This can increase the probability of another slump year in terms of growth of an economy.

Indian Macros since 2003:

India has been mostly ruled by the congress party since independence. Congress party was the leading party in 2004 and 2009 elections and had been governed by Manmohan Singh, who did an incredible job during the period of 1991 as a Finance Minister. He had introduced various policy measures to stabilize the monetary policy along with the maintenance of fiscal conditions. There were many ups & down seen in the economy during the period of 2004-2013. The positive points since then comprised of the performance of Indian indices, which lure FIIs as well as Retail investors to increase their weightages for Indian Equities. S&P CNX Nifty being traded at the level of around 1100 in the year 2003, which was trading at 6600 at the time of UPA exit; a jump of approximately six folds in an index over a period ten years.

There were peaks and troughs of FIIs investments, INR against major currencies, GDP and IIP etc. in the last decade. This decade was challenging for all Central Bankers as well as the Prime Ministers across the globe. India has seen the pressure from eminent rating agencies to downgrade the economy in the last few years. The economy had high food and consumer price inflation, which led to negative real return for most of the investment baskets and hence, more foreign outflow was seen in the last couple of years. This drove Indian rupee to an all-time low against most of the prominent currencies of the globe. RBI increased the custom duty on gold imports from 2 per cent to 10 per cent to curb the import bill of one of the most importing commodity into India. This has led curbing in the consumption or investment pattern of retail investors into the gold and can be seen the single digit return realized from the yellow metal in the last two years from the recent high. Silver has been an underperformer in the last couple of years and had generated lesser interest from the retail as well as foreign investors.





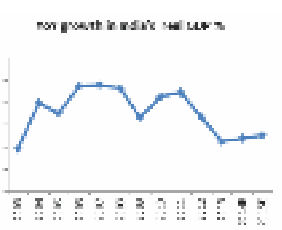
Source: Planning commission, RBI & NSE

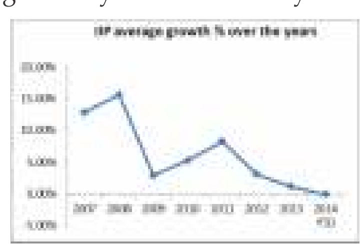
The Investment to GDP ratio has also been reduced in the last couple of years. The global economy has seen troughs in the growth after the Lehman as well as Subprime crisis, where India has faced muted growth from the high growth period of around eight percent. The central bankers are more focused to stabilize their currencies now days; hence the game has been changed to increase the value of an economy by taking an undue advantage of home currency as can be seen in the Yuan and other major currencies in the recent years.

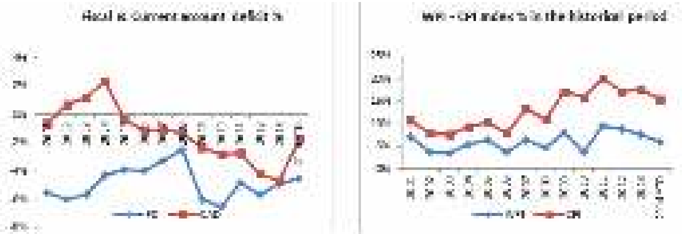
With the reduction in the investment cycle by corporates, the economy has faced almost no growth in the industrial activities, which has reduced the growth of an Indian GDP to almost 5 per cent. RBI has reduced repo rate in many policies in the past but still, the economy is not experiencing any major improvement in the growth. However, the food and consumer price inflation is still hovering at high level and hence, RBI is more focused to stabilize or lower the inflation index by compromising the growth of an economy.

Urjit Patel committee has an objective in mind to reduce the consumer price inflation to 6 per cent by 2016. With the recent high of Indian indices and cooling in the inflation level, investors are having positive real return and hence, more domestic as well as foreign inflows have been seen in the last months. This has also reduced the current account deficit to around 2 per cent.

US FED had implemented three QE programs to increase the Economy growth, Industry growth and improvise the employment rate after experiencing recessionary period in the last couple of years and came out from it under the chairmanship of Ben Bernanke. FED started tapering in the last couple of months; thereby increasing the long term bond yields in US. There can be some foreign money outflows from the country in the days to come but there won't be any drastic impact on the market unless and until, the new government analyse the paralyse policies and come to some conclusion to improvise the investment and growth cycle of an economy.







Source: Planning commission, RBI & NSE

Expectations from the New Government for Indian Economy

- Going by the past performance of the NDA government during 1999-2004 period, there can be expectation of fresh impetus to the manufacturing & infrastructure sector thereby leading to revival in the investment cycle
- The pace of reforms has gathered momentum over the past 15 months and a faster pace can be expected under the new government
- Focus on infrastructure, labour market, urban development & Privatization/revival of PSUs
- Resolve impending tax issues like GST, DTC and retrospective tax.
- Phasing out subsidies on fuel in a well manner.
- Have a pragmatic Environment Minister, who can improve transparency in clearances of various stalled projects.
- Intentions of amending the Land Acquisition Act
- Forge partnership with states to move rapidly on state level clearances.
- The Union Budget will be the first big opportunity for the NDA to portray their policy initiatives.

Overview of SME Sector:

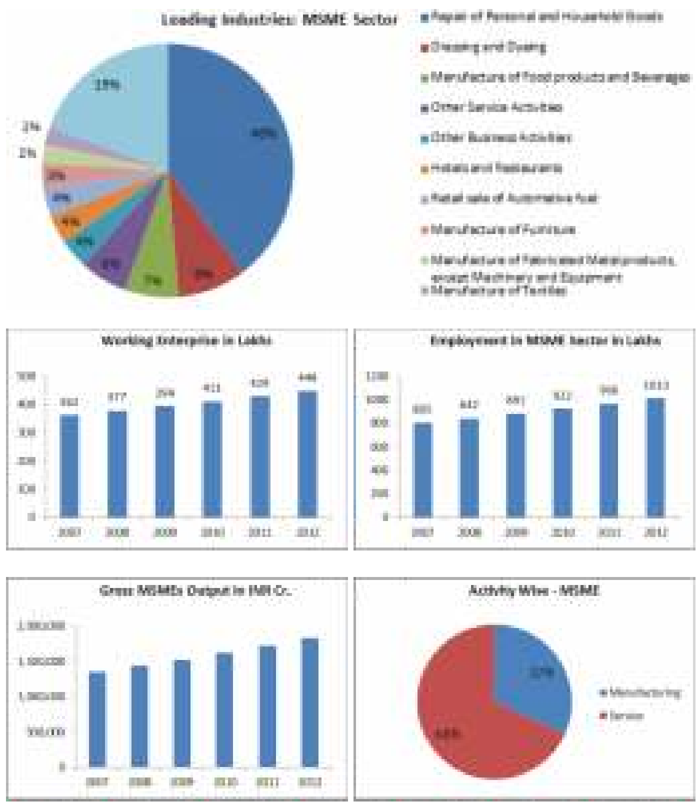
Micro, Small and Medium Enterprises (MSME) play a significant role in the global economy as well as in the domestic economy, with a high revenue and employment generation coming from them, particularly in emerging economies. MSMEs are complementary to large industries as ancillary units, and this sector contributes enormously to the socioeconomic development of the country.

In OECD economies, MSMEs account for over 95% of the firms, 60-70% of employment, 55% of GDP and generate the largest share of new jobs. In developing countries, more than 90% of all firms, outside the agricultural sector, are MSMEs, generating a significant portion of GDP. Globally MSMEs had grown by 6% in the past, with Europe and Central Asia experiencing a growth of 15%. In half of the high income economies, formal MSMEs employed at least 45% of the workforce, compared to only 27% in lower income economies, which further highlights the importance of MSMEs in economic development and job creation. Globally, MSMEs employ one-third of the working population. East Asia and the Pacific have the highest ratio of MSME employment to total employment, with percentage in China being as high as 80%.

The MSMEs are facing major problems related to the availability and cost of credit, marketing support, improving productivity, technology/skill upgradation, infrastructure and the institutional framework for the MSMEs. There are issues related to specific products like Chemicals, Plastic, Leather, Handicrafts, Textiles and Agricultural Products and specific markets.

Indian SMEs Statistics:

The contribution of SME to the Indian economy is over 10% of the GDP. It accounts for nearly 35% of the manufacturing and 40% of the exports. The role of the SME in the employment generation can hardly be discounted. The SME sector is truly representative of the spirit of the Indian entrepreneurship.



Source: MSME Annual Report - 2012-13

A typical SME would require the following benefits from the budget:

- Availability and Cost of Credit: An additional interest subvention of 2% for those exporters who repay on a timely basis; reduction of the spread on foreign currency credit to LIBOR + 2%; automatic increase in foreign currency limits due to rupee depreciation; banks to aim for at least 40% export credit to MSMEs and targets for banks to increase MSME borrowers by 10% annually until 2017.
- Marketing Support: Enhancement of budget and scope

under MDA/MAI schemes; greater focus on brand building and trade fairs; double income tax deduction for marketing expenses; support for E-Commerce and a focus on Asia.

- Productivity/Technology/Skill Upgradation: Modification in labour laws to enable more overtime hours and employment of women in night shifts with necessary safety; enhancement of technology upgradation schemes with both capital subsidy and interest subvention; setting up of research/resource/product development centres and linkages with the technical institutions and CSIR laboratories.
- Infrastructure for MSMEs: 24*7 facilities for export consignments at major air cargo/sea port complexes; enhancement of ASIDE scheme and development of MSME clusters near Highways/Rail Corridors.
- Incentives/Taxes related issues: A differential corporate/income tax regime for MSME exporters; separate ECGC policy for MSMEs to reduce costs; removal of service tax on conversion of export proceeds remittances and a host of issues which will reduce transaction costs in exports.
- Institutional Framework: Constitution of a Standing Committee of Secretaries to resolve policy and implementation related issues; greater coordination at the ground level between Customs and DGFT offices.
- Sector Specific Issues: Based on the suggestions received from sector export councils/associations, a cess of 0.1% on the production of chemical and Plastics, for creating a fund for technology upgradation for the two sectors; additional budgetary support for handicrafts sector, enhancing the support under Integrated Leather Development Scheme; calibrate the exports of cotton yarn; avoid unintended exclusions of fabric items; amendment of APMC Acts for enabling direct purchase of horticulture/vegetable items from farmers by exporters; greater infrastructure support(testing labs, pack houses) for processed agriculture exports.
- General Recommendations: These include increase in capital investment limits in the definition of MSMEs and leveraging of defence offsets to support MSME exports.

Conclusion:

This time, the expectation is quite high for the new Prime Minister from the general public as well as the foreign investors. The Prime Minister has to come up with the new growth model for an Indian economy as was implemented in Gujarat in the last decade. The Indian indices have performed well in the last quarter and have been placed at the top performer index across the emerging markets. However, the story doesn't end here; the government has to work out to cool the inflation level, both consumer as well as food, which is hovering at high level since many years. There was hardly any infrastructure spending seen in the last couple of years, which needs to be boosted. This will benefit other industries attached with the Infrastructure sector like Steel, Cement, and Power etc. Employment level may also increase in an economy along with good amount of spending on consumer durables as well as consumer non-durables. The Government should allow FDI in Railways, Defence etc., while the leaders have to work out on repatriation of black money from abroad. All these measures can increase the foreign inflows into the country and help domestic currency to come at the equilibrium level.

India's new government will be judged by its people on how it tackles rampant corruption in the country and whether it gives a new anti-graft watchdog the teeth to investigate top officials. India is ranked 94th in a list of 177 countries on Transparency International's 2013 Corruption Perception Index, worse than China, South Africa and Brazil. The new Prime Minister needs to look into the policy bottlenecks of various industries and take aggressive measures such as fixing gas price regime, issues on the ban of Goa & Orissa mining, allocation of new coal mines infrastructure spending, and agriculture related issues etc.

One cannot expect major tax soaps to the industries being given in this union budget, as the economy is having high fiscal deficit and inflation, which needs be balanced out in the coming period to have smoother growth. Hence, the primary objective of the government would be to redress all the concerns along with the growth of Indian economy.

- Dhavan Shah

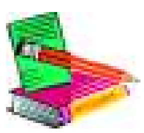
ACCOUNTING & AUDITING -

PROVISIONS UNDER COMPANIES ACT 2013

The Companies Act, 2013 has introduced significant changes in the provisions relating to Accounting. The new concepts and several other amendments are set to affect the manner in which the corporates operates in India. Several additional requirements such as preparation of consolidated financial statements, additional reporting requirements by the directors in their report etc. have been made with a view to bring more transparency, enhance self-regulation and to get an overview of the financial position of the company.

FINANCIAL YEAR

Under the companies act, 1956 there was no restriction on the adoption of financial year. A company was free to adopt a financial year closing on any date. However, it has now been provided in the companies act, 2013 that every company shall follow a financial year starting from 1st April to 31st March of the following year and where a company has been incorporated on or after the 1st day of January of a year, the period ending on 31st day of March of the following year would be its financial year.



BOOKS OF ACCOUNTS

Every company shall prepare and keep at its registered office books of accounts and other relevant books and paper and financial statements (the term financial statement was not provided under the 1956 act) for every financial year which gives a true and fair view of the state of the affairs of the company including its branch offices, if any.

The company may keep books of account or other relevant papers in electronic mode also which was not provided under the companies act, 1956.

If the Board decides to keep books and other papers at any other place in India, a notice to this effect shall be given to the registrar within 7 days of Board's decision.

Inspection Any director during the business hors can inspect the books of accounts and other books and papers maintained by the company within India. In case of financial information, if any maintained outside the country , copies of such financial information shall be maintained and produced for inspection by any director subject to such conditions as may be prescribed.

Inspection in respect of any subsidiary company shall be done only by the person authorized in this behalf by a Board resolution.

Books of account of every company shall be kept for eight years, in case an investigation has been ordered, the Central Government shall have power to ask the company to keep the books of account for a period longer than eight years.

CONSOLIDATED FINANCIAL STATEMENT

Where a company has one or more subsidiaries, it shall in addition to financial statement, prepare a consolidated financial statement of the company and of all the subsidiaries which shall also be laid before the annual general meeting of the company. The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries.

The word subsidiary shall include associate company and joint venture. Consequently, a company that does not have any subsidiaries but has investments in associates or joint ventures will also be required to prepare consolidated financial statement.

The Central Government may, on its own or on an application by a class or classes of companies, by notification exempt any class or classes of companies from complying with any of the requirements above.

Where the company contravenes any of the above provisions the managing director, the whole time director in charge of finance, the chief financial officer or any other person charged by the Board with the duty of complying with the requirements and in the absence of any of these officers, all the directors shall be punishable with imprisonment for a term which may extend to 1 year or with fine not less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

SEC 130 - RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL'S ORDERS

- This new section prohibits a company to re-open its books of account or recast its financial statement unless an application is made by the Central Government, SEBI, Income-tax authorities or any other statutory regulatory body or authority or any person concerned to the Tribunal.
- The Court or the Tribunal shall after giving a notice, pass an order if it finds that the earlier accounts were prepared in a fraudulent manner, or that the affairs of the company were mismanaged casting a doubt on the reliability of financial statements.

SEC 131 - VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPOT

- This new section provides that if it appears to the directors of a company that financial statements of the company or the Board report do not comply with the specified provisions of the companies act, 2013, they may prepare revised financial statements or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal.
- Such revised financial statement or report shall not be prepared or filed more than once in a financial year.

ACCOUNTING STANDARDS

The Central Government may, after consultation with the National Financial Reporting Authority, prescribe the Accounting Standards as recommended by the Institute of Chartered Accountants of India for adoption by companies.

COPY OF FINANCIAL STATEMENT TO BE FILED WITH THE REGISTRAR

A copy of financial statement including consolidated financial statement, if any and all such documents which are annexed to the financial statement and duly adopted at the annual general meeting shall be filed with registrar within 30 days of the date of annual general meeting.

In case the accounts are not adopted at annual general meeting or in adjourned meeting, the unadopted accounts shall be filed with registrar within 30 days of the date of annual general meeting and the registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned annual general meeting.

Where the annual general meeting of a company for any year has not been held, the financial statements along with the documents required to be attached, duly signed along with the statement of facts and reasons for not holding the annual general meeting shall be filed with the registrar within 30 days of the last day before which the annual general meeting should have been held.

DEPRECIATION

Schedule II to the Companies Act, 2013 defines depreciable amount as the cost of the asset, less its residual value, and depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The useful life of an asset is the period over which an asset is expected to be available for use by an entity.

Schedule II will be applicable as follows:

- In case of prescribed class of companies whose financial statements comply with the accounting standards, the useful life and the residual value should be in accordance with the Schedule. However in case of any difference, the company shall disclose the justification for the same.
- In respect of other companies, the useful life of an asset shall not be longer than the prescribed useful life and residual value.

APPOINTMENT OF AUDITORS

Every company shall at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office for five years with yearly ratification by the shareholders in the annual general meeting. Under the 1956 act, an auditor was appointed on annual basis and would hold office till the conclusion of next annual general meeting.

Before the appointment, the auditor has to submit a written consent and a certificate to the effect that the appointment shall be in accordance with the prescribed conditions. The company shall inform the auditor of his appointment and also file a notice of such appointment with the registrar within 15 days of the meeting in which the auditor is appointed.

Listed companies and such other classes of prescribed companies will not be permitted to appoint 'an individual' as an auditor for more than one term of five consecutive years and the 'audit firm' for more than two terms of five consecutive years.

First Auditor: The first auditor of a company other than a Government company shall be appointed by the Board within 30 days from the date of registration of the company and if the Board fails to appoint such auditor, the members of the company shall within ninety days at an extra general meeting appoint such an auditor who shall hold the office till the conclusion of the first annual general meeting.

REMOVAL AND RESIGNATION OF AUDITOR

The auditor may be removed from his office before the expiry of his term by passing a special resolution and after obtaining previous approval of the Central Government. However, before taking any such action, the concerned auditor shall be given a reasonable opportunity of being heard which was not given to the auditors under the 1956 act.

The auditor who has resigned from the company shall file a statement in the prescribed form within a period of 30 days from the date of his resignation with the company and the registrar.

The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statement which are required to be laid before the company in general meeting. The report shall be made after taking into account the accounting and auditing standards and the matters to be included therein.

Where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons there of.

INTERNAL AUDIT:

There was no provision for making the internal audit compulsory in the companies act, 1956.

Section 138 of the companies act, 2013 require such class or classes of companies as may be prescribed to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant or such other professional as may be decided by the Board, to conduct internal audit of the functions and activities of the company.

The manner and the intervals in which the internal audit shall be conducted and reported to the Board shall be prescribed by the Central Government.

The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely-

- Every listed company;
- Every unlisted public company having-
    - Paid up share capital of fifty crore rupees or more during the preceding financial year; or
    - Turnover of two hundred crore rupees or more during the preceding financial year; or
    - Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
-
    - Outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year.
- Every private company having-
    - Turnover of two hundred crore rupees or more during the preceding financial year; or
    - Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

BRANCH AUDIT:

The accounts of the branch office of the company shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor. Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person qualified for appointment as an auditor in accordance with the laws of that country.

COST AUDIT:

Central Government may direct cost audit to be conducted in such classes of companies engaged in the production of such goods or providing such services as may be prescribed and which have a net worth or turnover of such amount as may be prescribed.

The cost audit shall be conducted by a cost accountant in practice who shall be appointed by the Board. An auditor of the company shall not be eligible to conduct cost audit.

AUDIT IN CASE OF GOVERNMENT COMPANY:

The Comptroller and Auditor General of India shall appoint the auditor and direct the manner in which the accounts of the Government Company are required to be audited. The auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor General of India.

The Comptroller and Auditor General of India may, if he considers necessary by an order cause test audit to be conducted of the accounts of such company.

The Companies Act, 2013 has endowed responsibility and introduced high standards for auditors. The concept of consolidated financial statements has been inserted, however there is already a requirement to attach a statement containing salient features of the financial statements of the subsidiary, associate and joint venture thus preparation of CFS would lead to duplication of preparing and presenting the same information in different forms. The provisions relating to re-opening and voluntary revision of the financial statements and Board report has not been acknowledged by SEBI in the listing agreement thus the listed companies may face hardships. Unlike the appointment process at each annual general meeting under the 1956 act, the auditor will now be appointed for five years. The liabilities prescribed under the 2013 act have also been made more stringent.

- Ronika Bharara

Dr. S.D. ISRANI

Dr. S.D.Israni is the Founder and Senior Partner of SD Israni Law Chambers, Advocates & Solicitors (UK) with nearly 40 years of experience in the field of Corporate Laws and Business Advisory Services. He has been nominated in the various committees of central government as well as The Institute of Company Secretaries of India (ICSI) in the field of companies law and securities law. He has also been the Chairman on various committees of the aforesaid.

The new Companies Act is being considered as historic in as much as it will bring India's corporate law in tune with the changing business environment of the 21st century. What are some of the critical areas which in your opinion have been adequately addressed in the new legislation?

SDI: The new Companies Act has been a much awaited piece of legislation that impacts the corporate sector in particular and the entire economy at large, in a big way. In fact, the new law was long overdue and had been in process for the last decade. A major change that has been effected by the new company law is in its approach of doing away with Government approvals in most of the cases and instead delegating that power to the shareholders. Consequently, the companies will be self-managed, so the companies are being subjected to greater transparency, more accountability and enhanced disclosures.The flip side is that the penalties have been increased manifold and any default by companies and their officers will be visited by serious consequences.

The new Act has also updated the company law to be in consonance with the changing times. Moreover, Shareholders rights have been strengthened with measures for their greater participation in the decision making process of companies.

What are the key challenges in implementation of the Companies Act, 2013? How is it going to affect the compliance of Small Cap and Mid Cap companies?

SDI: The new Act is going to pose some very serious challenges for the corporate sector, more particularly the Small and Medium companies. While on the one hand the new law has tried to be in with the modern times, at the same time it has badly let down private companies. It is an accepted fact that in most of the cases private companies are like glorified partnerships and this has been observed by the Company Law Board (CLB) in numerous cases over the years.

However, what the new Act has done is to delete most of the privileges and exemptions given to private companies and thereby increasing manifold the task of compliance under the new Act. This is certainly a regressive measure that needs to be rectified and all the exemptions that have been withdrawn should be restored. Particularly, provisions like section 185 dealing with the loans to directors and organisations in which they are interested, section 188 dealing with related party transactions, etc.

What would be the position of Independent Director under the Companies Act 2013?

SDI: It is interesting to note that while listed companies have been appointing independent directors for the last whole decade as required by the listing agreement, the Companies Act itself had no mention of 'independent director'. The new Act has rectified that deficiency and has given formal recognition to the role and responsibilities of an independent director.

There is no doubt that greater responsibility has been cast on the shoulders of Independent directors, both as members of Audit Committee and the Board. Now the Independent directors have been given a fixed tenure comprising of two terms of upto five years each. They are expected to lead the companies on ethical and legal path even as they face the increasing challenges of modern day business.

Much emphasize is being given to curb insider trading recently. Can we expect to see successful prosecution/final orders on 'Insider Trading' in the coming years?

SDI: While it is easy to understand and explain what amounts to Insider Trading, at the same time it is quite difficult to prove in a court of law the offence of Insider Trading. Not just India, but many other countries are also struggling with the menace of Insider Trading affecting their economies. However, unlike the western countries, our judicial delays also contribute in offenders managing to dodge the legal system.

Hence, unless the regulators make it a mission to apprehend the offenders of Insider Trading and there is no interference by the politicians and the bureaucrats and at the same time judicial system also rises to the occasion, I don't much change taking place in this regard.

Do you think, the mandatory spending of 2% of net profit on corporate social responsibility (CSR) can be considered as business expenditure?

SDI: Every company that is required to incur expenditure towards CSR would like that the amount be treated as business expenditure and be allowable under the Income Tax Act. It will be appropriate that the CBDT and the Central Government considers this demand of the corporate sector favourably.

SEBI recently clamped down on Related Party Transactions (RPTs) by asking for prior approval of audit committee and approval of RPTs by shareholders through special resolution with related parties abstaining from voting. How do you look at it?

SDI: There can be no doubt that the primary job of SEBI is to regulate the capital market and maintain its sanctity; for that purpose SEBI is empowered to make such rules and regulations as it may deem fit from time to time.

However, at the same time the regulators need to realise the needs of the business in the market place as it may not always be possible for many companies to obtain prior approval of the Audit Committee even in respect of Related Party Transactions. There should be a room for ratification of such transactions under certain circumstances.

What is the importance and utility of Compliance viz the Cost, Efficiency and Goodwill for the Companies?

SDI: One hardly needs to over emphasise the utility of compliance viz-a-viz the cost, efficiency and goodwill. It is not just the duty of a company to be compliant with all the applicable laws, rules and regulations, but a compliant company will generate confidence not only in the market place, but also amongst all the stakeholders.

Any company that aspires to grow big and become a leader in its field will have to ensure total compliance. This will enable the company to be fully focused on its business goals thereby earning gratitude of its stakeholders. There are numerous examples of such companies worldwide.

With the change in the Government what are your expectations from the new government for the SME Segment in the Budget?

SDI: The Government needs to realise that the real generators of employment are the small and medium companies; they give a greater buck for every rupee invested as compared to their large counterparts. It is the small sector which gives an opportunity to entrepreneurs to try their skills and play a role in the development of the economy. Therefore, it is imperative that the forthcoming Budget contains measures that will boost the growth of small and medium sector.

How is Secretarial Audit going to benefit the Companies.

SDI: Today compliance is as important as running the business of the company. While the promoters have to concentrate on managing the business part of the company, it is for professionals like Company Secretaries to manage the compliance part.

Today a company operates in a very complex legal environment where multiple laws are applicable. It is necessary for every company to ensure that it is compliant with all the laws applicable to it. In that direction, Secretarial Audit is a wonderful tool which will enable a company to know what are the laws that are applicable to it and at the same time help the company in complying with those laws.

In nutshell, secretarial audit will make the promoters worry free so far as legal compliances are concerned as they would be assured of due compliance with all the applicable laws.

Bansal Roofing Products Ltd (Initiating Coverage - IPO NOTE)

Bansal Roofing Products Ltd (BRPL) was incorporated in 2008 at Vadodara, Gujarat. BRPL started by foraying into business of marketing of roofing sheets and started trading of the same afterwards. The Company is the manufacturer of roofing sheets and roofing accessories such as Colour Coated Roof Sheets, FRP Roof Sheets, Polycarbonate Sheets along with manufacturing Eco Ventilators and other miscellaneous Roofing Accessories. BRPL has a state-of-the-art manufacturing facility situated at Vadodara comprising of automatic and semi automatic Roll forming machine, Crimping Machine, Shearing Machine and folding machine.

Details of installed capacity of their factory:

Sr. No.	Description of each class of goods manufactured	Unit of Measure	Annual Production Capacity
1	Roll Formed Metal Product	Metric Ton	9000
2	FRP Products	Metric Ton	100
3	Ventilators	Units	3000

Key Highlights :

- **Experienced Management Team:** BRPL benefits from the leadership of the management team which has extensive experience in roofing industry. The Promoters actively get involved in operations which result in successful execution.
- **Strong Range of Products, Strong Brand Image:** They have a wide range of products in order to address the varied and expanding requirement of their customers. Over the years, they have successfully developed a strong and reliable brand image, which provides a competitive edge over other competitor.
- **Quality Assurance & Standards:** All products that leave the factory premise goes through stringent quality check.
- **Extensive and Cost beneficial Manufacturing Facility:** The manufacturing facility has all good facility which enables to control costs and increase profit margins and gives a competitive advantage over some of the competitors who do not have their own manufacturing facilities.

Key Challenges:

Volatile Raw material pricing: BRPL depends highly on colour coated steel rolls and aluminium, which are the prime raw materials. They generally procure these raw materials from indigenous suppliers as and when required. Any fluctuation in the international prices of these metals affects the price and supply of these raw materials.

Diversification: The operations are significantly concentrated in Gujarat and failure to expand its operations may restrict their growth and adversely affect the business.

Dependency on Suppliers: BRPL is highly dependent on their Top 10 suppliers for uninterrupted supply of raw-materials. Any disruption in supply of raw materials from these suppliers will adversely affect its operations.

Negative Cash flows: The Company experienced negative cash flows in the previous years. Any operating losses or negative cash flows in the future could adversely affect their results of operations and financial conditions.

Future Prospects:

Backward Integration: Currently, BRPL purchases colour coated galvanized steel rolls from their suppliers. In future, they intend to purchase only steel rolls and to colour those sheets at their end. Further, it intends to move towards galvanizing steel rolls from cold rolls, converting hot rolls into cold rolls gradually, which will enable it to decrease their dependency on raw material suppliers and taking business to new levels.

ISSUE DETAILS

Issue Size (₹ Cr.)	2.04
No. Of Shares on offer(Cr.)	0.06
Price (₹)	30
Face Value (₹)	10
Mcap @ ₹ 30 (₹ Cr.)	6.59

OBJECT OF THE ISSUE

Long Term Working Capital Requirements

General Corporate Purpose

Issue Expenses

Shareholding (%)	Pre IPO	Post IPO
Promoters	97.34	67.22
Other	2.66	32.78

RELATIVE VALUATION

Bansal has no listed peer group company with respect to the industry and business segment in which they operate and the size of the company. The Company has reduced its debt burden since 2013 and hence has a better return on capital employed. BRPL is gaining traction of the business and has its future plans set. Due to economic volatility, the change in the exchange rate may cause volatility in raw material pricing eventually hurting the business.

FINANCIAL PERFORMANCE (₹in Cr)

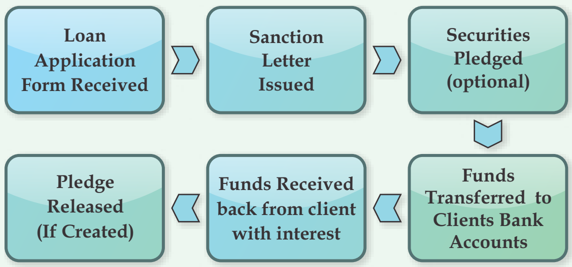
Y/E	2014*	2013	2012
Sales	18.82	17.16	0.71
EBITDA%	4.3	5.6	(6.1)
PAT%	2.2	3.7	(8.3)
ROCE%	27.0	26.9	(2.1)
RONW%	21.4	39.8	(6.1)
ROA	7.2	10.6	(2.8)
Debtors days	17	22	38
Inventory days	49	30	228
Creditors days	38	33	320
Interest coverage	7.5	47.6	(56.1)
Debt/ Equity	0.7	1.1	1.5
EPS	4.1	36.4	(10.3)

Note: 2014* - Financials have been annualized since only 9 months period ended 2013 financials were available

Dhanuka Commercial Private Limited

Dhanuka Commercial Private Limited (DCL) was incorporated on November 16, 1994 having its registered office in New Delhi. DCL is a Non Deposit taking Non-systemically Important Non-Banking Finance Company engaged primarily in the business of advancing loans and investing/trading in securities. The company offers business/personal loans primarily to individuals; and small businesses, including proprietorship firms, as well as micro, small, and medium enterprises. It also provides inter corporate deposits to companies for short/long term financing, bridge loans, and short term working capital requirement.

Process



Key Growth Drivers:

- NBFCs as a whole account for 11.2 per cent of assets of the total financial system. With the growing importance assigned to financial inclusion, NBFCs have come to be regarded as important financial intermediaries particularly for the small-scale and retail sectors
- RBI has been modifying its regulatory and supervising policies from time to time to keep pace with the changes in the system. RBI had decided to give more banking licenses in the years to come to make banking system more efficient. This may benefit the company in the future
- The management team of the company is backed by well qualified and experienced promoters. Their past experience and industry network will help the company in achieving its key business strategies
- The Company backed by its strong clientele and relationship, intends to extend its financing services in other geographical areas in India and target the cities that are financial centres. The company intends to expand to Kolkata in Eastern India and to Jaipur in North-West India, which will improve the financial performance of the company going forward.

Key Challenges:

- Any lending or investment activity is exposed to credit risk arising from the risk of default of nonpayment by borrowers and other counterparties. As at December 31, 2013, all the loans granted are unsecured loans and without any collateral. Any default in the repayment will affect the performance of the company
- All loans are for short term period – within a period of 1 year. The company has to renew its portfolio every year to make it a profitable venture
- DCL has not taken any insurance coverage that can protect the company against certain operational risk. Any unexpected event may cause the financial performance of the company
- The revenue of the company is more sensitive to the group of customers, as its 55% of revenue comes from top 5 clients. Any dismissal of the client from the portfolio will reduce the top and bottom line of the company
- There are many NBFCs in the market at this juncture, which has created unhealthy competition in the financial sector. The company has to come up with the affordable financing to capture the large market share in the years to come.

STOCK INFO

Sector	Financial Services
BSE Code	538446
No of shares (Mn)	16.74
CMP (Rs.)	9.15
Face value (Rs.)	10
Mcap @ Rs.9.15 (Rs. Cr)	15.32
Book Value (Rs.)	8.79
52 week High/Low	9.95 / 9.05

PER-ISSUE SHAREHOLDING (%)

Promoters	64.49
Bodies Corporate	8.72
Individual	26.79

RELATIVE VALUATION

The operating performance of the company has been improved over the years. Operating profit margin of DCL is increased from 2.8% to 43% in the period of two years. EBITDA of the company is grown with a CAGR of 212% in the same period. The rise in the stock market contributed to the top line of the company in the current period, as it is involved into the trading of securities. Net profit margin of the company has also improved from 1.4% to 29.6% in two year time frame. DCL is not giving loans against collateral of gold jewellery. However the profitability of the company will increase over a period of time, when it will add this service basket into its portfolio. Company provides loans to customers ranging to various industries viz. Chemicals, Infrastructure, Logistics, Plastics, etc., any downturn activity in those sectors will impact the profitability of the company as more than 50% revenue is been contributed by those customers only.

FINANCIALS (₹ in Lacs)

Y/E	2014YTD	2013	2012
Revenue	103.52	124.38	164.59
EBITDA%	43.0	13.7	2.8
PAT %	29.6	6.9	1.4
ROCE %	3.0	1.2	0.3
RONW %	2.1	0.6	0.2
ROA %	2.1	0.6	0.2
EPS	0.3	0.1	0.0

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 opened the issue for subscription on 5th May 2014. The issue was subscribed 2.97 times out of which Retail category was subscribed by 2.38 times while Non Retail Investors was subscribed by 3.78 times.
- SPS Finquest Limited, a Non Deposit taking NBFC primarily engaged in the business of advancing loans for investing/trading in securities opened the issue for subscription on 21st May 2014. The issue was subscribed 1.07 times out of which Retail category was subscribed by 0.25 times while Non Retail Investors was subscribed by 1.10 times.
- Encash Entertainment Limited engaged in the business of production of films, corporate films, feature films and having plans of coming up with serials on television filed a draft prospectus for a public issue of Rs. 4.39 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to acquire and produce Indian films including regional language films, to strengthen distribution operations, for brand building and to meet the expenses of the issue.
- Bansal Roofing Products Limited engaged in the business of manufacturing of roofing sheets and roofing accessories filed a draft prospectus for a public issue of Rs. 2.04 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to meet long term working capital requirements, for general corporate expenses and to meet the issue expenses.
- Vishal Fabrics Limited engaged in the business of dyeing, printing and processing of fabrics of its own and also on job work basis filed a draft prospectus for a public issue of Rs. 15.63 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to fund long term working capital requirement and to fund expenditure for general corporate purposes.
- Bhanderi Infracon Limited engaged in development of Residential Flats and Bungalows under Partnership firms filed a draft prospectus for a public issue of Rs. 6.50 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to meet the incremental working capital requirements, for general corporate expenses and to meet the issue expenses.
- Vishal Digital Studio & Color Lab Limited, an integrated end to end post production and visual effects services house engaged in the business of purchase and sales of photo, video, repro, audio-visual and digital imaging equipment filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.
- Sanasa Tech Limited engaged in the business of trading of grey fabric and textile products viz. suiting and shirting filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.
- Nachiketa Agrotech Limited engaged in the trading of a wide range of nursery plants filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.

DEVELOPMENTS

- Richway International Limited engaged in the business of carrying out construction and development of residential projects along with dealing in cotton fabrics used in manufacturing of shirts filed an Information Memorandum. Equity shares are proposed to be listed on the Institutional Trading Platform of the BSE SME Exchange.
- Currently 64 companies are listed on SME platforms of BSE and NSE while 6 companies are listed on ITP Platforms of BSE and NSE.

FORTH COMING IPOS

Name of the Company	Exchange	Issue Size (Rs. crore)	Issue Price (Rs. Per Share)
Encash Entertainment	BSE	4.39	40
Bansal Roofing Products	BSE	2.04	20
Vishal Fabrics	BSE	15.63	45
Bhanderi Infracon	BSE	6.50	125
Tarini International	BSE	16.31	41
Carewell Industries	BSE	4.96	15
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
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

Indian SMEs seek greater UK engagement

The Indian small and medium enterprises (SMEs) sector has called for greater engagement from the UK business community.

The Confederation of Indian Industry (CII) UK tied up with King's College London's India Institute to look into the support available for small Indian firms looking to expand into the UK as well as British SMEs looking at emerging markets.

Canara Bank launches credit scoring model for SMEs

Canara Bank has launched a credit scoring model for financing medium and small enterprises. According to Canara Bank, the scoring model will reduce the arbitrariness and subjectivity in deciding the eligibility for loans and help in reducing the rejection rate of MSME loan applications. It is also expected to increase financial inclusion under the sector. The model helps branch managers decide the eligibility of borrowers under the MSME sector to avail finance from the bank. The eligibility is decided based upon aggregate scores secured by the loan applicant on various parameters prescribed under behavioural, management, business and financial aspects.

Odisha Asks PSUs to Purchase At Least 10% Of Goods From MSEs

The State MSME department asked all officials of Central public sector units (PSUs) or purchasing organisations to purchase at least 10 pc of goods and services from local micro small enterprises (MSEs).

In a missive to authorities of Central PSUs including East Coast Railways, RSP, NTPC, NINL, NALCO, MCL, HAL etc., State MSME Secretary Panchanan Dash stated that as per Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the government is empowered to notify preference policies for procurement of goods and services produced by MSEs.

Based on the Act, the Government of India has brought out public procurement policy 2012 for MSEs which envisage that an overall procurement of minimum of 20 per cent of the total purchases of products and services rendered by MSEs in three years.

Low Cost SEO Services For SMEs

RB SEO Services India, one of the best internet marketing companies in India, has introduced the low cost SEO service for small businesses.

RB SEO Services India has brought this service aiming at attracting those small businesses which cannot afford expansive search engine optimization service.

The company expects the newly introduced service would help it to drive more business opportunities.

Aircel Partners ASKME to Help SME Section

Aircel, one of the leading innovative mobile service providers in India and ASKME a local discovery platform to provide Pay per lead generation plan through an operator billing system entered into unique partnership to help the SME section, said the company.

The revolutionary business lead generation service will provide SMEs the convenience to pay only for the potential leads, thereby helping SMEs address the biggest challenge of upfront investment for increasing business.

Under this partnership, ASKME will promote the registered SMEs through its various channels and Aircel will offer easy lead payment solutions on SME prepaid or postpaid connections.

E-commerce SMEs Bat For FDI

The online SMEs in B2C e-marketplaces have urged the new government to allow foreign investment to help them compete with Chinese firms. The group, consisting of mostly first generation entrepreneurs, said this will enable inflow of foreign capital, expertise and knowledge to propel the industry into its next phase of growth. It would also allow small and medium e-commerce players to source directly from SME producers and manufacturers.

New Govt. Should Introduce Rebated IT For SME Start-Ups: FICCI

FICCI has emphasised that the new government of the BJP-led NDA should introduce rebated income tax for small start-up businesses, in essence individually owned. "Rebated Income Tax for small, start-up businesses linked to employment creation is required," suggested the FICCI statement. Tax benefit will be for defined rebate proportion (say 33-50 percent) and period (say 3-5 years), added.

BEE Wants To Make SME Sector More Energy Efficient

The Bureau of Energy Efficiency has now started stepping forward on the GEF-Unido funded project to improve energy efficiency in the SME sector. BEE will appoint a project coordinator and engineer for the project, according to a news report posted on the website of the Federation of Indian Micro, Small and Medium Enterprises (FISME).

United Nations Industrial Development Organisation (UNIDO) with support from the Global Environment Facility (GEF) had initiated a project in September 2011, titled 'Promoting energy efficiency and renewable energy in selected MSME clusters in India' in collaboration with BEE, the ministry of MSME (MoMSME) and the ministry of new and renewable energy (MNRE).

Focus of the projects are on development and promotion of a market environment for introducing energy efficiency (EE) and enhanced use of renewable energy (RE) technologies for process applications in 12 selected MSME clusters under five energy-intensive MSME sub-sectors.

East India MSMEs perform as well as pan-India peers – CRISIL Report

CRISIL has analysed the growth performance of 393 micro, small and medium enterprises (MSMEs) rated by it in eastern India, mainly West Bengal, Odisha, Jharkhand, and Bihar. The analysis reveals that the average sales of these MSMEs increased to Rs 1,491.11 lakh in 2012-13 from Rs 1,007.59 lakh in 2010-11 (refers to financial year, April 1 to March 31). The compound annual growth rate (CAGR) of 21.65 per cent is on a par with the growth rate of 5,890 CRISIL-rated MSMEs across India, which in turn showed a CAGR of 22.02 per cent, with average sales growing to Rs 2,243.43 lakh in 2012-13 from Rs 1,506.83 lakh in 2010-11. The key growth drivers in east India are the fast-moving consumer goods (FMCG) and agro-processing sectors, which showed a growth rate of 27 per cent and 26 per cent respectively in the analysis period, outpacing the 22.02 per cent growth of MSMEs across India as well as the 21.65 per cent growth of their peers across various sectors in east India.

SME funding to get Rs 5,000-cr boost

The government, with the help of the capital market regulator, is planning to set up a first of its kind co-investment fund to fund small and medium enterprises (SMEs), considered the backbone of the Indian economy.

According to sources, the fund will have an initial corpus of Rs 5,000 crore and anchored by two state-owned financial institutions — insurance behemoth Life Insurance Corporation (LIC) and Small Industries Development Bank of India (SIDBI), an institution set up to provide funding for SMEs.

The fund will be modelled around similar investment vehicles set up in developed nations like Germany and Austria, to address financing challenges to start-ups, especially in the high growth sectors like technology.

FIXED PRICE VS BOOK BUILDING ISSUE

INTRODUCTION

A company may raise equity capital in the primary capital market through Initial Public Offers (IPOs), rights issues and private placement. IPO is a process through which an unlisted Company can be listed on the stock exchange by offering its securities to the public in the primary market. This paves way for listing and trading of the issuer's shares or convertible securities on the Stock Exchanges.

ELIGIBILITY NORMS

An unlisted issuer making a Public Issue (i.e. IPO) is required to satisfy the following provisions:

I. Entry Norm I (commonly known as "Profitability Route")

The Issuer Company shall meet the following requirements:

(a) Net Tangible Assets of at least Rs. 3 cr in each of the preceding 3 years of which not more than 50% are held in monetary assets. However, the limit of 50% on monetary assets shall not be applicable in case the public offer is made entirely through offer for sale.

(b) Minimum of Rs. 15 cr as average pre-tax operating profit in at least 3 of the immediately preceding 5 years.

(c) Net worth of at least Rs. 1 cr in each of the preceding 3 years.

(d) If the company has changed its name within the last 1 year, at least 50% revenue for the preceding 1 year should be from the activity suggested by the new name.

(e) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size does not exceed 5 times its pre-issue net worth as per the audited balance sheet of the preceding financial year

To provide sufficient flexibility and also to ensure that genuine companies are not limited from fund raising on account of strict parameters, SEBI has provided an alternative route to the companies not satisfying any of the above conditions, for accessing the Primary Market, as under:

II. Entry Norm II (Commonly known as "QIB Route")

Issue shall be through book building route, with at least 75% of net offer to the public to be mandatory allotted to the Qualified Institutional Buyers (QIBs). The company shall refund the subscription money if the minimum subscription of QIBs is not attained.

Companies intending to list on SME Exchanges are exempted from the above regulations.

DIFFERENT TYPES OF PRICING OF ISSUES

Indian primary market ushered in an era of free pricing in 1992. SEBI does not play any role in price fixation. The issuer in consultation with the merchant banker on the basis of market demand decides the price. The offer document contains full disclosures of the parameters which are taken in to account by Merchant Banker and the issuer for deciding the price. The parameters include EPS, PE multiple, return on net worth and comparison of these parameters with peer group companies.

On the basis of Pricing, an issue can be further classified into Fixed Price issue or Book Built issue.

A. Fixed Price Issue

An issuer company is allowed to freely price the issue. The basis of issue price is disclosed in the offer document where the issuer discloses in detail about the qualitative and quantitative factors justifying the issue price.

The price at which the securities are offered and would be allotted is made known in advance to the investors by way of disclosure in the draft prospectus. The demand for the securities offered is known only after the closure of the issue

B. Book Building Issue

The methodology of issuing securities by giving a price range is known as book building method. A book building is a price discovery mechanism. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the issuer. The process is directed towards both the institutional as well as the retail investors.

The issue price is determined after the bid closure based on the demand generated in the process. In the book building process, a 20% price band is offered within which investors can put in their bids. The final price is decided once the bidding closes. The shares are allotted pro-rata and if the buyer doesn't get full allotment, money is refunded.

The demand for the securities offered, and at various prices, is available on a real time basis on the website of the stock exchanges during the bidding period.

Floor price or price band is disclosed in the red herring prospectus. The issuer is required to announce the floor price or price band at least 5 working days before the opening of the issue in case of an IPO.

ALLOTMENT OF SHARES

Investors are broadly classified under following categories-:

a. Retail individual Investor (RIIs)
b. Non-Institutional Investors (NIIs)
c. Qualified Institutional Buyers (QIBs)

SEBI has stipulated certain guidelines for allotment of shares.

Fixed Price Issue

The proportionate allotment of securities to the different investor categories in a fixed price issue is as described below:

1. A minimum 50% of the net offer of securities to the public shall initially be made available for allotment to RIIs.
2. The balance net offer of securities to the public shall be made available for allotment to:
   a. Individual applicants other than RIIs, and
   b. Other investors including corporate bodies/ institutions irrespective of the number of securities applied for.

Book Built Issue

In case an issuer company makes an issue of 100% of the net offer to public through voluntary book building process under profitability route:

a) Not less than 35% of the net offer to the public shall be available for allocation to RIIs
b) Not less than 15% of the net offer to the public shall be available for allocation to NIIs
c) Not more than 50% of the net offer to the public shall be available for allocation to QIBs

In case of compulsory Book-Built Issues

a) At least 75% of net offer to public being allotted to QIBs, failing which the full subscription monies shall be refunded.
b) Not more than 15% the net offer to the public shall be available for allocation to NIIs
c) Not more than 10% the net offer to the public shall be available for allocation to RIIs

What's in Press?

SMEs raise Rs 317 cr via IPOs in FY14

As many as 37 small and medium enterprises (SMEs) got listed on Indian bourses in 2013-14, with public issues worth Rs 317 crore. It was 32.63% more than Rs 239 crore garnered by 24 companies on the SME platform of the stock exchanges in 2012-13, as per the latest data with market regulator Sebi.

Month-wise, the stock exchanges saw five initial public offerings (IPOs) each in August, September, October and March, on the SME platform. Anisha Impex, Shri Krishna Prasadam, Oceanaa Biotek Industries, R&B Denims and Women's Next Loungeries made public debut on the SME segment in March. The issues of these firms amounted to a total of Rs 21 crore. February saw the highest number of 6 IPOs on the SME platform raising Rs 38.7 crore.

In terms of value, IPOs of five companies amounting to Rs 84 crore in October was the highest amount recorded for a month last fiscal. Leading bourses BSE and the National Stock Exchange (NSE) had launched the SME platforms in March 2012, the only two bourses with such a segment in the country. BSE has 57, and NSE 5 firms listed on their respective SME platforms.

The platforms provide opportunity to SME entrepreneurs to raise equity capital for growth and expansion. They also provide opportunity for investors to identify and invest in good SMEs in early stages of growth.

Source: Business Standard

QUOTES

GUNVEENA CHADHA
DIRECTOR & UK HEAD OF CII

"SMEs are very important as the next level of growth will come from that sector. But there is a lack of engagement from the UK in this sector. Some of these Indian firms are internationalised with a presence around the world but when they come to the UK, there is a certain level of engagement missing"

SHARAD JAIPURIA
PRESIDENT, PHD CHAMBER OF COMMERCE & INDUSTRY

"It has been observed that formal MSMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies. Although the economy of Delhi-NCR is dominated by the services sector, however, the MSME sector is also one of the major employment intensive segments in the economic development of the national capital region. It is estimated to have 5.52 lakh MSMEs in the city, out of which only 0.04 lakh MSMEs are operating in the registered sector"

"NMCC would propose to the new government to set up public funded equity funds to extend and release financial assistance to industry in its mi d and smaller segments since such industries suffer from credit from public and financial institutions"

AJAY SHANKAR
MEMBER SECRETARY, NATIONAL MANUFACTURING COMPETITIVENESS COUNCIL

"The Central Bank could give more chances to new players to open small banks to fulfill local needs, including needs of small and medium enterprises (SMEs)"

RAGHURAM RAJAN
RBI GOVERNOR

"The top slot among SMEs is always vacant. Many SMEs fail too after being set up. But we have to change the mindset and start seeing failure as an opportunity, the way our western world counterparts do. Unless SMEs constantly re-invent themselves, it will be hard for them to survive and there won't be a problem of plenty."

DINESH AWASTHI
DIRECTOR, ENTREPRENEURSHIP DEVELOPMENT INSTITUTE OF INDIA

SME Market Statistics

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	9.85	-1.50%	8.60	15.75
3.	Alacrity Securities	8.25	-45.00%	6.10	13.25
4.	Amrapali Capital	48.00	-52.00%	39.00	103.00
5	Anisha Impex	24.70	147.00%	11.60	29.70
6	Anshus Clothing	3.80	-85.93%	3.60	16.98
7	Ashapura	131.65	229.13%	69.00	135.00
8	BC Power	19.00	5.56%	17.15	21.00
9	BCB finance	25.25	1.00%	25.05	25.35
10.	Bothra Metals	21.25	-15.00%	18.25	34.20
11.	Bronze Infra	37.60	150.67%	5.80	37.60
12.	Captain Polyplast	62.00	106.67%	33.00	63.00
13.	Channel Nine	474.10	1796.40%	31.80	508.00
14.	Chemtech	14.00	-6.67%	14.00	15.50
15.	Comfort Commotrade	27.90	179.00%	22.00	45.95
16.	Eco Frendly	445.00	1680.00%	28.75	445.00
17.	eDynamics	187.30	1773.00%	25.40	221.55
18.	Esteem Bio	501.70	1906.80%	57.20	645.00
19.	GCM Capital Advisors	38.75	93.75%	33.55	38.75
20.	GCM Comm	10.00	-50.00%	7.55	21.25
21.	GCM Securities	541.00	2605.00%	119.00	545.00
22.	HPC Biosciences	628.20	1694.86%	54.90	652.00
23.	India Finsec	9.97	-0.30%	9.55	19.40
24.	Jointeca Education	20.50	36.67%	10.95	20.50
25.	Jupiter Infomedia	30.00	50.00%	24.75	31.05
26.	Karnimata Cold Storage	22.15	10.75%	20.25	30.00
27.	Kavita Fabrics	42.00	5.00%	33.60	44.90
28.	Kushal Tradelink	35.00	0.00%	33.05	53.25
29.	Lakhotia Polymers	35.90	2.57%	33.85	36.60
30.	Looks Health	86.00	115.00%	86.00	437.00
31.	Max Alert	140.00	600.00%	90.00	144.00
32.	Money Masters	8.07	-46.20%	7.33	19.65
33.	Newever Trade	43.00	330.00%	12.20	46.05
34.	Oceanaa Biotek	10.00	0.00%	9.30	11.00

Sr No	Company	Closing#	%Returns*	52 Week Low	52 Week High
35.	Onesource Techmedia	6.66	-52.43%	3.95	11.80
36.	Polymac Thermoformers	66.05	88.71%	34.75	66.05
37.	R&B Denims	12.50	25.00%	10.55	15.43
38.	RCI Industries	38.00	-5.00%	22.55	48.45
39.	RCL Retail	18.95	89.50%	14.10	49.85
40.	RJ Biotech	39.75	98.75%	21.00	48.75
41.	Samruddhi Realty	51.90	332.50%	26.66	58.00
42.	Sangam Advisors	20.10	-8.64%	19.00	25.00
43.	Satkar Finlease	54.45	202.50%	19.90	54.45
44.	Shri Krishna Prasadam	13.72	37.20%	11.90	13.72
45.	SI VI Shipping	35.00	40.00%	26.10	43.35
46.	Silverpoint Infra	7.15	-52.33%	5.70	14.80
47.	SPS Finquest	72.00	-4.00%	72.00	78.80
48.	SRG Housing	20.50	2.50%	20.50	78.54
49.	SRG Securities Finance	30.00	50.00%	20.00	30.00
50.	Stellar Capital	6.70	-66.50%	6.65	21.10
51.	Subhtex	23.60	136.00%	12.00	25.65
52.	Sunstar Realty	202.00	910.00%	35.60	218.00
53.	Suyog Telematics	25.20	0.80%	24.50	26.90
54.	Tentiwal Wires	14.00	7.69%	7.00	14.00
55.	Tiger Logistics	72.00	9.09%	57.00	81.00
56.	Unishire Urban Infra	20.10	101.00%	9.45	21.90
57.	VCU Data	30.00	20.00%	23.10	52.20
58.	VKJ Infradevelopers	82.65	451.00%	15.55	82.65
59.	Women's Next	71.00	9.23%	64.60	73.50
60.	Mitcon	50.00	-18.03%	37.95	60.00
61.	Opal	114.55	-11.88%	97.60	128.45
62.	Sanco	21.25	18.06%	16.55	21.25
63.	Thejo	209.00	-48.01%	209.00	209.00
64.	Veto	66.00	32.00%	50.40	75.00

*Absolute returns since IPO. # Closing prices as on 6th June, 2014 *Source: BSE India Limited, NSE Emerge

	Closing#	%Returns YTD
BSE SME IPO	927.94	573.49 %
TSE MOTHERS	832.23	100.52 %
CHINEXT PRICE INDEX	1,350.45	91.46 %
FTSE AIM All Share Index	805.19	12.46 %
TSX Venture Composite	987.45	-20.36 %
Hong Kong GEM Index	512.77	34.41 %

Closing Values as on 6th June, 2014

MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	RCI Industries & Technologies	B.C. Power	eDynamics Solutions	RCL Retail	Bronze Infra	Eco-friendly	Sunstar Realty
A.Valuation / Market Cap	**(₹ Crore)**									
Pre Issue Net Worth	20.82	16.34	11.64	25.63	10.29	8.55	5.60	5.02	8.606	5.54
Issue Size	12.21	7.52	5.00	11.52	10.37	15.60	5.80	8.56	7.515	10.62
Market Capitalization*	39.35	30.45	37.63	41.42	22.34	406.27	23.33	64.96	1102.04	477.18
B. Price Pattern	**(₹ per Share)**									
Issue Price	25.00	66.00	20.00	40.00	18.00	25.00	10.00	15.00	25.00	20.00
CMP (Face Value Rs. 10)*	21.25	72.00	39.75	38.00	19.00	187.30	18.95	37.60	445.00	202.00

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	SI VI Shipping	GSM Capital Advisors	Ace Tours Worldwide	Newever Trade	Looks Health	Captain Polyplast
A. Valuation / Market Cap	**(₹ Crore)**									
Pre Issue Net Worth	5.56	7.10	4.39	4.80	3.09	25.30	8.71	17.53	0.75	7.36
Issue Size	11.67	8.00	2.60	15.75	6.86	9.00	8.00	6.30	7.20	5.94
Market Capitalization*	736.11	128.79	43.66	1002.61	20.13	65.64	37.63	102.96	51.60	46.27
B. Price Pattern	**(₹ per Share)**									
Issue Price	25.00	20.00	12.00	35.00	25.00	20.00	16.00	10.00	40.00	30.00
CMP (Face Value Rs. 10)*	474.10	140.00	51.90	628.20	35.00	38.70	29.70	43.00	86.00	62.00

Particulars	Esteem Bio	Satkar Finlease	VKJ Infradevelopers	Subh Tex	Ashapura Intimates	Comfort Commotrade	Sanco Industries	Thejo Engineering	Mitcon Consultancy	Opal Luxury
A. Valuation / Market Cap	**(₹ Crore)**									
Pre Issue Net Worth	8.56	21.16	5.40	16.43	10.98	4.43	16.43	25.8	54.42	11.82
Issue Size	11.25	13.51	12.75	3.50	21.00	6.00	4.32	19.00	25.01	12.00
Market Capitalization*	748.44	103.69	147.53	25.96	256.29	27.96	18.21	35.88	60.50	38.48
B. Price Pattern	**(₹ per Share)**									
Issue Price	25.00	18.00	15.00	10.00	40.00	10.00	18.00	402.00	61.00	120.00
CMP (Face Value Rs. 10)*	501.70	54.45	82.65	23.60	131.65	27.90	21.25	209.00	50.00	114.55

**Closing prices as on 6th June, 2014*
** Source: BSE India Limited, NSE Emerge*

UPCOMING EVENTS

Name of Event	Place	Date	Organizer
Technology Transfers & Joint Ventures Opportunities for SMEs	Mumbai	20th June 2014	SME Chamber of India
Roundtable on Government Procurement Policy – Advantages for SMEs	Mumbai	June 2014	SME Chamber of India
India SME Banking Conclave	Mumbai	July 2014	SME Chamber of India
Improving access to Finance Stimulating Growth for MSMEs	Hotel Le Meridien, New Delhi	25th June 2014	ASSOCHAM
SME Finance & Investment Summit	Mumbai	August 2014	SME Chamber of India
India SME Manufacturing Summit	Mumbai	August 2014	SME Chamber of India
India SME Manufacturing Excellence Awards	Mumbai	August 2014	SME Chamber of India
Streamlining Export & Trade Finance for SMEs	Mumbai	August 2014	SME Chamber of India
SME Export Excellence Awards	Mumbai	August 2014	SME Chamber of India

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Mr. Deepak Sharma, Group MD, Sarthi being felicitated by ROTARY BSE

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