

Edition - December - 2014

S-CAP

SME CAPITAL MARKET WATCH

Trade RECEIVABLES Discounting SYSTEM

*SEBI New
Securities
LISTING
NORMS*

*INSIDER TRADING
Regulations
2014*

*Revised Delisting
NORMS SOME HITS
and Some Misses*



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

SARTHI



On the basis of the data on GDP published by CSO, the Ministry of Statistics & Programme Implementation and final results of the latest Census, the estimated contribution of MSME Sector to GDP during 2010-11, 2011-12 and 2012-13 are 36.69%, 37.97% and 37.54% respectively.

As per Directorate General of Commercial Intelligence and Statistics estimated data, the share/contribution of MSMEs in export during 2011-12, 2012-13 and 2013-14 are 43%, 43% and 42.40 % respectively.

This contribution is far below than the contribution by MSME in the developed economies. The biggest task for any government to boost up the economy is to push from the root level i.e. MSMEs. Also, regulatory reforms key to improve India's ease of doing business. Ease of doing business is critically important for attracting investments and creating jobs. New government seems to be making the right noises. The union cabinet approved amendments to the Companies Act 2013 to address some of the concerns raised by the corporate and other stakeholders.

Capital market regulator, SEBI too pushing down the transparency agenda to improve investor's confidence along with the theme of ease of doing business. Recently SEBI has notified new norms on Insider trading, Listing agreement and Delisting. In this issue of S-cap, we have tried to explain these newly notified norms along with articles on Way & Means for efficient working capital management for SMEs, Trade receivable discounting and Demand Guarantee by banks.

We at Sarthi, are committed to the SMEs in India to support in the capital markets as a Merchant Banker for the growth of their business.

Regards,

- *Deepak Sharma*
Group Managing Director

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Revised Delisting Norms – Some Hits and Some Misses

HISTORICAL PERSPECTIVE

SEBI Delisting norms are in fact the least talked about piece of regulations yet are in fact very crucial. SEBI vide notification dated June 10, 2009 notified the SEBI (Delisting of Equity Shares) Regulations, 2009 ("Delisting Regulations"), thereby superseding the earlier SEBI (Delisting of Securities) Guidelines, 2003. Delisting Regulations were framed after extensive consultations with various market participants and investor associations in order to safeguard the interest of investors.

With the passage of time SEBI received several representations from market participants including stock exchanges, industry representatives and investor associations, highlighting the challenges faced in delisting process and suggestions to address the concerns. The stakeholders mainly had pointed out issues pertaining to the delisting process both in the cases where the delisting offer has succeeded or failed.

In case of successful delisting offers, stakeholders have apprehended that the success of the offer was due to tacit understanding between promoters and a set of investors. Similarly, when the delisting offer fails, stakeholders also had raised concerns that the discovered price through reverse book building process has been unduly influenced by a set of investors who are mainly speculators.

HITS

1. Change in the threshold limit for successful delisting
Under the Delisting Regulations, delisting was considered

successful when promoters shareholding (along with the persons acting in concert) reached higher of 90% of the total issued shares of a particular class or aggregate of pre offer promoter shareholding and 50% of the offer size. Now, Delisting Regulations have been amended to consider delisting successful when promoters reach:

- 90% of the total share capital of the company; and
- At least 25% of the number of public shareholders (holding shares in dematerialized mode as on date of Board of Directors meeting approving such delisting proposal) tender their shares.

2. Determination of offer price

Under the Delisting Regulations, the offer price was determined through Reverse Book Building ('RBB') process (ie price at which maximum number of public shareholders tendered their shares). SEBI has now approved RBB process with modification, according to which, offer price would be a price at which shareholding of promoter reaches the prescribed threshold limit of 90%.

3. Joint framework with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

An option has been granted to acquirer pursuant to triggering Takeover Regulations to delist the shares of company directly through Delisting Regulations. However, in case of a failed delisting attempt, promoters are required to carry out mandatory open offer process as per the Takeover Regulations and pay an interest @ 10% per annum for the delayed open offer.

4. Use of stock exchange platform

Under the Delisting Regulations, offer for tendering of shares was carried out through off market transactions. However, Board has approved the transfer of shares pursuant to delisting proposal to be done on the platform of stock exchange.

5. Appointment of Merchant Banker

Under the Delisting Regulations, the responsibility of appointing merchant banker was on the promoters, however, now Board of Directors of the company will be required to appoint merchant banker.

6. Prohibition on making a delisting proposal

Promoter/promoter group will be now prohibited from making a delisting offer if any promoter/ promoter group entity has sold shares during 6 months prior to the date of the Board of Directors meeting approving the delisting proposal.

7. Timeline

Delisting timeline has been reduced from 137 calendar days (around 117 working days) to 76 working days. The change in process which results in reduction of timelines has not yet been disclosed.

8. Exemption from Reverse Book Building (RBB process)

Earlier companies with paid up capital of Rs 1 crore (with no trading in its shares since past one year) were exempted from carrying out RBB process. However, now this clause has been amended to exempt companies with paid up capital not exceeding Rs 10 crores and net worth not exceeding Rs 25 crores subject to compliance of certain conditions.

9. Additional powers to SEBI

SEBI has been empowered to relax any strict enforcement/ compliance with the provisions of the Delisting Regulations.

SOME MISSES

The new Delisting Regulations have plugged in many of the unplugged areas of the Delisting Guidelines. But still, there is scope of changes where there are interpretational issues and grey areas. Some of these are -

1. As per clause 2 of Regulation 3, delisting made pursuant to a scheme sanctioned by BIFR or NCLT have been exempt from the Regulations. However, no clarification has been provided in regard to delisting pursuant to a Restructuring Scheme u/s 391/ 394 of the Companies Act.

2. As per Regulation 8, the Exchanges while considering an application seeking in-principle approval for delisting, may require the Company to satisfy it as to the compliance with any condition of the listing agreement with that recognised stock exchange having a material bearing on the interests of its equity shareholders. By reading the above provision, it is not clear as to what conditions will have a material bearing on the interests of the shareholders.

3. As per clause 4 4 of Regulation 8, the Exchanges while considering an application seeking in-principle approval for delisting, may require the Company to satisfy it as to any litigation or action pending against the company pertaining to its activities in the securities market or any other matter having a material bearing on the interests of its equity shareholders;. There is no clarity as to what kind of litigations/ actions are being talked about. Further, will the Exchanges wait for the clearance of the litigation or the pending action or will the Exchanges accept an Undertaking from the Companies/ their Promoters to abide by the decision of the Authority before which the litigation or action is pending.

4. In case of Compulsory Delisting of Companies by the Stock Exchanges, although it has been specifically provided in Regulation 23 that an Independent valuer shall be appointed by the Exchange & the promoters shall be acquiring shares from public shareholders by paying them the determined fair value. But no where, the Control Mechanism for the same has been prescribed. Who will keep a check on whether the promoters of such compulsorily delisted companies have actually paid the said value to the shareholders or not.

5. Regulation 24 prescribe the Consequences of Compulsory Delisting as under: Where a company has been compulsorily delisted under this Chapter, the company, its whole time directors, its promoters and the companies which are promoted by any of them shall not directly or indirectly access the securities market or seek listing for any equity shares for a period of ten years from the date of such delisting.

The prescribed consequences are too severe in the sense that the promoters and even Directors cannot access the securities market or seek listing for a period of 10 years. Even the status of Nominee or Independent Directors has not been clarified.

- Rishikesh Vyas



INTRODUCTION

Insider trading essentially is the wrong trading of securities with the advantage of having asymmetrical access to unpublished information which when published would impact the price of securities in the market. Insider trading has been attracting regulatory attention worldwide. While jurisdictions across the world are unambiguously unanimous in the resolve to fight insider trading by ensuring a level-playing field for trading in the securities market primarily on the ground that it erodes investor confidence in the market and the integrity of price discovery, legal treatment of what precisely should be the measure to determine whether an act of trading by an insider is illegal varies across jurisdictions.



In India, insider trading is not only a tort i.e. a civil wrong but also a crime. The SEBI Act does not define the term by itself although it refers to the term insider trading in many provisions. However, using the powers to make regulations and in discharge of its functions, SEBI

has made regulations prohibiting insider trading in the form of the PIT Regulations, 1992, which have defined various terms such as connected person, dealing in securities, insider, price sensitive information, to name a few, to build up a framework of the prohibition on insider trading.

JUSTICE SODHI COMMITTEE

The existing Insider Trading Regulations was enacted long back and with the passage time it had become outdated and in order to enact a new legislation on Insider Trading the SEBI had constituted High Level Committee

to Review the SEBI (Prohibition of Insider Trading) Regulations, 1992 constituted under the Chairmanship of Justice (Shri.) N.K. Sodhi, former chief justice of Karnataka and Kerala High Courts and former presiding officer of the Securities Appellate Tribunal and the said committee after obtaining feedbacks from the business, professional bodies and public at large submitted its report to SEBI Chairman, Shri U.K. Sinha, on December 7, 2013 at Chandigarh. The Committee had made a range of recommendations to the legal framework for prohibition of insider trading in India and has focused on making this area of regulation more predictable, precise and clear by suggesting a combination of principles-based regulations and rules that are backed by principles. The Committee has also suggested that each regulatory provision may be backed by a note on legislative intent.

What is that the new regulations proposed to achieve?

The Proposed Regulations entail a prohibition on trading by insiders in securities when in possession of UPSI, thus obtaining an unfair advantage. They also entail outlawing communication of UPSI by any insider except where such communication is legitimately necessary for performance of duties or discharge of legal obligations. Towards this end, it is necessary to have regulations on the following

1. Who an insider is and how a connected person has to shoulder a higher burden than those who receive UPSI and thereby attract the prohibition on trading.
2. When information takes the character of unpublished price sensitive information.
3. When information can be regarded as generally available information.
4. What type of securities are covered by the prohibition against insider trading.

5. How insiders may arrange their affairs in a compliant manner to have the capacity to trade in securities.
6. Recording and disclosing trades by connected persons; and most importantly, what defences may be available validly pressed considering the nature of the prohibition on trading by insiders when in possession of UPSI.

The regulations governs the aforesaid topics and issues and has devised the rules under which the Insiders and connected persons have to deal in one hand and on the other hand has created provisions of price sensitive information to enable outside shareholders take informed and timely decisions.

KEY ISSUES UNDER THE NEW INSIDER TRADING REGULATIONS

1. Connected Person

Connected person has been defined to mean any person who is or has during the six months prior to the concerned trade been associated with a company in any capacity including by reason of frequent communication with its officers or being in any contractual, fiduciary or employment relationship and includes any person who is a public servant or occupies a statutory position that allows such person access to unpublished price sensitive information relating to the company or is reasonably expected to allow such access. Also now the immediate relatives of connected persons shall be deemed to be connected persons unless such immediate relative can establish absence of access or reasonable expectation of access to unpublished price sensitive information. This definition now brings into its ambit persons who may not seemingly occupy any position in a company but are in regular touch with the company and its officers and are involved in how the company operates. Thus the intention is to bring within its ambit those who would have access to unpublished price sensitive information about any company or class of companies by virtue of being government servants and occupying official positions that would put them in possession of unpublished price sensitive Information.

Following two examples reflects how wide the definition of Insider Trading is now –

I An officer in the government who would know ahead of the market about a proposed policy change that would impact market price say, a proposed change in foreign

ownership limit in specific sectors would be a connected person and thereby an insider.

A judge whose decision in a litigation could have a material bearing on the price of the securities in the market when the judgement is made public, say, a decision on a dispute over whether the offer price for an open offer under the takeover regulations should be higher or lower. All such persons are intended to be “connected persons” and thereby insiders who would be prohibited from trading in securities of the company when in possession of unpublished price sensitive information.

2. Insider

The terms Insider very much crucial in the whole scheme



of Insider Trading and under the new regulations the definition is clear. In short the definition within its reach covers any person if they are connected person or are in possession of unpublished price sensitive information (UPSI).

Now the definition has become much wider in its scope and it includes persons connected on the basis of being in any contractual, fiduciary or employment relationship that allows such person access to UPSI. Also the directors, employees and all other persons in the deeming category covered under 1992 regulations would continue to be covered and the term insider shall include also include a person who is in possession or has access to UPSI. Now, immediate relatives will be presumed to be connected persons, with a right to rebut the presumption. In 1992 regulations, definition of connected person was largely position based.

The onus of showing that a certain person was in possession of unpublished price sensitive information at the time of trading would, therefore, be on the person leveling the charge after which the person who has traded when in possession of unpublished price sensitive information may demonstrate that he was not in such



possession or that he has not traded or that his trading when in possession of such information was squarely covered by the available defenses.

3. Unpublished Price Sensitive Information (UPSI)

The new definition is very stringent but the same is still linked to information available on a stock exchange platform the committee in its recommendation had suggested to widen the scope of UPSI to other than stock exchange disclosures. Thus, now the UPSI has been defined as information not generally available and which may impact the price. The definition of UPSI has been strengthened by providing a test to identify price sensitive information, aligning it with listing agreement and providing platform of disclosure. Earlier, the definition of price sensitive information had reference to company only; now it has reference to both a company and securities. In others words, the generally available Information will be the information that is accessible to the public on a non-discriminatory platform which would ordinarily be stock exchange platform.

Now specifically the UPSI means any information that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities to which it relates and will ordinarily include information relating to the following: –

- (i) *financial results;*
- (ii) *dividends;*
- (iii) *change in capital structure;*
- (iv) *mergers, de-mergers, acquisitions, delistings, disposals and expansion of business and such other transactions; and*
- (v) *changes in key management personnel*

The underlying intention is that the information that is not

generally available would be unpublished price sensitive information if it is likely to materially affect the price upon coming into the public domain. Since this will always be a mixed question of fact and law, a bright line indicating the types of matters that would ordinarily give rise to unpublished price sensitive information should be listed to give illustrative guidance about the nature of unpublished price sensitive information when a court has to determine whether any piece of information is unpublished price sensitive information. These listed illustrations are ordinarily in the nature of information that could affect the price upon becoming public and are not exhaustive. Merely because a particular type of event is listed above it should not lead to inexorably being regarded as unpublished price sensitive information regardless of its potential price impact. For example, where a very large company makes a non-material and inconsequential acquisition of a tiny business, or where a company declares the same rate of dividend that it has declared for several years as per publicly stated dividend policy.

4. Third parties and effect on new regulations

Now even the third parties who are connected to a Company have to disclose their trading/holding in the company's securities. Such provision did not exist in the old regulations and was proposed by the Committee as discretion left to the company, but the SEBI has made it mandatory. Thus it is essential by law that the Companies are required to ask the third party connected persons to disclose their trading and holdings in securities of the company.

This is now an enabling provision which has been enacted wherein the companies are mandatorily required to seek information from those to whom it has to provide unpublished price sensitive information For example, a listed company may ask that a management consultant who would advise it on corporate strategy and would need to review unpublished price sensitive information, should make disclosures of his trades to the company. It is interesting to keep a watch on the notified regulations as to whether such disclosure will be public or private.

5. Acquisition of UPSI via Due Diligence

Any law has to be progressive and the new regulations now intends to permit investor access to unpublished price sensitive information via due diligence. The old regulations prohibited communication of UPSI and

prohibited trading when in possession of UPSI, it was construed that an investor such as a Private Equity investor or a strategic acquirer could not access any nonpublic information regarding a company when doing due diligence. However on the recommendations of the committee the SEBI has now allowed access to UPSI for legitimate business transactions ie: when a takeover offer is involved. This provision will make life easier for strategic acquirers. Considering every investor's interest in securities market, advance disclosure of UPSI at least 2 days prior to trading has been made mandatory in case of permitted communication of UPSI.



6. Insider Dealing via Trading Plan

The experience suggest that dealing in shares of the Company has always been an issue which has caused confusion and hazard for the management like CEO, CFO, COO, CS, MD etc. The Committee recommendation has accepted by SEBI and features in the new regulations and are as per international accepted practices. A provision of Trading Plans on the lines of U.S. has been introduced for insiders with necessary safeguards. Such a plan has to be for bona fide transactions and has to be disclosed on stock exchange platform in advance.

The new provision provides an option to such persons who are perpetually in possession of unpublished price sensitive information and enabling them to trade in securities in a compliant manner. Such provision would enable the formulation of a trading plan by an insider to enable him to plan for trades to be executed in future. By doing so, the possession of unpublished price sensitive information when a trade under a trading plan is actually executed would not prohibit the execution of such trades that he had pre-decided even before the unpublished price sensitive information came into being. Trading on the basis of such a trading plan would not grant absolute immunity from bringing proceedings for market abuse. For instance, in the event of manipulative timing of the release of unpublished price sensitive information to ensure that trading under a trading plan becomes lucrative in circumvention of regulation 4 being detected, it would be open to initiate proceedings for alleged breach of SEBI (Prohibition of Fraudulent and Unfair Trade Practices

Relating to the Securities Market) Regulations, 2003.

7. Code of Fair Disclosure and Code of Conduct

The Code of Fair Disclosure mandates every company whose shares are listed on stock exchanges to formulate a stated framework and policy for fair disclosure of events and occurrences that could impact price discovery in the market for its securities. Principles such as equality of access to information, publication of policies such as those on dividend, inorganic growth pursuits, calls and meetings with analysts, publication of transcripts of such calls and meetings, and the like are set out in the schedule. Further the Code of Fair Disclosure and every amendment thereto is required to be promptly reported to the Stock Exchange.



8. The Code of Conduct

The Code of Conduct on the other hand intends that every company whose securities are listed on stock exchanges and every market intermediary registered with SEBI is mandatorily required to formulate a code of conduct governing trading by its employees. The standards set out in the schedule are required to be addressed by such code of conduct. Also persons other than listed companies and market intermediaries that are required to handle unpublished price sensitive information to formulate a code of conduct governing trading in securities by their employees. Some of these persons may also be regulated by other agencies while some others may themselves be playing the role of regulatory agencies. Even entities that normally operate outside the capital market may handle unpublished price sensitive information. This provision would enable all of them to formulate a code of conduct. The existence of such a code would point to the seriousness with which the organizations treat compliance requirements under these regulations.



- Rishikesh Vyas



SEBI New Securities Listing Norms

INTRODUCTION

Section 21 of Securities Contract (Regulation) Act, 1956 ("SCRA") provides that Where the securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange. Pursuant to insertion of these provisions in SCRA in 1956, the Listing Agreement, although a contract, was made a statutory requirement, thereby making it mandatory for every listed entity in India to comply with the Listing Agreement. Section 11A(2) (as amended in the year 2002) of the SEBI Act empowers SEBI to specify the requirement for listing and transfer of securities and matters incidental thereto. Section 12A (as inserted in the year 2004) of the SCRA empowers SEBI to issue directions to any company whose securities are listed or proposed to be listed in a recognised stock exchange in the interest of investors, or orderly development of securities market. Listing Agreement entered into by listed companies with the stock exchanges prescribes initial and continuous disclosure norms. The modifications to provisions of Listing Agreement are prescribed by SEBI. The Listing Agreement has been modified from time to time to align with the regulatory requirements arising out of the dynamic changes in the capital market.

With these backdrop SEBI has brought a new law for listed entities that is The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2014.

What is new Listing Regulations all about ?

New Listing Regulations is a comprehensive Regulation in respect of various types of listed securities and consolidate and streamline the provisions of existing listing agreements thereby ensuring better enforceability. This Regulation would be applicable to Specified Securities (Listed on Main Board and SME Platform), Non-convertible Debt Securities, Non-Convertible Redeemable Preference Shares (NCRPS) , Indian Depository Receipts, Securitised Debt Instruments and Units issued by Mutual Fund Schemes. The listing regulations have been divided into three parts substantive provisions incorporated in the main body of regulations, procedural requirements in the form of schedules and various formats/forms of disclosures to be specified by SEBI through circulars.

What is the coverage of the Listing Regulations ?

The Listing Regulations have been sub-divided into three parts viz.,

- a. Substantive provisions incorporated in the main body of Regulations;

- b. Procedural requirements in the form of Schedules to the Regulations; and
- c. Various formats / forms of disclosures to be specified by SEBI through circular(s).

What are the Vital provisions in the New Regulations ?

Key important new provisions in the Listing Regulations include:

- a. The overarching principles for making disclosures & obligations.
- b. Mandatory filing on Stock Exchanges through electronic platform.
- c. Mandatory appointment of Company Secretary as compliance officer except for units of Mutual Funds listed on Stock Exchanges.
- d. Introduction of enabling provision for Annual Information Memorandum.
- e. Mandatory registration in SCORES by all listed entities for redressal of investor grievances.
- f. Mandatory for listed entities to co-operate with intermediaries registered with SEBI.
- g. Converged provisions for specified securities (equity segment) listed on Main Board and SME Platform with necessary carve-outs for SMEs.
- h. Applicability of certain equity segment provisions, such as, submission of Form B (audit reports containing modified opinion), transfer and transmission of securities, etc. to entities which have listed their Debt Securities and/or NCRPS.
- i. Necessity to execute a shortened version of Listing Agreement within six months of notification of these regulations.

Other sweeping changes include those which are in the nature of either providing clarity or maintaining consistency or removal of redundancies have been carried out in the Listing Regulations. Such changes include removal of dichotomy regarding utilization of issue proceeds, manner of dealing with unclaimed shares, aligning connected provisions pertaining to disclosures on website and issuing advertisements, disclosures in Annual Report, documents and information to be provided to holders of securities, terms and structure of securities, and operational modalities in manner of review of audit reports with modified opinion, etc. There were

certain provisions in the listing agreements related to issuance of securities and not in the nature of continuous obligations, such as, 1% security deposit, allotment, refund, payment of interest on account of delay in allotment / non-allotment, etc. They have been now incorporated in respective regulations, viz., ICDR Regulations, ILDS Regulations, etc. Similarly, requirements which are in the nature of continuous disclosure and obligations have been shifted and now incorporated in the Listing Regulations.

Conclusion

Thus now with comprehensive norms for various listed securities, SEBI has finalised detailed listing regulations aimed at ensuring better compliance levels and strengthening safeguards for investors. The thought process of the regulators is very clear that the new



regulations have been put in place after taking into consideration the need for having a framework to consolidate listing obligations and disclosure requirements for listed entities across all these securities at one place. At present, there are separate listing agreements for different segments of the capital market. The key feature of new regulations is that of overarching principles would be incorporated in the provisions of listing regulations to ensure that they serve as guidelines for compliance in case there is any ambiguity. Besides these the one big impact is that the , listed entities have to compulsorily appoint Company Secretary as compliance officer except for units of mutual funds listed on stock exchanges. These will further enhance the standards of Listing Agreement. Now within a period of six months of notifying these regulations, entities would have to "execute a shortened version of listing agreement". Such a mechanism has been put in place to ensure since listing agreement is a contractual pact between the stock exchange and listed entity.

- Rishikesh Vyas

Trade Receivables Discounting System

BACKGROUND

The concept of factoring is not new and, in fact, dates back to the Roman Empire. Factoring as a form account receivables financing has been a widely acceptable mode of asset-backed financing world-over. Under the factoring arrangement business concerns sell their invoices *i.e.* accounts receivables to a factoring company in exchange for an immediate advance on the invoice value, thereby, allowing companies to cash in on their sales without having to wait for payments to come in from customers in due course. Thereafter, the factor collects the full amount from the debtors and pays the balance amount due to the business concerns. This service is usually provided for a fee which is dependent on the sales volume, number of customers, number of invoices and credit notes and degree of credit risk in the customer or the transaction.

It very well acknowledged that role played Micro, Small and Medium Enterprises (MSMEs) in the economic landscape of the country. Given the potential of this segment to unlock growth, employment and inclusion in the economy and society, it is indeed the need of the hour to address concerns related to financing of this segment.

Despite efforts on multiple fronts as well as enabling legal and regulatory provisions, the MSME segment continues to be belabored with the problem of delayed payments, mainly due to the dependency of the MSMEs on their corporate



buyer/s as well their inability to take up the problem of delayed payments through appropriate institutional setup created for the purpose.

The matter was well addressed in the reports of

the Committee on Financial Sector reforms (2008) as well as the Working Group on securitization of trade receivables (2009), which had recommended the need for building an institutional infrastructure for creating necessary liquidity for trade receivables through a mechanism of efficient and cost effective factoring / reverse factoring process.

The RBI Governor, in his statement on September 04, 2013 had clearly stated the intention to facilitate Electronic Bill Factoring Exchanges in the country, whereby MSME bills against large companies can be accepted electronically and auctioned so that MSMEs are paid promptly. This has resulted in drawing attention of many stakeholders in the country in offering their expertise and experience in this area to facilitate the building of suitable infrastructure for MSME financing.

The Reserve Bank of India further taking into account the interest expressed by a few entities and in consultation with select stakeholders published a concept paper on “*Micro, Small & Medium Enterprises (MSME) Factoring-Trade Receivables Exchange*” in March 2014.

Based on the public comments received on the concept paper, the draft guidelines for setting up of and operating Trade Receivables Discounting System (TReDS) were formulated and hosted on RBI website on July 22, 2014. The feedback received from public/stakeholders, have facilitated the finalisation of these guidelines which are issued under Section 10(2) read with Section 18 of the Payment and Settlement Systems (PSS) Act, 2007.

The guidelines outline the requirements and the basic tenets of operating the TReDS, including the system participants, their roles, transaction process flow, settlement process, etc., besides indicating the eligibility criteria for entities desirous of setting up and operating such a system. We will be discussing the basic tenets in brief.

Participants in System

MSME sellers, corporate and other buyers, including the Government Departments and PSUs, and financiers (both banks and NBFC factors) will be direct participants in the system on a platform that brings the participants together for facilitating uploading, accepting, discounting, trading and settlement of the invoices / bills of MSMEs. The bankers of sellers and buyers may be provided access to the system, where necessary, for obtaining information on the portfolio of discounted invoices / bills of respective clients.

Eligibility Criteria

The RBI shall judge the applicants eligibility based on the following criteria :



1) Financial Criteria

- The applicant shall not be allowed to assume any credit risk, its minimum paid up equity capital shall be Rs. 25 crore.
- The foreign shareholding in the TReDS would be as per the extant foreign investment policy.
- Entities, other than the promoters, will not be permitted to have shareholding in excess of 10 per cent of the equity capital of the TReDS.
- The overall financial strength of the promoters/entity seeking to set up TReDS would be an important criteria of assessment/selection.

2) Fit and Proper Criteria

The entities and their promoters/promoter groups as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009 should be 'fit and proper' in order to be eligible to operate as TReDS. RBI would assess the 'fit and proper' status of the applicants on the basis of their past record of sound credentials and integrity; financial soundness and track record of at least 5 years in running their businesses. RBI may further, seek feedback on the applicants from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, SEBI, etc. as deemed appropriate.

3) Technological criteria

The TReDS should have sound technological basis to support its operations. As such, the TReDS should, at the minimum, fulfil the following technological requirements.

- TReDS shall be able to provide electronic platform for all the participants.
- Information about bills/ invoices, discounting and quotes shall be disseminated by the TReDS in real time basis, supported by a robust MIS system.
- The TReDS shall have a suitable Business Continuity Plan (BCP) including a disaster recovery site.
- The TReDS shall have an online surveillance capability which monitors positions, prices and volumes in real time so as to check system manipulation.

Process Flow

The stepwise process of how the TReDS will work is given herein below :

TReDS System consists of standardized mechanism / process for on-boarding of buyers and sellers on the TReDS. This one-time on-boarding process will require the entities to submit all KYC related documents to the TReDS, along with resolutions / documents specific to authorised personnel of the buyer, and the MSME seller. Such authorised personnel would be provided with IDs / Passwords for TReDS authorisations (multi-level).

In the first phase, the System would facilitate the discounting of these factoring units by the financiers resulting in flow of funds to the MSME with final payment of the factoring unit being made by the buyer to the financier on due date. In the second phase, the TReDS would enable further discounting / re-discounting of the discounted factoring units by the financiers, thus resulting in its assignment in favour of other financiers.

The TReDS system will put such arrangements in place which will enable the uploading of invoices/bills and creation of factoring units by the MSME sellers; its acceptance by the corporate and other buyers, including the Government Departments and PSUs, within a specified time limit; discounting, rating and re-discounting of factoring units; sending of notifications at each stage to the relevant parties to the transaction; reporting and MIS requirements; and finally, generation and submission of settlement of obligations. In case of reverse factoring, the buyer could also create factoring units based on the documents uploaded by the MSME seller.

Settlement process

TReDS system ensures the timely settlement of funds between the member financiers and the MSME sellers

(when the factoring unit is financed) and the subsequent settlement of funds between the member buyers and the respective financiers on due date of the factoring unit. In order to ensure a smooth process of such payments, the TReDS would be required to:

- a) Trigger settlement between financier and MSME for accepted bids - In respect of all factoring units financed on a given day, the TReDS will generate the payment obligations of all financiers on T+2 basis and send the file for settlement in any of the existing payment system as agreed among the system participants. The TReDS would have to put in place a separate recourse mechanism to handle settlement failures in respective payment systems.
- b) Trigger settlement between the buyer and the ultimate financier on due date - the TReDS would generate the payment obligations file and send the same for settlement on due date to the relevant payment system.

The TReDS will generate the settlement files and send the same to existing payment systems for actual payment of funds. This would ensure that the inter-bank settlement (between the bankers representing member MSMEs, buyers and the financiers) will take place and defaults, if any, by the buyers will be handled by the buyer's bank and will not be the responsibility of the TReDS. Hence, the settlement process ensures payments to relevant recipients on due date, thus, facilitating the smooth operations on the TReDS.

Law governing the TReDS



The TReDS, be governed by the regulatory framework put in place by the Reserve Bank of India under the Payment and Settlement Systems Act 2007 (PSS Act). It will function as an authorised payment system under the PSS Act 2007.

Advantages of TReDs over the existing Physical Settlement System

- *No involvement of Paper Work* - or rather Paperless transaction
- In a normal factoring arrangement, the bill of exchange

/invoice is drawn by seller on buyer who accepts it and same is sold to factoring company which releases the money and on due date the Factoring Company collects the money from the buyer. While, in the TReDS system, on the basis of invoice the Seller creates a factoring unit on the system and once factoring unit is created the buyer shall flag of the unit by logging on to the system.

- Supporting documents evidencing the movement of goods may be hosted online by the seller, upon the uploading the document the buyer shall flag of the factoring unit within the specified time frame mentioned in the invoice.
- *No need for searching the financier:* Once the factoring unit is flagged off by the buyer, with the relevant data and information like details of buyers and sellers, due date, amount due, unique number is generated by the system. The financiers registered on the system shall display their quotes on the system once the bid is accepted, financiers will be free to determine the time validity of their bid price. Once bid is accepted the factoring unit shall display its status as financed.
- *T+2 Settlement:* MSME seller receives the payment from financier on T+2 basis (2 days from date of bid acceptance). Upon factoring unit being financed by the Financier the buyers' bank and sellers bank shall be informed immediately from the system thus ensuring quick settlement.
- *Enables Quick Action against the Default:* Non-payment by the buyer on the due date to their banker should tantamount to a default by the buyer (and be reported as such as per regulatory procedures prescribed from time to time) and enable the banker to proceed against the buyer. Any action initiated in this regard, will be strictly non-recourse with respect to the MSME sellers and outside the purview of the TReDS.
- *Rating of the Instruments:* These instruments may be rated by the TReDS on the basis of external rating of the buyer, its credit history, the nature of the underlying instrument (invoice or bill of exchange), previous instances of delays or defaults by the buyer with respect to transactions on TReDS, etc. Rating enable further re-discounting of the instrument in the secondary market.
- Similar to the primary segment, any successful trade in the secondary segment will also automatically result in a direct debit authority being enabled by the buyer's bank in favour of the financier.

- Umashankar Hegde

Efficient Working Capital Management



Working Capital in simple terms is the timing difference between expenses/payments and collection of customer's due balances. The working capital is the life-blood and nerve centre of every business enterprise. No business can run effectively without adequate quantity of working capital. Management of working capital is an integral part of overall corporate management. A business enterprise with ample working capital is always in a position to take advantages of any favorable opportunities either to purchase raw-materials or implement a new special order or to wait for enhancing market status. Working capital can be utilized for meeting day-to-day expenses and for maintaining fixed assets that are involved in everyday life of a business enterprise. It is rightly said that the overall success or failure of a business enterprise mainly depends upon how the enterprise manage its working capital. Thus, proper management of working capital has become an essential part every business enterprise because it shows the efficiency and financial strength of an enterprise

Working Capital constraints are an ever present challenge for most SMEs. Working Capital mismanagement usually occurs because in many businesses the cash outflows

precede the cash inflows. For example, in a services business, the enterprise has to pay the salaries, electricity and telephone bills and other overheads every month but the payment terms for customer inflows are 45 days or 60 days. In businesses with low margin, working capital management is a serious issue as even a few days disruption in receiving payments can create difficulties in paying bills. In high margin business, working capital is less of an issue as the good margins provide a cushion against future disruptions. This observation has its limitations in organizations with large working capital cycle (inflows from customers happening over a 90 days or more cycle) where the profit may have to be consistently reinvested. Given the criticality of working capital management, it is surprising that many businesses do not efficiently plan for it.

Listed below are some of the key areas that may help businesses manage working capital better.

1. Liquidity and profitability are the two major aspects of corporate business life. Though low profits lead to lower taxes, showing low profits will have an impact on your firm's external rating. If we emphasize on liquidity, it will adversely affect the profitability and similarly if we emphasize more on profitability, it will adversely affect the liquidity. Therefore proper management between the two should be the basic objective of the working capital management.

2. Get Working Capital Finance from banks. Many banks do bill discounting where they pay you an advance or complete invoice and charge/deduct interest from the



bill. Bill discounting is costly but can be good option to meet short term cash-flow needs. Similarly there are options of Cash-Credit Limit that can be used with the banks. These limits typically need collateral security unless they are covered under CGTMSE scheme.

3. Working Capital is an intrinsically linked with your business model. This is especially true for trading and manufacturing firms. Firms whose business model is narrow product range (specialization) will need less working capital than those with larger product range (other factors being equal). The logic is simple- Firms with lower range of products can predict their demand better, manager factory production better and hence need lower stock. So if having variety of products is a necessity due to business reasons, always plan for higher working capital than usual.

4. Many service firms raise lump sum invoices at month-end to ease their billing procedure. If there are possibilities of raising invoices in middle of month as and when a project is completed, it will improve cash-flows. Follow the rule of paying bills later and getting sales receipts faster. Some businesses try to find ways to implement it. Paying Utility bills such as electricity, telephone etc by credit card creates working capital for you as you get credit period of up-to 50 days in some cases. Plan your cash out-flows by using at least two cards with complementary billing dates (one at month beginning and other in middle).

5. Make expenses more visible. Expense claims with small excess amount can have a cumulative negative impact on the working capital. The key is to set clear rules in all areas of expense, be it travel, accommodation, petty cash expenses etc. and them to ensure that these are followed. It is imperative to have tools to monitor expense claims without huge manual efforts. Many SMEs micromanage expense and subsequently spend a great deal of their time. This puts restrictions on the scalability of the SME. Thus, SME should have the habit of inculcating good processes and tools from early stage to help them scale their businesses.

6. Understanding your Customer Payment patterns proves very effective for timely receipts. If there is a customer that consistently pays after a long credit period, give them cash discount in periods of tight cash-flows. The Cash-



discount should be used dynamically instead of a flat 2% norm to enthruse customers to pay in time. Do not hesitate to follow-up effectively as in most cases it is lethargy or lack of proper processes that delays the payment rather than intentional desire to hold up the payment.

7. Be tech savvy and wherever possible get payments through RTGS rather than cheques as that will mean a faster inflow of money. Insist on same bank cheques if your customer has bank accounts in the same bank as yours, as cheques drawn in the same bank as yours can be credited over the counter.



8. Build in advances for services related work. The ability of your firm to take advances from customer depends on industry type, norms, your competitive strength etc. If you are facing working capital constraints, it may make sense to give competitive rates but include an advance from customer in the commercials

9. Lack of proper finance department is another factor that would contribute to mismanagement of working capital. SMEs generally tend to employ low cost employees to manage accounting functions. Further they approach professional accountant of firms only when there is a requirement to file taxes, complete their books or present financial statements and cash flow to their bankers. A proper finance professional would be able to manage working capital effectively and identify various instruments to help raise capital.

The success and survival of every business depends not only upon the availability of adequate fixed assets but also on the efficient management of short-term or working capital i.e., Current assets and Current liabilities. To conclude, SMEs need to think proactively and innovatively along various lines to manage the working capital in a better way. Being aware of the downside and by taking proactive measures, healthy capital management habits can be developed and subsequently working capital issues can be addressed significantly.

- Bindhu Kutty

Demand Guarantees and URDG – A Primer

The Demand Guarantee – An Introduction

Modern business is characterized by large spacial distance between clients. This makes it difficult, in some cases almost impossible for business partners to assess credit standing and ability to meet performance standards of their counterparts.

A person (e.g., buyer or employer for construction work) who plans to enter into a contract for the purchase of goods or the construction of works by the intended counterparty to the contract (e.g., seller, exporter, supplier or contractor) may wish to have security for the counterparty's performance of his obligations. This is especially true when no previous dealings have taken place between them.

In the past it was common practice both in international and in local transactions to furnish a cash deposit to serve as form of security to the counterparty that one would indeed perform the undertaken obligation. As international trade expanded, this practice of furnishing cash deposits became prohibitively expensive to do so. It was difficult for sellers, exporters, suppliers and contractors to survive the strain on their cash flow if they had to rely on their own resources to furnish cash deposits. Therefore assistance of financial institutions became essential in this regard. In due course the practice of providing cash deposits was replaced with a safer and more convenient practice, namely the provision of a written undertaking by a bank in favour of the buyer or employer, payable on demand.

This is known as a demand guarantee. Due to its fast and efficient realization, a demand guarantee is one of the most frequently used security instruments in international business. By issuing the guarantee, the issuing bank assures payment of the certain amount of money to the beneficiary in case of non-performance of a certain contract according to the terms and conditions contained in the contract.

Standby Letters of Credit

In addition to some other common names like '*tender guarantee*', '*default undertaking*' etc. these payment undertakings are also commonly known as '*standby letters of credit*'.

Standby letters of credit were developed by banks in the United States as an extension of the idea of the traditional (commercial) letter of credit that has been used in international sales contracts. Since banks in the US were not, in general, permitted to issue guarantees as part of their banking business, they adopted the term '*standby*

letter of credit' to avoid the language of guarantees.

Similarly, countries like Japan etc. also followed suit and started to employ the use of standby letters of credit in international financing transactions.

Standby letters of credit are therefore essentially the same as demand guarantees. We shall use these terms interchangeably.

Demand Guarantees in Practice

It has now become common practice for many buyers, in particular overseas buyers who possess strong bargaining powers, to demand that sellers, exporters or suppliers provide demand guarantees as security to ensure that the terms of their tender or contract (depending on the circumstances) are adhered to.

This type of security has become an established part of international trade, particularly in construction/engineering projects and international sale of goods contracts. They are the legal instruments used to guarantee to a person – for example, a buyer or employer, (commonly referred to as the '*beneficiary*' of the guarantee) – that the seller, exporter, supplier or contractor (commonly referred to as the '*principal*' of the guarantee) will either not prematurely withdraw from his tender (in the case of a tender guarantee); or will perform his obligations arising under the underlying contract (in the case of a performance guarantee), and is, purportedly, technically and financially capable of performing the underlying contract in line with its provisions.

The beneficiaries (e.g., buyer or employer) of demand guarantees can call (i.e., demand payment) on the guarantee in various instances; for example, if a tenderer fails to enter into a valid contract, or if there is actual or, in some cases likely failure of the principal (e.g., seller, exporter, supplier or contractor) to perform properly in terms of the contract (i.e., underlying contract). As such, these demand guarantees are intended to prevent or penalise bad faith, poor performance and non-performance for whatever reason. They also provide the beneficiary with a ready source of funds that can be used to help meet the costs of remedying the principal's failure to perform in terms of the underlying contract.

Uniform Rules for Demand Guarantees

Use of demand guarantees were given a fillip when the International Chamber of Commerce (ICC) codified and standardized the documentation and terminology on these. The first serious attempt at standardizing guarantee terminology and documentation was released in 1992 and were called "*Uniform Rules for Demand Guarantees*

(URDG)". This was document # 458 for the ICC and came to be known as **URDG 458**. These rules were amended further making them simpler after several rounds of deliberations amongst stakeholders by removing ambiguities etc. in the year 1990 through the release of **URDG 758**.

URDG 758 replaces and supersedes URDG 458. URDG 758 has been endorsed by international agencies like the World Bank etc. who have urged countries to adopt them in their own local statutes.

In India, authorized dealer banks (banks allowed to deal in foreign exchange) are allowed to give performance bond / guarantee in favour of overseas buyers on account of bona fide exports from India. This has been specified in *Notification No. FEMA.8/2000-RB dated May 3, 2000* issued by RBI.

Banks are also permitted to issue counter guarantees in favour of their branches / correspondents abroad to cover for guarantees required to be issued by the latter on behalf of Indian exporters in cases where guarantees of only local banks are acceptable to overseas buyers in accordance with local laws / regulations.

While RBI's master circular on Guarantees does not mention URDG explicitly, banks have been looking at incorporating URDG documentation and procedures in their own framework of providing for guarantees. With increased adoption of URDG 758 across the world this move should likely reduce significant amounts of friction that Indian businesses encounter in the conduct of business especially international trade.

A full discussion on URDG 758 and its various clauses would require a separate article (maybe in a future edition). Enterprises conducting international trade are unlikely to be left untouched with URDG 758 and they would do well to get familiar with the guidelines and its associated procedures and documentation.

- Dheeraj Singh

dheeraj.singh@finanzlab.com

Dheeraj Singh runs "Finanzlab Advisors", a financial risk management consultancy

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- JLA Infraville Shoppers Limited engaged in the operations of online trading and retailing of range of products opened the issue for subscription on 16th October 2014. The issue was subscribed 2.46 times out of which Retail category was subscribed by 3.13 times while Non Retail Investors was subscribed by 1.93 times.
- Jet Infracore Limited which is into development of real estate with a focus on residential projects opened the issue for subscription on 30th October 2014. The issue was subscribed 1.37 times out of which Retail category was subscribed by 0.81 times while Non Retail Investors was subscribed by 1.37 times.
- Aanchal Ispat Limited, engaged in manufacturing of Mild Steel TMT Re-bars, Structural Re-bars, Round and other Sectional products opened the issue for subscription on 24th November 2014. The issue was subscribed 1.29 times out of which Retail category was subscribed by 0.50 times while Non Retail Investors was subscribed by 2.11 times.
- Saami Tradestar Logistics Private Limited Limited, engaged in the business of providing domestic and international logistic services has filed a draft prospectus with BSE SME Exchange to raise Rs.1.50 crores. The company intends to use the issue proceeds to meet additional working capital requirements and to meet public Issue expenses.
- HEC Infra Projects Limited, an electro mechanical contracting Company which undertakes various turnkey as well as EPC Projects has filed Draft Information Memorandum with NSE EMERGE for listing on its ITP Platform. The Company provides wide range of services in the field of electrical engineering for power installation like Extra High Tension, Low Tension, Special Lighting and many more.
- Currently 85 companies are listed on SME platforms of BSE and NSE while 16 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)
Karnavati Finance Limited	BSE	2.58	10.00
Raghuvansh Agrofarms Limited	BSE	3.60	11.00
O.P. Chains Limited BSE	3.25	11.00	
Akme Star Housing Finance Limited	BSE	4.80	30.00
Mahabir Metallex Limited	BSE	3.90	10.00
Amsons Apparels Limited	BSE	3.25	10.00
Monarch Apparels BSE	5.01	11.00	
Majestic Research Services & Solutions	BSE	1.43	12.75
Western Agro-tech Innovative	BSE	3.30	10.00
Shareway Securities BSE	4.99	14.00	
Ekdant India BSE	4.03	10.00	
Anubhav Infrastructure	BSE	9.00	15.00
Prabhat Telecoms (India)	BSE	26.60	80.00



Other Developments

Australia asks India to promote small and medium enterprises

The small and medium enterprises (SME) sector can play a key role in further strengthening trade ties between Australia and India, Australian treasurer said and asked Prime Minister **Narendra Modi** to look into promoting this untouched area. Joe Hockey was a part of discussion where Modi met top honchos of corporate Australia along with his high level CEOs delegation including Adani Group's **Gautam Adani**, Mahindra & Mahindra's Anand Mahindra and Infosys CMD **Vishal Sikka**.

Stressing that there was a key role for **SME** sector to further enhance bilateral trade relations, Hockey said "if we can find a way then I have no doubt in the growth of the relationship. I have not met personally Indian **Finance** minister **Arun Jaitley** but have spoken at length and have no doubt that relationship will grow significantly." "There has been fruitful talks on energy, education and **financial services**," he said and added the role of small medium sector has not been touched. During the roundtable, top Australian company Visy Industries announced that it will invest to launch leadership dialogue programme between the two nations.

The annual bipartisan dialogue called 'Australia India Leadership Dialogue' would be organised by Australia India Institute(AII), the leading think tank, in October next year and will take place alternately in India and in Melbourne.

"The leadership dialogue will help create common understanding on critical bilateral and global issues between the political and business leaders of the two countries as well as inject new creativity into addressing common challenges of the near and the future," AII CEO Amitabh Mattoo said.

Banks reluctant in sanctioning loans to MSME sector: Kalraj Mishra

Stating that credit flow towards the MSME sector is

inadequate, Union Minister Kalraj Mishra said banks are reluctant while sanctioning loans to entrepreneurs belonging to the sector.

"The flow of credit to the micro, small and medium enterprises (MSME) sector is not adequate. They (MSMEs) are facing huge difficulties while availing loans from banks. "Despite the provision of collateral free, banks don't sanction loans, causing distress to small entrepreneurs, ignoring RBI guidelines," Mishra said at an Assocham event.

Mishra told PTI that he has written to the Finance Ministry in this regard and is awaiting a response from them. "MSMEs Ministry is willing to take responsibility and we have urged various other state governments for Credit Guarantee Fund Trust and are collecting the funds to ensure that banks do not hackle entrepreneurs and instead take up the issue directly with the Ministry," Mishra said. The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the micro and small enterprises (MSE) sector without the need for collaterals/ third party guarantees. According to a RBI circular, banks are mandated not to accept collateral security in the case of loans up to Rs 10 lakh extended to units in the MSE sector.

As per another circular, banks may, on the basis of good track record and financial position of MSE units, increase the limit of dispensation of collateral requirement for loans up to Rs 25 lakh with the approval of the appropriate authority.

The Minister further said that the MSME Ministry is working on a format to streamline the process of filing entrepreneurs' memorandum (EM) through an online system.

Earlier, while speaking at a CII event, Mishra said the expected manufacturing renaissance was beset with challenges of infrastructure like power, ports, railroads coupled with a shortage of trained human capital and public sector control. The government's New Manufacturing Policy, he reiterated, has the vision to enhance the share of manufacturing in GDP to 25 per cent within a decade and creating 100 million jobs on a sustainable basis.

"Key policy instruments for achieving the above objective include establishment of National Investment and Manufacturing Zones, self governing and autonomous bodies for industrial townships and proposals to improve access to finance for SMEs in the manufacturing sector," he added.

Uttarakhand approves new MSME policy

The Uttarakhand Cabinet has put its seal of approval on the draft of the new micro, small and medium enterprises (MSME) policy. The decision was taken at a meeting at the secretariat.

Developments

In the policy, areas for incentives have been divided into categories A and B in the state. Backward districts such as Pithoragarh, Uttarakashi, Chamoli, Champawat, Rudrapur and Bageshwar have been kept in the category A where the capital subsidy will be 40 per cent. In the category B, districts such as Tehri, Pauri and Almora have been included, and the capital subsidy will be 30 per cent. The interest subsidy in the category A will be 12 per cent while it will be 10 per cent for B.

The new policy also envisages power subsidy. MSMEs in the category A will also be entitled to 100 per cent relaxation in value-added tax (VAT) in the first five years. But such relaxation will be 75 per cent for the category B. Similarly, transport subsidy will also be provided in graded manner. The government will also provide all support to cluster development schemes of the central government and set up mini tool rooms. The development of a land bank is another hallmark of the new policy. At least 25 per cent of the areas in new industrial estates, developed by the State Industrial Development Corporation of Uttarakhand Limited (SIDCUL), will be reserved for MSMEs. SIDCUL would also provide land to MSMEs at a concession rate. The policy also calls for providing awards to best MSMEs on the basis of their performances in growth and profit.

An empowered committee headed by the chief minister is being set up for the effective monitoring of the policy implementation. Significantly, the policy was prepared by the department of MSME and the Industries Association of

Uttarakhand (IAU) by incorporating suggestions from various business chambers.

Govt proposes easier exit norms for MSME units

The draft amendment proposes to change the existing definition of MSMEs in the manufacturing sector based on investment in plant and machinery to Rs50 lakh from Rs25 lakh for micro units, up to Rs10 crore against the existing Rs5 crore for small units and up to Rs30 crore against Rs10 crore for medium enterprises

The objective is to provide time-bound exit and revival for loss-making units so as to help them consolidate businesses and re-deploy capital profitably

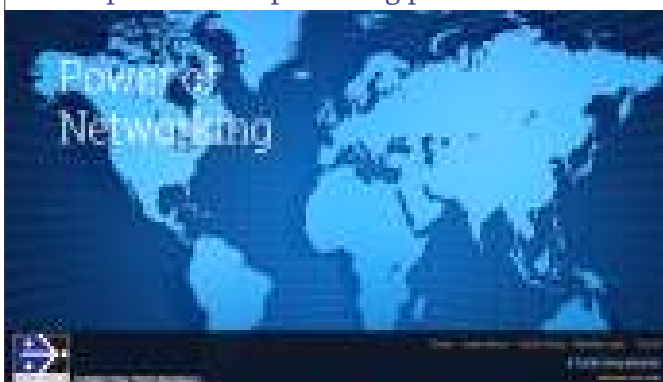
In a background note prepared by the MSME ministry to the recommendations of the prime minister's task force, has proposed replacement of the Provincial Insolvency Act 1920 to enable 'time-bound revival and exit' for unincorporated firms. "The MSME facing insolvency/bankruptcy should be provided legal opportunities to revive it units," says the note, adding that this could be by way of a "reorganisation or rehabilitation scheme with comfort to creditors..."

Under the proposed changes, an aggrieved enterprise / creditor should file the first appeal before the appellate authority within 30 days, while the second appeal against the appellate authority's order would lie before the Supreme Court said.

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Date	NAV Per Unit (₹)	Scheme Returns (%)	Benchmark Returns (%)	Additional Benchmark Returns # (%)	Current Value of Standard Investment of ₹10,000 in the
					Scheme (₹) Benchmark # (₹) Additional Benchmark # (₹)
\$ Since inception till Sep 30, 2014	9.9500	17.34	13.66		42,369 31,762 32,391
Sep 30, 2013 to Sep 30, 2014	20.6457	104.19	40.05	37.41	
Sep 28, 2012 to Sep 30, 2013	23.2482	-11.19	0.39	3.29	N.A.
Sep 30, 2011 to Sep 28, 2012	19.3364	20.23	14.13	14.03	

Past performance may or may not be sustained in future and the same may not necessarily provide the basis for comparison with other investment.

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Date	NAV Per Unit (₹)	Scheme Returns (%)	Benchmark Returns (%)	Additional Benchmark Returns # (%)	Current Value of Standard Investment of ₹10,000 in the
					Scheme (₹) Benchmark # (₹) Additional Benchmark # (₹)
\$ Since inception till Sep 30, 2014	10.0000	17.34	13.66		42,369 31,762 32,391
Sep 30, 2013 to Sep 30, 2014	20.6457	104.19	40.05	37.41	
Sep 28, 2012 to Sep 30, 2013	23.2482	-11.19	0.39	3.29	N.A.
Sep 30, 2011 to Sep 28, 2012	19.3364	20.23	14.13	14.03	

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Sep 30, 2011 to Sep 28, 2012	19.3364	20.23	14.13	14.03	

Note: Reliance Equity Advantage Fund was launched on 22nd August 2007. Subsequently, the key features of the scheme have been changed w.e.f. August 2011. Accordingly, above performance is calculated from August 2011 and the scheme was re-named as Reliance Top 200 Fund.

Past performance may or may not be sustained in future and the same may not necessarily provide the basis for comparison with other investment. Since inception returns (wherever provided) is computed on Compounded Annualized Growth Rate (CAGR) basis. For Schemes which have completed more than 3 years, point to point returns for twelve month periods for last 3 years is provided based on the last day of the calendar quarter and are computed on absolute basis, in case the schemes which is in existence for more than 1 year but less than 3 years, point to point returns is provided for as many periods as possible, such period being counted from the last day of the calendar quarter and are computed on absolute basis.

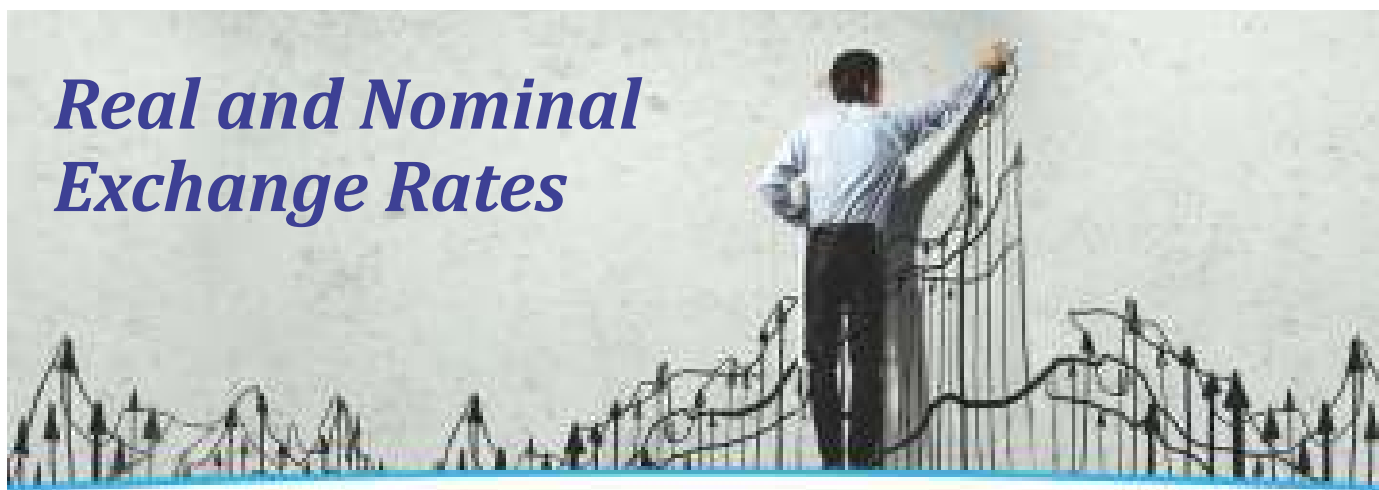
Product Label:

These products are all categorized as High Risk (Green) and are suitable for investors who are seeking (Reliance Tax Saver (ELSS) Fund - (An open ended Equity Linked Savings Scheme)) Long term capital growth. Investment in equity and equity related securities. (Reliance Vision Fund - (An open ended Equity Growth Scheme)) Long term capital growth. Investment in equity and equity related securities through a research based approach. (Reliance Top 200 Fund - (An open ended Diversified Equity Scheme)) Long term capital growth. Investment in equity and equity related securities of companies whose market capitalization is in the range of highest & lowest market capitalization of S&P BSE 200 index.

*Investors should consult their financial advisors for details about whether the product is suitable for them.

NOTE: RISK IS REPRESENTED AS:			

Real and Nominal Exchange Rates



When discussing international trade and foreign exchange, two types of exchange rates are used namely Real Exchange Rate and Nominal Exchange Rate. The nominal exchange rate simply states how much of one currency can be traded for a unit of another currency. The real exchange rate, on the other hand, describes how many of a good or service in one country can be traded for one of that good or service in another country.

Real Exchange Rate

The real exchange rates are nothing but the nominal exchange rates multiplied by the price indices of the two countries. This means the market price level of goods and services, given by indices of inflation. So if the price level in the US is higher than the price level in India, then the real exchange rate of the rupee versus the dollar will be greater than the nominal exchange rate. Thus to incorporate the purchasing power and competitiveness aspect and, therefore, make the measure more meaningful, real exchange rates are used.

Suppose the nominal exchange rate is Rs 50 and US prices are greater than Indian prices, a dollar will buy more in India than what Rs 50 will buy in the US. So the real rupee-dollar exchange rate is greater than the nominal rate. If the real exchange rate is calculated using the price levels of common traded goods, then it gives a measure of export competitiveness.

For example, if both the US and India manufacture the same product, and Indian product prices are lower than US prices, then the exchange rate in terms of this product is favourable to India. This can be generalized to all the goods manufactured by the two economies that compete

in the export market. If the real rupee-dollar exchange rate based on export-competing goods depreciates, then Indian exports enjoy an enhanced pricing advantage over US goods. The converse is true for a real appreciation.

Nominal Exchange Rate

Nominal exchange rate is the price of one currency in terms of number of units of some other currency. This is determined by fiat in a fixed rate regime and by demand and supply for the two currencies in the foreign exchange rate market in a floating rate regime.

It is 'nominal' because it measures only the numerical exchange value, and does not say anything about other aspects such as the purchasing power of that currency. In a floating rate regime, an increase in the value of the domestic currency against other currencies is called an appreciation, while a decrease in value is called depreciation. In contrast, an increase in the exchange rate in a fixed rate regime is called a revaluation (for an increase) and a decrease in the exchange value of the domestic currency is referred to as devaluation.

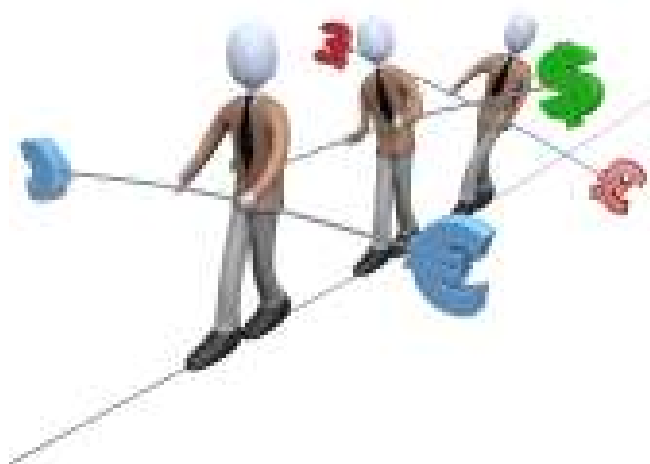


Real exchange rate - Importance

Competitiveness of a country's exports is decided not only by the nominal exchange rate, but also relative price movements in domestic and foreign markets. For instance, even if the nominal exchange of the rupee remains unchanged with respect to, say, the dollar, India's exports to the US will become less competitive if inflation in India is higher than in the US. This means nominal exchange rate will have to be adjusted for effect of inflation.

NEER and REER

NEER is the Nominal Effective Exchange Rate, and REER is the Real Effective Exchange Rate. Unlike nominal and real exchange rates, NEER and REER are not determined for each foreign currency separately. Rather, each is a



single number (usually expressed as an index) that expresses what is happening to the value of the domestic currency against a whole basket of currencies. These other currencies are picked on the basis of that country's trade with the domestic economy.

Central banks use the concept of REER, to adjust nominal effective exchange rate for inflation. Conceptually, the REER is the weighted average of nominal exchange rates adjusted for the price differential between the domestic and foreign countries. The price differential, however, is based on the purchasing power concept. The currencies used are of those countries with which trade is the highest. India trades with a large number of countries such as the US, EU, Japan and Middle East. With each individual currency, the

rupee has a different nominal exchange value.

How is NEER calculated?

To calculate NEER we weight the nominal exchange rate of the rupee against the currencies of these trading partners by their share in India's trade. Then, by summing the weighted exchange rates, we get the NEER. By setting the NEER for some year at 100, we can track changes in the rupee's value as percentage changes over the base year.

How is REER calculated?

Similar to the NEER, the REER is the weighted average of real exchange rates, weighted by the relative importance of each country in trade with the domestic economy. In other words, like the NEER, the REER is an index of a country's real exchange rate, a single number which gives some reference or benchmark about how the currency is performing in relation to the rest of the world as a whole, rather than just individual countries. Both these measures are useful as benchmarks that give an idea of the general movement of the domestic currency against the rest of the world. Theory tells us that if the domestic currency becomes more expensive in terms of other currencies, then exports will become less valuable in terms of the domestic currency and imports will become cheaper. The converse is true if the domestic currency weakens (in nominal and real terms).

The RBI calculates REER for India. It calculates the value of the rupee with respect to two indices, one comprising six countries and the other 36 countries with a 2004-05 base. The RBI, however, uses the wholesale price index-based inflation whereas globally consumer price indices are used. One conceptual flaw with this model is that it assumes that the base exchange rate is the correct exchange rate or represents the purchasing power parities accurately, which may not be the case.



What's in Press?

MSME ministry to set up 500 incubation centres

In a bid to boost skill development and entrepreneurship, especially among the unemployed, the Ministry of Micro, Small and Medium Enterprises (MSME) is planning to set up 500 innovation centres and 18 tools rooms at cluster level and university levels.

In an interactive meet with all chambers and SMEs during the ninth mega industrial exhibition organised by Vadodara Chamber of Commerce & Industry (VCCI), Union minister of MSME, Government of India, Kalraj Mishra said that the ministry's focus will be on skill development among existing entrepreneurs and development of entrepreneurship among unemployed youth.

"The ministry's vision is to create as many entrepreneurs as possible. Under 'Make in India' campaign, we will aim for zero

defect products through focus on technology and quality upgradation which is possible through skill development of existing entrepreneurs and creation of job givers instead of job seekers. For this we are setting up 500 incubation centres and 18 tools rooms at university and cluster levels," said Mishra.

Each of the tools room will cost roughly Rs 150-200 crore, the minister added.

Mishra also reiterated the government's emphasis on making procurement from SMEs mandatory for PSUs. "Of the total 337 PSUs, only 37 PSUs procure 20 per cent of their requirements from SMEs. The government is making it mandatory by April 2015 for all PSUs to procure 20 per cent from SMEs," he stated. Meanwhile, assuring support from the ministry and participants' concerns, Mishra said that attraction towards MSME should increase and efforts to the same would be made by the ministry.

Source: *Business Standard*

Quotes



"MSMEs Ministry is willing to take responsibility and we have urged various other state governments for credit guarantee trust fund and we are collecting the funds to ensure that banks do not huddle entrepreneurs and instead take up the issue directly with the Ministry.

Kalraj Mishra
Union MSME Minister

"People come to Google to get information. With this app SMEs can get online presence, they will also find themselves on the Google Map. The entire process of getting online will be very simple,"

Suryanarayana Kondukulla,
Head of SMB sales, Google India



"For the last 4-5 years, Vodafone Business Services business has grown at 22% while its SME vertical, which was unveiled just three years back, has witnessed around 35% growth in turnover. In the coming 2-3 fiscals, we want to maintain this growth,"

Deepak Pande, Exe VP & Head (SME business)
Vodafone Business Services

Sr No	Company	Closing#	%Returns*	52 Week Low	52 Week High
1.	Ace Tours	21.15	32.20%	21.15	64.00
2.	ADCC Infocad Ltd	66.00	65.00%	43.50	76.55
3.	Agrimony Commodities	10.25	11.40%	8.00	15.75
4.	Alacrity Securities	6.65	-55.70%	6.10	10.15
5.	Amrapali Capital	40.00	-60.00%	24.10	103.00
6.	Anisha Impex	12.02	20.20%	10.02	29.70
7.	Anshus Clothing	3.60	-86.70%	3.50	14.60
8.	Aryaman Capital Markets	13.60	13.30%	12.05	14.15
9.	Ashapura	145.10	262.80%	84.00	160.00
10.	Atishay Infotech Ltd	20.90	30.60%	17.00	22.75
11.	Bansal Roofing	33.25	10.80%	30.00	34.45
12.	BC Power	27.00	50.00%	17.15	27.00
13.	BCB finance	27.00	8.00%	25.00	31.00
14.	Bhanderi Infracon	120.00	-4.00%	107.60	121.00
15.	Bothra Metals	25.20	0.80%	18.00	34.00
16.	Bronze Infra	18.64	24.30%	10.20	63.50
17.	Captain Polypplast	56.00	86.70%	27.49	64.00
18.	Carewell Industries	8.20	-45.30%	6.70	14.40
19.	Channel Nine	503.50	1914.00%	39.96	525.02
20.	Chemtech	43.80	192.00%	13.50	43.80
21.	Comfort Commotrade	10.80	8.00%	10.05	35.00
22.	Dhabriya Polywood Ltd	24.30	62.00%	16.05	42.90
23.	Dhanuka Commercial	9.05	-9.50%	4.71	9.95
24.	Eco Friendly	550.00	2100.00%	40.14	565.00
25.	eDynamics	20.20	102.00%	18.90	221.55
26.	Encash Entertainment	64.25	60.60%	40.00	71.15
27.	Esteem Bio	403.00	1512.00%	49.24	403.00
28.	GCM Capital Advisors	106.00	430.00%	33.55	140.40
29.	GCM Comm	15.00	-25.00%	7.55	20.00
30.	GCM Securities	85.00	325.00%	27.10	90.25
31.	HPC Biosciences	531.60	1418.90%	120.00	652.00
32.	India Finsec	9.50	-5.00%	9.05	15.35
33.	Jet Infraventure Ltd	126.75	1.40%	126.50	133.90
34.	JLA Infraville Shoppers Ltd	13.95	39.50%	10.50	15.35
35.	Jointeca Education	19.00	26.70%	10.95	21.50
36.	Jupiter Infomedia	19.95	-0.30%	13.50	19.95
37.	Karnimata Cold Storage	21.30	6.50%	20.25	30.00
38.	Kavita Fabrics	9.75	-75.60%	9.75	13.86
39.	Kushal Tradelink	52.35	49.60%	18.60	53.25
40.	Lakhota Polyesters	11.00	-68.60%	11.00	14.57
41.	Looks Health	126.00	215.00%	58.90	437.00
42.	Max Alert	39.40	97.00%	39.35	198.50
43.	Mitcon	60.10	-1.50%	41.50	61.10

* Absolute returns since IPO. # Closing prices as on 28th November, 2014

* Source: BSE India Limited, NSE Emerge

Sr No	Company	Closing #	%Returns *	52 Week Low	52 Week High
44.	Momai Apparels	83.75	7.40%	78.00	103.00
45.	Money Masters	11.86	-20.90%	7.33	14.65
46.	Naysaa Securities Ltd	12.90	-14.00%	12.80	17.90
47.	Newever Trade	27.00	170.00%	19.95	50.80
48.	Oasis Tradelink	34.00	13.30%	27.85	35.90
49.	Oceanaa Biotek	11.85	18.50%	9.30	12.00
50.	Onesource Techmedia	6.05	-56.80%	4.75	8.70
51.	Opal	109.60	-15.70%	109.60	128.45
52.	Polymac Thermoformers	138.20	294.90%	34.75	210.00
53.	Powerhouse Fitness & Realty Ltd	30.30	1.00%	29.00	32.50
54.	R&B Denims	11.00	10.00%	10.25	15.43
55.	RCI Industries	40.10	0.30%	22.55	48.45
56.	RCL Retail	28.80	188.00%	13.50	49.85
57.	RJ Biotech	37.80	89.00%	28.00	45.00
58.	Samruddhi Realty	46.75	289.60%	25.41	50.00
59.	Sanco	18.75	4.20%	15.40	29.70
60.	Sangam Advisors	11.15	-49.30%	10.30	14.33
61.	Satkar Finlease	28.90	60.60%	28.90	154.35
62.	Shri Krishna Prasadam	22.90	129.00%	11.90	25.75
63.	SI VI Shipping	38.00	52.00%	26.10	43.35
64.	Silverpoint Infra	9.40	-37.30%	5.70	9.40
65.	Sirohia & Sons Ltd	13.00	8.30%	11.25	17.50
66.	SPS Finquest	83.00	10.70%	71.00	84.95
67.	SRG Housing	73.00	265.00%	16.60	78.54
68.	SRG Securities Finance	25.25	26.30%	18.25	31.00
69.	Starlit Power Systems Ltd	18.20	1.10%	18.10	19.00
70.	Stellar Capital	7.03	-64.90%	6.65	19.50
71.	Subhtex	19.20	92.00%	14.30	29.10
72.	Sunstar Realty	351.00	1655.00%	61.40	361.90
73.	Suyog Telematics	30.25	21.00%	24.50	39.65
74.	Tarini International	23.80	-42.00%	23.00	42.00
75.	Tentiwal Wires	11.50	-11.50%	7.00	15.00
76.	Thejo	164.00	-59.20%	164.00	210.00
77.	Tiger Logistics	140.00	112.10%	60.00	142.30
78.	Ultracab India Ltd	50.00	38.90%	36.90	50.00
79.	Unishire Urban Infra	10.28	2.80%	6.70	21.90
80.	VCU Data	54.00	116.00%	23.10	55.50
81.	Veto	64.00	28.00%	50.75	75.00
82.	Vibrant Global Capital Limited	19.75	4.00%	19.00	21.00
83.	Vishal Fabrics	52.00	15.60%	44.05	55.60
84.	VKJ Infradevelopers	38.90	159.30%	25.55	220.00
85.	Women's Next	65.90	1.40%	64.60	81.00

	Closing#	% Returns YTD
BSE IPO	1,138.52	726.33%
TSE MOTHERS	959.85	131.27%
CHINEXT PRICE INDEX	1,570.85	122.71%
FTSE AIM All Share Index	725.66	1.35%
TSX Venture Composite	741.87	-40.16%
Hong Kong GEM Index	511.49	34.07%

Closing Values as on 28th November, 2014



MARKET WATCH

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	RCI Industries & Technologies	B C Power	Starlit Power	JLA Infraville	Bronze Infra	Eco-friendly	Sunstar Realty
A. Valuation / Market Cap	(Rs. Crore)									
Pre Issue Net Worth	20.82	16.34	11.64	25.63	10.29	7.97	3.20	5.02	8.606	5.54
Issue Size	12.21	7.52	5.00	11.52	10.37	2.95	2.00	8.56	7.515	10.62
Market Capitalization*	41.66	59.21	35.79	43.71	31.75	11.13	9.05	32.20	1362.08	831.29
B. Price Pattern	(Rs. per Share)									
Issue Price	25.00	66.00	20.00	40.00	18.00	18.00	10.00	15.00	25.00	20.00
CMP (Face Value Rs. 10)*	25.20	140.00	37.80	40.10	27.00	18.20	13.95	18.64	550.00	351.00

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	SI VI Shipping	GCM Capital Advisors	Ace Tours Worldwide	Newever Trade	Looks Health	Captain Polyplast
A. Valuation / Market Cap	(Rs. 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*	1165.06	36.25	47.19	848.43	21.86	179.56	26..80	64.65	75.60	50.15
B. Price Pattern	(Rs. 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)*	503.50	39.40	46.75	531.60	38.00	106.00	21.50	27.00	126.00	56.00

Particulars	Esteem Bio	Satkar Finlease	VKJ Infradevelopers	Subh Tex	Ashapura Intimates	Comfort Commotrade	Sanco Industries	Veto Switch Gear	Thejo Engineering	Mitcon Consultancy	Opal Luxury
A. Valuation / Market Cap	(Rs. 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*	987.18	55.04	69.44	21.12	282.47	10.82	16.07	106.63	28.16	72.72	36.81
B. Price Pattern	(Rs. 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)*	403.00	28.90	38.90	19.20	145.10	10.80	18.75	64.00	164.00	60.10	109.60

* Closing prices as on 28th November, 2014

* Source: BSE India Limited, NSE Emerge

UPCOMING EVENTS

Name of Event	Date	Place
SME BUSINESS CLUB MEETING	December 2014	Navi Mumbai
KARNATAKA SME & INDUSTRY SUMMIT and KARNATAKA SME EXCELLENCE AWARDS	6th January 2015	Bengaluru
3rd Edition MAHARASHTRA ECONOMIC SUMMIT Theme : A Development Agenda for New Government Focus on : Industry Infrastructure Energy SMEs	9th January 2015	Mumbai
4th Edition GUJARAT SME MANUFACTURING SUMMIT and GUJARAT SME EXCELLENCE AWARDS	23rd January 2015	Ahmedabad
SME BUSINESS SUMMIT Theme : Private Equity & Venture Capital	29th January 2015	Mumbai
SME BUSINESS SUMMIT Focus on Joint Venture Technology Transfer Contract Manufacturing Mergers & Acquisitions	3rd February 2015	Mumbai
National Level Conference PACKAGING INDUSTRY SUMMIT Focus on Pharmaceutical Food Processing Healthcare FMCG Technology Investment Innovation Export and INDIA PACKAGING INDUSTRY EXCELLENCE AWARDS	6th February 2015	Mumbai
3rd Annual Flagship Activity INDIA SME MANUFACTURING SUMMIT	13th February 2015	Mumbai

Sarathi Capital alongwith NSE and Wealth First Portfolio Managers Pvt Ltd organized a seminar on **“Capital Markets for SMEs”** at Ahmedabad on November 12, 2014



Mr. Ashish Shah, Director,
Wealth First Portfolio Managers Pvt Ltd.,
addressing the audience at the seminar



On the dias (L-R), Mr Ashish Goyal, Lead -
Business Development NSE, Mr. Deepak Sharma, MD,
Sarathi Group & Mr. Ambareesh Baliga, Capital Market Expert



Mr. Deepak Sharma being felicitated



Audience at the seminar

Neo Politan Pizza Pvt Ltd listed its shares on the ITP Platform of NSE Emerge on November 3, 2014





S A R T H I

Bridging the Gap

Sarathi Capital Advisors Private Limited
SEBI Registered Category I Merchant Banker
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