August, 2013 Edition

S-CAP

SME Capital Market Watch

An initiative by Sarthi Capital Advisors Private Limited

SEBI Registered Category I Merchant Banker

PREFACE

Dear Readers,

It is our great pleasure to present the 9th edition of '**S** - **C**ap' – **S**ME **Cap**ital Market Watch, an initiative of Sarthi Capital Advisors Private Limited ('**S**arthi **Cap**ital').

The much-awaited Companies Bill, was passed in Rajya Sabha during the Monsoon Session on 8th August, 2013. The legislation had earlier been accorded approval by Lok Sabha on 18th December, 2012. The new law, taking a cue from modern corporate laws prevalent globally, aims to bring paradigm shift in the ways Indian Inc is regulated.

We are over-whelmed with the magnificent response and wide appreciation by the readers for last seven issues of S-Cap. Be it SME entrepreneurs, or professional fraternity or corporate executive, all stakeholders found S-Cap very useful & informative.

In this issue of S-Cap we bring to you:

- Researched article on Issue of Securities through IPO and Private Placement under Companies Bill, 2012
- Highlights of related developments on regulatory, market and other fronts
- View of eminent professionals on markets & SME developments in our guest column
- SME Market Watch updated as on date
- Research Coverage on select listed SME companies
- Latest information and upcoming events regarding SMEs

In our endeavour to promote and spread awareness about SME Listing and the benefit it offers, we participated in SME Knowledge Interchange Forum on Banking & Finance on 6th August 2013 at Taj Residency, Aurangabad alongwith State Bank of India, Business Standard, BSE Ltd. and India SME Forum.

We trust you would find this issue of S-Cap of immense use and we do invite your suggestions/feedback to make S-Cap even more useful, going forward.

Mahavir Lunawat	**Deepak Sharma**	**Anand Lakhotia**
MD and CEO	Group MD	Director

SME Capital Market Watch

SARTHI

Bridging the Gap

A Sarthi Initiative

A one-stop comprehensive solution to SME listing

Smelisting.net

Knowledge Portal

SME segment has always been the prime focus of Sarthi Group. "*Smelisting.net*" is a knowledge portal designed to provide an overall understanding of regulatory framework, processes involved, & benefits of SME Listing with queries, updation, feedback, all at one place.

Salient Features

Comprehensive content	:	Detailed knowledge content on procedural and regulatory aspects.
Eligibility Calculator	:	An innovative features to gauge your eligibility for SME IPO.
Knowledge Corner	:	Provides regulatory & market insights.
Ask the Expert	:	A platform to interact with the experts on SME Listing & related topics.
What's New	:	Latest happenings in SME world
Sarthi's Research Coverage	:	An in-depth research on listed SMEs & prospective IPOs

& many more..........

Email us at: smelisting@sarthiwm.in

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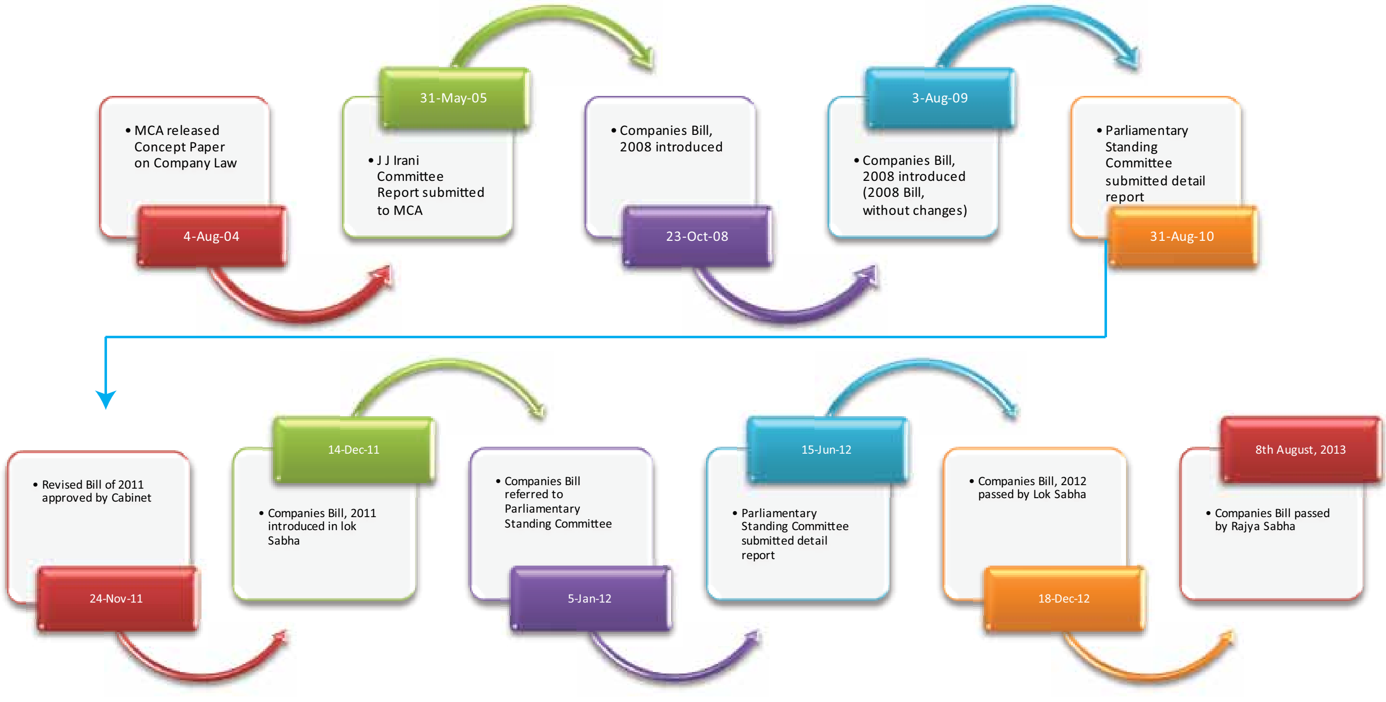
ISSUE OF SECURITIES THROUGH IPO AND PRIVATE PLACEMENT - SIGNIFICANT MOVES UNDER THE COMPANIES BILL, 2012

The Companies Act, 1956 has been in effect for about fifty-five years and amended 25 times since enactment. However, the basic framework of this important legislation needs overhaul, considering changing business dynamics and paradigm shift in national and international economic and regulatory fronts.

Various attempts have been made to revamp the Indian Company Law from time to time, and with the passage of the Companies Bill, 2012 (**‘the Bill’**), by RajyaSabha passing on 8thAugust, 2013 we are one more step closer to witnessing a historic moment in the history of corporate India.

The number of companies has increased from about 30,000 in 1956 to nearly 8 lakhs companies functioning as of date. Capital markets in India has also evolved with the times requiring a more progressive legislation facilitating India Inc. on growth-path and at the same time, protecting stakeholders’ interest. Issue of securities through public offers and private placements bears importance in that context. The Bill seeks to effect several changes to the legal framework for issue of securities through public offers and private placements. A comprehensive code is proposed to be introduced for private placements, which is likely to have far-reaching implications. In this backdrop, this article analyses provisions governing public offers and private placements with greater focus on private placements.



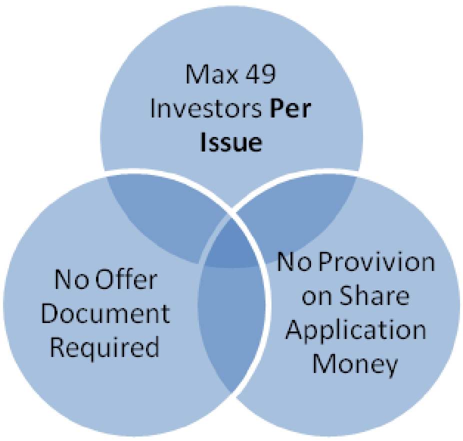
Private Placements	
Under the Companies Act, 1956	**Under the Companies Bill, 2012**
The Companies Act, 1956 does not contain specific provisions for private placements, except the private placements provisions embedded under section 81 dealing with authorization for issue of securities to persons other than the existing shareholders. However, the norms governing private placements have been codified through the Rules which are issued by MCA from time to time. Recently, drastic changes were introduced vide The Unlisted Public Companies (Preferential Allotment) Amendment Rules, 2011.	➢ Chapter III of the Companies Bill 2012 which deals with Prospectus and Allotment of Securities covers private placements ● Part II deals exclusively with private placements. ● Clause 42 read with clause 23 contain the relevant provisions ● Rules to be prescribed ➢ Term ‘private placement’ defined specifically ➢ Unlike the existing Companies Act, a complete code of provisions dealing with private placements is incorporated under the Companies Bill, 2012 ➢ The provisions apply to all companies including private companies and small companies

Existing Framework – Liberal or Hollow?

Fundamentally, the law permits private placement of securities to less than 50 investors, beyond which the requirements of public offer and listing on recognized stock exchanges get attracted (Section 67(3) of the Companies Act, 1956). However, the existing provision is plagued with inadequacy and ambiguity, and the same has been grossly misused. The limit of maximum 49 investors has been linked per issue and transactions have been conducted in staggered style, completely vitiating the spirit of law.

Further, unlike offer document in a public offer, there is no requirement of preparing a private placement offer document. Even, preferential allotment by listed companies does not require a placement document, unlike in the case of an institutional placement under a QIP issue.

Thirdly, until recently there is no provision on receipt and use of share application money and no timeline prescribed for allotment of securities post application money receipt. It is not unusual to come across companies deploying share application money for years without making allotment, filing return of allotment and meeting any requirement whatsoever. This lacuna has now been plugged to a certain extent vide the aforesaid amended rules.



Sahara Ruling[1] – Setting the Context

Two unlisted Sahara group companies had, between 2008 and 2011, raised about Rs 17,000 crores ($3.18 billion) from 22 million small investors through Optionally Fully Convertible Debentures (**"OFCDs"**). They circulated an information memorandum/ Red Herring Prospectus with the Registrar of Companies but no documentwas filed with SEBI. They took a view that issue of OFCDs was to a group of people – described in an extremely broad manner and the same did not amount to an issue to public. They, however, appointed about 10,00,000 agents, opened 2900 branches and offered OFCDs to crores of people, and finally issued OFCDs to some 66 lakhs investors (it appears actual figures may be even higher).

While Sahara group had argued that the fund-raising was a private placement not governed by the rules for public issues, SEBI had directed them to repay the money raised alongwith interest @15% p.a. on the premise that they had violated the rules, since a private placement should be limited to a maximum of 49 investors. The Apex Court upheld the rulings of SEBI and SAT and directed the group to repay alongwith the interest. The Apex Court laid down guiding principles of interpretation of section 67(3) of the Companies Act, which is worth reading.

This landmark judgement has set the direction for private placement code and the Bill draws heavily out of the principles enunciated by the Apex Court and contained in the amended Rules based thereon.

Clause 42 of The Companies Bill, 2012 on Private Placement –Major Moves

The legal regime for private placements is sought to be tightened under the Bill, as stated above. Some of the major conditionality proposed to be attached to private placements include the following :

- **Offer to More Than 50 Persons – Deemed Public Offer:** The Bill mandates that any private placement offer can be made to a maximum of 50 investors (or such higher number as may be prescribed) in a financial year. Any one or more offer(s), made in one or more tranches, to more than 50 potential investors in a financial year would need to comply with the provisions applicable to a public offer.

  It is specified vide Explanation I to Clause 42(2) of the Bill that, if any company makes any offer or invitation or allotment of securities to more than 50 persons in a financial year, it shall be deemed to be a public offer and all the compliances attendant with public offers would get attracted. Moreover, even an agreement to allot securities to more than the maximum number of persons would be deemed to be a public offer, irrespective of receipt of payment for the securities.

  The maximum number of persons to whom private placement can be made would be exclusive of the following :

  - Qualified institutional buyers (**'QIBs'**)
  - Employees of the company being offered securities under a scheme of employee stock option (**'Stock Options'**)

  Excluding QIBs and Stock Options from the cap of investors would mean that companies would be able to offer and make allotment of securities to QIBs and

[1]Sahara India Real Estate Corpn. Ltd. vs. SEBI [CIVIL APPEAL NO. 9813 OF 2011

employees even if the number of investors exceeds 50 in anyfinancial year. Under the Companies Bill, 2011, the exclusions were not specified. Subsequently, based on the public comments and recommendations made by the Parliamentary Standing Committee, the above exclusions are proposed under the Bill, 2012 and rightly so.

Enabling companies to offer and allot securities on private placement to QIBs would help companies raise growth capital at the time of need, without compelling them to go through the public offer route. This framework would facilitate increased private equity investments and similar transactions.

Similarly, stock options to employees regardless oftheir numbers would help companies in talent retention. From a technical perspective, the clause covers 'employees of the company' and I am of the view that even employees of the subsidiary companies should also be covered under the exclusion and the same is an un-intended shortcoming.

- **Concept of Private Placement Offer Letter Introduced :** Clause 42(1) of the Bill requires that every private placement would need to be made by way of an offer letter. Further, Sub-clause (7) lays down the following requirements :
  - Offer could be made only to those persons whose names are recorded by the company prior to the invitation to subscribe;
  - Offer should be made to the persons by name;
  - A complete record of offers would need to be kept by the company; and
  - Complete information about the offer would be filed with Registrar of Companies within 30 days of circulation of relevant private placement offer letter.
- **No Un-allotted Share Application Money :** Sub-clause (3) of Clause 42 requires that a fresh private placement offer can be made only when there is no application pending allotment. Further, all securities under private placement would be allotted within a period of 60 days from the receipt of application money, else the application money would need to be refunded within a period of 15 days from completion of the 60 days' time. Like in case of public issues, if the company fails to repay the private placement application money within the said period, it would be liable to pay interest @12% p.a.

  It is worthwhile to note that monies received under any private placement would be required to be kept in a separate bank account with a scheduled bank and the same could not be utilized for any other purpose other than the following :
  - for adjustment against allotment of securities; or
  - for the repayment of monies where the company is unable to allot securities.

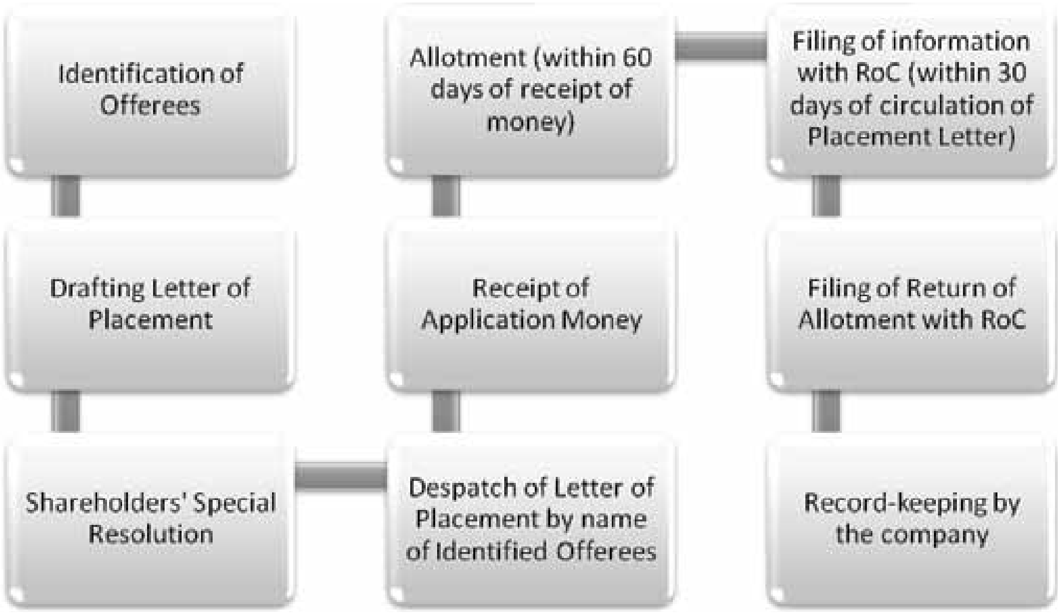
  Under the aforesaid regime, companies would not be able to receive share application money without following the process of private placement offer and the monies so received shall not be kept as such beyond 60 days. The proposed regime aims to streamline the private placement framework, especially for unlisted companies, and deter wrong-doings that could be possible otherwise.

Other Compliances

Besides above, private placement would also be subject to the following compliances :

- Shareholders' special resolution would be required authorising issue of shares to persons other than the existing shareholders *[Clause 62(1)(c)]*
- All monies payable towards subscription of securities under private placement would need to be paid through cheque or demand draft or other banking channels. Cash subscription is sought to be curbed. *[Clause 42(5)]*
- The companies offering or inviting subscriptions under private placement cannot release any public advertisements or utilise any media, marketing or distribution channels or agents to inform public at large about such an offer. *[Clause 42(8)]*
- Return of allotment would be required to be filed with the Registraralongwith the complete list of all security-holders with their names, addresses, number of securities allotted and such other relevant information as may be prescribed. *[Clause 42(9)]*The time-limit for filing of the return is not specified under the Bill and the same would be prescribed by the Ministry.

Private Placement – Process Flow



Notes :

(1) The above is an indicative process flow capturing major milestone activities and does not cover all activities involved in a private placement, exhaustive.

(2) Activities arising out of SEBI (ICDR) Regulations applicable to listed companies are not captured.

Concluding Remarks

Explanation II (ii) to Clause 42(2) of the Bill defines the term 'private placement' in terms of which every offer of securities other than public, rights or bonus offer amounts to a private placement. Further, Sub-clause (4) specifically provides that any offer or invitation not in compliance with the provisions of Clause 42 of the Bill (private placement norms) would be treated as a public offer attracting the requirements of the Bill, the Securities Contracts (Regulation) Act, 1956 and the SEBI Act, 1992, as applicable to a public offer.

Further Sub-clause (10) contains the penal provision in terms of which if a company makes an offer or accepts monies in contravention of Clause 42, the company, its promoters and directors shall be liable for a penalty up to the amount involved in the offer or Rs. 2 crore, whichever is higher, and the company shall refund all monies to subscribers within 30 days from the order imposing the penalty.

All the norms under the amended rules are sought to be incorporated under the Bill itself. Needless to mention, the Sahara ruling (supra) has also influenced the legislature while codifying the norms for private placements. The principles enunciated by the Apex Court in Sahara ruling are sought to be enshrined under the Bill. The proposed provisions, if enacted in this form, would bring a paradigm shift in private placements, especially in unlisted company space.

Public Offers	
Under the Companies Act. 1956	**Under The Companies Bill, 2012**
The Companies Act, 1956 does contain framework for public offers including initial as well as follow-on public offers. The overall framework of public offers is sought not only to be continued but also strengthened under the Bill. Certain changes were also made in the Bill based on public comments and recommendations of Parliamentary Committee including giving of exit option to dissenting shareholders in case of variation in terms of contracts or objects in prospectus.	➢ Chapter III of the Companies Bill 2012 which deals with Prospectus and Allotment of Securitiescovers public offers ● Part I deals exclusively with public offers ● Clause 23 through Clause 40 contain the relevant provisions ● Rules to be prescribed ➢ Information to be provided in an offer document covered under the Bill ➢ Class action, disgorgement provision, high penalty introduced to curb fraudulent malpractices

Key Changes

- **Detail Disclosures :** The detail disclosures to be made in offer document / prospectus are specified under the Bill. *[Clause 26]*
- **Exit Offer on Variation of Terms:** Clause 27(3) provides that the dissenting shareholders who do not agree to the proposal to vary the terms of contracts or objects referred to in the prospectus, would need to be given an exit offer by promoters or controlling shareholders. The regulations containing price, manner and conditions of such an exit offer would be made by SEBI. Though the exact norms would be clear on prescription of rules, but undoubtedly, this change would be a major one.
- **Offer For Sale by Existing Shareholders [Clause 28] :** The Bill contains enabling provisions for offer for sale of shares, in whole or part, by the existing shareholders to public. The procedure for the same would be prescribed through rules. The offer document in respect of such sale would, for all purposes, be deemed to be a prospectus within the meaning of the Bill.

  While the above provision seeks to enable offer for sale by the existing shareholders to public, the same is already covered under the SEBI (ICDR) Regulations. In practice, the above provision may not have any new implications as such, unless the rules to be prescribed would contain any new procedural aspect(s).
- **Stricter Penal Provisions :** The Bill proposes stringent penal provisions to deter instances of frauds and protect investor interest. Some of the changes proposed in this direction include the following:
  - **Personal liability, without limitation**, of those who intends to defraud the applicants [Clause 35(3)]
  - **Class Action :** The Bill seeks to introduce class action by affected persons in case of misleading prospectus and fraudulently inducing persons to invest money. [Clause 37]
  - **Fraud to obtain credit facility punishable :** Fraudulently inducing another person to enter into or to offer to enter into any agreement for or with a view to obtaining credit facilities from any bank or financial institution is sought to be punishable under the Bill.[Clause 38]
  - **Disgorgement :** The Bill seeks to introduce disgorgement provision in terms of which, if a person gets convicted of any offence under Clause 38 (i.e. for making of application in fictitious name, multiple applications, and the like), the Court may order disgorgement of gain made by and seizure and disposal of securities in possession of such person. The amount received through disgorgement would be required to be credited to the Investor Education and Protection Fund.
  - **High Penalty :** Higher penalty of imprisonment for minimum 6 months but extending up to 10 years and a fine of ranging from the amount involved in fraud to three times thereof. If the fraud involves public interest, the minimum imprisonment period shall be 3 years. [Clause 447]
  - **No Compounding :** Misstating facts in the offer document and fraudulently inducing people to invest would be non-compoundable offences.

Concluding Remarks :

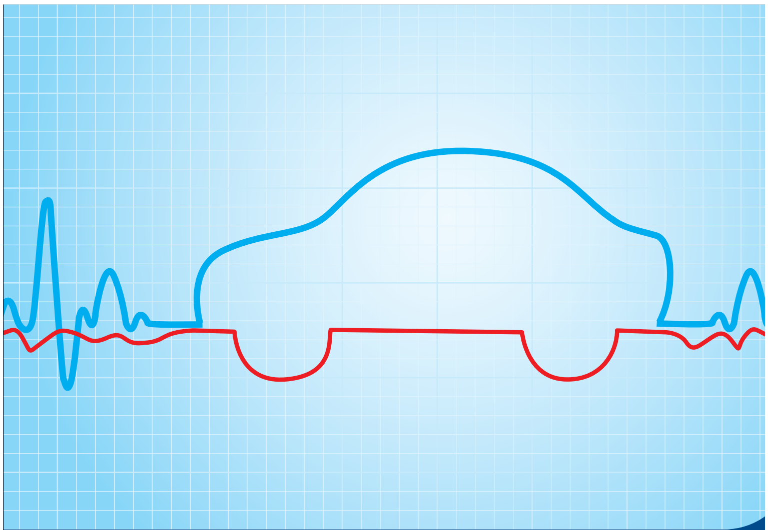
It could be observed from past IPOs that the shares of a vast number of companies took a beating immediately post IPO, eroding investor wealth. As per media reports, an internal analysis by SEBI showed that 72 out of 117 issues from 2008 to 2011 were trading below the issue price after six months of listing. Of these, the share price of 55 companies had fallen more than 20%. Many companies diverted the IPO proceeds.

The changes sought to be made in IPO framework under the Bill aims to curb the malpractices and ensure increasing protection to investor wealth. Some of the concepts like exit option on variation of terms and class action did not find place in earlier versions of the Bill but incorporated during the consultative process and the same could be proved effective. On the flip side, those provisions are prone to be misused and the same should not become a handle to blackmail corporate management or controlling shareholders. The true essence would lie in implementation and effective administration of the new provisions, and much would depend on the rules to be prescribed by the Ministry.

- Mahavir Lunawat

MARKET DEVELOPMENTS

- SRG Securities Finance Limited a Non Deposit taking Non-systemically Important Non Banking Finance Company (NBFC-ND-NSI) engaged primarily in the business of Asset Financing by offering business loans, equipment and machinery loan and vehicle loans filed a draft prospectus for a public issue of Rs.5.02 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to augment capital base and provide for fund requirements for increasing operational scale with respect to NBFC activities and to meet Issue related Expenses.
- Tiger Logistics (India) Limited, an integrated Third Party Logistics provider has filed a draft prospectus for a public issue of Rs. 7.52 crore. Company provides integrated services like International Freight Forwarding, Custom Clearing, Transporting, Custom Consulting and Project Transportation Specialist. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds for working capital requirements, general corporate purposes and issue expenses. The Issue is being Lead managed by Sarthi Capital Advisors Private Limited. Tiger Logistics (India) Limited is the the **fourth largest** company in terms of turnover to be filed on BSE SME Platform.
- Subh Tex (India) Limited engaged in the business of manufacturing fabric viz suiting & shirting for the domestic and international market, which had earlier filed a draft prospectus for a public issue of Rs. 15.00 crore has now revised the Issue to Rs. 3.50 crore. Equity shares are proposed to be listed on the SME Platform of the BSE. The company intends to use issue proceeds to fund additional working capital requirements and meeting public issue expenses.
- VKJ Infradevelopers Limited engaged in the business of providing civil construction, land & site development services and trading of construction materials has filed a draft prospectus for a public issue of Rs. 12.75 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 fund requirements for execution of Ongoing and Forthcoming Projects and other working capital requirements, to meet the funds required for general corporate purposes, and to meet the issue expenses. The issue for public subscription will be open from 12th August, 2013 to 16th August, 2013.
- Cityon Systems (India) Limited engaged in trading of diversified products ranging from Iron & Steel and chemicals to computer software and hardwares has filed a draft prospectus for a public issue of Rs. 12.40 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 fund requirements for brand building, setting up of new marketing offices in Delhi and Kanpur, long term working capital and issue expense.
- Currently 29 companies are listed on SME platforms of BSE and NSE. 4 companies viz. Alacrity Securities, Kushal Tradelink, GCM Commodity & Derivatives and Silverpoint Infratech are in the pipeline of getting listed.



Forth Coming IPOs

Name of the Company	Exchange	Issue Size (Rs. lakhs)	Issue Price (Rs. Per Share)
Subh Tex (India)	BSE	3.50	10
SRG Securities Finance	BSE	5.02	20
Tiger Logistics (India)	BSE	7.52	66
VKJ Infradevelopers	BSE	12.75	25
Cityon Systems (India)	BSE	12.40	20

OTHER DEVELOPMENTS

Government panel suggests steps to boost MSME exports

Amid concerns over the widening current account deficit, a government panel has suggested fiscal and non-fiscal incentives including enhanced interest subsidy of 4 per cent to boost exports from MSME sector. The six-member inter-ministerial committee headed by Finance Secretary R S Gujral was constituted by the Cabinet Secretary to suggest short and medium term measures to enhance exports from the Micro, Small and Medium Enterprise sector.

Ryerson University of Canada and BSE sign MOU to help start-ups

Digital Media Zone at Ryerson University of Canada and Bombay Stock Exchange have signed an MOU to help start-up companies of the two countries cutting across sectors to access each other's markets.

The incubators, which started in one room in Ryerson University three years ago, will now be a bridge for Canadian start-ups looking to expand to India as well as Indian start-ups seeking to enter the Canadian market. Digital Media Zone has partnered with Bombay Stock Exchange (BSE) in a new initiative to expand the reach of the digital economy in the two countries and it would help in strengthening ways to support young Indian innovators and entrepreneurs through partnerships.

MSEs majority owned by SC/ST to get quota in govt procurement

Micro and small units in which 51 per cent shares are owned by SC/ST will be entitled to reservation under government procurement policy for MSME sector.

The Public Procurement Policy mandates every central ministries, departments and PSUs to buy 20 per cent of their total annual purchases value from from MSME. The policy also earmarked 4 per cent share out of this 20 per cent procurement from MSEs owned by SC/ST entrepreneurs.

MSME Ministry in favour of raising investment cap for SMEs

Micro, Small and Medium Enterprises(MSME) Minister K H Muniyappa is in favour of increasing the investment cap to $2 million in small and medium units, from which global retailers have to source 30 per cent of items under the multi-brand retail policy.

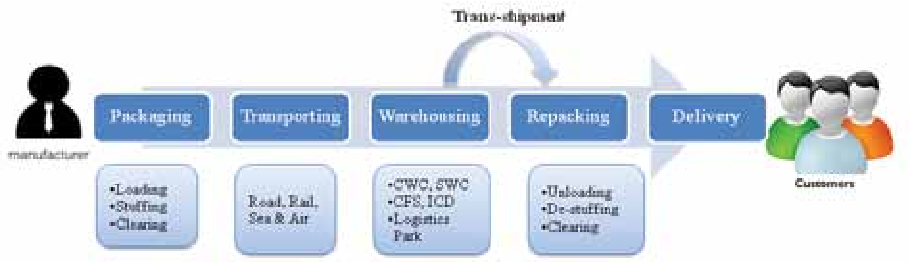
As per the current FDI policy, multi-brand retailers must procure 30 per cent of their products mandatorily from small and medium enterprises (SMEs) with an investment in plant and machinery not exceeding $1 million.

The Department of Industrial Policy and Promotion, in a draft Cabinet note, had proposed increasing the investment cap to $2 million. It had also said that multi-brand retailers should continue sourcing items from SMEs without a time cap even after they cross the investment limit and can no longer be considered small and medium.

TIGER LOGISTICS (INDIA) LIMITED (INITIATING COVERAGE – IPO NOTE)

Tiger Logistics (India) Limited (TLIL) is a Delhi based **ISO 9001:2008** accredited Company. Incorporated in the year 2000, TLIL is a Third Party Logistics Provider. It is promoted by Mr. Harpreet Singh Malhotra and Mrs. Benu Malhotra.

Business Model:



Activity	TLIL provides cost effective logistics solutions to customers around the globe irrespective of their geographical location. TLIL offer a single source design, management, implementation and monitoring of the entire supply chain for inbound or outbound logistics requirement or fixed schedule requirement. TLIL also offers customized service packages without dimensional and weight restrictions. TLIL has a **Multi-Modal Transport Operator's License** and a **Custom House Agent's License** for servicing their customer's requirements.	
Service Range	● International Freight Forwarding ● Custom Clearance Transporter ● Custom Consulting	● Ocean and Air Freight Forwarding ● Project Cargo Handling ● Warehousing and Transportation ● Project Transportation
Facilities	Registered and Corporate office of the company is situated at Delhi and branch offices are located at Mumbai, Pune, Mundra, Ludhiana and Kolkata	
Infrastructure	TLIL uses advanced IT infrastructure to give its customers complete transparency and control to monitor the progress of their supply chain at any time. TLIL has installed software called **"Logi-Sys"** to keep a track on the shipment from procurement of order to final delivery at the client's address and subsequent billing. It also enables them to keep a complete check on the operational and accounting.	
CSR	TLIL runs **"Save the Tiger"** Initiative under which it has invested resources for revitalizing tiger conservation.	
Key Highlights	● Asset Light Business Model ● Led by Team of Experts ● Leveraging the vast experience of Promoter ● Economies of Scale	
Key Challenges	● Top 5 clients contribute approx. 50% of their revenues, loss of any such client may affect the business ● Dependency upon third parties to provide services	
Business Strategy	● Strengthening Existing Services ● Enhancing Customer Base by entering New Geographies ● Improving operational efficiencies ● Leveraging Market skills and Relationships ● Focus on consistently meeting quality standards	

Issue Details

Issue Size (Rs. Cr)	7.52
No. of shares on offer (Lakhs)	11.40
Price (Rs.)	66
Face value (Rs.)	10
MCap @ Rs. 66 (Rs. Cr)	27.90

Objects of the issue (Cr)

Working Capital Requirement	6.40
General Corporate purpose	0.62
Issue Exp	0.50
Total	7.52

Shareholding (%)	Pre IPO	Post IPO
Promoters & Promoter Group	100	73.03
Others	-	26.97

Relative Valuation

The Issue is priced at 6.01x its March 13 earnings and 1.25x its March 13 Book Value. The fact that TLIL is a third party logistics service provider with asset light business model, it signifies lower risk and value investment opportunity in this upcoming sector. Compared to its peers, TLIL is a small player but considering the relative valuations of the Issue appears to be reasonably priced.

Financials (Rs. In Cr)

Y/E March (FY 13)	Tiger	TCI	All-cargo
Sales	122.15	1951.23	1018.64
EBITDA%	4.72	7.68	26.68
PAT%	2.76	2.66	11.34
ROCE%	20.58	19.31	9.24
ROA%	8.47	14.11	9.98
Debtors days	85	62	50
Creditors days	68	168	50
Debt/ Equity	-	0.52	0.45
Int Coverage	29.25	3.35	5.8
EPS	10.99	7.00	8.20
P/E	6.01	7.00	8.20

Mr. Piyush Goenka

Investment Director, Tano India Advisors Pvt Ltd

Piyush has over 13 years of experience in private equity, investment banking and structured finance. He is currently the Investment Director at Tano Capital, a growth stage PE Fund. Prior to Tano, Piyush has worked with with IL&FS Ltd. and EXIM Bank of India.

Piyush is a Postgraduate in Business Administration from Management Development Institute, India and a Graduate in Commerce from St. Xaviers College, India. He is also a CFA Charterholder.

SMEs: TAKING THE RIGHT RISK

Preface

The Indian corporate sector profitability has been under pressure over the last several years. The small and medium sized companies (SMEs) have been affected even more severely. Though mostly the SMEs are better placed to react to macro changes due to their low investment in fixed assets and fast decision making, they suffer on account of excessive risk taking. SMEs represent more than 8% of India's GDP, contribute nearly 45% of industrial output, 40% of exports and provides employment to 32 million people. Given that the SMEs are expected to drive future growth for Indian economy, effective risk management by SMEs assumes high importance. Hence, SMEs would do well if they understand and chose their risks well.

Key Risks Involved

SMEs need robust risk management as they may not have wherewithal to manage and control non – operational risks due to their very size and several limitations.Some of the key risks faced by SMEs are listed below.

1. Commodity Price Risk – SMEs try to take advantage of commodity price movements by taking exposure to price movement on either raw materials or finished goods. However unexpected price changes in-turn can reduce producer's margins and make budgeting difficult. Thus SMEs should be fully hedged on commodity price movement's impact to their business in order to avoid short term price risk and maintain stability.
2. Receivable Risk– Doing business with risky customers without adequate security may result in high and risky receivables. Given the low bargaining power of the SMEs, considerable delay in settlement of the receivablesmay adversely affect the recycling of funds and business operation of SME units.Thus SMEs should do business with credit worthy clients or else secure their receivables at extra cost to maintain the sustainable margins.
3. Leverage Risk–SMEs however often try to take substantial leverage to fund expansion and behave too fussy about equity dilution which may eventually lead to financial stress and unavailability of funds when needed.Right proportion of leverage can increase the profitability of a company by providing funds for profitable investments. Hence, they should keep the leverage to a serviceable level and raise equity at frequent intervals which will provide the much needed risk capital for such growth stage firms.
4. Currency Risks - SMEs that are focused on exports or take foreign currency loans often tend to take a call on currency movement by hedging unconfirmed revenues or keeping loan exposure in foreign currency. Currency risk is not compensated with higher potential returns and can adversely impact SMEs.Thus given their limited financial power, it is very important for SMEs to manage this risk effectively; and hedge their net foreign currency exposures, at all times.
5. Key Man Risk– Not having the right people in place with the skills you need to compete and grow can seriously hamper an organisation's future. Thus SMEs relying too much on the entrepreneur or his close associatesmay lead to knowledge deficit or growth challenges in future. SME owners instead should focus on creatinga professional management team and delegate the functions where they lack expertise.
6. Cashflow Risk– Improper cash-flow management is one of the most common and crucial risk for SMEs. Most SMEs work with very little liquidity and tend to keep investing excess cash in new opportunities. Rather firms should produce a cashflow forecast, create a contingency plan to avoid cash crunches and monitor it regularly to keep adequate level of cash as per the working capital requirements of the business.

Making the right choice

Surveys and studies conducted across the world provide compelling evidence that a vast number of SMEs fail due to excessive risk taken in anticipation of aggressive growth and outside their core operations.As per "MSME Development Institute", 79 small business units are turning financially unviable every day in the country due to common risks factors, lack of enterprise and financial management being the prominent one. This makes risk management an important function for SMEs.

SMEs should define their core operations and take risks related to the core operations only. They should go for the most appropriate strategy to avoid other potential risks and implement controls to manage them. Learning from experience and making continual improvements is very essential for small businesses and it becomes imperative to evaluate where anything went wrong earlier before going any further.

Case Studies

Rajiv Poddar, a Bangalore-based entrepreneur wrapped up his first start-up 'Sedna Wireless' which was focused on delivering a VOIP-based phone. The failure was due to non-competent, non-committed and unprofessional team; improper assessment of self and the business and entering a new space without having a background or a mentor to guide.

Jahnvi Parikh was working with Yahoo Singapore, when she started Aurality as a personal project. Aurality aggregates web content and coverts into audio for the people on move.It took 10 months to build. It was targeted for US market where the text to speech quality was not good and hence the venture failed.

Kiko, an online Calendar was sold through eBay because of loss of focus which made the entrepreneurs side-tracked on side ideas instead of concentrating on the main idea causing many delays in getting the product out the door.

Concluding Remarks

Having discussed some of the prominent risk factors that contribute to failure of SMEs, many of the failures are preventable. Excessive risks taken by SMEs are usually the outcome of improper planning and it may prima facie appear that by hedging all these risks, the margins in the business reduce substantially. However, these margins are the sustainable margins in the business and hence, all efforts should be made to retain and grow this. All other profits are temporary in nature and can easily translate into losses.

Calculated risks are part and parcel of any business. SMEs being more prone to failures should make sure that the risks are consciously taken with complete knowledge and clear understanding.Keeping an open minded approach and giving a close look at the common reasons of failure will pave way for more sustainable future for SMEs and in-turn will create value for them.

SURVEILLANCE TOOLS TO CURB EXCESS VOLATILITY

What are Circuit Filters?

Circuit Filters are price bands imposed by the Securities Exchange Board of India (SEBI) to prevent large intra-day movementsin stock prices.It sets a limit on the extent to which price of a particular scrip can fluctuate in a day. They prevent a steep fall/rise in stock prices and safeguard interest of investors. It is a mechanism to check and limit the volatility in the trading and reduce the speculation in the market.It seeks to provide safety net for investors in case of sudden crash, minimize losses and make the market a safer place.

What are Circuit Breakers?

Circuit Breakers are similar to Circuit Filters but they are applied in case of indices such as Sensex and Nifty. Other difference is in the surveillance action that gets triggered when they are breached which is explained subsequently.

How do they work?

Individual Scrip-wise Circuit Filters/ Price Bands

The exchanges specifylimitsto control the daily price volatility of individual stocks.These controls take the form of price bands above and below the previous day's closing price within which orders may be accepted by the trading system and trades can be executed. The trading systems will reject all orders with buy limits below the bottom range of the band and sell orders with limits above the top range of the band. The system will not execute any trades outside the band.

For example, if the previous closing price of a scrip Rs 100, and there is a circuit filter of 5%, any order at a price above Rs. 105 will be rejected. Similarly, any order below Rs. 95, the lower end circuit filter will be rejected by the system. Once the stock price reaches the circuit filter no order outside the price band will be executed, however any order within the price band will still be executed hence the trading per se will not be halted.

Individual scrip-wise daily price bands are fixed by the exchanges after taking into consideration various parametersand may be fixed at 2%, 5%,10% and 20% (either way).

No price bands are applicable on scrips on which derivative products are available or scrips included in indices on which derivative products are available. However in order to prevent members from making punching errors dummy circuit filters are applied at 20% for such securities.

An index based market-wide circuit breakersystem applies at three stages of the index movement either way at 10%, 15% and 20%.Thebreakersare triggered by movements in either Nifty or Sensex, whichever is breached earlier.The intention is to provide a cooling off period to the market participants to assimilate and digest the market's behaviour and rationally react to the cause of excessive market movements.

The trading halt on all stock exchanges would take place as under-

- In case of a 10% movement in either of index, there would be a one-hour tradinghalt if the movement takes place before 1:00 p.m. In case the movement takes place at or after 1:00 p.m. but before 2:30 p.m. there would be trading halt for ½ hour. In case movement takes place at or after 2:30 p.m. there will be no trading halt at the 10% level and market would continue trading.
- In case of a 15% movement in either of index, there would be a two-hour trading halt if the movement takes place before 1 p.m. If the 15% trigger is reached on or after 1:00 p.m. but before 2:00 p.m., there would be a one-hour halt. If the 15% trigger is reached on or after 2:00 p.m. the trading would halt for remainder of the day.
- In case of a 20% movement in either of index, trading would be halted for the remainder of the day.

The above percentage would be translated into absolute points of the Index variation on a quarterly basis. These absolute points are revised after every quarter and new percentages are arrived for the next quarter.

WHAT'S IN PRESS?

MSMEs play vital role to boost industry, employment: Muniyappa

Union Micro, Small and Medium Enterprise Minister K H Muniyappa stressed the need for coordination between the entrepreneurs, bankers and government to increase export of various MSME products and make them globally competitive.

Muniyappa noted that the MSME sector contributes eight per cent of the country's GDP, 45% of the manufactured output and 36 per cent of its exports.

"The MSME sector is the nursery of entrepreneurship and has been recognized as the engine of growth. The MSMEs also have a vital role in the dispersal of industries and generation of employment opportunities," Muniyappa said while inaugurating a national conference on the sector here.

Union Minister of State for MSME K.H. Muniyappa

Calling upon entrepreneurs to set their export target at 50 to 60 per cent, the minister said that the sector provided employment to over eight crore persons through more than 3.6 crore enterprises producing over 6,000 products and was playing a significant role in fulfilling the national objectives of growth with equity and inclusion.

"However, to boost export in the sector, we need to upgrade our Research and Development (R&D) and marketing strategy to make the MSME produce globally competitive and acceptable products," the minister said.

The minister also called upon the nationalized banks to set up at least one dedicated MSME branch in each district throughout the country and urged them to reach out to villages, extending coordination to the MSME entrepreneurs.

Canara Bank CMD R K Dubey, who was present at the occasion, explained how they are progressing in this direction and have already established dedicated MSME branches in each district of Kerala. The two-day National Conference on "MSME Financing and Strengthening MSME Linkages" was organized by the Indian Chamber of Commerce.

Speaking in the seminar, Deepak Narang, Executive Director of the Union Bank of India (UBI) said that out of the 19 districts in the state, they have already set up dedicated MSME branches in 10 districts, adding that soon, they would set up MSME branches in the remaining nine districts also. Similarly, the Bank would also set up dedicated MSME branches in all the districts of Northeastern states, he said.

Explaining the Centre's role in the sector, Muniyappa said the government is implementing the Credit Guarantee Scheme where it provided guarantee cover up to 85 per cent on collateral-free credit facility extended by lending institutions. The minister also lauded the growth of the MSME sector in a number of states including West Bengal, even as he wondered why this state was lagging behind in industrialization.

"East India Company began industrialization in Bengal centuries back, but we don't understand why the state is still lagging behind. On the other hand, Maharashtra, Gujarat and several other states are progressing well," the minister said.

He added: "The 12th Plan has earmarked Rs 24,000 crore to emphasize growth in industrialization in the entire country as against Rs 11,000 crore earmarked in the previous Plan".

Muniyappa said that being the nodal agency of entrepreneurship development in the country, the MSME ministry is providing skill development through its state-of-the-art Tool Room and Technology Development Centres to help youths. "We have a target of training 1.5 crore persons by 2022 and more than 40 lakh persons during the 12th Five Year Plan," he said.

Giving importance to cluster up-gradation in the MSME sector, Muniyappa said that in case of clusters owned and managed by women entrepreneurs, the contribution of the MSME ministry towards financial support could be up to 90 per cent of the project cost.

The minister also said that the mandatory clause of procuring at least 20 per cent of MSME produce by the central government offices would promote the sector by improving their market access.

Source : The Economics Times

UPCOMING EVENTS

Name of Event	Place	Date	Organizer
Conference on Strengthening Family Managed Businesses for Better Growth	Mumbai	August 2013	SME Chamber of India
ASSOCHAM - ICAI-CMA "SMEs Excellence Award"	India	August 2013	ASSOCHAM India
Exchanges for SMEs Emerging Needs vs Future Challenges	New Delhi	29 August 2013	ASSOCHAM India
2nd Annual National Level Flagship Activity INDIA SME BANKING CONCLAVE Innovative Strategies for Financial Support for SMEs	Mumbai	6th September 2013	SME Chamber of India
Annual National Awards SME EXPORTS EXCELLENCE AWARDS	Mumbai	6th September 2013	SME Chamber of India
Conference on Streamlining Export & Trade Finance For SMEs	Mumbai	September 2013	SME Chamber of India

SME MARKET STATISTICS

Sl No	Company	Closing#	%Returns*	52 Week High	52 Week Low
1.	Anshus Clothing	33.95	25.74	37.00	22.50
2.	BCB Finance	25.25	1.00	27.50	24.50
3.	Bronze Infra	10.50	-30.00	20.10	6.20
4.	Comfort Commotrade	31.00	210.00	45.95	10.10
5.	Jointeca Education	16.00	6.67	18.00	14.60
6.	Jupiter Infomedia	25.10	25.50	25.75	21.10
7.	Max Alert	90.00	350.00	99.00	57.10
8.	Looks Health	282.15	605.38	302.75	40.20
9.	RCL Retail	19.95	99.50	23.40	7.55
10.	Sangam Advisors	22.00	0.00	25.85	19.00
11.	SRG Hsg Fin	88.00	340.00	88.00	19.95
12.	Eco Freindly	77.30	209.20	77.30	21.10
13.	Esteem Bio	72.80	191.20	72.80	25.25
14.	Sunstar Realty	42.70	113.50	42.70	21.20
15.	Kavita Fabrics	39.00	-2.50	45.25	39.00
16.	Channel Nine	44.55	78.20	44.55	26.25
17.	Bothra Metals	30.00	20.00	32.20	24.85
18.	Lakhotia Polyesters	34.00	-2.86	36.60	33.85
19.	GCM Securities	222.00	1010.00	222.00	65.00
20.	Ashapura Intimates	71.75	79.38	76.15	46.40
21.	Samruddhi Realty	49.00	308.33	49.00	12.75
22.	HPC Biosciences	80.85	131.00	80.85	37.25
23.	Onesource Mediatech	6.40	-54.29	13.00	5.75
24.	India Finsec	12.70	27.00	12.70	9.55
25.	eDynamics Solutions	35.50	255.00	35.50	25.40
26.	Thejo Engineering	393.00	-2.24	405.00	297.45
27.	Veto Switch Gear	54.25	8.50	58.00	50.10
28.	Opal Luxury	107.30	-17.46	135.00	97.60

*Aboslute returns since IPO. # Closing prices as on 9th August, 2013

SME Capital Market Watch

GLOBAL SME MARKET

	Closing #	% Returns YTD
BSE SME IPO	344.83	150.28
TSE MOTHERS	703.17	69.42
CHINEXT PRICE INDEX	1219.12	72.84
FTSE AIM All Share Index	738.74	3.18
TSX Venture Composite	920.09	-25.79
Hong Kong GEM Index	412.97	8.25

Closing Values as on 9th August, 2013

MARKET WATCH

Particulars	Bothra Metals & Alloys	Comfort Commotrade	Max Alert	RCL Retail	SRG Housing	Eco-friendly
A. Valuation / Market Cap						**(Rs. Crore)**
Pre Issue Net Worth	20.82	4.30	7.10	5.60	4.90	8.606
Issue Size	12.21	6.00	8.00	5.80	7.00	7.515
Market Capitalization*	55.55	31.06	82.80	24.56	71.11	76.57
B. Price Pattern						**(Rs. Per Share)**
Issue Price	25.00	10.00	20.00	10.00	20.00	25.00
CMP (Face Value Rs. 10)*	30.00	31.00	90.00	19.95	88.00	77.30

Particulars	Sunstar Realty	Esteem Bio	Channel Nine	Ashapura Intimates	Samruddhi Realty	HPC Biosciences
C. Valuation / Market Cap						**(Rs. Crore)**
Pre Issue Net Worth	5.54	8.56	5.56	10.98	4.39	4.80
Issue Size	10.62	11.25	11.67	21.00	2.60	15.75
Market Capitalization*	85.10	108.60	69.09	139.68	34.40	128.55
D. Price Pattern						**(Rs. Per Share)**
Issue Price	20.00	25.00	25.00	40.00	12.00	35.00
CMP (Face Value Rs. 10)*	42.70	72.80	44.55	71.75	49.00	80.85

Particulars	Anshu Clothing	Jupiter Info	India Finsec	Opal Luxary	Veto Switch Gear	Thejo Engineering
E. Valuation / Market Cap						**(Rs. Crore)**
Pre Issue Net Worth	12.70	2.00	28.78	11.82	32.70	25.80
Issue Size	5.10	4.10	6.00	12.00	25.00	19.00
Market Capitalization*	21.17	8.76	24.69	36.04	90.39	67.47
F. Price Pattern						**(Rs. Per Share)**
Issue Price	27.00	20.00	10.00	120.00	50.00	402.00
CMP (Face Value Rs. 10)*	33.95	25.10	12.70	107.30	54.25	393.00

*Closing prices as on 9th August, 2013

S A R T H I

Bridging the Gap

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