



SME Exchange: EMERGE – A New Perspective in NSE

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ABSTRACT

The Small and Medium Enterprise (SME) in our country contributes a significant role in the development plans of our country. The SMEs contribution to our GDP is around 9 – 10 percent and so the government and regulators have introduced various policy measures to help SMEs by the activation of SME listing platform in Indian Financial System. This study aims to gain an insight of EMERGE, SME Exchange of National Stock Exchange (NSE). The paper discuss about structural framework, listing criteria and listing benefits etc. EMERGE platform provides a unique opportunity for all the participants in the Market Eco- System and for all the investors.

Keywords: EMERGE, Financial System, NSE, SME.

1. INTRODUCTION

SME Exchange is having robust mechanism and is fundamentally sustainable, experts maintained. SME Exchanges are poised to throw various opportunities and have immense potential. SMEs are the largest employer after agriculture sector in India. This sector provides support for competitiveness and employs about 75 million people in India. There are about 30 million operating SMEs out of which is 80 per cent are micro enterprise. They contribute 9-10 per cent of our GDP. The government and regulators have also recognised this fact and introduced various policy measures to help SMEs grow including activation of SME listing platform.

2. OBJECTIVES OF THE STUDY

- ❖ To understand the International Scenario in SME Exchanges
- ❖ To understand the structural working framework of EMERGE.
- ❖ To understand the eligibility criteria and listing benefits in EMERGE

3. INTERNATIONAL SCENARIO IN SME EXCHANGE

There have been unsuccessful attempts in the past to set up a separate exchange for SMEs in India, and it was important to get the formula right this time. Globally, there were only a few successes in the creation of junior boards, though a large number of countries had tried to establish the same. While NASDAQ remains the most talked about market that started by creating a new and alternate investment class, it is today a large market competing with the New York Stock Exchange (NYSE)

and is no more a junior market. The other successes were in the Canadian market (the Toronto Stock Exchange), the Korean market (KOSDAQ), and the junior market of the London Stock Exchange (Alternative Investment Market) (LSE (AIM)). These markets have a significant number of listings. Some other markets such as the Growth Enterprise Market (Hong Kong), AltX (South Africa), Mothers (Tokyo), and so on have remained relatively low volume markets with very modest listings.

4. SME LISTING IN INDIAN MARKET

India has always had a strong tradition of small and medium enterprise (SME) listings. Compared to other markets, Indian exchanges have kept their minimum capital requirements comparatively low, and this has encouraged relatively small companies to tap the public equity market. At the same time, small IPOs have presented challenges to issuers as well as investors. Smaller firms find it hard to bear the cost of the IPO and the recurring costs associated with being a publicly listed company. For investors, smaller firms pose challenges because they do not have the earnings predictability that is typically associated with mature corporations that access the public equity market. Regulators have also been concerned about the quality of small IPOs that mushroom during bull runs. So-called “vanishing companies” that were listed in the mid-nineties only to disappear a few years later provide a good example of what can go wrong if the small IPO market is not managed with care.

In view of these challenges, SEBI announced a landmark regulation in April 2010 that has the potential to revolutionize the way small and growing companies obtain access to capital. A new chapter was added to the Regulations (ICDR) for facilitating the emergence of a dedicated SME platform in the recognised exchanges. The market responded positively. By the end - December 2012, 13 SMEs were listed in the dedicated SME platforms in India. NSE’s EMERGE was launched in March 2012, and the first SME was listed on it in September 2012.

5. NATIONAL STOCK EXCHANGE (NSE) – OVERVIEW

The National Stock Exchange (NSE) is India's leading stock exchange covering various cities and towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach. The Exchange has brought about unparalleled transparency, speed & efficiency, safety and market integrity. It has set up facilities that serve as a model for the securities industry in terms of systems, practices and procedures.

NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, market practices and trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualisation of stock exchange governance, screen based trading, compression of settlement cycles, dematerialisation and electronic transfer of securities, securities lending and borrowing, professionalisation of trading members, fine-tuned risk management systems, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

Products Offered by NSE

Equities Segment	Derivatives Segment
Equities	Equity Derivatives
Mutual Funds	Currency Derivatives
Initial Public Offerings (IPOs)	Interest Rate Futures
Indices	Debt Segment
Exchange Traded Funds (ETF's)	Retail Debt market
Security Lending and Borrowing Scheme	Wholesale Debt market
	Corporate Bonds

6. EMERGE- AN STRUCTURE OVERVIEW

EMERGE is a credible and efficient market place to bring about convergence of sophisticated investors and emerging corporates in the country. It offers opportunities to informed investors to invest in emerging businesses with exciting growth plans, innovative business models and commitment towards good governance and investor interest.

Emerge will have customised processes and systems which will help prospective issuers in their journey of metamorphosing into listed public companies. This platform will provide capital raising opportunities to credible and fast growing businesses with good governance standards. It will be an ideal platform to raise funds for companies on a growth path, but not large enough to list on the main board.

Eligibility criteria for listing on NSE Emerge Platform

The following criteria should be complied with as on the date of filing the DRHP with NSE as well as when the RHP is filed with RoC and SEBI.

Parameter	Listing Criterion
Incorporation	The Issuer should be a company incorporated under the Companies Act 1956, in India
Post Issue paid up Capital	The post issue paid up capital of the company (face value) shall not be more than Rs. 25 crore.
Track record	<ul style="list-style-type: none"> ❖ The company should have track record of atleast 3 years. ❖ The company should have positive cash accruals (earnings before depreciation and tax) from operations for atleast 2 financial years preceding the application and its net-worth should be positive.
Other Listing conditions	<ul style="list-style-type: none"> ❖ The applicant Company has not been referred to Board for Industrial and Financial Reconstruction (BIFR). ❖ No petition for winding up is admitted by a Court of competent jurisdiction against the applicant Company. ❖ No material regulatory or disciplinary action by a stock exchange or regulatory authority in the past three years against the applicant company.

Alternative Asset Class for Investors

Indian SMEs represent a diverse asset class of emerging companies from both traditional sectors and new age economy sectors like IT, ITES, organized retailing, education, entertainment, media etc. representing the new and modern face of Indian entrepreneurs. In recent years, several Indian companies scaled up their business rapidly providing the higher returns to the early stage investors.

EMERGE will be an ideal platform for growing companies wishing to raise the capital for, capex, working capital, acquisitions, R&D, marketing or any other bonafide growth requirement.

Companies with High growth Potential Diverse Profiles Diverse Business Stages Diverse sectors	Companies funded by VC companies and angel Investors
<div style="border: 2px solid blue; border-radius: 15px; padding: 10px; display: inline-block;"> EMERGE Asset class </div>	
Subsidy Companies Large corporates can unlock value of their subsidy companies	Project SPVs Can attract long term investors in a Regulated environment

Regulatory Framework: Comparison with Main Board

Particulars	EMERGE	Main board
IPO		
Track record	Track record of atleast 3 years, positive cash accruals (EBDT) from operations for atleast 2 years and positive net worth	Three years of Profitability track record of
IPO grading	Not Mandatory	Mandatory
Post-Issue paid up capital (Face Value)	Less than Rs.25 Crore	Not less than Rs.10 crore
Minimum number of allottees in the IPO	50	1000
Observation on DRHP	By the Exchange	By SEBI
Market capitalization / Issue size	No restriction	No restriction
IPO Application size	Not less than Rs. 1 Lakh	Rs.5000 to Rs.7000
POST-ISSUE		
Reporting requirements (Audited a/c)	Half-Yearly	Quarterly
Market Making	Mandatory	Not mandatory
Corporate Government Requirements	Same as Main Board	Clause 49

7. PROFILES OF THE SME MARKET PARTICIPANTS

The SME platform should be a market that can attract informed and institutional players to a new asset class. The platform should evolve as a Public Venture Platform, where venture-like investment opportunities are available at an early stage to a wider investor base. The ideal profiles of the participants in such a platform are described below.

Issuer profile

The SME platform should ideally be positioned as an aspirational platform for fast-growing and innovative enterprises to raise capital, which will also provide liquidity to early-stage risk investors in the company. The platform should be a place for companies that offer venture-like investment opportunities and may require repeated amounts of capital to meet the growth requirements.

The attributes of the issuers that would attract this class of investors are expected to be innovative and scalable business models, their acquisition potential, their potential as future main board success stories, and the credibility of high governance standards of the issuers.

Investor profile

The SME platform offers capital raising opportunities to businesses that are in a growth phase. These companies could still be struggling to establish a foothold in the market, and would require capital to scale their operations, explore new markets, fund R&D, and so on. Such companies need patient funding from serious medium- to long-term institutional investors who are looking for opportunities to invest early in promising companies.

Institutional investors such as insurance companies, mutual funds, and banks invest after rigorous diligence, and therefore, can act as anchors and instil confidence in other investors. VCs should approach this platform as a preferred exit route as well as an investment avenue in new and growing businesses. Longer term funds from these institutions would give the companies an opportunity to absorb the capital and deliver performance, unlike in the current market scenario, where small issues attract speculative investment and high volatility in prices.

Intermediaries

The platform regulations allow the same merchant bankers and the brokers of the main board to carry on merchant banking and broking activities as well on the SME platform, without any separate registration. The merchant banker's role is deeper and longer on the platform. It is critical to attract merchant bankers who have high-level structuring abilities, relationships with risk investors such as VCs, and their own broking arms, and have adequate capital to act as market makers.

8. CHALLENGES OF EMERGE

Like any new product, EMERGE had its own share of challenges. While there is a clear need for a platform where SMEs can raise risk capital, the concept has been slow to pick up.

High regulatory obligation: The regulations impose high demands on the merchant banks in terms of market making requirements and 100 percent underwriting. On the main boards, the merchant banks typically have an event relationship with issuers that ends with the listing of the securities. The intermediaries are highly sceptical of the new responsibilities as it involves huge capital commitments from them.

Cost: The cost for listing should also be reduced significantly on this platform to make it a serious place for raising capital by good quality issuers. Presently, the cost of raising capital for small issuers is significantly high, and it discourages them from approaching the capital markets.

Liquidity: The next big concern for this market would be liquidity. Experience on the main boards already shows that apart from the top 20–25 percent of the listed entities, liquidity in the remaining scrips is low, and it is almost negligible in some of the smaller scrips. Globally also, junior boards have repeatedly faced problems of liquidity drying up, especially when there are economic downturns. It is important for the exchange to devise structures to ensure that there is continued interest in the listed companies. The proposed market making on the SME exchange should help in creating basic liquidity in the listed scrips. However, it is critical that the market making mechanism works in a credible manner. The NSE offers an alternative price discovery option to companies listed on its SME platform, namely, the call auction mechanism, which will aggregate liquidity in short trading sessions and thereby reduce volatility.

Information dissemination: Facilitating extensive research coverage for the listed SME scrips is also critical for investor interest. The NSE has tied up with CRISIL to provide research coverage on the companies listed on its main board as well as the SME platform, improving access to information for investors.

Preparing SMEs: The SMEs need handholding for initiation into the capital markets. They have to be introduced to the notion of becoming process-driven, rather than promoter-driven. Many good SMEs stay away from the capital markets because the many compliance requirements perplex them. The NSE has developed a unique Web-based interface that has made the quarterly compliances much easier and quicker for the corporates. Such initiatives ensure that compliances are not viewed as a burden by the issuers.

9. FIRST ISSUE EXPERIENCE

Thejo Engineering Ltd. was the first company to get listed on EMERGE. The entire process was a great learning experience for everyone involved. The NSE played an active role in handholding the company to prepare for the big event. The NSE supported the merchant bankers in spreading awareness and garnering interest from the investor community. There were several highs and lows

faced during the process which lasted over six months. Finally however, the efforts were vindicated when the issue was oversubscribed 1.5 times with strong institutional support in an otherwise dull capital market.

A snapshot of the Thejo IPO is provided below.

Business	Thejo Engineering Ltd. (Thejo) provides products and services related to conveyor belt operations in bulk material handling, mineral processing, and corrosion protection applications for power, cement, steel, ports, and mining industries. The services include belt conveyor maintenance and operations, while the product portfolio covers the design, manufacture, and supply of engineering products for bulk material handling, mineral processing, and corrosion protection.
Grade assigned	SME Fundamental Grade 5/5 by CRISIL
Book Running Lead Manager	IDBI Capital Market Services Limited
Date of Issue	04/09/2012 to 06/09/2012
Trading Market	Call Auction
Issue Size (lakh shares)	Rs.1,900.66 lakh
Issue Price	Rs.402
Date of Listing	18/09/2012
No. of Times Subscribed	1.53 (Overall): QIB (1.00) HNI (0.91) Retail (2.61)

10. LISTING BENEFITS IN EMERGE

A listings benefit for the company is differed from exchanges. The following factors will catalyze the companies to list in EMERGE.

Easier to List	Min: Allottees required: 50 only Focused IPO Marketing to Institutional & HNI Investors Lower cost, time and effort to get listed
100% Underwriting	100% Underwriting of the issue : It will ensure the full subscription
Alternative valuation	Informed Investors could provide valuation based on future potential of company rather than benchmarking with matured large corporates on the main board.
New Class of Investors	SME platform will attract new-class of long term institutional investors (both in primary and secondary market who would be interested in invest in exciting fast growing companies in India in regulated platform.
Migration to main board after attaining serious size	Companies avoid reaching main board too early. Getting listed in SME platform with informed investors with long term interest in company will allow companies to grow serious size, conserve value and migrate to main board with more broad based IPOs

11. CONCLUSION

We are still in the early days of the EMERGE experiment, but the response has been encouraging. Market intermediaries have taken ownership of this new market and are prepared to invest their resources, as they see huge potential in attracting early-stage innovative companies. The EMERGE platform provides a unique opportunity for all the participants in the market ecosystem, whether they are small issuers, merchant bankers, wealth managers, or astute early-stage investors. With time, the EMERGE platform has the potential to revolutionize the way in which companies get access to public equity at the early stages of their development.

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