

BSE, NSE launch exchanges for SMEs

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Asia's oldest bourse, **BSE Ltd**, kicked off its platform for small and medium enterprises (SME) on Tuesday with the listing of Mumbai-based **BCB Finance Ltd**, even as larger rival, the **National Stock Exchange of India Ltd** (NSE) announced the launch of its own SME platform, **Emerge**.

The move follows months of consultations with small firms, industry representatives, merchant bankers and capital market regulator Securities and Exchanges Board of India, or Sebi, which in May last year had given in-principle approvals to both the national exchanges for the same.

BCB Finance shares rose 3% to close at ₹25.70 on Tuesday. Its ₹8.8 crore initial public offer, or IPO, was subscribed 1.5 times. Two other SMEs have filed their prospectus with the bourse, according to BSE managing director and chief executive officer Madhu Kannan, who added that BSE is in discussions with several firms and expects around a dozen firms to list in 2012.

"This launch will play an important role in the growth of Indian SMEs," said Rajeev Agarwal, member, Sebi. As small enterprises typically find it difficult to get investors and raise money, the guidelines for SMEs have

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several relaxations compared with norms for other listed companies. SMEs can submit only half-yearly financial results and are exempt from giving detailed annual reports.

Retail investors are virtually barred from the SME platform as the minimum lot size for an IPO as well as trading is ₹1 lakh that will suit only wealthy and informed investors. Unlike other companies, the IPO prospectuses of SMEs will be vetted by exchanges rather than Sebi. Any company with an issue capital smaller than ₹10 crore at the time it makes its IPO will be allowed to list on an SME platform. The company can list on the main bourses if its issue capital crosses ₹25 crore subsequently, according to Sebi guidelines. Issue capital is the nominal value of the total shares of a company.

Merchant bankers who manage an SME listing are mandated to underwrite the new share of-

fering and appoint brokers to act as market-makers for at least three years from the date of listing. These market-makers will be required to give two-way bids 75% of the time. Market-makers are brokers who take the risk of holding a certain number of shares with themselves to facilitate trading, in return for compensation. Sebi has also allowed venture funds to fund market-making activities under a special category of "nominated investors". The regulator, after consulting with the national exchanges, had introduced a framework for stock exchanges to set up SME platforms in 2008 and had issued more detailed guidelines in 2010. In February, it set guidelines for minimum lot sizes, barring any investor from trading in lots below ₹1 lakh.

NSE has so far received one draft IPO prospectus from **Thejo Engineering Ltd** that plans to raise around ₹20 crore, and expects "single-digit" listings in the next three-six months, depending on market conditions. Unlike BSE that has stuck to Sebi's generic framework for its SME platform, NSE has come up with additional norms and trading rules. For instance, NSE will ask SMEs to get their IPOs graded although that was not mandated by Sebi. The bourse will also publish independent research on the company on its website after listing and monitor the end use of funds raised.

Analysts said market design may need to be tweaked. Earlier attempts to start SME platforms have failed in India. OTC Exchange of India, started in 1990 and modelled on the over-the-counter market in the US, could manage only 100-odd listings and is virtually lifeless now.