

SME IPO and Due Diligence

SME IPO

by Deepak Kumar Jain
ACA, ACS, B.Com (Hons.)
deepakjain@icai.org
+91-9819875065

Agenda



SME- Backbone of Indian Economy

SME IPO- Why and How

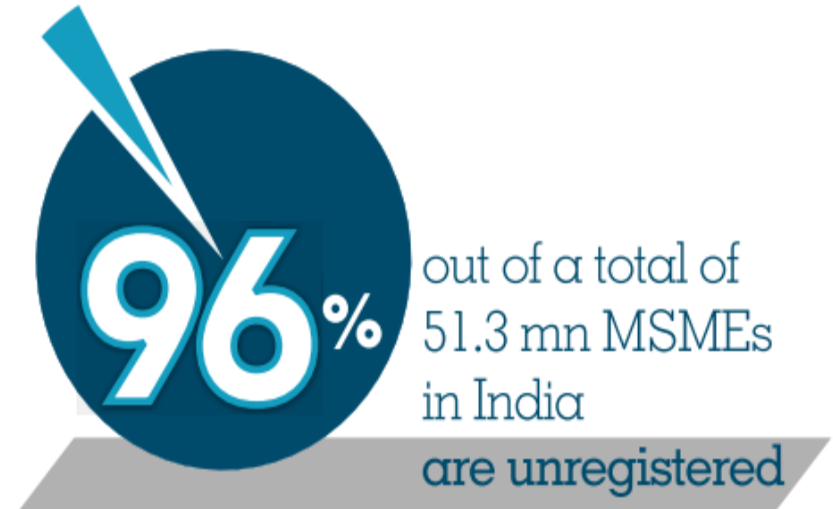
Financial Due Diligence

Role and Opportunities

SME- Backbone of Indian Economy



Employ around 40% of India's workforce



Total SMEs are ~10% of 51.3 Mn in India

Out of which ~ 6% are registered in India

GOI Initiatives- MUDRA, Make in India, Start-up India, Skill India

SME- Potential @ Stock Market

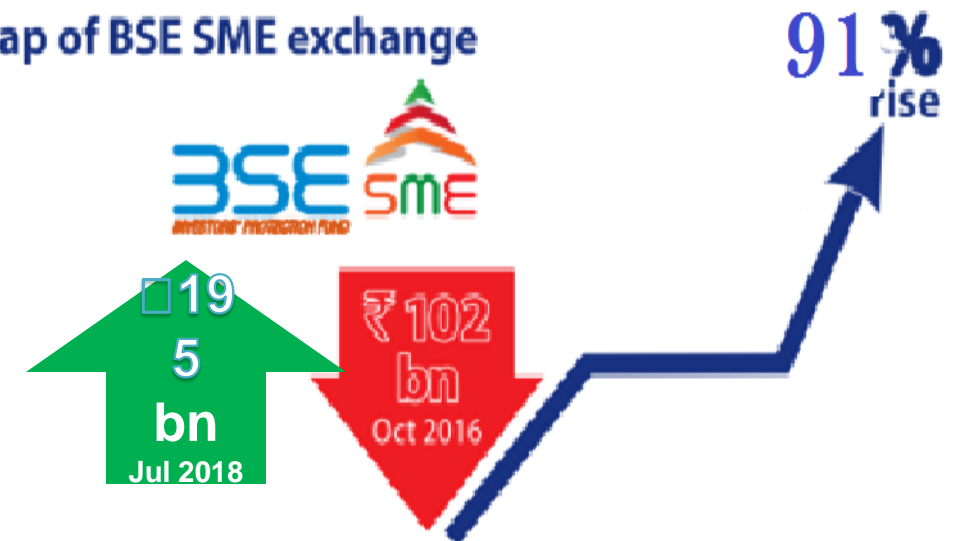
BSE SME Snapshot

No. of Companies Listed on SME till Date	254
Market Cap of Cos. Listed on SME (Rs. Cr.)	~19,451
Average Market Cap (Rs Cr)	~77
Total Amount of Money Raised (Rs. Cr.)	~2,406
Average Amount Raised (Rs Cr)	~10
No. of Companies Migrated to Main Board	51
No. of Companies Listed	203
No. of Companies Suspended	4
No. of Companies Eligible for Trading	199

Rise in number of SMEs getting listed on Exchanges



Total Market cap of BSE SME exchange



SME IPO- Why and How?-1/2

Capex, working capital
and reduction of
current debt

Encourage Innovation
and Entrepreneurial
Spirit

Easy access to Capital
in future via
QIP/FPO/Debt

Employee Stock
Options

Enhance Visibility and
Prestige

Attracts new profile of
institutional investors
in the world
(Expanding Investor
base)

Facilitate acquisitions
(Backdoor Listing)

Unlocking
Shareholders wealth
(Exit and Liquidity for
VC/PE)

Migration to Main
Board is Easier

SME IPO- Why and How?-2/2



SEBI Eligibility

Sr. No.	Eligibility Criteria's	SME Requirement
1	Post Issue Capital (FV)	Minimum: ₹3 Cr. Maximum: ₹25 Cr
2	Track Record	1.Track record of at least three years 2.The company should have Positive cash accruals (EBDT) from operations for at least 2 financial years preceding the application and its net-worth should be positive
3	Other Requirement	<ul style="list-style-type: none">➤ Mandatory facilitation of trading in Demat form➤ Mandatory corporate website➤ Agreement with both Depositories➤ BSE Site visit and promoters interview with Listing Advisory Committee➤ Certificate that no winding petition or reference to BIFR➤ No change in the promoters of the Company in preceding 1 year from the date of filing application

Listing Requirements

Sr. No.	Eligibility Criteria	Requirement
1	Public Shareholding	Minimum 25%
2	Minimum Subscribers in IPO	50 investors
3	Minimum application amount/trading lot	□ 1 Lakhs
4	Underwriting	100% Mandatory (of which 15% to be done by MB in his own account)
5	Market making	Through exchange registered market makers for min 3 years
6	Offer Document	Not subject to SEBI observation.

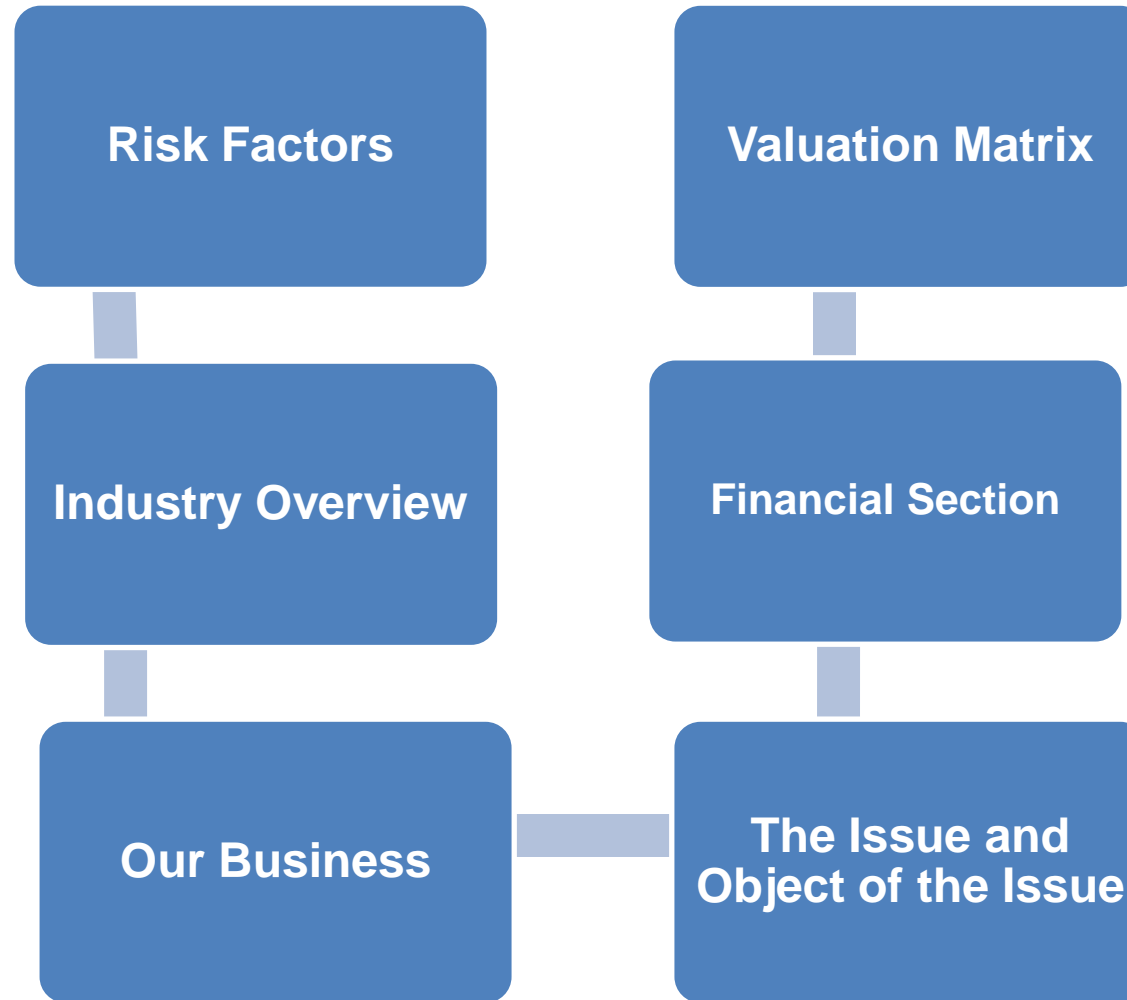
SME IPO vs Main Board

- Minimum Subscribers
- Grading
- Minimum Application
- Track Record
- SEBI Observations
- Timelines

IPO Timelines and Planning

Sr. No.	Activity	Timeline
1	Conversion of Company into Public Limited Company, if applicable	X
2	Preparation of Documents for conversion and submission to the Registrar of Companies (RoC) for approval. Documents includes Alteration of Memorandum, Articles & filing of necessary forms for appointment of aforesaid directors.	X+7
3	ROC approval for conversion	X+9
4	Identification & appointment of Registrar and Transfer Agents (RTA or R & T Agent).Submission of Master Creation forms with NSDL, CDSL for establishing connectivity.	X+11
5	Appointment of Managing Director, WTD, Independent Directors, CS and Deciding about their pay, sitting fees etc.	X+14
6	Constitution of committees including Audit, Shareholder Grievance and Payments.	X+17
7	Preparation of website of the Company & hosting code of conduct on the website	X+21
8	The signing of Tri-Partite Agreement with NSDL & CDSL and receipt of ISIN	X+24
9	Identification & appointment the peer review auditors. Get the financials of last 5 years restated.	X+26
10	Appointment of Merchant Banker & Market Maker	X+29
11	Preparation of Project Report and Draft Red Herring Prospectus (DRHP)	X+33
12	Filing of Draft Red Herring Prospectus (DRHP) with SE along with an application for in-principle approval with the SE	X+38
13	Clearance from stock exchange	X+75
14	Filing of Prospectus with ROC & getting it cleared from ROC	X+80
15	Filing of Final Prospectus with Stock exchange and SEBI	X+87
16	Opening of the Issue	X+90
17	Closing of the Issue	X+93
18	Finalization of Basis of Allotment by RTA & submit to the Stock exchange	X+96
19	RTA & Issuer to process corporate action to carry out lock-in for pre-issue capital held in depository system.	X+96
20	Filing of corporate action form with NSDL & CDSL and Demat credit of shares	X+97
21	Filing of listing application with the Stock exchange to give listing and trading permission.	X+98
22	Post Issue Advertisement in a English, a Hindi and a Regional Newspaper with the wide circulation within 10 days of completion of all activities.	X+98
23	Receipt of trading approval from Stock exchange	X+99

Financial Due Diligence



Risk Factors

Key Internal Risks:

- Legal Risk
- Cyclical and Volatility Nature of Business
- Failure to obtain Govt Approvals
- Revenue dependency
- Contingent Liability
- Low Margin
- –ve Cash flows
- Competition pressure

Key External Risks:

- Changes in Laws
- Civil disturbance,
- Political instability
- Downgrading of India's debt rating

Industry Overview

- Market opportunities- Global, Domestic, Supply and Demand Forecasts
- Growth Drivers
- Level of competitions
- Key policies
- Industry specific report
- New development and technology affecting and demand

Our Business

- Business Model (Procurement to Marketing)
- Revenue mix
- Geographical presence
- Installed Capacity and Utilisation
- Experiences Senior Team
- Strength and Strategy
- Awards/Recognition

The Issue and Object of the Issue

The Issue

- Fresh Issue
- Offer for Sale (OFS)

- Based on the valuation
- Book Building process or Fixed
- Road Show

- NOC from Existing Investors
- Dilution
- Lock in Period

Object of the Issue

- Detailed write ups
- Independent Certification

- Disclosure to Stock Exchange (s)
- Incorrect disclosure lead to penalty

Financial Section

**Restatement of
Financials**

**Significant
Accounting
policies &
Disclosure**

MD&A

**Financial
Indebtness**

**Related Party
Transactions**

Dividend Policy

Tax Shelter

Capitalisation

Valuation Matrix

Earning Per Share and
Diluted Earning Per share
(EPS/DPS)

Price to Earning Ratio
(P/E Ratio)

**Basis of Issue
Price**

Return on Net Worth
(RoNW) or (ROE) and
Net Assets Value
(NAV) or (BV)

Comparison with Listed
Industry Peers

Role and Opportunities

- Restatement of Financial Statements
- Valuation matrix
- Comfort letter
- Circle up- Auditor and Management
- Technical Certifications

Legal Due Diligence

by Dharmendra Vyas

ACS, MBA, L.LB

csdharmu@gmail.com

+91 9987097904.

Understanding on Due Diligence

The term “due diligence” means “required carefulness” or “reasonable care”.

Key areas where due diligence required:

- To acquire Shares or debentures
- Mergers and Acquisitions
- Investments – Private Equity
- Issue of Shares
- Business Transactions
- Takeover

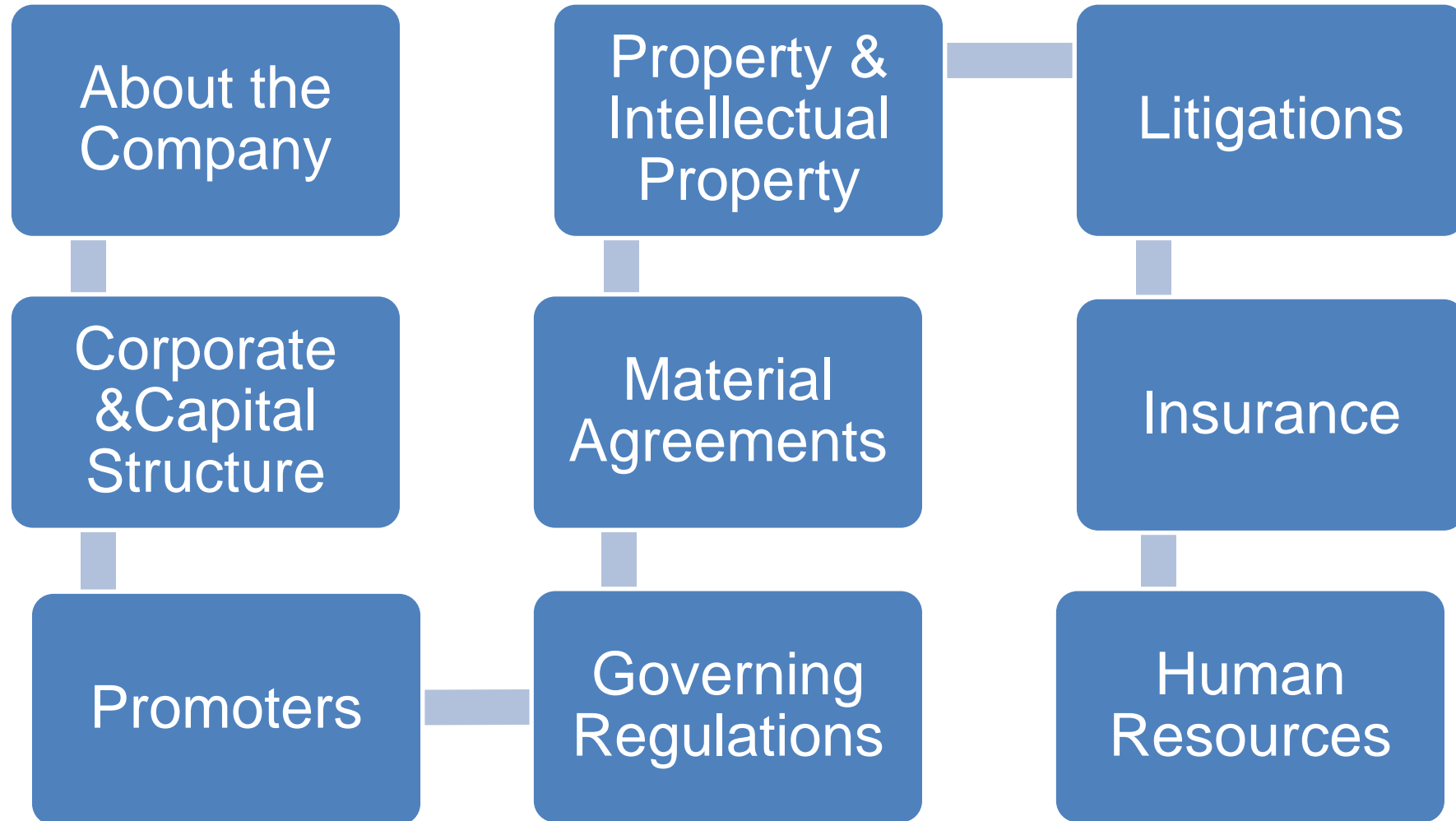
Legal Due Diligence- Internal workout

- Internal work out prior to IPO
- Create internal Due Diligence team
- Basis understanding of Transaction
- Work allocation and time allocations
- Data creation
- Data centralization
- Replies and responses
- Closing

Why Due Diligence

- To know threats
- To understand the Company
- To identify risk and assessment of risk
- Transparency
- Estimate current and Future liabilities
- Smoothen the process

Areas to be covered during Legal Due Diligence- IPO



About the Company

- Corporate Profile
- Brief description of brands
- Details of ongoing business, distributor network, logistic arrangements etc.
- Details of shareholders agreement and details of OFS, amount, obligations of the Company and promoters guarantee and in case of default impact.
- Growth plan of Company
- Management details
- Corporate Governance- Committees
- Policies of the Company as per LODR

Corporate and Capital Structure

- Constitution of Company- Name, Change in name, Registered office, Change in registered office
- MoA and AoA
- Capital Structure (Bonus, Right, Preferential Shares)
- Shareholding Pattern
- Shareholders Agreement
- Pledge, lien, encumbrances
- Directors information
- Minutes of Meetings
- Subsidiaries information
- Register and records
- Roc Filings /Penalties/ Notices etc.

Promoters

- List of promoters and entities
- Interest of promoter
- Group Companies – As per Accounting Standard
- Key Managerial Persons

Governing Regulations

- Key government regulations list
- Key government licenses applicable
- Copies of resolution to increase in FPI/FII limit
- Details of any breach
- License acquired or pending with regulators
- Details of special tax benefit enjoyed
- Details of government grants
- Details of any violations

Material Agreements

- Copies of all material Agreement
- Sample agreement copies- distributors, SS etc.
- Copies of material consulting agreements
- Copies of sale brochures, catalogue and other advertising and promotions material

Property & Intellectual Property

- List of all properties of the Company- owned or lease
- Title Deeds, Search Reports .
- Lease holds properties Agreements
- Any notices or orders issued by or agreement with authority
- Details of any enforcement or stop notice under any municipal town and planning legislation or relevant regulations etc.
- Copies of mortgages or security interests
- Details of all copyrights or similar rights and any registration thereof together with the entity owning the rights
- Details of all patents and designs and applications.
- Details of all registered and non-registered trade
- Details of any other technology or intellectual property rights, used or planned for use by the Company and their owners.

Litigations

- Details of all litigations including criminal litigation
- Chart setting out all existing litigation *by* and *against* each of the directors
- Any judgments, decrees, settlements, consent decrees, orders or decisions rendered by courts, authorities and/or arbitration tribunals in relation to or having implications on the Company, its subsidiaries, its directors, promoters and/or promoter group.
- Details of any litigation or legal action pending or taken by any Ministry/Department/statutory authority against any promoter of the Company during the last five years immediately preceding the year of the issue of the prospectus.
- Details of any arrears due to, or current disputes with, the revenue
- Details of inquiry, inspections or investigations initiated or conducted under the Companies Act, 2013
- Details of default and non – payment of statutory dues by the company.
- List of creditors and their outstanding amount .

Insurance

- Current insurances, detailing the name of the insurance company, annual premium, the property covered, the amount of cover, the nature of the cover.
- Description of all insurance claims, including claims denied by insurers for the Company.
- Information on insurance contracts that have been denied within the last five years for the Company.
- Details of endorsement or assignment of any of the insurance policies to any third party including banks.

Human Resource

- Organization structure along with names, designations, functions and responsibility.
- Compliance with statutory requirements under labour laws in relation to employees including payment of gratuity, provident fund, superannuation, employees state insurance obligations.
- Statement indicating litigation/dispute, if any, relating to employee state insurance scheme, provident fund dues, or other labor related dues.
- Management employment agreements and indemnification agreements .
- Employee related policies of the Company.

SME- Listing way forward





Thanks