



Rajan Bhatia, FCA

Looking to Take Your SME Company to Next Level?

SME listing on Stock Exchange - A new source of raising equity capital, maximizing value & wealth creation for SME companies.

Forward & Executive Summary:

For growing SME companies seeking to raise capital, an SME listing can be a superior route to growth. Recently developed SME stock exchange platforms provide a great opportunity to the SME entrepreneurs to raise equity capital for the growth and expansion. SME Listing will help unleash the valuation of SME companies and in the process create wealth for all the stakeholders, besides enormous income tax benefits. SMEs have the potential to grow into big companies, provided they get adequate capital support. The SMEs now have the great opportunity to grow into big public listed companies by getting themselves listed on a SME stock exchange. We hope that this concise article will help SME owners to be well prepared to transform their SME company into a successful and wealthy public listed company that continually delivers maximum value to its shareholders.

SME Sector - The next big revolution across the globe.

World over, dedicated SME trading platforms or exchanges are prevalent. Some of the known stock markets for SMEs are AIM (Alternate Investment Market) in UK, TSX Ventures in Canada, GEM (Growth Enterprise Market) in Hong Kong, MOTHERS (Market of the high-growth and emerging stocks) in Japan, Catalist in Singapore and the latest initiative in

China – Chinext and very recent in India as BSE SME and NSE Emerge. As a matter of fact, NASDAQ also started as an SME exchange.

The need for SME Exchange in India for growth of SMEs- There are enormous benefits to SMEs. The Top 10 key advantages for SMEs listing are stated below:

1. Easier access to equity capital and better funding opportunities:

Going public provides SMEs with the equity financing opportunities to grow their business from operations to expansion to inorganic acquisitions. Access to equity financing lowers the debt burden leading to lower financing costs and healthier and wealthier balance sheets.

2. Enhanced Value Creation:

Valuation of a company is determined by many factors, one of which is class of company-whether public listed or private limited. Going for a public issue of capital will enhance the company's visibility. Greater public awareness gained through media coverage, publicly filed documents and coverage of stock by sector investment analysts will provide the SMEs with greater profile and credibility. This can result in more diversified groups of investors, which may increase the demand for that company's shares leading to an increase in the company's value and enhanced value creation.

3. Balanced Risk Management for Promoters:

SME listing will help SME promoters and owners to distribute the risk of business efficiently. Listing the company would facilitate expansion of the investor's base, which in turn help company get secondary market for equity financing, including private placement.

4. Easier and efficient entry and exit platforms for Private Equity and other strategic investors leading to increased participation from private equity investors:

The presence of a market-driven transparent trading platform provides with a ready and easy entry and exit for strategic investors. Listing not only offers the investors flexibility for entry and exit, but also the confidence required for any such transactions. The listing would result in an increased participation by venture capital players as they would have a ready, transparent and tax-efficient exit route.

5. No long term capital gain tax:

Normally, transfer of unlisted shares attracts long term capital gains tax of 20% and short term capital gains of up to 30%. Whereas in case of listed shares, tax on long term capital gains is nil and short term capital gains is 15%, provided the transaction has been subjected to securities transaction tax (STT). This preferential tax treatment on transfer of listed shares is also available to shares listed on SME Exchange. Listing on SME Exchange is a valid tax-planning tool and could, thus, lead to enormous tax saving for SME entrepreneurs & investors.

6. No tax on fresh equity infusion in the company:

Recently the Finance Act, 2012 imposed a tax liability on fresh issuance of equity shares by an unlisted company to investors other than "Registered Venture Fund", if the issuance is made at a value more than the fair value. This could make SMEs subject to heavy tax outgo, since they often go for fund raising through equity issuance to investors. Such a tax liability, however, does not attract if the shares of the company are listed on recognize stock exchanges, including SME Exchange.

