

Micro, Small & Medium Enterprises- Overview and scope of Listing [Indian Perspective]

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Abstract: Micro, Small and Medium Enterprises (MSMEs) are the backbone of a nation's economy and constitute bulk of the industrial base, contributing significantly to the exports and GDP. SME segment is a key engine of growth, employment, wealth distribution and effective mobilization of resources in India. Statistically, MSME segment contributes to approx.45% of the manufactured output, 40% of exports, and is among the largest generator of employment in the Indian economy. Indian MSMEs operate in sectors ranging from traditional to the most modern industries. MSMEs in new economy sectors like IT, retailing, education, entertainment, media and the like represent the new and modern face of India. The sector comprises of 633.88 lakh units as per National Sample Survey 73rd Round (2015-16) and has created 11.10 crore jobs.

The biggest challenge being faced by MSMEs is access to capital. To cater to this need, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) launched dedicated and exclusive platforms namely BSE SME Exchange and NSE Emerge respectively for small and medium enterprises to list on the BSE and the NSE and later migrate to the main board of respective exchanges. The BSE SME Exchange and NSE Emerge are a new source for SME Initial Public Offerings (IPOs) and provide a listing opportunity to them with minimum compliances and cost compared to the main board.

Key Words: Micro, Small and Medium Enterprises (MSMEs), Bombay Stock Exchange (BSE), National Stock Exchange (NSE), BSE SME Exchange, NSE Emerge, Initial Public Offerings (IPOs), Manufacturing Enterprises, Service Enterprises,

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I. Introduction

Micro, small and medium enterprises (MSMEs) constitute an important segment of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of an entrepreneurial base. The Government of India established the Ministry of Small Scale Industries and Agro & Rural Industries (SSI&ARI) in October, 1999 as the nodal Ministry for formulation and implementation of policies and programmes/schemes, for promotion and development of small scale industries in the country. The Ministry of SSI&ARI was bifurcated into two separate Ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries in September, 2001. Subsequently, with the enactment of "Micro, Small and Medium Enterprises Development Act (MSMED) 2006", Ministry of Agro and Rural Industries and Ministry of Small Scale Industries were merged into a single Ministry, namely, "Ministry of Micro, Small and Medium Enterprises."

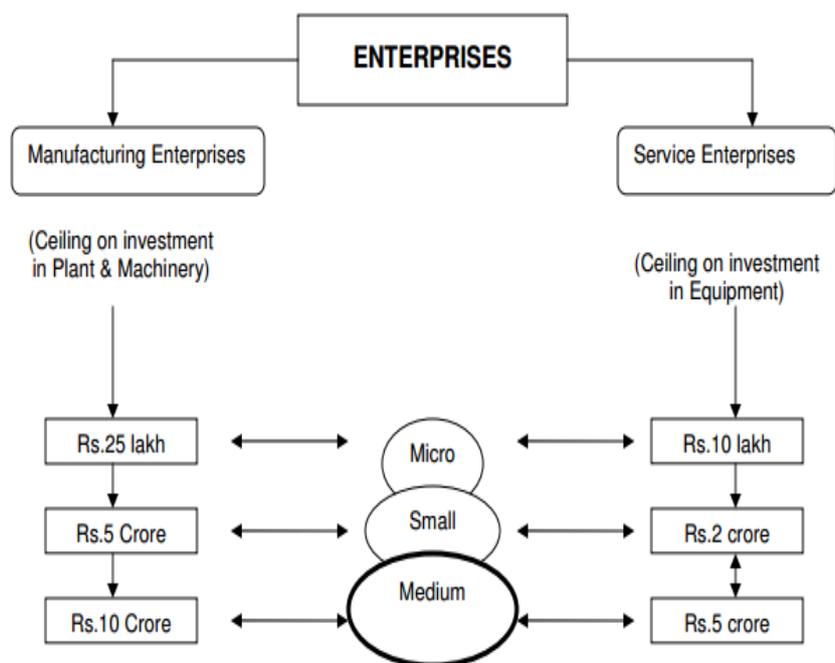
Although, the primary responsibility for promotion and development of MSMEs lies with the State Governments, however the role of the Ministry of Micro, Small and Medium Enterprises is mainly to assist the States in their efforts to promote growth and development of MSMEs, for enhancing their competitiveness in an increasingly market-led economy and for enabling them in generating additional employment opportunities.

The Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006 facilitates the promotion and development and enhancing the competitiveness of MSMEs (commonly referred to as SMEs) and for the related matters.

II. Classification Of Enterprises As Per Msmed Act, 2006 And The Micro, Small And Medium Enterprises Development (Amendment) Bill, 2018(Proposed And Pending In Parliament)

Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 has classified the industries into following:

1. **Manufacturing Enterprises**-These enterprises are engaged in the manufacture or production of goods and are defined in terms of investment in Plant & Machinery.
2. **Service Enterprises**:-The enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment.



The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018:

On July 23, 2018, Mr. Giriraj Singh, the Minister of State for Micro, Small and Medium Enterprises, introduced **The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018** in Lok Sabha for amending the Micro, Small and Medium Enterprises Development Act, 2006. The Bill introduces a uniform classification for all enterprises whether manufacturing or service-providing on the basis of their annual turnover.

The classification of enterprises as micro, small and medium enterprises as per existing Act and proposed Bill is tabulated below:

| Type of Enterprise | MSMED ACT, 2006 (Existing) | | MSMED (AMENDMENT), BILL 2018 (Proposed) |
|--------------------|--|--------------------------------|---|
| | <i>Manufacturing</i> | <i>Services</i> | <i>All enterprises</i> |
| | <i>Investment in Plant and Machinery</i> | <i>Investment in Equipment</i> | <i>Annual Turnover</i> |
| Micro | 25 lakh | 10 lakh | 5 crore |
| Small | 25 lakh to 5 crore | 10 lakh to 2 crore | 5 to 75 crore |
| Medium | 5 to 10 crore | 2 to 5 crore | 75 to 250 crore |

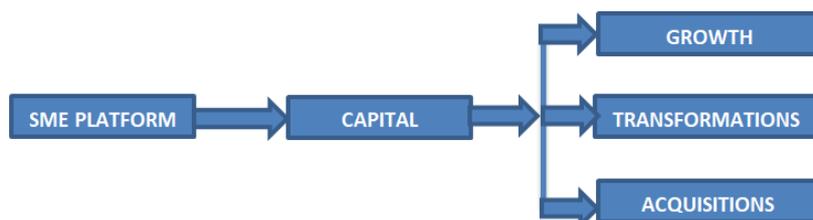
III. SME Exchange

The MSMEs are the vital pillar of Indian economy and contribute immensely in exports, employment generation etc. However, they frequently face liquidity problem and don't have easy access to the capital. A big leap in this regard was witnessed in year 2010, with "The Prime Minister's Task Force" recommending setting up of dedicated stock exchange/ platform for SMEs. Afterwards, SEBI, through its circular dated May 18, 2010, laid down framework for setting up a stock exchange/ trading platform dedicated to SMEs.

An SME Exchange is a stock exchange dedicated for trading the shares / securities of SMEs and a platform to raise funds for MSMEs which are on a growth path, but not large or find it difficult to get listed on the Main Board of the stock exchange. It is a platform that provides capital raising opportunities to credible and fast growing businesses with good governance standards. In India, "SME Exchange" is defined in Chapter XB of the Securities and Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations as a trading platform of a recognized stock exchange or a dedicated exchange permitted by SEBI to list the securities issued in accordance with Chapter XA of SEBI (ICDR) Regulations and this excludes the Main Board.

In India, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) have established dedicated Platforms for SMEs. BSE Ltd. has set up the **BSE SME Exchange** which enables the listing of SMEs from the unorganized sector scattered throughout India, into a regulated and organized sector. Similarly NSE has established **NSE Emerge** – a dedicated platform for SMEs. These platforms provide capital raising

opportunities to credible and fast growing SMEs with good governance standards and provide an ideal platform to raise funds for SMEs on a growth path, but not large enough to list on the main board.



ELIGIBILITY CRITERIA FOR LISTING OF SMEs.

Only a Public Limited Company can be listed. So, a Private Limited Company, Proprietary Firm or a Partnership Firm, shall have to be first converted to Public Limited Company. Both BSE SME Exchange and NSE EMERGE Exchange have their own eligibility criteria for SME Listing, in addition to SEBI norms.

IV. Conditions Precedent To Listing.

The Issuers on SME platform shall have first adhered to conditions from:

- I. Securities Contracts (Regulations) Act 1956,
- I. Companies Act 2013,
- II. Securities and Exchange Board of India Act 1992,
- III. Any rules and/or regulations framed under foregoing statutes, and also any circular, clarifications, guidelines issued by the appropriate authority under foregoing statutes.

V. Eligibility Criteria Of Bse Sme Exchange.

| Parameter | Listing Criterion |
|----------------------------|---|
| Incorporation | <ul style="list-style-type: none"> • The Company shall be incorporated under Companies Act, 1956/2013. |
| Post Issue Paid up Capital | <ul style="list-style-type: none"> • The post-issue paid up capital of the company shall be at least Rs. 3 crore. |
| Networth | <ul style="list-style-type: none"> • Net worth (excluding revaluation reserves) of at least Rs.3 crore as per the latest audited financial results. |
| Net Tangible assets | <ul style="list-style-type: none"> • Net Tangible assets of at least Rs. 3 crores as per the latest audited financial results. |
| Track record | <ul style="list-style-type: none"> • Distributable profits in terms of Section 123 of the Companies Act 2013 for at least two years out of immediately preceding three financial years (each financial year has to be a period of at least 12 months). Extraordinary income will not be considered for the purpose of calculating distributable profits. • Or • The net worth shall be at least Rs.5 crores. |
| Post-issue paid up capital | <ul style="list-style-type: none"> • The post-issue paid up capital of the company shall be at least Rs. 3 crores and should not exceed 25 crores. |
| Other Requirements | <ul style="list-style-type: none"> • It is mandatory for a company to have a website. • It is mandatory for the company to facilitate trading in demat securities and enter into an agreement with both the depositories. • There should not be any change in the promoters of the company in preceding one year from date of filing the application to BSE for listing under SME segment. |
| Disclosures | <ul style="list-style-type: none"> • A certificate from the applicant company / promoting companies stating the following "The Company has not been referred to the Board for Industrial and Financial Reconstruction (BIFR)." • There is no winding up petition against the company, which has been admitted by the court or a liquidator has not been appointed. |

VI. Eligibility Criteria Of Nse Emerge Of National Stock Exchange.

| Parameter | Listing Criterion |
|----------------------------|--|
| Incorporation | The Issuer should be a company incorporated under the Companies Act 1956/2013, 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. |

| | |
|--------------------------|--|
| | <ul style="list-style-type: none"> 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. |
| Disclosures | <p>The following matters should be disclosed in the offer document:</p> <ul style="list-style-type: none"> Any material regulatory or disciplinary action by a stock exchange or regulatory authority in the past one year in respect of promoters/promoting company(ies), group companies, companies promoted by the promoters/promoting company(ies) of the applicant company. Defaults in respect of payment of interest and/or principal to the debenture/bond/ fixed deposit holders, banks, FIs by the applicant, promoters/promoting company(ies), group companies, companies promoted by the promoters/promoting company(ies) during the past three years. An auditor's certificate shall also be provided by the issuer to the exchange, in this regard. The applicant, promoters/promoting company(ies), group companies, companies promoted by the promoters/promoting company(ies) litigation record, the nature of litigation, and status of litigation. In respect of the track record of the directors, the status of criminal cases filed or nature of the investigation being undertaken with regard to alleged commission of any offence by any of its directors and its effect on the business of the company, where all or any of the directors of issuer have or has been charge-sheeted with serious crimes like murder, rape, forgery, economic offences etc. |

VII. Conclusion

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly spirited and zestful sector of the Indian economy and contributes vastly in the social and economic development of the country by stimulating entrepreneurship and generating employment opportunities at comparatively lower capital cost. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

MSMEs shall have an easy and cost effective access to the capital for continuing development. SME Listing has provided an important platform to MSMEs for augmenting capital resources and widening their base. SME listing not only provides benefits to the companies but also benefits its investors. Listing pre-supposes good corporate governance, which results in sustainability and helps generate an independent valuation of the company. Listing raises a company's public profile with customers, suppliers, investors, financial institutions and the media.

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