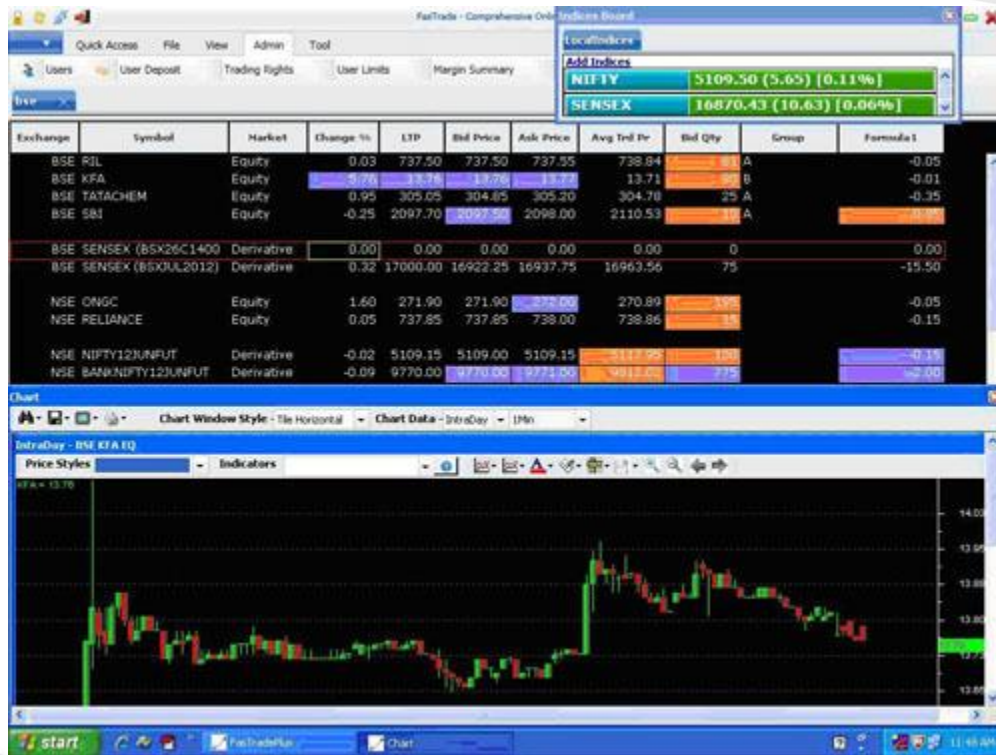


Precursor

The Analysed Update...



ITP - New
Platform for
SMEs & Start-ups

Background

SMEs are the backbone of Indian economy. Nation's 1.3 million SMEs account for 40% of India's total exports and employ close to 40% of India's workforce & contribute 45% to India's manufacturing output. SME Exchanges were launched last year to create a dedicated equity platform for SMEs and give a shot in the arm to funding opportunities necessary for next-level growth of SMEs,

Till date, 39 companies have been listed on SME Exchanges of BSE and NSE and 16 have filed their Offer Documents for IPOs. Considering the strong head winds the economy is facing, these numbers are quite encouraging and display the immense potential of the SME growth story.

To complement the SME Exchanges, the FM in his budget speech of 2013 had proposed setting up of another listing platform – Institutional Trading Platform (ITP), i.e. listing without IPO to facilitate entry and exit of investors of Start-Up SMEs. SEBI on 8th October, 2013 notified the much awaited norms for setting up of ITP

Investments by VCFs and FVCIs in India

Rs. in Cr	
Calendar Year	Investment
2008	1,32,772
2009	1,04,554
2010	2,03,326
2011	2,19,936
2012	2,29,580

Source: SEBI "Handbook of Statistics on Indian Securities Market 2012"

What is ITP?

Can Company raise further Capital?

Who are eligible?

What are other requirements?

What is the process?

How will trading take place?

How can a company exit the platform?



What is ITP?

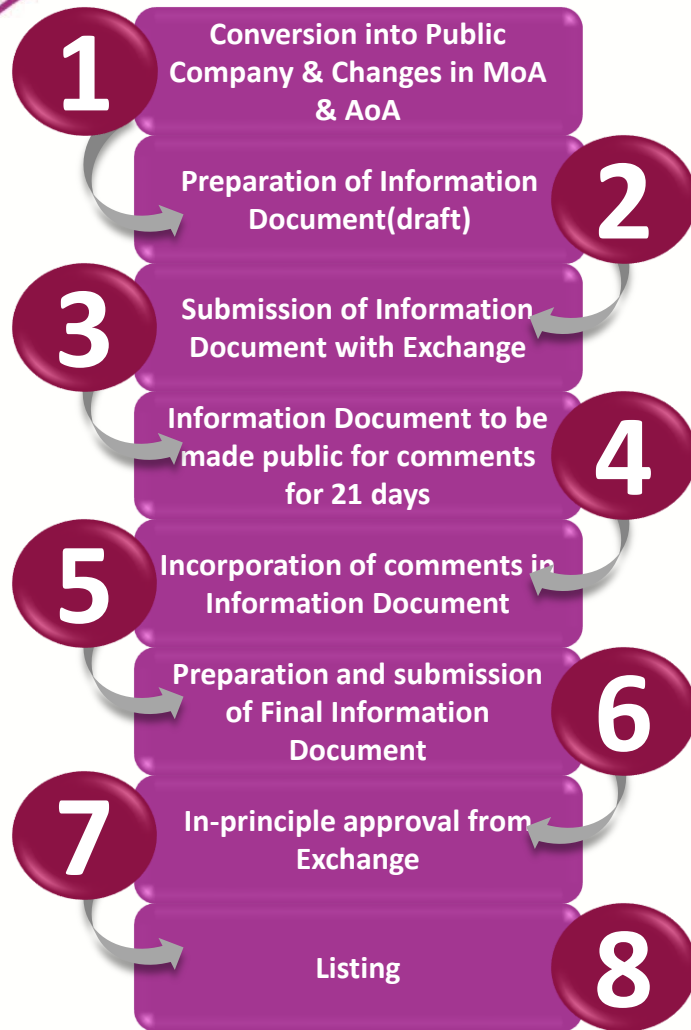
"Institutional Trading Platform" means the trading platform in an SME exchange for listing and trading of specified securities of small and medium enterprises for informed investors. Like the SME exchange platform, ITP will also be part of the recognized stock exchange using the same infrastructure as the Main Board of SME Platform.

Who are eligible for listing on ITP?

Companies which satisfy the parameters captured in the adjacent table are eligible for listing on ITP

Parameter	Threshold
Tenure of Existence	Minimum 1 year and Max 10 years since incorporation
Revenues	Up to Rs. 100 Crores
Paid Up Capital	Up to Rs. 25 Crores
Pre-Investment/Debt	Min Rs. 50 Lakhs by any AIF, VCF, Angel investor, MB, QIB, International multilateral agency or PFI Or Debt Facilities from a scheduled bank for at least 3 years
Other Conditions	<ol style="list-style-type: none"> 1. Company, its promoter, group company or director is not a willful defaulter 2. No winding up petition against the company 3. No reference to BIFR during last 5 years by company, group companies or subsidiaries 4. No Regulatory action during last 5 years by SEBI, RBI, IRDA or MCA against company, its promoter or director.

What's the process?



Can Issuer raise further Capital?

Companies while they are listed on ITP are not allowed to go to public to raise funds.

Second round of fund raising by such companies can, however, be done through private placement or right issue without option for renunciation of rights, subject of course to meeting the prescribed conditions therefor.

How will trading take place ?

Shares shall be traded in demat form in a market lot of Rs. 10,00,000 so that only informed investors participate.

The Issuer needs to have connectivity with atleast one depository at all times (as against both depositories required under SME or Main Board listing)

How can a company exit the platform?

Unlike SME or Main Board, ITP is not a permanent platform for listing. It's only a temporary trading platform for start-up SMEs. Going forward, at some point in time, such companies need to list either at SME Exchange or Main Board, should they wish to be in capital markets.

A company can voluntarily delist by passing a special resolution through postal ballot where 90% of total votes and the majority of non-promoter approve delisting.

Compulsory exit is triggered either on crossing the following specified thresholds or on non compliance :

a. Shares have been listed on the

- b. platform for a period of ten years;
- b. Paid up capital crosses Rs. 25 crore;
- c. Revenue exceed Rs. 300 Crore as per the last audited financial statement;
- d. Market capitalization of Company crosses Rs. 500 Crore

The Companies shall have period of 18 months from breaching the thresholds to exit the platform.



What are the other important requirements ?

1. Minimum post listing promoters contribution to be 20% which shall be locked in for 3 years
2. Minimum public shareholding norms NOT applicable
3. Any mis-statement in Information Document or any omission therein shall attract penal consequences
4. Takeover Code and Delisting Regulations do NOT apply to companies listed on ITP platform

Disclosures to be made in Information Document

Contents	
1. Business of the Company	5. Promoters
2. Risk factors related to the Company	6. Related party transaction
3. Details of Beneficial Owner	7. Legal proceedings against the company
4. Details of directors and executive officer	8. Declaration



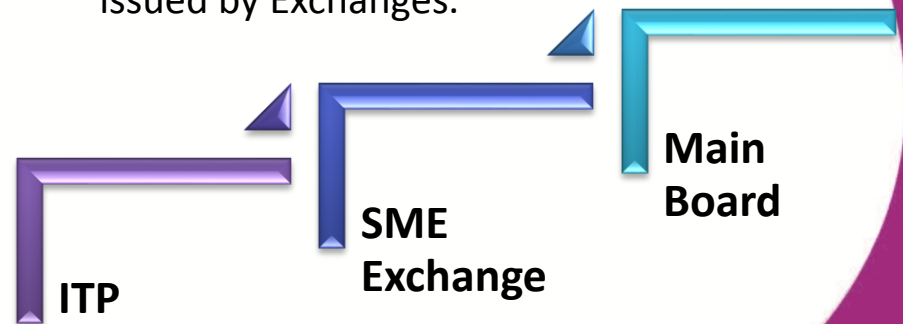
The Impact

Globally, institutional trading platforms are prevalent, in various different avatars albeit. For instance, AIM (UK) permits listing without IPO on fulfillment of prescribed conditions. In the US, “Over the Counter Bulletin Board” (OTCBB) could be used by companies as a stepping stone before leaping into larger exchanges and markets.

ITP aims to facilitate efficient entry and exit of ‘early-stage’ investors into SMEs in India. In our view, such transactions would enjoy favorable capital gains taxes treatment. Listing on ITP would also provide added visibility to the investee companies. On a flip side, the investee company would be subject to listing compliances

ITP, in our view, is **not a substitute of listing on SME or Main Board**. It is a sort of ‘**limited**’ platform only to facilitate early-stage investment by informed investors into SMEs. It is clarified by SEBI that companies listed on ITP would be required to list on SMEs / Main Board for raising capital through public.

However, much would depend on the operative norms of ITP that would be issued by Exchanges.



Glossary

AIM	Alternative Investment Market
AoA	Articles of Association
BSE	Bombay Stock Exchange
BV	Book Value
FM	Finance Minister
FVCI	Foreign Venture Capital Investors
GM	General Meeting
IPO	Initial Public Offer
MoA	Memorandum of Association
NSE	National Stock Exchange
SME	Small & Medium Enterprises
SEBI	Securities and Exchange Board of India
u/s	Under section
VCF	Venture Capital Funds



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