15 SELECT TAKE - AWAYS FOR ENTREPRENEURS

Key Learnings Based on Interaction with SME Clusters

1

Value mismatch - Asset valuation v/s business valuation

The value of a business is based on its ability to generate desired economic benefit for the capital providers. Many-a-times, asset valuation could be significantly higher than the current business valuation. This is particularly relevant for companies having real estate etc. Investors generally consider business valuation and determine the price based on what they are ready to pay against the earnings.

2

Know your Risks - A good rule of thumb is to assume that "Everything Matters"

Risk assessment is the process where you Identify existing and potential risks. Analyze and evaluate its implications. Determine appropriate ways to mitigate it.

3

Check funding sources -What was permitted yesterday need not be so today

The legitimate sources of accepting funds for companies have been modified from time to time. For example, under the new Companies Act, many sources of funds are considered as restricted 'deposits' which were earlier freely treated. Check before subjecting yourself to non-compliances.

4

Established source of promoters contribution - statutory as also governance desire

It is important to have genuine established source of pre-IPO promoter's contribution. Unexplained nature and source may demand explanations from regulatory authorities.

5

Lead from front - Leadership is defined by results not attributes

A good leader is not known by his education, personality, wealth but by his ability to lead and deliver results. Never undermine your ability merely because you do not possess any professional / educational qualification.

6

Ownership succession - Failing to plan is planning to fail

Given the Indian context of family succession, it becomes inevitable to plan smooth transition of business through generations. Value built over the years, many-a-times, gets destroyed for lack of proper planning on this front.

7

Protect your Intangibles - Invisibles create more visibility

Intangible assets such as brand, intellectual property, trade secrets, goodwill and the like are typically the foundation upon which a company is built in this competitive environment. Value of intangibles could be much more than physical assets.

8

Shareholders' interest first

The main objective of an organization should be to maximise shareholder's wealth. This necessitates management decisions to bear in mind the interest of shareholders at large (also the minority shareholders).

9

Similar line of business by Promoters - Leads to potential conflict of interest

The involvement of promoters or directors in similar line of activity or business as that of the issuer company may lead to potential conflict of interest and put investors stake at risk. Often businesses are run through multiple entities, which should be streamlined at pre-IPO stage.

10

Object of the Issue - No deviations permitted

The IPO funds has to be deployed for the purpose for which they are raised. An entrepreneur should therefore be clear about his need of funds beforehand.

11

Related Party Transactions - Subduing professionalism not a wise act

It is common to come across various intra-group transactions, at differential pricing. This is not acceptable to investors and other stakeholders. Related Party Transactions undertaken on arm's length basis suffice not only statutory compliances but also builds investor confidence. Further Related Party Transactions should not warrant lapse of documentations, supportings.

12

Restatement of Financial Statements - Comparative and aligned view of your financial performance

Restatement of past financial statements should not be perceived as a mere formality. Often restated financials throw significant deviations from audited financials.

13

True and fair disclosure - The more you disclose the less you worry

It is imperative for the company to avoid inadequate or untrue disclosures considering not only the statutory requirements but also interest of large expanse of stakeholders of the company.

14

Governance, Compliances and Internal controls - three pillars for achieving sustainable growth

To take the 'next-level-growth', it becomes important to understand the role of Governance, Compliance and Internal Controls. Adhering to the legal framework not only for the sake of compliance but in true 'letter and spirit', can ensure a sustainable organisational growth.

15

Intermediaries - Choose your Partners wisely

An IPO is not a one man show and rather involves efforts of many people, organisations working simultaneously towards one goal. It is advisable to choose your partners wisely than to be sorry later on.