

BSE SME Exchange and NSE EMERGE Exchange Platforms in India and a Comparison between them

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Abstract: Small and Medium Enterprises (SMEs) in India play a very important role in enhancing the potential and opportunities of entrepreneurs in India. But funding creates various hurdles in its path for the growth. Banks are reluctant to provide loans to them because of the various reasons like information asymmetry, moral hazard or adverse selection effects which create various challenges in front of SMEs to generate funds. To overcome this problem, government of India, with the help of SEBI, launched two platforms, BSE SME platform and NSE EMERGE platform for the listing of SMEs. But after more than three and a half years of their launch, there is a need to compare their various characteristics. In this study, the various characteristics are compared between both the SME platforms. The SMEs and ITP companies of both the boards are compared which would help to find out where and by which characteristic a board is lagging behind. The various characteristics include the share prices, market capitalization, market turnover, PE ratios and proportion of companies reporting losses. In this study, we will study about both the SME platforms with their listing requirements, benefits of listing various challenges existing for the entry in exchange and also to provide some suggestions to overcome those challenges.

The data structure for the study is based on the official publication of annual reports, and other reports like daily trading reports, ITP bhavcopy, financial reports of the companies listed on the exchanges and the share prices of the listed companies from the official websites of both the platforms. For the data collection the census method has been adopted where all the SMEs and ITPs are considered. Simple tabular approach has been used for the analysis of the data.

The findings indicate that BSE SME exchange has well diversified companies on the basis of market cap and most of the companies listed on it are healthier in general. Whereas, most of the companies on the EMERGE platform are reporting losses. But even after that its market turnover has improved in the recent year than that of its rival exchange. Moreover, the BSE SME companies have lower share prices in general.

This research has focused on the Indian SME Exchange platforms and analyzed the various dimension on these platforms both quantitatively and qualitatively and on different levels. It will create awareness among the entrepreneurs, SMEs and investors and will help them to choose the best platform according to their needs.

Key words: Small & Medium Enterprises, Bombay Stock Exchange, National Stock Exchange, Institutional Trading Platform.

I. INTRODUCTION

Small and Medium enterprises (SMEs) sector which employs over 69 million people of India is a very important key to the vision of a growing India. This sector contributes about 8.7% to the country's GDP and about 40% to its exports and is very crucial for the Make in India initiative. But there are various hurdles in the way of SMEs. Financing is one of the main problems facing SMEs in India. SMEs are facing constraints in accessing credit facilities from various financial institutions. Also the credit which they are getting is inadequate and is of high cost. The Prime Minister's Task Force (Jan. 2010) had recommended to set up a dedicated Stock Exchange for SMEs. After this SEBI made the regulations for the governance of SME exchange. With the emergence of BSE SME exchange and NSE EMERGE, the problem of raising funds has minimized. Earlier, SMEs were dependent only on banks and non-banking financial institutions for their debt financing as the equity capital was almost inaccessible to them. But now, with the help of BSE SME and NSE EMERGE platforms, they can raise funds through capital market and can help in the contribution towards economic development in a better way. One of the key factors required to encourage the SMEs is the availability of adequate capital which help in exploiting the opportunities and growth exponential.

The NSE and BSE always try to ensure that there should not be any compromise on risk management in SME exchange while ensuring product innovation. As we know that investment in small and growing firms is always a risky investment which require good quality of scrutiny of these firms. For this purpose, SEBI made various guidelines and placed the responsibility on the exchanges. So now this is the responsibility of the exchanges to ensure that these platforms would not become the places for unscrupulous promoters who could raise funds for unclear purposes or for the purpose which they were not intended. So, for the protection of the investors, it is necessary to put adequate control so that only good quality of firms or entities are allowed to access the market. NSE has established a third-party due diligence of

company to increase the confidence of the customer in the SME exchange. NSE also encourages SMEs to get graded by the rating agencies. Also the companies listed raise capital through transparent book building process.

In the past also, there were so many attempts were made for a separate exchange for SMEs in India. But these attempts were not successful. The OTC Exchange of India (OTCEI) set up in 1990s was the first exchange designed specifically for SMEs to list. But the trading volumes did not pick up that much as expected. But this time, it worked and resulted in the starting of a successful story. If we see globally, so many countries in the world have also tried to establish separate boards for small firms. But only a few got success. NASDAQ is one of the most successful markets which started creating a new and alternative investment class and is today a large market which is successful in New York Stock Exchange. It has not remained a junior market now. The Canadian market in Toronto Stock Exchange, the Korean market (KOSDAQ), Shenzhen SME board China, Shenzhen ChiNext China and the junior market of London Stock Exchange (LSE (AIM)) are some of the junior markets created a new alternate investment class and have got a significant number of listed companies. The growth enterprise market in Hong Kong, Mothers in Tokyo and AltX in South Africa are also some of the markets of such type but having relatively low volume markets with low listings. Shenzhen SME board is a board of the Shenzhen Stock Exchange in China. It was launched on 25th June 2004 in Shenzhen to assist the SMEs in China to raise capital. Till today, more than 700 companies have been listed on this platform, out of which many have migrated to the main board of Shenzhen Stock Exchange. Presently, there are 767 companies listed on Shenzhen SME platform with stock market value of 98955.33 billion and 2364.60 billion stock trading value.

By looking into such markets and by studying their progress, the way they have succeeded, their benefits and shortcomings, we could get to know that what we should do for the growth and to attract the investors as well as the SMEs.

II. SIGNIFICANCE AND IMPORTANCE OF THE STUDY

A very great and intense role is played by the Small and Medium enterprises (SMEs) towards Indian economic development. Their contribution is over 8.7% to the GDP and is over 45% in total production in India. They are also the second largest employers after agriculture and also contribute over 40% of total exports. It provides employment to about 6.9 crore people with the help of 2.6 crore enterprises and 13 lakhs job creations every year. Even after this much of great contribution, Indian SMEs are constrained to the access of the funds and for their working capital. So it was very important for the government to establish a system which can help the SMEs to grow without any such hurdle. BSE and NSE both have taken the initiative to give such a platform to the SMEs wherein the entrepreneurs can raise equity capital for their expansion and give them the chance for the wealth creation.

But one more hurdle in this way is that in India, entrepreneurs are not much aware about this platform. So it is very important to create awareness among small and medium enterprises about the opportunities available to them and to raise working capital for their growth. To create awareness among entrepreneurs and intermediaries, the BSE SME platform and NSE are conducting awareness programs and events.

Moreover, even after more than three and half years of the launch, EMERGE platform was able to attract only 11 companies and 21 ITPs out of which only 1 has shifted to the main board. Whereas, BSE SME platform with which it is always compared has lagged it behind and have got 117 companies out of which 10 companies have been shifted to main board and is having 21 ITP companies. So, it becomes very important to study the characteristics of both platforms and compare them for their performance. So in this paper, I have compared their performance on the basis of various characteristics and also tried to create some awareness about these platforms, the challenges faced by the SMEs to get the entry in SME exchange and further improvements which can be done about the awareness of this platform.

III. OBJECTIVE OF THE STUDY

- i) To study the SME Exchanges in India.
- ii) To study some basic facts and comparing characteristics of SMEs on two SME exchange platforms.
- iii) To study and compare some basic characteristics of ITP companies on two SME exchange platforms.
- iv) To study benefits and challenges existing to get the entry into SME exchange and to give suggestion to improve the awareness of SME exchange among the SMEs.

IV. METHODOLOGY

In the present study, BSE SME exchange and NSE SME exchange have been taken purposely because BSE and NSE of India are the two major exchanges in India which have taken the initiative to launch the platform for the SME exchange. The data structure for the study is based on the official publication of annual reports, and other reports like daily trading reports, ITP bhavcopy, financial reports of the companies listed on the exchanges and the share prices of the listed companies from the official websites of both the platforms. For the data collection the census method has been adopted where all the SMEs and ITPs are considered. Simple tabular approach has been used for the analysis of the data.

V. AN OVERVIEW OF BSE SME PLATFORM

In Jan. 2010, the Prime Minister's Task Force recommended for the setting up of a dedicated Stock Exchange for which SEBI has laid down the regulations for the governance. After some changes and amendments in the

rules, bye-laws and regulations, BSE SME Exchange was launched on 13th March, 2012. Up to November 2015, 117 companies have been listed on this platform out of which 10 companies have been migrated to BSE main board. Now there are 107 companies in BSE SME platform. Companies from various industry sectors like foods, agriculture, engineering, bio-fuel, cables, steel, metals services etc. have been listed on BSE SME Exchange. BSE SME is the first SME platform in India. It is having the largest number of SMEs and has taken the leadership position in SME segment. The BSE SME index helps the investors to track and measure the growth of SMEs listed with BSE SME and helps them to make decision to invest.

The total market capitalization of BSE SME listed companies is 6896.49 crore rupees. All of those companies are eligible for trading. So far, 10 companies which were listed on this platform, have been migrated to the main board. S & P SME IPO index has also been launched in December 2012. It is having 100 as its base and value as on December 2, 2015 is 765.53 points.

Criteria for Listing:

According to the norms of SME listing, a company would be eligible for listing if it has not completed 10 years after incorporation and its revenue has not exceeded Rs. 100 crore in any of the financial year. To get listed in BSE SME platform, the company is required to be incorporated under the companies act, 1956. The post-issue paid up capital of the company is required to be at least Rs. 3 crore. The net worth should be at least Rs. 3 crore. The post issue face value capital should not exceed Rs. 25 crore. The trading lot size should not be lesser than Rs. 1 lakh. Investor holding with less than 1 lakh rupees, are allowed to offer their holding to market maker in one lot. The issues are required to be 100% underwritten. Merchant bankers can underwrite 15% in their own account. The Net Tangible assets at the company should be at least Rs. 3 crore as per the latest audited financial results. The company should also have a good track record. Out of the immediately preceding three years, company should have attained distributable profits for at least two years in terms of section 123 of Companies Act 2013.

Apart from this, it is mandatory for a company to have a website. The company has to facilitate trading in demat securities and enter into an agreement with both the depositories. Moreover, from the date of filling the application to BSE for listing, there should not be any change in the promoters of the company in preceding one year.

A disclosure is also required from the applicant company or promoting companies stating that “the company has not been referred to the Board for Industrial and Financial Reconstruction (BIRF).” In the case where company is out of BIRF, the disclosure required stating that “there is no winding up petition against the company, which has been admitted by the court or a liquidator has not been appointed”.

There is also the facility of migration from the BSE SME Platform to the Main Board. Those companies seeking migration should satisfy the eligibility criteria. For those companies it is mandatory to be listed and traded on BSE SME Platform for the minimum period of two years and are required to have post issue face value capital more than 10 crore rupees and up to 25 crore rupees. After this they can migrate to main board as per the guidelines laid down by the SEBI vide their circular dated 18th may 2010 and as per the procedure specified by the ICDR guidelines chapter X B.

Moreover, if a company is interested in raising funds through BSE SME exchange, there has to be a minimum of 50 investors and each investor should invest a minimum amount of one lakh rupees. Anyone who is having a demat account, can invest on this platform. There are lot sizes prescribed by SEBI for various issue prices and investors are required to invest their amount according to that only. So here we can say that this platform is mainly targeted to the informed investors or high net worth individuals who have experience and resources to do the analysis. Individual investors are unable to evaluate each company’s management capabilities and financial health. Once the trading gets pick up and enough liquidity would be there in the market, after that the retail investors would also be able to consider these stocks actively.

There are various costs associated with the listing on the stock exchange. The various costs are as follow.

The initial one time listing fee is Rs. 50,000.

The annual fee is also charged based on the market capitalization and not on the issue size.

Market capitalization (in rupees)	Annual Fee (Rs.)
Up to 50 crore	25,000
Above 50 crore	50,000

If a company is using Book Building software for IPO, then the fee is

Issue size (in rupees)	Annual Fee (Rs.)
Up to 25 crore	2.5 lakhs
Above 25 crore	4.0 lakhs

There is also the market making fee which is approximately Rs. 35,000 to Rs. 50,000 per month for a period of 3.

VI. AN OVERVIEW OF NSE SME PLATFORM

nse’s sme platform emerge was launched in march 2012, and in september 2012, the first sme was listed on it. this platform is ideal for growing companies which wish to raise capital for their working capital, r&d, marketing, acquisitions or any other growth requirement. so far, 11 companies have been listed on this platform out of which one company has been migrated to the main nse board.

Criteria for listing:

The issuer company is required to be a company incorporated under the Companies Act 1956, in India. The post issue paid up capital of the company shall not be more than 25 crore rupees. The net worth of the company should be positive with the earnings before depreciation and tax from operation should be positive for at least 2 financial years preceding the application. It is required to have a track record of at least 3 years.

The minimum number of allottees in case of IPO is 50. The IPO is required to be 100% underwritten with 15% on the books of the merchant banker. Although, there is not restriction about the market capitalization or the issue size but the IPO application size should not be lesser than Rs. 1 lakh.

In other conditions, the applicant company has not been referred to Board for Industrial and Financial Reconstruction (BIFR). There should not be any petition for winding up admitted by a court of competent jurisdiction against the company. Moreover, there should not be any material regulatory or disciplinary action taken against the company by a stock exchange or regulatory authority in the past three years.

According to the SEBI regulations, the companies having post-issue paid up capital (face value) up to 25 crore rupees, can be listed on EMERGE and can raise funds. Those companies having post-issue paid up capital (face value) between 10 crore rupees to 25 crore rupees, have the option to get the migration to the main board.

The various costs associated with the listing on this platform are as follow.

The initial one time listing fee is Rs. 25,000.

The annual fee of EMERGE is based on the paid up capital of the company.

Paid up capital	Amount (Rs.)
Upto 5 crore	10,000
Above 5 crore and upto 10 crores	15,000
Above 10 crore and upto 20 crores	25,000
Above 20 crores and upto 25 crores	45,000

Apart from all these, there is also the market making fee which is approximately Rs. 35,000 to Rs. 50,000 per month for a period of 3 years.

VII. DIFFERENT CHARACTERISTICS BETWEEN BSE SME AND NSE EMERGE COMPANIES

BSE SMEs market value has crossed 6896.49 crore rupees with 107 BSE SME listed companies. Crossing 6896.49 crore rupees market capitalization in just 3 years is a small but a significant step for the Indian capital markets. NSE EMERGE was introduced a few months after BSE SME platform. But the market value has yet reached only up to 484.18 crore rupees and is having 10 SME companies listed on this platform.

The liquidity indicated by the turnover of the platforms are also in favor of BSE SME platform as the number of companies in this exchange is more than that of EMERGE, because of which the average daily turnover and monthly turnovers are more. But the turnover per company in a month shows higher values for EMERGE as SANCO has generated the turnover of 135396000 rupees and MOMAI has generated a turnover of Rs. 16960000 in these months.

The earnings prospects in the stocks are indicated by the PE ratio of the companies. As we can see in the table that average PE ratio for BSE SME platform companies is 209.33 which is higher than NSE EMERGE platform companies which is 15.74. From the investor's point of view it indicates that the growth prospects are higher in BSE SME platform companies than that of EMERGE platform companies.

While the wide lead of BSE SME, which lags behind the NSE EMERGE platform, has surprised some, it has also raised many questions on NSE EMERGE platform.

Major Statistics of BSE SME Board and NSE EMERGE Board (end November 2015)		
Platform	BSE SME	EMERGE
Number of listed companies*	107	10
Number of ITP companies	21	21
SMEs shifted to the main board	10	01
Market capitalization	6896.49 crore rupees	484.18 crore rupees
Average market capitalization per company	64.44 crore rupees	48.42 crore rupees
Average daily turnover from 1 Jan 2015 to 30 Nov. 2015	679.72 lakh rupees	51.55 lakh rupees
Average monthly turnover from 1 Jan. 2015 to 30 Nov. 2015	14032 lakh rupees	1020.1 lakh rupees
Average turnover per company from 1 Nov. 2015 to 30 Nov. 2015	67.17 lakhs	175.99 lakh rupees
Amount of funds raised since inception upto Jan. 2015	8,889 crore rupees	430 crore rupees
Average PE ratio	209.33	15.74
Average capital raised by firms (till Jan. 2015)	8.07 crore rupees	19.3 crore rupees

Note: * Companies moved to the main board are exclude.

VIII. BSE SME EXCHANGE HAS WELL DIVERSIFIED COMPANIES ON THE BASIS OF MARKET CAP

Companies having large market capitalization have more assets, capital and higher revenues than those having smaller market capitalization. Company with large market capitalization is not necessarily a better company than a small cap. It simply indicates the size of the company. But company having large cap tends to be less volatile than small companies. From the investor's point of view, large cap companies can be more attractive than that of small cap because of their stability and also for the better hope for offering dividends.

The BSE SME platform provide investors with a wide variety of stocks in different industries and with different market caps.

Investors can have a well-diversified stock portfolio including very small to bit higher cap SMEs. The average market capitalization per company for BSE SME platform is 64.44 crore rupees while for EMERGE it is 48.42 crore rupees. 69.15% of the companies on BSE SME platform are having market cap between 1 crore to 30 crore rupees while only 30% of SMEs of EMERGE come under this range.

Most of the Companies on EMERGE platform are distributed with market cap between 1 crore to 100 crore only. 87.8% companies of BSE SME platform are in the range of market cap of 1 crore to 100 crore compared to 90% of EMERGE companies.

On BSE SME platform, 6.7% companies are having market capitalization more than 100 crore to 300 crore rupees. There are 1.9% companies having market cap of 300 crore to 500 crore rupees and 3.7 companies have market cap of more than 500 crore rupees. Only 1 company has market cap between 100 crore to 300 crore rupees which is 10 percent of the total companies. There is no company having market cap more than 300 crore rupees.

So, here we can say that distribution of companies with smaller to larger market cap is better on BSE SME platform than that of EMERGE where most of the companies are concentrated only between the market cap of 1 crore rupees to 100 crore rupees.

IX. BSE SME COMPANIES HAVE LOWER MARKET TURNOVER IN GENERAL

The liquidity of the shares on these platforms have always remained the main concern. The liquidity of the shares of a company can be measured with the help of the turnover of the company’s shares. The turnover of the shares shows the liquidity of the shares of the company. The higher the turnover of the share, the more liquid the share of the company. In another way, we can say that if an investor is having the shares of such a company having higher turnover, it is much easier for the investor to buy and sell shares of the stock. Moreover, it also indicates the stability and volatility of the stocks. A higher turnover ratio indicates that the stocks are volatile as there are very less shares available and a sudden increase in demand could affect considerably the value of the stock and vice versa.

Here I have calculated the turnover for the month of November 2015. Only 92 companies of BSE SME platform traded in November. All the 10 companies of EMERGE traded in the month of November. The average turnover per company in the month of November 2015 is 175.99 lakhs which is more than that of BSE SME companies which is 67.17 lakhs rupees.

Moreover, the daily turnover of 71.71% companies of BSE SME board is less than 50 lakh rupees. EMERGE is having 50% of the companies are having average daily turnover of less than 50 lakh rupees.

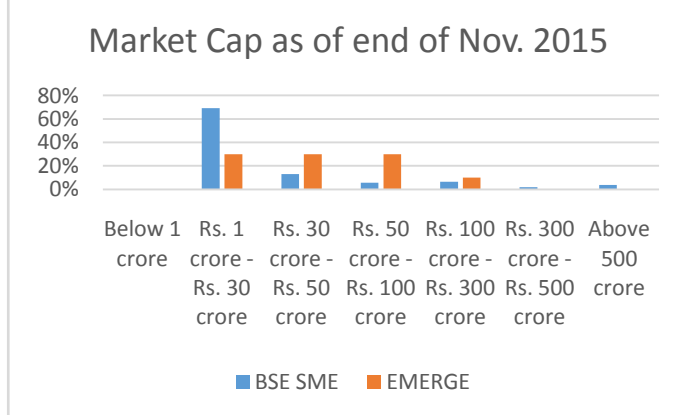
The percentage of companies having turnover more than 50 lakh rupees is 28.28% and for EMERGE companies it is 50%.

It indicates that EMERGE platform is becoming more active.

Comparison of BSE SME and EMERGE by Market Cap				
Market cap as of the end of Nov. 2015	BSE SME		EMERGE	
	No. of firms	%	No. of firms	%
No. of companies	107		10	
Below 1 crore	00	00%	00	00%
Rs. 1 crore - Rs. 30 crore	74	69.15%	03	30%
Rs. 30 crore - Rs. 50 crore	14	13.08%	03	30%
Rs. 50 crore - Rs. 100 crore	06	5.6%	03	30%
Rs. 100 crore - Rs. 300 crore	07	6.5%	01	10%
Rs. 300 crore - Rs. 500 crore	02	1.9%	00	00%
Above 500 crore	04	3.7%	00	00%

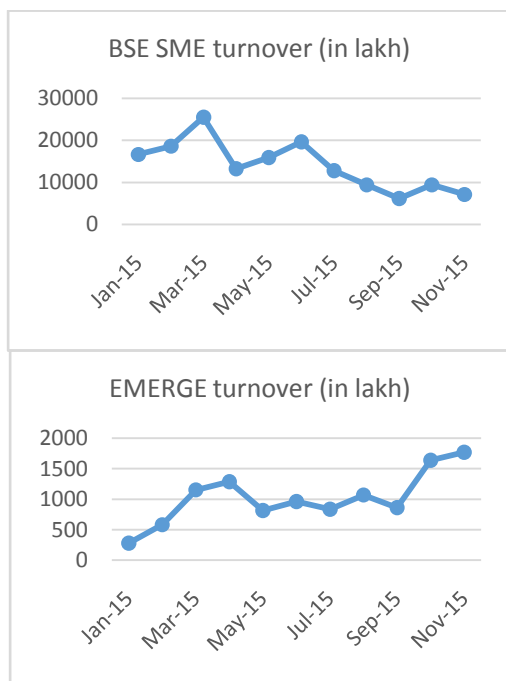
Comparison of BSE SME and EMERGE by Turnover				
Average daily turnover in November 2015	BSE SME		EMERGE	
	No. of firms	%	No. of firms	%
No. of companies*	92		10	
Below 1 lakh	06	6.5%	01	10%
1 lakh – 30 lakh	47	51.08%	04	40%
30 lakh – 50 lakh	13	14.13%	00	00%
50 lakh – 1 crore	10	10.9%	03	30%
1 crore – 5 crore	15	16.3%	01	10%
Above 5 crore	01	1.08%	01	10%

Note: * Companies not traded in November have been excluded.



The graphs below indicate the trend of turnover of all companies from January 2015 to November 2015. The graph of BSE SME companies indicates that the monthly turnover of companies goes on decreasing. It was 16612 lakh rupees for the month of January and in the end of November 2015 it came down to 7091 lakh rupees. While the trend of turnover in case of EMERGE companies is opposite to that of BSE SME companies. Here, in the beginning of the year the turnover was 276.73 lakh rupees which kept on increasing in the coming months and in November 2015 it reached up to 1767.2 lakh rupees. This indicate that in the successive months the trading

activity in the EMERGE platform is increasing and is becoming more active which is a good indication for its growth. While it is a matter of concern for BSE SME platform, why its turnover declining sharply.



X. A LARGE PROPORTION OF EMERGE COMPANIES REPORTING LOSSES

In the first half of year 2015 (from 1st April 2015 to 30 September 2015), 89 companies of BSE SME and 06 firms of EMERGE have submitted their data. Other companies have been listed at the end of first half or after that. So, we have exclude them from the list above.

As we can see in table, 16.7% companies of EMERGE have reported losses which is a little bit more than that of BSE SME which is having 14.6% companies in losses. The percentage of profit earning firms is 83.3% for EMERGE and is lesser than the profit earning firms of BSE SME which is having 85.4% profit earning companies.

Moreover, 3.4% companies of BSE SME platform showing profits more than 5 crore rupees. While there is not a single company on EMERGE platform showing profit more than 5 crore rupees.

There are 10.11% companies in BSE SME platform showing losses as compared to 16.7% companies of EMERGE. The losses more than 1 crore rupees is 3.4% for BSE SME and none for EMERGE.

Financial Performance of Firms (From 1 st April 15 to 30 Sept. 15 (First Half))				
	BSE SME		EMERGE	
	No. of Firms	% of total firms	No. of Firms	% of total firms
No. of	89		06	

companies*				
Losses	13	14.6%	01	16.7%
Profit earning	76	85.4%	05	83.3%
Number of firms and amount of Earnings or Losses				
Profit more than 5 crore	03	3.4%	00	0%
Profit between 1 crore to 5 crore	16	17.8%	04	66.7%
Profit between 50 lakh to 1 crore	14	15.7%	00	0%
Profit between 0 to 50 lakh	44	49.4%	01	16.7%
Loss between 0 to 1 crore	09	10.11%	01	16.7%
Loss more than 1 crore	03	3.4%	00	0%

Note: * ITP Companies and companies which are newly added and have not submitted any report till 30th sept. 15 are excluded.

XI. BSE SME COMPANIES HAVE LOWER SHARE PRICES IN GENERAL

Compared to EMERGE companies, BSE SME platform companies are having lower share prices. On EMERGE platform, all the companies traded above Rs. 10. Whereas, 18.69 companies of BSE SME platform traded below Rs. 10 as of the end of November 2015.

64.48% of the total companies of BSE SME platform traded between Rs. 10 to Rs. 50. While 30% of total companies of EMERGE traded in this range. But only 16.7% companies of BSE SME platform traded at a price more than Rs. 50. As compared to this, 70% of total companies of EMERGE traded at a price more than Rs. 50. This indicates that BSE SME companies have low share prices in general as compared to EMERGE platform companies.

Comparison of BSE SME and EMERGE by Share Prices				
Share price as of end of November 2015	BSE SME		EMERGE	
	No. of Firms	% of total firms	No. of Firms	% of total firms
No. of Companies	107		10	
Below Rs. 10	20	18.69	0	0
Rs. 10 - Rs. 50	69	64.48	3	30
Rs. 50 - Rs. 100	10	9.3	3	30
Above Rs.100	8	7.4	4	40

XII. DIFFERENT CHARACTERISTICS BETWEEN BSE ITP AND NSE ITP COMPANIES

India has witnessed a growing number of entrepreneurial community and a large start-up ecosystem. But there are various hurdles in the way of these entrepreneurs and one of the greatest hurdles is the improper access of funds. To overcome this problem Indian government announced that the various start-ups and SMEs can get listed on SME exchange platforms without IPO. SEBI made the provision for the

listing on the exchange without bringing initial public offering (IPO). The detailed circular issued on 24th October, 2013. It provided various benefits to the entrepreneurs and SMEs. It facilitate capital raising by the start-up companies and SMEs at their early stages of growth when there is shortage of money even for the day-to-day working capital. The listing is very cost effective for companies. These smaller companies are not required to pay heavily to raise money from capital market. Issue related expenses include merchant banker fees, underwriting commission, legal fees, printing and advertisement expenses and listing fees payable to stock exchanges are not required to pay. One more benefit is the long term tax benefits to term investors. It also provided easier entry and exit options for investors like angel investors, VCFs and PEs etc.

XIII. BSE ITP COMPANIES ARE HEALTHIER IN GENERAL

BSE and NSE both have the same number of ITP companies. But the health of the ITP companies on BSE platform seems much better than that of NSE platform. As we can see in the table below, out of 21 companies of BSE platform, 18 companies are active in trading. But only 5 companies of NSE ITP platform are active in trading. Moreover, the companies which are active in trading in NSE platform have very less average market capitalization which is 111.25 crore rupees as compared to 338.12 crore rupees of BSE platform. It means that the ITP companies of BSE platform are larger than that of NSE platform. It also shows that their health has improved much better than that of ITP companies on NSE platform.

The data also reveals that the ITP companies on NSE platform are not much liquid. The average monthly turnover of the shares on NSE platform is 2454 lakh rupees whereas it is 8575.16 for BSE platform. It shows that the BSE ITP market is much more liquid than that of NSE ITP market.

The earnings prospects which are indicated by the PE ratio are also higher for BSE ITP companies. For BSE ITP companies it is 6776.34 and for NSE ITP companies it is 167.53. It indicates that the growth prospects for the investors are higher on BSE ITP platform than that of NSE ITP platform.

Statistics of BSE ITP and NSE ITP companies (end November 2015)		
Platform	BSE ITP	NSE ITP
Number of companies	21	21
Market capitalization*	6086.18 crore rupees	445 crore rupees
Average market capitalization	338.12 crore rupees	111.25 crore rupees
Average monthly turnover from 1Jan 2015 to Nov. 2015**	8575.16 lakh rupees	2454 lakh rupees
Average PE ratio	6776.34	167.53
Note: * Companies which have not traded are excluded as three and seventeen companies of BSE and NSE respectively are excluded. ** Companies which have not traded are excluded.		

XIV. BENEFITS OF LISTING ON SME PLATFORMS

- Companies listed with SME Platforms get equity financing opportunities. This help them to raise long term capital and also they can get further credits from banks and financial institutions on the basis of additional equity infusion. Moreover, companies receive easy and favorable lending terms from banks and financial institutions. It also lower the burden of the debt with lower financial cost and less credit rationing for the firms.
- Getting listed on SME platform also increases the prestige, visibility and credibility of the company. They gain public awareness through media coverage, coverage of stock by investment analysts and publicly filed documents. It increase the number of diversified investors and also increase the demand for their shares and their products as well, which ultimately increase the value of the company.
- Instead of a direct cash offering, which attract so many tax liabilities, companies can use the shares as an acquisition currency for the acquisition of companies which is tax efficient and cost effective to finance such transactions.
- Various listed companies who were either getting problems in raising funds for venture capital would no longer be in the difficulty of raising funds for venture capital. It increases their scale of operations which could make them technologically stronger with the new innovative ideas and can make them internationally competitive.
- The employees of the SMEs can participate in the ownership by being a shareholder which further ensure stronger employee commitment to the company's performance.
- Companies which are listed on SME platform have the chance to grow up and get migrate to the main board which either would have been very hard without being listed on SME platform.
- SME platform also provide a flexible entry and exit platform for the investors. It also provides such a platform where the risk can be diversified by the investors. It increases the confidence of the investors and this increases the growth opportunities for the firms as well as the economy of the country.
- There are various Tax benefits to the listed companies. For example:

There is no long-term capital gain tax and there is very less short-term capital gain tax.

S.NO.	CAPITAL GAIN TAX	UNLISTED	LISTED
1.	Long term capital gain tax	20%	NIL
2.	Short term capital gain tax	30%	15%

There is tax liability for the unlisted companies on fresh issuance of equity shares to investors other than the registered venture fund. But there is no such tax on fresh equity for the listed companies on recognized stock exchanges and SME exchange.

Income tax act also levies tax on buyers of the shares of an unlisted company, at a transaction value less than its book value. However, there is no such tax on such purchases.

XV. CHALLENGES IN ATTRACTING SMES

So far in BSE platform we have 107 SMEs and 10 SMEs have been transferred to the main board. Also in EMERGE we have 10 companies listed and 1 has been shifted to the main board. But till yet, this concept has remained slow to pick up. There are so many difficulties in India in front of the SMEs which create the hurdles in their way to get listed on those platforms. The various challenges in front of SMEs is given below.

- The very first challenge is to create awareness about the SME exchange to the entrepreneurs and SMEs. To create the awareness among the entrepreneurs and SMEs, both the platforms are conducting various awareness programs. BSE SME platform has conducted 400 SME events. NSE is also conducting various awareness programs and SME workshops to create awareness with the partnership of Securities and Exchange Board of India (SEBI) and Federation of Industries & Commerce of North Eastern Region (FINER). But after all, the SME exchange has not taken off till yet. There is the requirement of more planning to create more awareness among the SMEs, entrepreneurs and the investors.
- The second difficulty is that most of the SMEs in India do not maintain their financial data properly. The financial data at them not good enough to be trusted. Because there is no transparency. This is because of the reason that SMEs have not enough funds or resources to maintain the record. But to get listed in an SME, one must have proper financial data to show as well as continuous profit to show for at least to financial years. Because of the lack of transparency in maintaining and disclosing the financial records, it is difficult for them to get listed.
- In terms of market making, the various regulations impose high demands on merchant banks with 100% underwriting. This causes the intermediaries to be highly doubtful because it needs high capital commitments from them.
- As mentioned above, the cost of getting listed on any platform would be around Rs. 45 lakh to 60 lakhs including all expenses. It differs from company to company according to the size of company, size of issue, sector, business operations, multiple business

locations, facts, circumstances etc. So if we see the above costs, we can find out that the cost of listing is very high for small companies and is a very big hindrance in the path of the SMEs. Because they are not that much financially strong to bear such costs. So it is necessary to reduce some of those cost by the boards, so that more and more of companies could come up to get listed.

- Most of the junior board globally face the problem of liquidity especially in the time of economic downturns. Apart from the top 20 to 25 percent listed companies, liquidity remains low and sometimes negligible for some smaller scrips. So it is important for the exchange to create such a structure which ensure continuous interest to the listed SMEs.
- From the investor's point of view, the research coverage of listed SMEs is very expensive which minimize the interest of the investors in the SMEs. For this purpose, NSE has tied with CRISIL to provide the research coverage on the listed companies on its SME platform which has helped to improve the access of the information to the investors.
- In India, there are three reasons why some SMEs are entering for the listing on these platforms. The first reason is to raise money, the second is to get the tag of a listed company and third one is to manage the taxes. Such kind of attitude is not good for these platforms. So it is up to the merchant bankers and also on the exchange to decide what kind of company they should bring to the market.
- Many companies do not file their prospectuses with the securities and exchange board of India, which leave a lot of discretion with the exchanges. Many investors complaint about those issues. But while working on these queries, there is lacking in the communication between the investors, companies and the authorities. So, there is a need for the improvement in the communication system.

XVI. CONCLUSION

The huge gap between the two exchanges is a significant factor. Because of the above mentioned fundamental differences between BSE SME platform and NSE EMERGE platform, these two markets are not strictly comparable. It is very important for the EMERGE platform to maintain its competitive edge which ultimately depends on the quality of issuers, intermediaries, investors, infrastructure, market operators and service providers. As we have seen improvement in the turnover of the companies on the platform but less number of companies cannot be ignored. The EMERGE platform has not got success in creating a well-diversified platform and is concentrated mainly on medium to large capitalized firms. This all is making it less attractive from the investor's point of view also. Some SME companies get listed only to be named as a listed company or to save

taxes. It becomes the responsibility of bankers and exchanges to bring the right kind of company to the market. The price-earnings ratio is a very important indicator. The PE ratio for the platform indicate that the market is not attractive from the investor's point of view. The introduction of e-IPO could also remove the unnecessary costs and processes and make things faster and smoother. The NSE should remain hopeful and should create a momentum in building quality listing in the coming quarters. There is a lot of potential in both the platforms. If EMERGE maintains its competitive edge, it can become a major fund raising centre for SMEs in India because NSE has already proved it that it is one of the best exchanges in the world. Moreover, both the platforms should increase the number of workshops and awareness programs to increase the awareness among the entrepreneurs and SMEs.

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