

# SME Platform-Experience Sharing and Learning



**Uttam Bagri**  
Managing Director  
BCB Finance Ltd.

*BCB Finance Limited was listed on the SME platform on the BSE Limited on the 13th of March 2012, the first company in India to do so. The promoters of BCB Finance Limited share their thoughts and experiences of this process for the benefit of other promoters who may desire to similarly list their securities on the SME platform. Effort has been made to keep the flow simple with minimum technicalities*

The decision to list one's company is neither easy nor simple. The BCB group is more than 55 years old, started in 1958 by late Shri Chandratandas Bagri and being primarily into retail financial services. Since

inception, the group has been managed by the successive generations, with family members being at the helm of the affairs and handling the key positions in the company. This group is similar to scores of business enterprises in the country.

Like any other business enterprise, the BCB group always strived to be better than yesterday. As the situation permitted, the rate of desired growth was targeted and mostly achieved. It was always the desire of the management that the group be listed on the Stock Exchanges. However, at the level of size and operations, that dream seemed far off, as the then Capital Markets environment was not designed for capital raising by the smaller enterprises.

However, this changed when the Prime Minister's Task Force (Jan 2010) recommended setting up a dedicated Stock Exchange/ Platform for Small and Medium Enterprises. This was quickly followed by the relevant regulations by the regulator Securities and Exchange Board of India (SEBI), and the BSE Limited which formally launched the SME platform in September 2011 post regulatory approval.

The most important factor that made this platform stand out was the inclusion of smaller business organizations in the Capital Markets. They could now approach the Capital Markets the way they were. It did not matter whether one was a family run business enterprise, or a brand new idea for a first generation entrepreneur. There was no need to exaggerate capabilities, no need to pretend to be bigger than what one was, no need to downplay risks associated with the smaller size. Small too was now beautiful. This recognition and invitation to be a part of the Indian Capital Markets was probably the biggest differentiator, and therefore the biggest encouragement for us to take the leap of faith and decide to list our shares.

## Changes in the company workings in preparation of listing

The decision to list was going to take us into uncharted territory, and did throw up quite some challenges, some external but mostly internal.

The biggest internal challenge was the prevailing mindset change. Till date, the business was an extension of the self/ family. Many significant decisions were taken on the dinner table at home. The criteria for decision making rarely differentiated between the personal/family benefits and benefit to the company topline and bottomline. Focus of compliance with law was more on the letter rather than the spirit. This had to change. For the first time, we had to recognize and accept that the entity/ existence of the business we ran was different from our promoters. There was a requirement to bring a formality in the systems and processes. An organization structure with clear demarcation of activities was needed to be created. Basic systems and processes were to be setup, and decision making made more process driven and criteria based rather than being only person specific. With the induction of the independent directors on the Board and setting up of various committees that governed the functioning of the company, we had to separate the entity from us both in letter and spirit. This caused much confusion in the beginning, but did turn out to be operationally beneficial later.

## IPO process – Preparation

By its very design, the SME platform laid a lot of responsibility/ dependence on the Merchant Banker. Therefore, the most critical step was choosing a professional Merchant Banker. Ours being the first case, our Merchant Banker needed to be one with courage and conviction of dealing with unknowns. It was our good fortune that we found one in the young and dynamic management of Aryaman Financial Services Limited.

The SME platform, by its very design, gives some relaxations in terms of entry norms/ approvals/ periodic disclosure requirements, and at the same time imposes certain extra restrictions and requirements on the company. The prominent among these restrictions are the appointment of Market Maker, 100% underwriting of the issue and trading in lot sizes of Rs. 1 lakh and more.

With the concept of Market Making being central to the concept of SME, it was a challenge to find a Market Maker who would not only invest a significant sum of money into the company, but would also be giving two

way quotes and ensuring liquidity. This is a rare and unusual requirement where an entity is providing both fee and fund based services at the same time. Though the concept of Market Making was in public domain, there was much wariness as to what the final form would take during the process of market making itself. We were fortunate to then have IKAB Securities and Investment Limited, member BSE Limited agreeing to be our Market Maker. The many hours of pondering and deliberations on the contents and obligations on the tri-partite Market Making Agreement between the Market Maker, Merchant Banker and ourselves have many interesting memories associated with the experience.

We were also fortunate to have a courageous Merchant Banker who showed faith and confidence in the issue by giving 100% underwriting support. Having taken the decision to take the fixed price route instead of the book building route (mostly to avoid the cost of book building), we fixed the price at Rs.25/- per share, (Rs.10/- face value plus Rs.15/- premium). The market lot was finalized at 4,000 shares to meet the Rs.1 lakh lot size criteria.

These decisions were parallel to the due diligence process and the preparation of the prospectus, which by the way requires tremendous amount of transparency. Finally, our prospectus was ready and filed on BSE. The work has only just begun.

#### The issue - A sudden surprise, and quick resolution

Posting filing of the prospectus, approval was given by BSE and the necessary regulatory announcements and filings were made with issue opening date fixed at 23 Feb 2012. Being the first, we had expected our share of surprises but nothing could have prepared us for what came. On 21 Feb 2012, just two days before the issue was to open, SEBI issued its circular specifying the "Standardized lot size for SME Exchange/Platform". Lo behold, the lot size for shares prices between Rs.18 upto Rs.25 was fixed at 6,000 shares, while those more than Rs.25 upto Rs.35 was fixed at 4,000 shares. We had fixed the price at Rs.25/- and market lot 4,000 and had made all regulatory filings/communications accordingly. We then stood scratching our heads with two days left to issue opening with unanswered questions in terms of the Market Lot. Was 4,000 correct and okay, or did we need to withdraw the issue and re-file with lot size of 6,000?

Here, we cannot but mention the efforts of BSE Limited and the pragmatism of SEBI where a decision to allow our issue to go through without any changes was taken at top priority and in an extremely short span of time, before the issue opened. It was then absolutely clear to us that Exchanges and well as the Regulator were as keen to ensure the success of the SME platform.

#### The issue subscription

Opening the issue was one thing, the process of subscription was an entirely different ball game altogether. The market conditions being tough (it continues to be so even today), we approached many a friends and relatives and acquaintances informing them of our decision to list,

and seeking their support and blessings (read money). Most were kind with congratulatory messages and assurances to take part in our issue. But there were quite a few who displayed open skepticism at the Indian Corporate Culture. The standard refrain was on the lines of "I know that your company will make money, but how much will you be sharing with the minority shareholders?". The anguish seemed not directed at us or anybody in particular, but was more a general lament of their perception of the behavior of the Indian Corporates. We made a mental note to counter it with our performance, but this is a matter which every issuer approaching the market shall have to grapple with.

Even during the issue, comments were passed by some on our company. Surprisingly, no one seemed interested in speaking with the promoters before giving their opinions. Some remarks really hurt, it was so easy to read the risk factors that have been voluntarily put by us and pass judgment. However, that is a part and parcel of becoming a public company and we took it in our stride.

With the issue fully subscribed, our final shareholder list was a surprise. Many a promises seemed broken and forgotten, and many an unexpected name appeared. Quite a few of them still are our shareholders, and we constantly strive to live up to their faith and expectations till date.

On March 13, 2012, the trading in the shares of our company commenced on the SME platform of BSE Limited. We have successfully made the transition from the unlisted private company to a listed entity. Till date, we half seriously joke from time to time that we be entitled to some royalty for being the first to kick start this platform, but nothing seems forthcoming. We still wait, maybe someone is reading this . . .!

To all the promoters who desire to get their companies listed on the SME platform, the following would summarize our learning from the process:

1. This is a great way to raise capital, unlock value and obtain greater visibility and acceptance from your various stakeholders. However, with this power comes serious responsibility in the terms of higher level of compliances, more public scrutiny, higher expectations and higher transparency
2. You will need to change the culture of the business enterprise to make it more process driven and with better and verifiable systems
3. If you choose to list, please do choose your partners/ advisors for the process, i.e., your Merchant Bankers, your underwriters, your market makers and other advisors with utmost care, for a good or a bad advice can have a significant impact on your transition

The Indian economic story is nothing but a sum of all our economic activities put together. We are the entrepreneurs, the ones who organize business ventures and assume the risk for it. The SME segment in India is a welcome policy support for us, something that we should all consider using.

---

*Author is the Managing Director of BCB Finance Limited. He holds a Post Graduate Diploma in Management from the Indian Institute of Management (IIM), Ahmedabad. He has been on the Board of the Directors of BSE from 2003 to 2005 and 2010 to 2012. He has served in the past on various Committees of BSE and CDSL. He is currently a member of the Advisory Committee of Indian Clearing Corporation Limited (ICCL) the wholly owned Clearing Corporation of BSE Limited. He is also the Trustee of Association of Technical Market Analysts (ATMA) of India and the Secretary of the BSE Brokers' Forum. He can be contacted at [uttambagri@gmail.com](mailto:uttambagri@gmail.com)*

---