# SME IPO

Chapter IX of SEBI (ICDR) Regulations, 2018 provides for the listing of Small and Medium Enterprises. It provides for an equal opportunity to the small businesses to raise funds from the public via capital markets. However, it does so on the Small and Medium Exchange (SME Exchange) arm of the Capital Markets and not the main board.

SME Exchange is trading platform which is recognised by SEBI to list specified securities but does not include a main board.

We are going to go through all the major points that are needed to understand the concept of SME IPO.

## ❖ ELIGIBILITY

- SEBI does not issue any observation to the Offer Document
- Post Issue Paid-Up capital of <= 10 crores
- IPO to be 100% Underwritten with Lead Manager underwriting => 15%
- Minimum Application Size and Trading Lot to be Rs. 1 Lakh
- Compulsory market making for a minimum of 3 Years
- Lead Manager to submit Due Diligence Report to SEBI

## ❖ PROMOTERS CONTRIBUTION AND REQUIREMENTS

- Minimum Promoters Contribution should be 20% either by way of equity shares or by way of subscription to the convertible securities
- Such contribution shall not be at a price lower than the weighted average price of the equity share capital
- The promoters shall satisfy the requirements of this regulation at least one day prior to the date of opening of the issue
- The amount of promoters' contribution shall be kept in an escrow account with a scheduled commercial bank.
- In case of covertible debt instruments, without the prior issue of equity shares, the promoters shall bring in a contribution of at least 20%

## ❖ LOCK IN REQUIREMENTS

- Minimum Promoters Contribution, including those made by AIF, Foreign VC etc., to be locked in for 3 years from the date of allotment in the initial public offer.
- Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of one year from the date of allotment in the initial public offer
- The entire pre-issue capital held by persons other than the promoters shall be locked-in for a period of one year from the date of allotment in the initial public offer.
- Locked in securities are transferable, but only to another promoter, any person of the promoter group, or a new promoter, and which shall not be further transferable for the remaining locked-in period.

## ❖ APPOINTMENT OF INTERMEDIARIES

**LEAD MANAGERS, OTHER INTERMEDIARIES AND COMPLIANCE OFFICER**

- Appoint one or more Merchant Bankers (MB) as Lead Manager (LM) to the Issue and enter into an agreement as per specified format.
- The issuer shall, in case of an issue made through the book building process, appoint syndicate member(s) and in the case of any other issue, appoint bankers to issue.
- The issuer shall appoint a registrar to the issue, registered with the Board, which has connectivity with all the depositories
- The issuer shall appoint a compliance officer who shall be responsible for monitoring the compliance

## ❖ ISSUANCE CONDITIONS

**Application in the Net Offer Category**

- **=> 35% to Retail Individual Investors**
- **=>15% to Non-institutional Investors**
- **<=50% to QIB, 5% of which to Mutual Funds**

**Other than the Book Building Process**

- **=> 50% to RII**
- **Remaining to applicants other than RII**
- **Other investors including corporate bodies or institutions**

## ❖ DISCLOSURES IN AND FILING OF OFFER DOCUMENTS

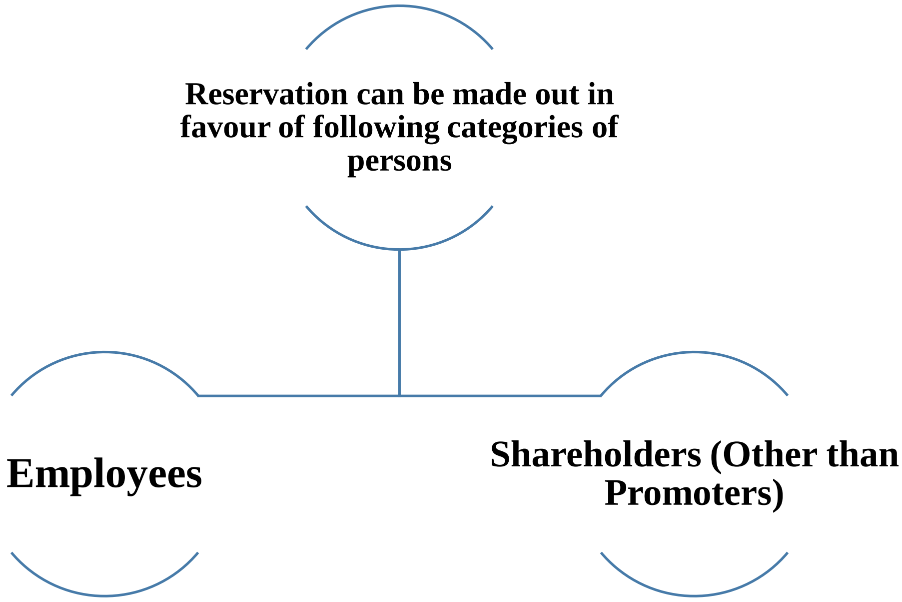
**Disclosures in the draft offer document and offer document**

- The offer document shall contain all material disclosure including those mentioned in Companies Act, 2013 and Schedule VI of ICDR Regulations
- The LM shall exercise due diligence and ensure that information in the Financials are not more than 6 months old.
- The LM shall call upon the issuer, its promoters, directors and the selling shareholders to fulfil their obligations.

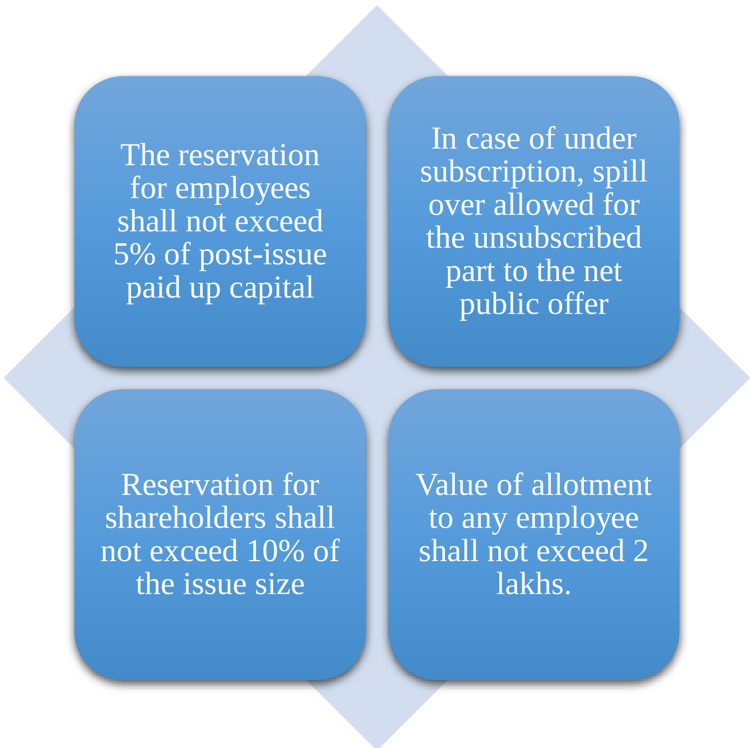
**Filing of the offer document**

- Filing the offer document to SEBI through LM, immediately after filing it to ROC
- The LM shall submit Due DIligence Certificate.
- SEBI shall not issue any observation on the Offer Document and it shall be displayed on the websites of LM, SEBI and SME Exchange.

## ❖ RESERVATION ON SUBSCRIPTION




## ❖ CONDITIONS ON RESERVATION



## ❖ UNDERWRITING

- IPO shall be underwritten 100% of the offer
- The LM shall underwrite at least 15% of the issue size on their own account
- The LM shall file an undertaking to SEBI that the issue has been 100% underwritten
- All underwriting agreements shall be disclosed in the Offer Doc
- Undeerwriters shall not subscribe to the issue other than fulfiling their obligations

## ❖ GENERAL CONDITIONS

- **Application to one or more SME exchanges for listing.**
- **Entering into an agreement with a depository for dematerialisation**
- **Existing partly paid up shares have either been fully paid up or forfeited**
- **All specified securities held by promoters are in specified form.**
- **75% of the finance to be utilised for purposes stated in the Prospectus.**
- **25% of the finance to be utilised for general corporate purposes.**

- ❖ **MONITORING AGENCY**

  **-** If the issue size, exceeds ***100 crore Rupees***, excluding the OFS by selling shareholders, then appoint credit rating agency registered with SEBI.

  **-** The issuer, within ***45 days***, from the end of each quarter, publicly disclose the report of monitoring agency and upload the same on its website.

- ❖ **OPENING OF THE ISSUE**

  - After at least 3 days from the date of filing Offer Document to the ROC.

- ❖ **PERIOD OF SUBSCRIPTION**

  **-** At least 3 days and not more than 10 days.

  - In case of revision of price band, minimum 3 working days.

  - In case of force majeure, extend by a minimum period of 3 working days.

- ❖ **APPLICATION AND MINIMUM APPLICATION VALUE**

  - Minimum Application Size shall be 1 lakh per Application.

  - Minimum sum payable on Application shall be at least 25% of the issue size.

  - In case of an offer for sale, the full issue price for each specified security shall be payable on application.

- ❖ **ALLOTMENT PROCEDURE AND BASIS FOR ALLOTMENT**

  - No allotment if number of allottees is less than fifty (50).

  **-** No excess allotment except to round off.

  **-** Allotment in fair, prescribed and proper manner.

- ❖ **MIGRATION TO THE MAIN BOARD**

  **-** If post-issue face value capital is more than 10 crore rupees and upto 25 crore rupees of any entity listed on SME Exchange, it may migrate to the main board by passing a Special Resolution.

## ❖ BROAD PROCEDURES TO BE OBSERVED FOR SME IPO


- Mayank Shashi