



Can SME exchange really play a vital role in accelerating Start-Up Growth?

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ABSTRACT

Purpose: The purpose of this research is to understand whether SME Exchange can really play a vital role in accelerating small and medium enterprises (SME's) and Start-ups growth. Can it create an effective alternative source of funding for Incumbent SME's who are facing problems of fund raising due to weak debt market and non-availability of public market for small and medium size ventures?.

Methodology/Sampling: Structured interview were conducted with cofounders of SME's and start-ups who have raised capital from SME Exchange or likely to raise capital.

Findings: SME's are finding SME Exchange a cost effective alternative to raise capital from public market. Bank loan and private equity / Venture capital investments have their own limitation.

Practical Implications: SME Exchange can visibly impact the fund raising alternative for SME's and start-ups and therefore impact the overall growth of SME's.

Keywords: SME, Fund Raising, Start-ups, Growth, Entrepreneurship, Accelerator.

JEL Classification: L84, M13.

* The material presented by the authors does not necessarily portray the viewpoint of the editors and the management of the Institute of Business & Technology (IBT).

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1. INTRODUCTION

SME as a sector accounts for about 95 percent of the industrial units, almost 40 percent of the gross industrial value added in the Indian economy, 34 percent of the exports and contributes to 7 percent of the Indian Gross Domestic Product (GDP). There are approximately 3.6 million registered SME's providing employments to roughly 20 million individuals (Asian Development Bank, 2012).

Every solution in the world arises out of a 'need'. The key difference is whether the solution applies to a 'need' that is created or to a 'need' that already exists. In the case of Small and Medium Enterprises (SME's) in India, there exists a 'need', the need to mitigate the financial pains of the start-up phase.

While we do not wish to get into every single 'need' of a start-up, we have narrowed our focus on the 'need for access to cost effective capital' for the SME in India. The objective of this research paper therefore is to gauge whether setting up an exchange for SME's would facilitate the growth of start-ups in India by providing a solution to an important "need", in other words known as capital requirement.

To begin with we analysed the entrepreneurs in the services and manufacturing sector in India who were classified as SME's. A common thread, observable across all the small businesses we encountered, was the requirement of funding in the early stages. A few businesses had managed to obtain funding after several unsuccessful attempts; others were struggling to stay afloat, while a few others had shut operations due to the lack of capital. Financial institutions that were created to provide capital to the entrepreneurs were either denying funding altogether or demanding astronomical interest rates that would wipe out the profitability of these small firms.

The task force report released by the Ministry of Micro, Small and Medium Enterprises (MSME) reported that the top four major issues concerning the sector are lack of availability of adequate and timely credit, high cost of credit, collateral requirement and limited access to equity capital. The situation in India, however, has been improving with the government along with Small Industries Development Bank of India (SIDBI) stepping up efforts to lend credit to the SME's under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). Nevertheless, financing start-ups in India is yet an important concern.

This led us to pursue the scenario of SMEs financing in other countries across the globe and measure how India stacked up against them. On the Capital Access Index scale, India stood at the 47th position among 122 nations. A review of the nations that had a higher score revealed that almost 70 percent of the economies had an alternate exchange for SME's that ensured capital was available at a fair cost according to the needs of the business. Analysing the Indian scenario in particular, our most developed financial component, Equity Markets (ranked 22 out of 122 nations), was out of bounds for the SME sector. India also ranks poorly in accessing international funds for running small and medium businesses (Angkinand et al, 2009).

We came across more than 57 countries around the globe where a version of an SME or alternate exchange exists to help small and medium companies obtain financing. The top SME exchanges of the world based on market capitalization, number of companies listed and funding raised are AIM (U.K), TSX (Canada), SPI Extra (Switzerland), Kosdaq (South

Korea), Growth Enterprise Market (Hong Kong) and Mothers (Japan). These exchanges have been successful to a great extent in achieving their goal.

After interviewing SME business owners in India, we realized that an SME exchange was very much the need of the hour. An analysis of our shortcomings in Over The Counter Exchange of India (OTCEI) and Indonext revealed that the exchanges failed mainly because of liquidity and lack support from the financial community.

We could afford mistakes in the past, when the world was not watching. But as different India today, with global reach and fame, our next effort to set up an SME exchange will be closely watched and monitored by a lot of economies. If we are successful, the next decade of growth will clearly belong to the Small and Medium business owners of India.

2. SMALL AND MEDIUM ENTERPRISES (SMES)

SME as a sector accounts for about 95 percent of the industrial units (Asian development Bank, 2012), almost 40 percent of the gross industrial value added in the Indian economy, 34 percent of the exports and contributes to 7 percent of the Indian Gross Domestic Product (GDP). There are approximately 3.6 million registered SME's providing employments to roughly 20 million individuals. Small and Medium Enterprises (SME's) in India are defined (MSMED, 2010) based on their investments in plant and machinery and their industry of operation.

- a) Medium Enterprise : If the enterprise is engaged in the manufacturing industry, and has an investment in plant and machinery between Rs. 2.5 million and Rs. 50 million, it is classified as a small enterprise. In case the investment in plant and machinery exceeds Rs. 50 million and is below Rs. 100 million, it is classified as a medium enterprise.
- b) If the enterprise is engaged in the service industry, and has an investment in plant and machinery between Rs. 1 million and Rs. 20 million, it is classified as a small enterprise and a medium enterprise if the investment in plant and machinery is between Rs. 20 million and Rs. 50 million (MSMED, 2010; DCMSME, 2014).

Figure 1

Definition of Small and Medium Enterprise

	Investment in Plant and Machinery	
	Small Enterprise	Medium Enterprise
Manufacturing Sector	Rs. 2.5 million – Rs. 50 million	Rs. 50 million – Rs. 100 million
Service Sector	Rs. 1 million – Rs. 20 million	Rs. 20 million – Rs. 50 million

Source: MSMED Act, 2006

Small and Medium Enterprises in India find it difficult to raise capital from banks and other financial institutions primarily due to the high element of risk involved with start-up and SME's in this nature of business. The secondary aspect is the access to centres of finance in India. Capital lenders are unevenly distributed across the country with majority of the financiers located in and around urban areas. Small businesses therefore are forced to acquire funds at a high cost of capital combined with other unfavourable compliance clauses.

Acknowledging the fact that SME's play an integral role in sustaining the Indian economy, the need of the hour is to provide SME's access to capital markets at reasonable costs.

3. SME EXCHANGE

A stock exchange is a synonym for a market place where buyers and sellers assemble to trade in company stocks, bonds, commodities, currencies and other financially engineered products. A country can have multiple stock exchanges depending on the demand for such market places.

An SME exchange is a stock exchange created to enable Small and Medium Enterprises to gain access to financial capital from potential investors. While the primary role of the SME exchange is to provide funding there are additional benefits from enlisting on a public Exchange.

Major SME Exchanges across the Globe and Their Models

Out of the 192 countries recognized globally, 149 have an official stock exchange. And among those countries roughly 57 have an alternate market for small and medium companies to raise funds (Website SMEcapitalmarkets.net).

The alternate market functions mainly because the small and medium companies do not qualify for listing on the official stock markets due to stricter financial rules and regulation. The investor profile also differs in both the exchanges. While the main exchange attracts investors from all walks of life, the alternate exchange caters to a more educated investor who is aware of the risks involved in investing in start-up or growth companies.

These alternate markets operate with varying levels of success and efficiency.

Figure 2
SME Alternative Markets Global List

Country	Alternative Market Name
Australia	ASSOB, Bendigo Stock Exchange (BSX)
Australia	Standard Market
Argentina	Pyme Board
Bosnia and Herzegovina	BLSE Free Market, SASE Free Market
Brazil	Novo Mercado, BOVESPA MAIS
Budapest	MMTS Unregulated Market System
Canada	TSX Venture Exchange (TXS-V)
China	Chinext, Small and Medium Enterprises Board
Cyprus	Alternative Market Investment Companies Market Parallel Market
Denmark	OMX First North
Egypt	Nile Stock Exchange (NILEX)
Finland	OMX First North
France	Alternext
Germany	Open Market, Entry Standard MiaccessBorseMunich
Ghana	Ghana Stock Exchange – Second List

Greece	ATHEX New Market, Alternative Market (ENA)
Hong Kong	Growth Enterprise Market (GEM)
Iceland	First North
Ireland	Irish Enterprise Exchange (IEX)
Italy	AIM Italia, Mercatio Alternative di Capitale (MAC)
Japan	Mothers Market Hercules New Market JASDAQ NEO
Kenya	Nairobi Stock Exchange AIMS
Korea	KOSDAO
Latvia	Riga Stock Exchange – First North
Lithuania	Vilnius Stock Exchange (VSE) First North
Lusaka	LSE Third Tier
Luxemburg	Euro MTF
Malawi	Malawi Stock Exchange – Alternative Capital Market
Malaysia	ACE Market Second Board
Malta	Alternative Companies List
Mauritius	Development and Enterprise Market (DEM)
Morocco	Casablanca Stock Exchange Growth Market
Namibia	Namibia Stock Exchange Development Capital Board
Netherlands, Belgium, Portugal	Alternext
New Zealand	New Zealand Alternative Market (NZAX)
Nordic Countries	First North Alternative Market
Norway	OsloAxxess
Pakistan	KSE OTC
Philippines	SME Board
Poland	New Connect
Russia	The MICEX Stock Exchange Sector for Innovation and Growth Companies
Singapore	CATALIST
Slovak Republic	BSSE Regulated Free Market Listing Program
Slovenia	LJSE Entry Market
South Africa	Alternative Exchange (AltX), Venture Capital Market, Development Capital Market, Africa Board
Sweden	Nordic Growth Market (NGM), OMX First North
Switzerland	SWX Local Caps Segment, SPI EXTRA, Bern Exchange
Taiwan	GRe Tai Securities Market (the GTSM)
Tanzania	Enterprise Growth Market Segment
Thailand	Market for Alternative Investment (MAI)
Tunisia	Bourse de Tunis – Alternate Market
Turkey	Second National Market, New Economy Market
Uganda	Uganda Securities Exchange – Alternative Investment Market Segment (AIMS)
United Kingdom	AIM PLUS Markets
United States	AMEX – NYSE AmexEquities, Entrex, OTCBB
Vienna	Second Regulated Market and Third Market (MTF)

Note: This list is not exhaustive.

Source: SME CapitalMarket.net, World Federation of Exchanges, ResearchPEIndia Analysis

The Swiss SPI small and medium cap exchange leads the SME exchanges in market capitalization, followed by London stock exchange AIM and the Korean KOSDAQ. The top 15 SME exchanges based on their 2009 market capitalization are shown in the table below.

Figure 3:
Market Capitalisation (in USD Millions)

Exchange	Name of the market	2009	2008	2007	% change 2009/2008	% change 2009/2007	% change 2008/2007
SIX Swiss Exchange	SPIEXTRA (small-and mid-cap sector)	202099.0	161889.0	266251.2	24.84%	-24.09%	-39.20%
London SE	AIM	91445.2	54676.3	194189.9	67.25%	-52.91%	-71.84%
Korea Exchange	Kosdao	73938.3	34934.6	106694.9	111.65%	-30.70%	-67.26%
TSX Group	TSX Venture	34624.2	14098.6	58895.6	145.59%	41.21%	-76.06%
BM&FBOVESPA	Organized OTC market	26922.6	17220.1	26314.3	56.34%	2.31%	-34.56%
Shenzhen SE	ChiNext	23584.0	-	-	-	-	-
Tokyo SE Group	Mothers	15939.0	13560.3	24805.1	17.54%	-35.74%	-45.33%
Hong Kong Exchanges	Growth Enterprise Market	13545.9	5827.2	20658.3	132.46%	-34.43%	-71-79%
Deutsche Borse	Entry Standard	12076.5	10567.0	-	14.29%	-	-
Osaka SE	Nippon New Market Hercules	7581.2	7784.3	15241.7	-2.61%	50.26%	-48.93%
NYSE Euronext (Europe)	Alternext	5997.1	4523.9	8389.1	32.56%	-28.51%	-46.07%
Singapore Exchange	SGX Catalist	3793.0	2453.9	7029.8	54.57%	-46.04%	-65.09%
NASDAQ OMX Nordic Exchange	Firth North	2894.0	2166.1	2272.8	33.60%	27.33%	-4.70%
Irish SE	Irish Enterprise Exchange	2314.3	1343.1	4506.6	72.31%	-48.65%	-70.20%
Istanbul SE	Second National Market	1779.2	486.3	1434.8	269.80%	24.00%	-66.11%

Source: World Federation of Exchanges

Baring the Nordic First North exchange and the Brazilian OTC market, none of the top exchanges regained their 2007 market capitalization. However, almost all have registered double digit growth from their 2008 lows.

The Second National Market in Istanbul, TSX Venture in Canada, Growth Enterprise Market in Hong Kong and KOSDAQ in South Korea have more than doubled their SME market capitalization towards the end of 2009 compared to a year ago. During the same

period the main stock markets in these four countries recorded only double digit growth figures, signalling the return of the investor confidence in the SME markets and the potential for growth post recession. The IPO markets saw a collapse across the board during the recession when compared to the peak in 2007. 107 SME's came out with an IPO in 2009 on TSX Venture compared to the 273 IPO's in 2007. On the AIM, 36 firms had an IPO offering in 2009 versus 284 firms in 2007 (Website SMEcapitalmarkets.net).

Figure 4
Market Capitalisation(USD Millions)

	2007	2008	2009
SGX Catalist	7000	2454	3793
Alternext	8389	4524	5997
Hercules	15242	7784	7581
Growth Enterprise Market	20658	5827	13546
Mothers	24805	13560	15939
Organized OTC Market	26314	17220	26923
TSX Venture	58896	14099	34624
Kosdaq	106695	34935	73938
AIM	194190	54676	91445
SPI EXTRA	266251	161889	202099

Source: World Federation of Exchanges

Listed Companies

TSX Venture has almost double the number of companies listed on it as its nearest competitor AIM. While TSX had steadily maintained the number of companies listed on the exchange from 2007, AIM went through a delisting crisis taking a 24 percent hit during the same period. Roughly 400 companies have departed from AIM since 2007 citing the high costs associated with listing on the AIM (ranges between £60,000 to £250,000 per annum), lack of liquidity, lower demand and unfavourable valuation as major reasons for delisting (Website SMEcapitalmarkets.net). A few firms have cited takeover activity as their major motive for leaving.

AIM, however, retains the spot as the SME exchange with the largest number of listings in Europe, followed by SPI and Alternext. In the Asian markets, the KOSDAQ had been successful in retaining and attracting high growth and newly emerging technology companies during the recession time frame.

Figure 5
Number of Companies Listed

	2007	2008	2009
Organized OTC Market	89	89	82
Alternext	119	128	125
SGX Catalist	157	133	134
Nippon New Market "Hercules"	173	170	150
Growth Enterprise Market	193	174	174
Mothers	197	198	185
SPI EXTRA(small- and mid-cap sector)	205	209	202
Kosdaq	1022	1037	1026
AIM	1694	1550	1293
TSX Venture	2338	2443	2375

Source: World Federation of Exchanges

New Capital Raised

The AIM market in London has raised in excess of \$100 Billion for its listed companies up until the end of 2009. The availability of finance from the UK market has led even foreign companies to list on the AIM market place. Currently about 20 percent of the firms listed on the AIM are foreign companies. TSX Venture market on the other hand consists of mainly domestic companies (Website SMEcapitalmarkets.net).

The KOSDAQ stands out as the best exchange to raise capital in the Asian markets. Firms listed on the KOSDAQ continued to raise capital during the recessionary periods. The other major markets in Asia for raising capital are GEM (Hong Kong), Mothers (Japan) and CATALIST (Singapore).

Figure 6: New Capital Raised

	New Capital raised (USD Million)		
	2007	2008	2009
SGX Catalyst	240	131	74
Alternext	942	625	247
Mothers	748	422	411
Growth Enterprise Market	2534	1164	566
Kosdaq	1426	2083	2476
TSX Venture	10936	5132	4185
AIM	32458	7852	8621

4. FUNDING SITUATION IN INDIA

4.1. Capital Access Index

The capital access index is a measure of the ability of businesses and entrepreneurs to access domestic and foreign capital in the country. India is currently ranked 47th amongst 122 nations. China is marginally ahead at 45 while Brazil and Russia are at 51 and 58 respectively. The index is derived after considering seven parameters of the economy (Angkinand et al, 2009).

Figure 7
Capital Access Index Parameter

	Capital Access Index Parameters
Contributing Parameters	India's Rank
Equity Market Development	22
Alternate Sources of Capital	28
Bond Market Development	33
Institutional Environment	49
Financial and Banking Institutions	59
Marcoeconomic Environment	60
International Funding	75

Source: Miken Institute

India is ahead on equity and bond market development but falls behind in providing access to international funding and creating a macroeconomic environment for businesses to develop. India's drop on the capital access index has been mainly due to the low scores in financial and banking institutions. India seems to be fairly placed in alternate sources of capital which refers to funding from venture capital, private placements, credit cards and other forms of alternative financing.

While the Capital Access Index takes into consideration the Indian economy as a whole, let us consider the case of an SME.

Figure 8
Capital Access Index

Rank 2008	Rank 2007	Country
1	3	Canada
2	1	Hong Kong
3	7	Switzerland
4	2	United Kingdom
5	4	Singapore
6	11	United States
7	15	Netherlands
8	9	Norway
9	8	Australia
10	9	Finland
11	5	Sweden

12	19	South Korea
13	14	Denmark
14	13	Malaysia
15	19	Estonia
16	15	Japan
17	22	France
18	6	Ireland
19	18	New Zealand
20	29	United Arab Emirates
21	12	Israel
22	21	Belgium
23	17	Germany
24	25	Taiwan,China
25	23	Austria
26	24	Portugal
27	43	Spain
28	30	South Africa
29	27	Chile
30	33	Italy
31	32	Kuwait
32	26	Thailand
33	42	Oman
34	28	Lithuania
35	37	Czech Republic
36	31	Hungary
37	36	Saudi Arabia
38	40	Panama
39	48	Lebanon
40	44	Slovakia
41	34	Greece
42	47	Jordan
43	39	Poland
44	35	Mexico
45	45	China
46	46	Slovenia
47	41	India
48	53	Bulgaria
49	54	Croatia
50	51	Turkey

4.2. SME Funding Sources

The issue an SME faces is more about the high cost of capital rather than easy access to capital. Listing on the equity market would incur huge financial and compliance costs that

would make it economically unviable for an SME. Approaching the bond market without sufficient collateral would lead to high interest rate loans from the lenders.

Depending on the financial sophistication of the SME, other debt funding options are available from domestic and overseas foreign currency borrowings and foreign currency convertible bonds. While foreign currency borrowing may yield rates that are lower than the domestic market rates, knowledge of the financial instruments and the risks involved is necessary for an SME. For an average SME, with limited financial knowledge, this would further complicate matters.

Risk capital as a source of funding has been growing steadily over the past few years. Private Equity (PE) players investing in the India economy crossed 300 as of 2009. The number of Venture Capitalists (VC) and Angels funding business ideas grew to 60 in 2009. The PE's and VC's operate in a few niche industries and deal mainly with new age business ideas that have the ability to grow exponentially in a few years (Acharya, 2006).

The National Science and Technology Entrepreneurship Development Board (NSTEDB) and Development Commissioner Micro, Small and Medium Enterprises (DCMSME) have set up close to 70 Technology Business Incubators (TBI) in India to nurture start-ups. However, grants and other capital funding are provided only to firms setting up offices on TBI's premises (NSTEDB, 2014).

4.3. Limitations of the Entire Investing Space

- I. Cost of accessing Equity Capital is prohibitively high for the SME.
- II. Cost of accessing Debt Capital is not economically viable due to security and collateral requirements from the lenders.
- III. Lack of credibility or trust on the SME players while borrowing capital.
- IV. Amount of funding available is inadequate to meet the needs of the SME

5. PAST EFFORTS OF SME EXCHANGE

5.1. Over The Counter Exchange of India (OTCEI) (Srinivasan, 2000; Ghosh, 1996; OTCEI, 2012)

The OTCEI platform was launched in 1992 to accomplish the need of an SME exchange in India. Modelled along the lines of the National Association of Securities Dealers Automated Quotation System (NASDAQ), many of the features listed were new to the Indian market and were considered ahead of its times. The platform however failed to gather momentum and was eventually out of business. The major drawbacks of the OTCEI were:

- I. Liquidity concerns of stocks
- II. Lack of marketing by the OTC about the uniqueness of the exchange and its scripts
- III. Technology discouraged speculation, which was necessary for driving volumes and liquidity
- IV. Stringent regulations for listing

- V. The low volumes and lack of activity affected the stock performance causing the index and shareholders to lose value.
- VI. Changed strategy from being a dedicated SME exchange to one serving all companies listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

5.2. Indonext

A project initiated by the Bombay Stock Exchange in 2005 to list small and medium companies on a separate platform. The exchange was plagued by:

- I. Lack of liquidity on the regional stock exchange and coordination between them.
- II. Insufficient information available about the new SME's
- III. Excessive regulation from the government.
- IV. Firms listed on the B1 and B2 groups on the BSE exchange were shifted to the new exchange confusing investors about the actual intent of Indonext
- V. Credibility of the listed firms
- VI. Lack of marketing and awareness among consumers and institutions
- VII. Stringent guidelines for listing on the exchange

5.3. How an SME Exchange would be Beneficial in this Scenario

The establishment of an SME Exchange is the first step towards creating a formal platform for interaction between SME business entrepreneurs and investors. In addition it would:

1. Lower the cost of capital for small and medium businesses.
2. Provide an exit opportunity for VC's and PE's
3. Ease of access to capital. "Raising money through the public markets is easier. In the start-up stages, I am not sure if it would help us but once we have a beta product and have invested a lot into it we will go to the exchange.", KausikMandal, V.P of operations and business development in RFIC solutions
4. Aid to raise high volume of capital. "Because of the number of investors, volume of availability of capital is higher in an exchange", KausikMandal, V.P of operations and business development in RFIC solutions.
5. Improves the image of the SME by adding 'Trust' and 'Credibility'. "Listing on the SME exchange would definitely improve the company's image. There's no doubt about it.", YadavChandna, Director of Sai Products and Graphics, an SME based out of NOIDA said "Start-ups face a lot of issues. The main issue is that clients don't trust our credentials. Listing on an SME exchange adds a lot of credibility that is useful not only for my clients but also for my vendors, employees and banks", Feby Joseph, Co-Founder at Roovno Web Ventures, a start-up based out of Bangalore.
6. Improved corporate governance and accountability in the SME. "It will eventually lead to better governance. At any point of time if external funding comes in, then there is always going to be a requirement for corporate governance, but at what cost? If the overhead

associated with it is high, I might not consider listing on the SME exchange”(UmeshSisodia, CEO of Circuitsutra, an SME based out of NOIDA)

7. Better management. “Raising money from the public is easier and in the long run it is a better way of running a company”, “While there are a few exceptions, Venture Capital firms in general have their own agenda and tend to run the company when they are on board”, KausikMandal, V.P of operations and business development in RFIC solutions

8. Enhanced visibility for Small and Medium Enterprise. “It definitely increases the visibility of the company in the market. It creates 360 degree value across the chain”, Yogesh Bansal, CEO of Apnacircle.com, a social networking site based out of NOIDA

9. Healthier valuation of the SME. “The SME would be able to get the right kind of valuation in the market when compared to a VC or PE”, UmeshSisodia, CEO of Circuitsutra, an SME based out of NOIDA

10. Dress rehearsal for the main stock exchange

5.4. Shortcomings of an SME Exchange

1. Lack of expertise mentoring and networking as in the case of a PE or VC investor.

Not all SME’s agree that having an exchange is the best solution. Yogesh Bansal, the CEO of Apnacircle, is of the opinion that having a PE or a VC investor on the board of the company is very beneficial. “I don’t think that the cost is too high in the long term. The expectation of a PE is higher than the capital markets, so the initial cost of capital might be higher, but there is a lot of other benefits included like mentoring, handholding, networking, that is more beneficial to my firm. It really depends on business to business.”

2. An average retail investor might not be able to effectively judge the risk involved in investing in an SME.

3. Difficulty in gauging the value of a Dotcom company. “For a manufacturing company, it is relatively easier to raise funds. But in the case of a Dotcom firm, there are no tangible assets. How will the market value my firm?”, Yogesh Bansal, the CEO of Apnacircle.

4. Liquidity will decrease if the investor demand and traded volume is low and vice versa.

5. Unfamiliarity with the exchange model “The SME exchange is a new model and it is difficult to compare a non existing model with a PE/VC framework.” Says Umesh, CEO of Circuitsutra technologies

6. During periods of economic turmoil, the SME’s would not be able to raise fresh capital from the markets.

7. A high cost of compliance will prevent SME’s from approaching the exchange.

8. Risk of the business failing is higher than the main exchange.

9. Start ups or loss making SME’s may not be allowed to list on the exchange.

10. Building trust in the SME exchange and making it successful will take considerable amount of effort and time from the market participants and the regulator. "How can an investor trust an SME company? Are there stringent laws protecting the investor? The process of setting up an SME exchange will take time. It will not grow suddenly", YadavChandna, Director of Sai Products and Graphics, an SME based out of NOIDA.

5.4. What Should be Looked into in the Future SME Exchange?

Consideration for future the SME exchange

- a) Before creating the exchanges, an ecosystem consisting of market makers, advisors, brokers, investment banks, financial institutions must be created to ensure that there is a lot of handholding for the SME's when they list on the exchange.
- b) A vibrant and prolonged marketing campaign that educates the SME investor about the unique offering of the SME exchange must be launched.
- c) The SME firms listing on the exchange must be monitored by independent third party agencies to check for credibility.
- d) Exchange rules and regulations must be reduced to a minimum level so that the cost of listing on the exchange is not prohibitive for the SME.
- e) The core focus of the SME exchange must be to help small and medium enterprises obtain funds.

6. DIRECTIONS FOR THE FUTURE

The current financial environment in India is inadequate for SME's and start-ups to transform into corporate that can take on the large scale manufactures in India and abroad. The biggest concern for entrepreneurs in the financial arena is not the lack of capital but the cost of capital. Opening up new avenues to finance growth in the SME's would lead to a revolution in India in the SME space. The most feasible option would be to allow the entrepreneurs from small and medium companies approach investors directly in the open market through an SME exchange along the lines of the BSE or NSE in India. However the task is easier said than done. While there will always be genuine SME's pursuing the markets for capital, utmost care should be taken in the form of regulations that protect the investor's capital from fraud and other malicious players in the SME market.

Setting up an exchange would be part of the solution, making sure that the exchange is sustainable in the long run is the real solution. We have failed twice in the past as seen in the case of OTCEI and Indonext. There are lessons that can be learnt from both these scenarios. The next effort on the Indian soil cannot sustain itself with the help of the regulatory bodies alone; the whole ecosystem surrounding it has to be strengthened. We need not reinvent the wheel in our quest for a workable solution. There exists a great SME exchange model around the world that we can benchmark upon. The AIM in UK, TSX-V in Canada, SPI small and Medium in Switzerland and KOSDAQ in South Korea are all examples of successful exchanges with a great supporting ecosystem. While it would be fatal to blindly borrow the best practices in these exchanges, a workable solution we need to pursue would necessarily have to be in accordance with the Indian environment.

The Catalyst for SME growth in our country has been identified and if we succeed in making the SME exchange as successful as the NSE stock exchange, we are indeed in for a new chapter in India's Small and Medium Enterprises growth story.

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Endnotes:

Interviews

- i. Feby Joseph – CEO of Roovo.com
- ii. KausikMandal – V.P Operations of RFIC solutions.com
- iii. UmeshSisodia – CEO of Circuitsutra.com
- iv. YadavChandna – Director of Sai Products & Graphics
- v. Yogesh Bansal – CEO of Apnacircle.com

