

## **Trade Exchange - New Platform for SME's**

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Setting up of capital markets for SMEs have lent boos to the capital flow for SME sector. SME capital bourses has experienced a great response since its inception , where 151 companies have got themselves listed on SME bourses, the 4<sup>th</sup> quarter of financial year 15-16 itself witnessed 29 companies getting listed on the SME platform. With the overall market capital of SME stocks aggregating more then 10000 crores, it has been an attractive and encouraging destination for investors.

There have been many initiatives taken up across the country to encourage SME sector to increase their level of operations and also enter the global markets. With Prime Minister taking up many initiatives through “Make In India” campaign to encourage and enhance SME sector, the latent initiative is setting up of trade exchange to increase liquidity position of SMEs and give them leverage for funds.

The National Stock Exchange (NSE) is planning to launch a new trading platform for bill discounting or trade receivables of SMEs. NSE has forged a joint venture with the Small Industries Development Bank of India (SIDBI) for the new platform, which is likely to go live by the end of this calendar year.

The new electronic trading platform which probably can be named as ‘Trade Exchange’ is aimed at easing the liquidity constraints of SMEs. Bill discounting is a concept where the Bank buys the bill (i.e. Bill of Exchange or Promissory Note) before it is due and credits the value of the bill after a discount charge to the customer's account.

To participate on the platform, an SME will have to sign agreements with the exchange that will provide the facility for electronically presenting and accepting bills. Apart from providing technical infrastructure, registration and due diligence of MSMEs and respective corporate i.e. banks and NBFCs, de-materialisation of invoices, documentation and legal formalities will also be looked over by the exchange.

On various occasions in the past, the banking regulator had raised concerns over the issue of delayed payments of SMEs, through this ‘Trade Exchange’ platform, funding issue of SMEs are expected to be handled much better.

Internationally, such platform has been in practice for quite some time. For instance, the Mexican Development Bank has created an electronic system where any small firm could present receivables on a number of large firms listed on it. The accepted receivables, now full-fledged claims on the large firms, were then auctioned off in the market, and the proceeds received out of such auction, will be paid out to the small firms.

Liquidity has been a concern for sometime in SME sector, with the pace at which SME sector is advancing, ‘Trade Exchange’ platform will definitely prove out to be a great positive to the industry.

Launch of SME platforms on BSE and NSE has created much needed visibility and wealth creation opportunity to SMEs. Where as launch of Trade Exchange may prove out to be a game changer of credit cycle and routine funding needs of SMEs.