

SME IPOs : Dilution in Stake- a long term benefit

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BSE and NSE, on their platform for SMEs are giving opportunity to SME companies to get the benefit of listing. SME exchange gave the companies an alternative option for raising equity fund from market.

As per SEBI (ICDR) regulations, post listing, non-promoter holding must be at least 25% of post issue share capital of the company. If this is not the case, Promoters needs to dilute their stake in order to increase the non-promoter holding.

The major concern of promoters is dilution of their stake as they have an apprehension that they will lose control of the company. When a company gets listed, percentage of promoters stake in the company decreases. But the ultimate goal is to have the value of the company go up by enough that you own a smaller percentage of a much larger business and therefore your total personal value goes up.

What promoters needs to predict is the worth of the company after a five years. Unlisted businesses are typically benchmarked in the light of the net-worth, which is based on historic values. However, business valuation on a going concern basis could be significantly higher than the historic values. And that's the gap which can be typically bridged by capital marketplace through stock prices.

This can be understood more from a example. Let suppose if a promoter group of a unlisted company holds 100% of shares of the company i.e. 30,00,000 shares having value of Rs. Rs. 3 Cr. Now, if he raise One Cr. From SME capital market, his stake gets diluted by 25%. After the listing, value of the company gets increased gradually to Rs. 30 Crs. In two years. Now though promoter holds less percentage of stake in the company, valuation of his holding is higher then his pre-issue holding.

IPO of Ultracab (India) Ltd, a company from Rajkot, Gujarat, managed by lead merchant banker Pantomath Capital Advisors Pvt. Limited, came up with it's Initial Public Offer in September 15, 2014 at a issue price of Rs. 36. Currently, as on March 21, 2016, market price of the same is increased from Rs. 36 to Rs. 159.60 Rs. This shows how much listing can help in growing a company's valuation even in a small time span.

Even under Income-tax Act, 1961, long term capital gains are exempt from tax on transfer of listed shares held for more than 12 months. Only listing does wealth maximization by increasing value of the company, but also provide visibility to the company. Recent initiative of capital markets aims at bridging the gap between SMEs and capital markets by providing an opportunity to SME entrepreneurs to raise growth capital and reap benefits of listed space. What was not earlier possible is now a reality. SME capital market platforms are in evolutionary stages and perhaps would undergo changes as markets would be broad-based and newer practices developed. Regardless, SME entrepreneurs spot a ray of fresh light and hope for raising growth capital in economical and tax efficient manner and move up the ladder towards next-level growth.

Details about SME IPO and listing can be found at www.smeipo.net