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Key Updates from Regulators

Introducing RBI's Climate Risk Information System (RB-CRIS)



Why? - Climate change is a significant risk to the financial system.
- Financial institutions need high-quality data to assess and manage these risks.



What is RB-CRIS? - Public Web Directory

- A comprehensive list of climate data sources (meteorological, geospatial, etc.)
- Accessible to everyone via the RBI website.



Data Portal: - Standardized and processed climate datasets.
- Exclusive access for regulated entities, rolled out in phases.

Implications

Benefits

- Bridges data gaps with reliable, standardized information
- Enhances stability of financial institutions and the overall financial system.
- Empowers informed decision-making on climate risks.

Impact

- Pioneering step towards integrating climate risk assessment in finance.
- Supports sustainable growth and resilience in the face of climate change.

The Reserve Bank of India (RBI) has issued statements outlining various developmental and regulatory policy measures relating to (i) Regulations and (ii) Payment Systems.

Regulations

No Pre-Payment Penalties for MSE Loans

- **What's Changed:**
 - Micro and Small Enterprises (MSEs) can now prepay floating-rate term loans without any foreclosure charges or penalties. ✓
- **Benefits:**
 - Greater flexibility, Cost savings and Encourages responsible lending practices ✓

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Payment Systems

1. UPI Transaction Limits Enhanced

- **UPI123Pay** (Feature Phone Users) - Per Transaction Limit: Increased from ₹5,000 to ₹10,000
- **UPI Lite** (Small-Value Offline Payments) - Per Transaction Limit: Increased from ₹500 to ₹1,000
- Wallet Limit: Increased from ₹2,000 to ₹5,000

Impact: *More convenience and higher value transactions for everyone!*

2. Beneficiary Name Look-Up for RTGS & NEFT

- **New Feature:** Verify beneficiary's name before sending money.
- **Benefits:** Enhances security, Reduces wrong credits and Prevents frauds 
- **Result:** Increased customer confidence in high-value transfers!

RBI Directs Four NBFCs to Cease Loan Disbursals

*Effective from Close of Business on October 21, 2024

Reason for Action?

- **Pricing Policy Concerns:** Issues with Weighted Average Lending Rate (WALR) and interest spreads being excessive.
- **Regulatory Non-Compliance:** Non-adherence to RBI's Master Directions on Microfinance Loans and NBFC Regulations.
- **Fair Practices Code Violations:** Deviations from mandated fair practices.

Areas of Concern:

- **Income Assessment:** Inadequate evaluation of household income and repayment capacity.
- **Asset Classification:** Deviations in Income Recognition & Asset Classification norms
- **Disclosure Requirements:** Non-compliance in disclosing interest rates and fees.
- **Outsourcing Norms:** Issues with outsourcing core financial services

Implications

NBFCs Affected

- **Asirvad Micro Finance Limited** – Chennai
- **Arohan Financial Services Limited** – Kolkata
- **DMI Finance Private Limited** – New Delhi
- **Navi Finserv Limited** – Bengaluru

Implications

- **Cease Loan Activities:** Immediate halt on sanctioning and disbursing new loans.
- **Existing Customers:** Continued servicing and collections per regulatory guidelines.
- **Future Review:** Restrictions to be reviewed after satisfactory remedial actions and adherence to RBI guidelines.

SEBI's Enhanced Due Diligence Framework for AIFs



- **Background:** SEBI mandates specific due diligence for AIFs, managers, and key personnel to prevent circumvention of regulations, including QIB and QB status, stressed loans, and foreign investments from bordering nations.
- **Main Requirements:**
 - **QIB and QB Investor Compliance:** Enhanced checks for AIF schemes with major investors (>50% corpus) availing Qualified Institutional Buyers (QIB) or Qualified Buyers (QB) benefits.
 - **Prevention of Ever-greening Loans:** AIF schemes linked to RBI-regulated entities or sponsors must ensure compliance with RBI's stressed asset norms.
 - **Foreign Investment Scrutiny:** Mandatory due diligence for AIF schemes with significant investments (50%+ corpus) from countries sharing land borders with India.
- **Implementation Standards:** DD standards formulated by the Standard Setting Forum for AIFs (SFA) to guide compliance.
- **Effective Date:** Immediate.
- **Impact:** The circular aims to enhance transparency, investor protection, and adherence to regulatory frameworks for AIF investments.

SME IPOs

What are SMEs?

Small & Medium Enterprises, commonly known as SMEs, have lower capital cost and enable increased employment opportunities. As of Mar 2024, 9.2+* lakh enterprises have been registered nationwide. Classification Of SMEs In India:

Company Type	Investment Threshold	Turnover Threshold
Small Enterprise	₹ 1 Crore – 10 Crores	₹ 5 Crore – 50 Crores
Medium Enterprise	₹ 10 Crore – 50 Crores	₹ 50 Crore – 250 Crores

Sources of funds and SME IPO

The sources of finance for SMEs include venture capital, angel funding, loans, private credit, SME IPOs etc.

SME IPO stands for Small & Medium Enterprise Initial Public Offering. It's a process that allows SMEs to raise capital from public by listing their shares on a stock exchange. While a mainboard IPO requires the company to adhere to specific guidelines, SME IPOs have more relaxed guidelines (refer to the table below), making it easier to access capital but poses potentially higher risk for investors, reflected by the min-application size and limited liquidity.

Key Differences	SME IPO	Mainboard IPO	Key Differences	SME IPO	Mainboard IPO
Post Issue paid up capital	Min 1 Cr – Max 25 Cr	Min 10 Cr	Offer Document Vetting	By Stock Exchange	By SEBI
Min Allottees in IPO	50 Nos	1,000 Nos	IPO Time Frame	3-4 Months	Min 6 Months
Listing Exchange	BSE SME or NSE Emerge	BSE and NSE	Reporting Requirement	Half-yearly	Quarterly
Min Application Size	₹ 1,00,000	₹ 10,000 – 15,000	Market Making	Mandatory	NA
IPO Underwriting	Mandatory - 100%. Along with Merchant Banker underwriting 15%	Non-mandatory Under 50% compulsory subscription to QIBs ¹	Track Record	Min 2Y ² profitability (or) Min 3Y +ve net worth of the last 5Y	Min 3Y profitability

*As per India Brand Equity Foundation (IBEF) report

¹Qualified Institutional Bidders

²Y = Years

Landscape of SME IPOs

SME IPOs have reshaped fundraising by offering small businesses a public capital option, reducing reliance on traditional debt and equity. This creates competition for equity investors and lessens demand for debt, while also providing new exit opportunities for early-stage investors.

Investor Participation on the Rise

SME IPOs saw a significant shift post-COVID. While the market was growing steadily before the pandemic, lockdowns and increased retail investor interest post-COVID fueled a surge.

Reasons –

- High listing gains (76% avg. gain so far in FY25)
- Increase in retail investor participation drawn by the chance of big profits. Statistics show from just 408 applicants on avg. in FY20 and 511 in FY21, these SME IPOs drew staggering ~2.19 lakh applications so far in FY25.
- Bullish market, reduction in ASBA blocking period, and streamlined process, reducing it to just 3-4 clicks.
- Buyer FOMO (fear of missing out)

Financial Year	No of Issue	Avg Issue Size	Total Issue Size
2015-16	50 Nos	₹ 6.2 Cr	₹ 311 Cr
2016-17	81 Nos	₹ 10.3 Cr	₹ 834 Cr
2017-18	155 Nos	₹ 14.4 Cr	₹ 2,225 Cr
2018-19	106 Nos	₹ 15.3 Cr	₹ 1,620 Cr
2019-20	47 Nos	₹ 10.0 Cr	₹ 471 Cr
2020-21	29 Nos	₹ 9.4 Cr	₹ 273 Cr
2021-22	67 Nos	₹ 13.6 Cr	₹ 914 Cr
2022-23	126 Nos	₹ 18.8 Cr	₹ 2,371 Cr
2023-24	197 Nos	₹ 31.1 Cr	₹ 6,124 Cr
2024-25*	164 Nos	₹ 37.1 Cr	₹ 6,085 Cr

Latest 3 Years	SME IPOs	Mainboard IPOs
Number of IPOs	487 Nos	164 Nos
Total Issue Size	₹ 14,580 Cr	₹ 2,04,708 Cr

FY 2024-25 Performance	SME IPOs	Mainboard IPOs
Number of IPOs	164 Nos	46 Nos
Premium Listing	143 Nos	39 Nos
Discounted Listing	14 Nos	3 Nos
At Par Listing	7 Nos	4 Nos
Issue Size	₹ 6,085 Cr	₹ 1,02,237 Cr

SME IPO Sector Wise Data	FY 2021-24
Agriculture	6%
Manufacturing	32%
Logistics & Infra	12%
Other	50%
Total	100%

Source: Prime data base, Investor Gain.com & Business world.in
 *2024-25 - Partial year data

SEBI Caution

Amid heightened investor interest in SME IPOs, the Securities and Exchange Board of India (SEBI) issued an advisory warning investors about the risks involved. This follows concerns raised by SEBI's chairperson about instances of price manipulation at the IPO and trading stages by certain SMEs. SEBI has observed a pattern where some promoters create an "unrealistic picture" through false announcements, often followed by corporate actions like bonus issues, stock splits, and preferential allotments, which generate a false sense of optimism among investors.

The Road Ahead

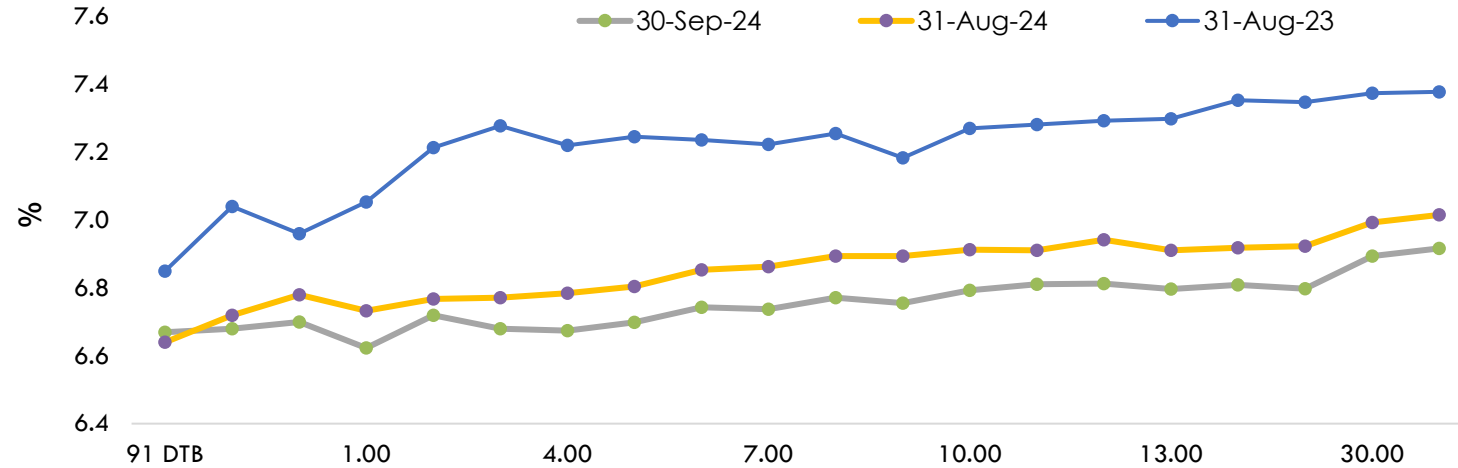
Despite SEBI's tightening regulations and efforts to curb unethical practices among SMEs, retail investors remain attracted to SME IPOs due to the potential for quick, high returns. However, this reliance on retail-driven enthusiasm comes with its own risks. Once the initial excitement fades, many SME stocks may see a significant drop in both price and liquidity. Additionally, SME exchanges typically require a minimum lot size of ₹1 lakh, which differs from the regular stock exchange and can act as a barrier to broader investor participation. This higher entry point restricts smaller retail investors and could further reduce liquidity in the long run. These factors present challenges in maintaining long-term investor interest, as the volatility driven by retail participation may not always reflect the underlying business fundamentals.

Conclusion

While SME IPOs have surged in popularity, bolstered by retail investor interest, the public market may not always provide the most sustainable path for long-term growth. As SEBI continues to strengthen regulations, private funding options—such as private credit, loans, venture capital and angel investments will continue to play a crucial role in supporting SMEs, offering more flexible and tailored growth opportunities.

Market and Investment Updates

Yield Curve



NBFC Bond spread over G-sec Benchmark indices

Tenor	3 Year Spread	5 Year Spread	10 Year Spread
AAA	93	83	60
AA	171	170	140
A	377	366	350
A-	402	391	375
BBB+	427	416	400
BBB	452	441	425
BBB-	477	466	450

Key market rates

Repo Rate
6.50%

Reverse Repo Rate
3.35%

MSFR
6.75%

EURIBOR-6M
3.092%

SOFR-6M
5.36699%

Sector-	Market Capitalization #	% Change*
Finance		
• Housing	292,028	▼ 14.3%
• NBFC's	1,467,900	▲ 2.5%
• Lending^	387,393	▼ 6.7%
Agriculture	331,782	▼ 4.0%
Climate		
• Power	1,851,578	▼ 2.2%
• Oil and Gas	2,862,386	▼ 7.8%
• Plastics	231,285	▲ 1.2%

#Market capitalization based on top 5 companies listed in BSE within the sector

*% Change from 23/09/2024-21/10/2024

^Does not include private banks

Company	Funding raised/ Stage
Eruditus	\$150.0 Mn: Series F
Primus Life	\$20.0 Mn: Seed
Purpille	\$178.0 Mn: Series F
Millennium Baby Cares	\$14.5 Mn: Series A
Urja Mobility	\$11.9 Mn: Seed
Swara Fincare	\$2.31 Mn: Seed
CIMS Hospital	\$7.16 Mn: Series C
Lissun	\$2.5 Mn: Seed
Qure.ai	\$65 Mn: Series D

Select fundraises from Mid September 2024 to Mid October 2024

UC Deal Alert

Equity Deal Alert

Unitus Capital advises Finova Capital in its equity raise of INR 1,125 Cr from Avataar Ventures, Sofina, Madison India Capital and existing investor Norwest Ventures Partners



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FINOVA CAPITAL
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AVATAAR
VENTURES



SOFINA



MADISON
INDIA
CAPITAL



NORWEST | VENTURE
PARTNERS

Equity Deal Alert

Unitus Capital advises Aye Finance in its equity raise of INR 250 Cr from ABC Impact and British International Investment

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abc IMPACT
 British
International
Investment

Thank You
