SME Equity Fund Ltd (SEF)
Equity Financing for SMEs
Amalgamation

- SME Partnership Fund Ltd and NRF Equity Investment Ltd has now been amalgamated.
- The surviving entity is called the SME EQUITY FUND LTD.
- As announced in the last national budget, the Government is injecting an additional Rs150m, to increase the size of the new fund to Rs 500 M
Rationale for the Amalgamation

- To aid the **sustainable growth and expansion** of performing SME`s.
- To **deleverage** SME`s with growth potential and thus improve their overall profitability.
- To **avoid duplication** of activities.
- To more effectively accomplish Government vision to promote **SMEs as engine for economic growth**.
Key Facts on SME Partnership Fund Ltd (SPF)

- Operational since: 2006
- Initial fund size: Rs151m
- Provided quasi-equity financing to: 101 SME enterprises.
- Companies successfully exited: 28
- Actively monitored companies: 41
- Unsuccessful companies: 32
Key Facts on SME Partnership Fund Ltd (SPF)

- Amount disbursed: Rs212m
- Repayment collected as at date: Rs102.8m
- Cash available for investment: Rs 64.0m
- Managed by: Capital Asset Management Ltd (a subsidiary of SIC).
Key facts on NRF Equity Investment Ltd

- Operational since: 2012
- Initial Fund Size: Rs293m
- Provided equity/debenture financing to 8 SME enterprises.
- Companies successfully exited: 2
- Actively monitored companies: 5
- Unsuccessful Companies: 1
Key facts on NRF Equity Investment Ltd

- Amount disbursed: **Rs115m**
- Dividend/repayment collected as at date: **Rs24m**
- Cash available for investment: **Rs212m (31.10.16)**
- Managed by: **BDO & Co**
Objectives of SEF:

- To provide **equity financing** to SMEs having potential to expand.

- Participate in **financial re-structuring** by injecting equity in growth potent SMEs that are overburdened by debt.

- Instill discipline, **corporatisation and adoption of good governance principles** in investee SMEs.
Main Investment Criteria

- Only **viable and sustainable** projects will be considered.
- SEF financing can be up to a **maximum 49%** of equity capital.
- The SME should be structured as a **limited liability company** incorporated in Mauritius.
- Existing firms should submit past years **audited financial statements**.
- The firm should be willing to adopt **good corporate governance principles**.
Case for Equity Financing: An example

XYZ Co Ltd a small company involved in food processing has a satisfactory track record of 3 years. Sale is expanding and has very good prospects for export as well. Need capital expenditure of Rs3.0m for modernisation and expansion.
XYZ Co Ltd

Current balance sheet and its pre-investment assets and liabilities structure is as below:

<table>
<thead>
<tr>
<th></th>
<th>(Rs’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>10,000</td>
</tr>
<tr>
<td>Promoter`s Equity</td>
<td>4,000</td>
</tr>
<tr>
<td>Debts</td>
<td>6,000</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>10,000</td>
</tr>
</tbody>
</table>

- Debt/ Equity is already high. Further debt will adversely affect the company`s servicing capabilities, thus impeding growth.

- SEF can provide the fresh equity capital needed.

- Equity financing provides the cash, while delaying servicing until project cash flows kick-in.
XYZ Co Ltd

Pre- and post SEF equity capital injection in the company:

<table>
<thead>
<tr>
<th></th>
<th>Pre-Equity Injection BS (Rs’000)</th>
<th>Fresh Equity Injection - SEF</th>
<th>Post –Equity Injection BS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>10,000</td>
<td>3,000</td>
<td>13,000</td>
</tr>
<tr>
<td>Equity</td>
<td>4,000</td>
<td>3,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Debts</td>
<td>6,000</td>
<td></td>
<td>6,000</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>10,000</td>
<td></td>
<td>13,000</td>
</tr>
<tr>
<td>Debt / Equity ratio</td>
<td>1.5:1</td>
<td></td>
<td>0.85 :1</td>
</tr>
</tbody>
</table>
Observations:

• The company can materialise its expansion and modernisation project which would not be possible without fresh equity capital.

• Debt to equity ratio i.e. gearing has greatly improved.

• The business expansion without further increase in debt servicing will improve profitability.
How SEF will exit an investee company?

- Sales of the Fund`s shares back to the company / promoter.

- Sales of Fund`s shares to a third party (promoter will have the right of first refusal).

- In very successful cases, through a stock exchange listing.
SEF Corporate Information:

- **Shareholders**: Governmental institutions & commercial banks.

- **Board of Directors**:
  
  Mr S. Nagarajan (Chairman);
  Mr C. Appadoo; Mr V. Hurynag;
  Mr B. Jokhoo; Mr T. Kathapermal & Mr A. Ghoorah.

- **Current Fund Manager**: Capital Asset Management Ltd (FSC Licensed).
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Thank You