

## MEDC Monthly Economic Digest - October 2007

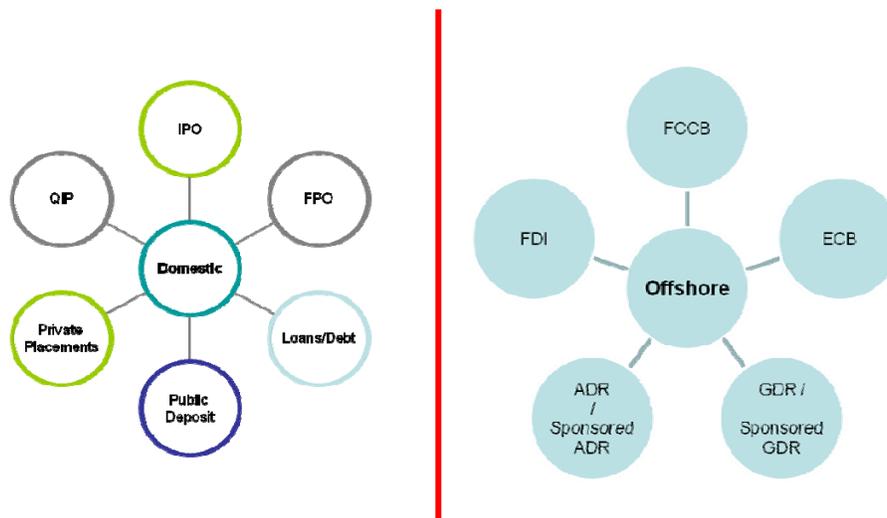
### Alternative Investment Market (AIM)

*The most successful growth market in the world*

- Mr. Sunil Shirole  
CEO  
YEN Management Consultants

#### Prelude

With the liberalization of the Indian Economy, there are various options now available for Indian companies to raise funds both from the domestic and offshore markets.



Moreover, given India's high growth rates, foreign investors are looking for opportunities to invest in Indian firms. Many companies, which were earlier finding it difficult to raise funds, are now accessing cheap capital. Dozens of Indian companies are keen to list on alternative global stock exchanges such as AIM, PLUS Markets, EuroNext, etc. as they seek to boost valuations, sidestep India's regulatory hurdles and avoid stringent US rules.

Amongst these, the Alternate Investment Market of the London Stock Exchange is becoming increasingly popular with corporates having Indian operations.

#### What is AIM?

AIM is the London Stock Exchange's international market for smaller growing companies. On AIM you will find a wide range of businesses ranging from young, venture capital-backed start-ups to well-established, mature organisations looking to expand.

AIM is a sub-market of the London Stock Exchange, allowing smaller companies to float shares with a more flexible regulatory system than is applicable to the Main Market. AIM was launched in 1995 and has raised almost £34 Billion (Rs 275,000 Crores) for more than 2,800 companies. Flexibility is provided by less regulation and no requirements for capitalisation or number of shares issued. Many companies have since moved on to join the Main Market, though a few have been reduced from the Main Market to AIM.

AIM has also started to become an international exchange, often due to its low-regulatory burden, especially in relation to the Sarbanes-Oxley Act (which imposes regulatory costs on companies listed in the US, including those without any operations). As of October 2007 there are over 1687 companies listed on the Alternative Investments Market.

Interest is especially keen among Indian companies from sectors such as real estate, infrastructure, information technology, pharmaceuticals and energy.

### Why is AIM unique?

When the London Stock Exchange created AIM, the objective was to offer smaller companies - from any country and any industry sector - the chance to raise capital on a market with a pragmatic and realistic approach to regulation. With this in mind, AIM was designed to be a highly flexible public market offering many unique attributes both for companies and investors.

To join AIM, companies do not need a particular financial track record or trading history. There is also no minimum requirement in terms of size or number of shareholders. This more flexible approach reflects the fact that AIM was designed specifically for smaller growing companies, and has helped AIM to become the leading global growth market. AIM provides a balanced regulatory regime offering many unique attributes both for companies and investors.

AIM also benefits from being an integral part of the portfolio of markets offered by the London Stock Exchange – which for centuries has been one of the world’s leading equity exchanges and a provider of services that facilitate the raising of capital and the trading of shares. Through the Exchange, companies can access London’s substantial and diverse investor base, which represents the largest pool of capital available anywhere worldwide. Through AIM, London’s unsurpassed access to investors and capital is extended to smaller companies, many of which may be at a stage of development where a listing on a Main Market is not yet appropriate.

### India Related Listings

2006 was a record year for India related issues on AIM. More than a dozen companies raised as much as \$2.7 billion (about Rs10,800 crore at today’s rate) in capital on AIM. But 2007 has seen a lower exposure and a sectoral shift. While 2006 was dominated by the large Real Estate issues of Ishaan Realty (\$750 million), Unitech Corporate Park (\$700 million) the shift in 2007 is more towards the media and entertainment sector. Successful issues of the Indian Film Company which raised \$ 110 million and UTV Motion Pictures \$70 million are a case in point. In the seven months ended July 2007, seven companies have listed on AIM, raising a total of \$725 million, roughly a fourth of the amount raised in the previous year. This slowdown was not entirely unexpected as the global real estate markets cooled down. Renewable energy, telecom and information technology are the new sectors from India that are evaluating a listing on AIM and at least seven new issues are expected in the last quarter of 2007.

Some of the prominent India related listings on AIM are:

Name of Company	Sector	Date of Offer	Size \$ Million	Market Cap \$ Million
India Hospitality Corporation	Hospitality	1 Aug '06	100	221
Platinum Mining Corporation	Natural Resources	19 Apr '05	22	68
Eredene Capital	Real Estate	10 May '06	100	103

Unitech Corporate Parks	Real Estate	20 Dec '06	700	720
Eros International	Entertainment	4 Jul'06	50	1078
Noida Toll Bridge	Infrastructure	21 Mar'06	50	44
Trinity Capital	PF Fund	21 Apr'06	450	394
HIRCO	Real Estate	13 Dec'06	750	595
Ishaan Real Estate	Real Estate	21 Nov'06	390	400
DEV Property Development	Real Estate	29 Jan'07	270	207
Evolve India	Non-equity Investment	23 Mar'07	65	70
Naya Bharat Property	Real Estate	26 Feb'07	60	60
The Indian Film Co.	Entertainment	18 Jun'07	110	97
UTV Motion Pictures	Media	2 Jul'07	70	299
Dhir India Investments	Distressed Assets	12 Jul'07	50	54

*Note: Market Cap as on 5 October 2007 in US\$ equivalent. Source: YEN Research*

### **How to join AIM**

To join AIM, a company must first meet several requirements. The guiding legislation which companies must satisfy, irrespective of their country of origin, is derived from the European Prospectus Directive ('PD').

### **Each company applying to AIM must:**

- appoint an approved nominated adviser (NOMAD)
- appoint a nominated broker
- have no restrictions on the free transferability of its shares
- be registered as a plc (public limited company) or equivalent – and be legally established under the laws of its country of origin
- prepare an admission document – this document contains all the relevant information investors might need on the company and its activities, including financial information, together with details of all directors.
- pay a fee according to the current tariff to the Exchange.

### **TIPS FOR PREPARATION**

Successful preparation enables a smooth float. Some key considerations are:

- Bring in the specialists early in the game. Appoint advisors with the right credentials and experience.
- Fully consider all other funding options, such as Private Equity, Venture Capital or Structured Debt
- Be aware of costs and workload involved. Ensure you have an in-house team ready.

- Timing is very important. Give yourself plenty of flexibility in your timetable and stick to deadlines
- The float process is time consuming and intense. Stay focussed once you have made up your mind

### **Costs of Listing on AIM**

The costs of an AIM listing are usually lower than those for a listing in the US. Typically these are:

- Nomad and broking fees: 4% to 7%
- Accounting fees: £20,000 - £100,000 depending on the size of the company
- Legal fees: £20,000 to £100,000
- Listing Fees of the Exchange
- Printing and miscellaneous

### **Life as an AIM company**

Once a company has joined AIM, it becomes subject to new and distinct disciplines, designed to keep shareholders fully informed of the company's development. In terms of communication with the market, the company's close involvement with the investment community during the admission process must continue after its shares have been admitted to AIM. The guiding principle is that the company must communicate with the market on a continuing basis, to ensure that the market is aware of its financial position and prospects, so as to enable investors to make an informed decision on the value of its shares.

Once the business is traded on AIM, there are also a number of continuing obligations which the company must fulfil in order to ensure an orderly market in its shares. Foremost among these is a requirement to notify the market immediately of any developments that could have an impact on the company's share price – such as corporate transactions, the progress of the company's business, and changes in directorships.

A business which is quoted on AIM must also ensure that its published accounts conform to International Accounting Standards, UK GAAP or US GAAP, and must be published within the required deadlines –which are within six months of the financial year-end for audited annual accounts, and within three months of the end of the half-year for unaudited interim accounts. Being traded on AIM also means that the company's directors and employees must comply with certain restrictions on their freedom to trade in the company's shares while in possession of unpublished information.

### **The outlook for AIM**

AIM has built a sound platform, from which it can continue to offer smaller and growing companies from around the world all the benefits of a public quote, alongside the optimal combination of lower costs and flexible regulation. The London Stock Exchange is committed to maintaining and extending AIM's attractiveness to issuers in the UK and worldwide. Whatever your business, wherever it is based and whatever its sphere of activity, if you are a young and growing company, AIM represents a viable route to a quote on one of the world's most prestigious markets.