

National Stock Exchange of India

Circular

Department: Primary Market Relationships	
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All Participants,

Sub: Review of eligibility criteria for listing on NSE EMERGE

An additional criterion of positive Free cash flow to Equity (FCFE) for at least 2 out of 3 financial years preceding the application was introduced w.e.f. 1st September 2024 for all SMEs desirous of listing its securities on NSE Emerge. The methodology for computing FCFE is modified as under.

Existing FCFE definition:

FCFE = Cash flow from Operations – Purchase of Fixed Assets + Net Borrowings- Interest*(1-t)

Revised FCFE definition*

FCFE = Cash flow from Operations – Purchase of Fixed Assets + Proceeds from issuance of Capital + Net Borrowings- Interest*(1-t)

Proceeds from Issuance of Capital includes Equity Share Capital, Preference Share Capital or any other instruments classified under the head Share Capital, including Securities Premium

*The methodology for computing FCFE is furnished in Annexure-A hereto.

The revised FCFE definition will be applicable with immediate effect for all DRHPs filed on NSE Emerge. All other criteria remain unchanged. This shall be applicable till further orders.

Based on the queries/ representations received from various participants, Exchange is pleased to issue guidelines/ clarifications on the subject in the form of frequently asked questions (FAQs). The clarifications to FAQs are enclosed as Annexure-B for your reference.

All Participants are advised to take note of the contents of the circular and comply.

**For and on behalf of
National Stock Exchange of India Limited**

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Annexure - A
*** Methodology for calculating FCFE**

FCFE = Cash flow from Operations – Purchase of Fixed Assets + Proceeds from issuance of Capital + Net Borrowings- Interest*(1-t)

→Wherein

Cash flow from operations will be determined as

Cash Generated from Operating Activities – Income Tax paid (if any) i.e. Net Cash flow from Operating Activities

Purchase of Fixed Assets will be determined as

Purchase of Property, plant, and equipment (PPE) (including Capital Work in Progress (CWIP and Intangible assets)) – Sale proceeds of PPE, CWIP (if any) + Capital Advances (if any)

Proceeds from Issuance of Capital will be determined as

Proceeds from Issuance of Equity Share Capital + Proceeds from Issuance of Preference Share Capital + Proceeds from Issuance of or any other instruments classified under the head Share Capital, including Securities Premium on issue (if any).

Net Borrowings will be determined as

Proceeds from Long Term Borrowings - Repayments of Long Term Borrowings + Proceeds from Short Term Borrowings - Repayments of Short term Borrowings

Interest *(1-t) will be determined as

Interest on loan/borrowings * (Profit after tax - PAT/Profit Before Tax (PBT)) or effective income

For Example:

E.g. Following data is available for a company in FY 25

Particulars	Amt in Rs. Crs
Net cash from operating activities	26.00
Purchase of fixed assets	19.00
Repayment of LT loan	7.30
Proceeds from LT loan	12.40
(Decrease) in Cash credit facility (ST)	2.70
Proceeds from issuance of equity capital	1.00
Securities Premium on issue of equity capital	3.00
Post tax interest expenses	4.00
FCFE for FY 25 = (26-19+1+3+12.4-7.3-2.7-4)	9.40

Annexure B**FAQ on FCFE****1. Should the FCFE calculations be based on Audited or Restated financial statements?**

FCFE calculations should be based on Restated financial statements that are furnished in the offer document. It is clarified that FCFE is not to be calculated on Estimated or Projected financial statements.

2. Whether stub period financials will be considered for FCFE calculation?

No. Stub period's financial statements will not be considered for FCFE calculation. FCFE calculations should be based on the preceding 3 years' Restated financial statements that are furnished in the offer document.

3. In some cases, Cash flow from operations (CFO) includes the effect of changes in short term borrowings under the head working capital changes. In such cases, short term borrowings are not furnished under the head 'Cash Flow from Financing (CFF). What should be the treatment in such cases?

In such cases, since ST borrowings are already considered Cash flow from operations (CFO), it will not be reckoned again to avoid double counting. It is clarified that the effect of short-term borrowings will be considered in either Cash flow from operations (CFO) or Cash Flow from Financing (CFF) but not both.

4. What is the treatment of Intangible Assets acquired during the year in FCFE Calculation? Does 'Purchase of Fixed Assets' include Intangible Assets?

Fixed assets include both tangible (including capital work in progress) and intangible assets (e.g. patent, copyright etc.). It is clarified that Intangible Assets will be considered within 'Purchase of Fixed Assets' for calculation of FCFE.

5. What should be part of finance cost and what should we exclude?

The following should be part of finance cost

- Interest on term loan
- Interest on car loan (if it is used for business and asset should appear in balance sheet)
- Interest on NCD
- Interest on CCPS/OCPS/CCD/OCD (if these instruments are considered as debt/borrowings in the balance sheet)
- Interest on any other borrowings

The following should not be part of finance cost

- Bank Charges
- LC charges/commission
- Penalty for late payment/submission of TDS, GST, PF etc. dues
- Any expenses other than interest on borrowings etc.

6. Whether standalone or consolidated financials will be considered for calculation of FCFE?

Where consolidated financial statements are available, FCFE has to be calculated on the same. In case consolidated financial statements are not available or not required to be furnished, then standalone financial statements should be considered.

7. Should we exclude onetime/extra ordinary items on calculation of tax rate?

Effective Tax Rate calculated as $[1-(PAT/PBT)]$ based on restated financial statements furnished in DRHP. There is no other adjustment carried out on it.

8. Whether any special treatment to be given for calculation of FCFE for NBFCs?

The business of the NBFC is to raise money for onward lending. As per Accounting Standard 3, ST deposits/loans as well as interest income/ expense will be part of cash flow of operations unlike other companies. Hence the net borrowings will comprise of LT borrowings only. Also, there is no separate interest expense deduction that needs to be done as the same has been effected in the cash flow from Operating activities.

9. Whether NCD (non-convertible debentures) will form part of long-term borrowings?

Long-term borrowings will include the following

- a. Term Loan
- b. Non-convertible debenture (NCD)
- c. Any other borrowing with maturity more than one FY

10. Please provide clarification on the following convertible preference shares and whether they can be considered under borrowings or not while calculating FCFE?

The treatment of

- a. Compulsorily convertible preference shares (CCPS)
- b. Optionally convertible preference shares (OCPS)

Will be the same as per the classification in the Restated Financial Statements. If they are classified as Borrowings in the Financial Statements, it will be considered under borrowings whereas if classified under Share Capital, then it should be considered under share capital.

11. Please provide clarification on the following convertible debentures and whether they can be considered under borrowings while calculating FCFE?

- a. Compulsory convertible debentures (CCD)
- b. Optionally convertible debentures (OCD)

The treatment of CCD & OCD will be considered as debt/borrowing until conversion. Hence, interest on CCD/OCD it will be included in interest expenses while calculating FCFE. The treatment of CCD/OCD will be in line with the treatment in Restated Financial Statements.

12. Please provide clarification whether eligibility criteria would be considered at in-principle (DRHP) stage or final approval (RHP) stage?

The issuer has to comply with all applicable eligibility criteria (including FCFE) for listing at the time of in-principle approval (i.e. as on DRHP filing date) as well as RHP & Prospectus stages.

13. Please clarify how proceeds from Issuance of Capital is to be calculated

From the Cash Flow Statement, it is a sum of Proceeds from Issuance of Equity Share Capital + Proceeds from Issuance of Preference Share Capital + Proceeds from Issuance of Convertible Preference Shares + or any other instruments classified under the head Share Capital and includes Securities Premium on issue (if any). It is clarified that any Share Capital issued for non-cash considerations (for example by conversion of debt into equity), exchange of asset, etc. would not be considered under proceeds from Issuance of Capital.

For any queries on the above, you may reach:

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