

5(14)/2016-BE -I
Government of India
Ministry of Commerce and Industry
Department of Industrial Policy and Promotion
(BE-I Section)

Udyog Bhavan, New Delhi
Dated 16th Sep, 2016

To

The Chairman and Managing Director,
Small Industries Development Bank of India (SIDBI),
Rani Jhansi Road, Jhandewalan Extension,
New Delhi.

Subject: Operational guidelines for Fund of Funds for Startups
Ref: SIDBI vide letter No-4279/SIDBI/FFS dated 26/8/16

Sir,

1. The Department has examined the views furnished by SIDBI on the observations made by Department of Industrial Policy and Promotion (DIPP) on the proposed operational guidelines for Fund of Funds for Startups (FFS).
2. The request of SIDBI to retain the clause 'to the extent of 0.50% per annum of the funds under management of SIDBI' is not accepted and DIPP would like to say that the operating expenses to SIDBI shall be 0.5% of the commitments made to AIFs each year.
3. With regards to authorising Venture Capital Investment Committee to modify the operational guidelines for FFS, the Department is of the view that since the operational guidelines will be notified by DIPP, any changes to the same shall have to be considered by DIPP for approval.
4. In addition, few more changes have been made in the operational guidelines for FFS.
5. The approved operational guidelines for FFS are enclosed herewith for necessary action.

Yours sincerely



(Shailendra Singh)

Operational Guidelines for Fund of Funds for Startups

1. Principal features

- a) The fund of funds shall be called the Fund of Funds for Startups (FFS).
- b) The FFS shall be operated and managed by Small Industries Development Bank of India (SIDBI).
- c) The fund size is Rs.10,000 crore and would be built over the 14th and 15th Finance Commission cycles.
- d) Investment from the FFS shall be sector agnostic and ensure support to a broad mix of sectors such as manufacturing agriculture, health, education etc.

2. Purpose

- a) The Fund of Funds for Startups (FFS) would not invest directly in Startups, but would participate in the capital of Alternate Investment Funds (AIF) registered with Securities and Exchange Board of India (SEBI). The FFS shall contribute to the corpus of Alternative Investment Funds (AIFs) for investing in equity and equity linked instruments of various Startups at early stage, seed stage and growth stages.
- b) AIFs supported under FFS would in turn take up equity and equity linked instruments in various Startups as defined in Gazette Notification G.S.R.180 (E) dated 17/2/16, at early stage, seed stage and growth stage.

3. Investment in AIFs/Startups

- a) FFS will fund the AIFs which in turn will raise counterpart funds from other sources. The corpus so pooled in will be invested in Startups qualifying the criteria as defined in para 2(b) above.
- b) There shall be no minimum investment limit in any AIF.
- c) Term of the Fund: Shall not exceed 12 years from the date of final closing.
- d) The aggregate contribution to the corpus of an AIF from FFS or from other Fund of Funds being operated by different Ministries of the Government of India/State Government shall not exceed 35% of AIFs corpus (domestic and overseas), subject to limits under the guidelines prescribed by RBI for SIDBI. As per existing RBI guidelines (vide RBI letter DBOD 9539/03.01.11/2012-13 dated January 02, 2013), SIDBI can contribute upto 25% of the drawable corpus of AIF in an individual AIF.

- e) Earnings of the FFS during first 10 years from investments made in AIFs would be reinvested in other AIFs.
- f) AIFs funded by SIDBI shall not fund an entity as and when it ceases to be a Startup as defined in Gazette Notification G.S.R.180 (E) dated 17/2/16.

4. Operating Expenses:

Operating expenses for carrying out due diligence, legal and technical appraisal, convening meetings of Venture Capital Investment Committee (VCIC), etc., would be met out of the FFS to the extent of 0.50% of the commitments to AIFs made each year under FFS. This will be debited to the fund at the beginning of each half year, i.e., April 1 and October 1.

5. Process for selection of the AIFs

The two stage process for selection of the AIFs is as under:

5.1 Stage I: Screening by VCIC

- a) Based on the initial discussions with regard to *prima facie* eligibility of the Fund, the proposal would be taken to the VCIC of SIDBI for preliminary screening, wherein the Fund would make a detailed presentation to the VCIC. The VCIC consists of following external experts apart from SIDBI officials:
 - i. Shri H K Mittal
 - ii. Shri Kiran Karnik
 - iii. Prof. R. Vaidyanathan
 - iv. Dr. Saurabh Srivastava
 - v. Shri Sanjeev Bikchandani
 - vi. Shri T V Mohandas Pai
- b) After one year, the composition of VCIC for FFS may be reviewed by Department of Industrial Policy and Promotion (DIPP) based on market requirements and progress under FFS.
- c) Based on the presentation made and discussions held during the meeting, VCIC would recommend the proposal.

5.2 Stage II: Due diligence and sanction by Executive Committee of the Board

- a) Based on the recommendation of the VCIC, the AIFs will submit an application to SIDBI which would be put up to the Executive Committee of the Board for sanction.
- b) Upon sanction, Letter of Intent will be issued and Contribution Agreement would be signed with individual AIF.

6. Monitoring

- a) The AIFs supported under FFS would be monitored by SIDBI.
- b) Detailed annual report on the utilisation of the Fund including details on the AIFs invested, details of the companies invested in by the AIFs, NAV of the investments etc. in respect of each financial year ending March 31st would be submitted to the DIPP, Government of India.
- c) Department of Industrial Policy & Promotion (DIPP) shall review operations and performance of the FFS on a quarterly basis.

7. Miscellaneous

- a) Interest accrued on contributions received by SIDBI from Government of India towards FFS shall be part of the FFS corpus. SIDBI shall compute such interest earned on an annual basis and show separately in all accounts.
- b) Any tax exemption on FFS/interest accrued on it shall be part of the FFS corpus.
- c) Any change in the operational guidelines shall be considered by DIPP for approval.