IVCA
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THE INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

To, **20th October, 2016**

Shri Shailendra Singh
Joint Secretary
Department of Industrial Policy and Promotion
Ministry of Commerce and Industries
Udyog Bhawan
New Delhi

Dear Sir,

Sub: Disbursement of Fund of Funds for Startups

In order to accelerate innovation driven entrepreneurship and business creation through start-ups, the Government as a part of its "Startup India Action Plan" introduced "Fund of Funds for startups". While the idea is to effectively invest Rs. 10,000 crores to make capital available to new entrepreneurs and to create more jobs in the country, the following investment conditions makes it unfeasible to achieve this objective.

a. Funds raising money from SIDBI can invest ONLY in startups recognized by GoI

This restrictive condition creates burden on other investors in the AIF thereby making it difficult for the funds to raise monies from other investors.
Recommendation - SEBI registered VCF or FVCI should be required to invest only 1X of the amount raised from FFS in DIPP/government certified startups or in startups that were certified as such until 3 years' back

b. The 10,000 cr. fund can be allocated only which are under Rs. 25 cr. turnover. These are typically companies at the seed stage
If only capital is made available to Seed, and capital at A, B, C et al is stagnant a large number of Seed companies will not receive A and B funding. This will result in an 'Asset bubble' at the seed stage

Recommendation – ii) If any SEBI registered VCF or FVCI invests in a startup which was earlier registered with DIPP then such investment should be included in the 1.0x limit, which the fund has to invest in as per above guideline .

a) Provided that not more than 3 years have passed since such startups was de-registered by DIPP, or,

b) The same fund is putting ‘follow-on’ capital in the same Startup (that was certified by DIPP/Government ever) it invested in when the Startup enjoyed the certified status)

c. SIDBI anchoring only 10-15%, resulting in a 6X leverage which means, the funds should raise Rs.90,000 cr. against FFS

Given that domestic LP activity is nascent, with major institutions like insurance companies and pension funds not yet participating (or participating with token amounts), the ability of the Venture Capital Fund manager to raise this kind of money is questionable.
Recommendation- Accordingly, it is recommended that SIDBI should top-up its commitment to AIFs where it has already sanctioned investment in (and which remain open for additional commitment from SIDBI) to 35% of the Fund’s Target Corpus,

d) Additional financial institutions for disbursement of FFS:

Recommendation: LIC participation on the same terms as SIDBI

e) Startup India Action Committee.

Recommendation: Establishment of a Committee, compromising of DIPP, IVCA, SIDBI,LIC etc to monitor the progress.

Please let us know if you have any questions. We would be happy to work with DIPP and different agencies to help facilitate the above.

Thank you very much.

Respectfully,

Rajat Tandon
President, IVCA