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**IVCA**  
**IVC ASSOCIATION™**  
THE INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

To,

25<sup>th</sup> May, 2017

**Shri Sushil Chandra**  
Chairman  
Central Board of Direct Taxes  
Ministry of Finance, Government of India  
North Block,  
New Delhi 11001.



**Sub: - New platform for mid-market and small businesses**

Dear Sir,

Indian Private Equity & Venture Capital Association (IVCA) along with its members have done an extensive work analyzing various aspects regarding the introduction of a permanent capital platform that is focused on helping mid-market and small businesses in India with capital and governance.

1. The need for vehicles that can be directed to providing capital to the mid-corporate and MSME segment:
  - a. This is a segment that contributes to 40% to the country's manufacturing output, and materially to the labour force
  - b. There is an identified gap of over Rs. 2.5 lakh cr. (per the IFC Study, 2012) of debt capital for the MSME segment alone.
  - c. Bank lending to MSME has been coming down over time
  - d. Traditional capital markets options aren't viable for this market segment
2. Internationally, the US has been the benchmark in creating non-bank platforms to address the need for capital as banks have pulled away from being material capital providers:
  - a. Post the financial crisis, bank balance sheets have materially shrunk
  - b. Non-bank platforms, such as Business Development Companies (BDCs, under the 1940s Act) have stepped up to "fill-the-gap" and act as risk-takers and providers of consistent capital, as banks have pulled away
  - c. The permanent capital nature of BDCs is a very appropriate format to utilize in this context, as it has benefits to issuers, investors and asset managers
3. MMPCVs can help us continue the development of the Indian capital markets, with a focused effort towards the important mid-corporate and MSME segment:

- a. The permanent nature of the vehicle helps provide long-term, flexible capital to this market segment, and ensures continuous access to funds
- b. The high-dividend distribution requirement makes it interesting for accredited investors as a new asset class to invest in
- c. The possibility to make continuous offerings, optionally listing the units, and externally managing these vehicles makes it interesting for asset managers to scale these platforms
- d. There are certain issues (selective, not wide spread) identified in the product basics of these platforms internationally, which we seek to address in India via appropriate legislation
- e. We need to discuss the best route to introduce this platform in India, and other related considerations

I am also attaching for your reference, a presentation that outlines the details and the work that has been done thus far on this topic.

Please do let me know if it would be convenient to have a meeting to discuss this topic, in the coming week between 29<sup>th</sup> to 31<sup>st</sup> May. Look forward to hearing from you.

With best regards.

Respectfully,



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