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TDB Seed Support Scheme @ Venture Center

Investment philosophy & practices

Philosophy, Practices



Philosophy: Scheme Guidelines

- ▶ **Scheme objective:**
 - ▶ “To encourage and foster technological entrepreneurship by individuals who are just getting started and also the new generation of entrepreneurs. Unlike commercial entities, the incubator scheme **gives a chance to projects that are unable to attract commercial investors** in the initial stages of development.”
- ▶ **Investment into startups where key activities include**
 - ▶ Product development, Testing & trials, Test marketing, Mentoring, Professional consultancy, Filing of patent, Manpower for day to day operations, Any other areas recommended by the MC

US VC Funding

Source: NVCA, 2007-09

\$500K-\$2M

\$ 2M-10M

\$ 10M-50M

\$ 50M+

India Tech Startup Requirement

Estimate from Venture Center experience

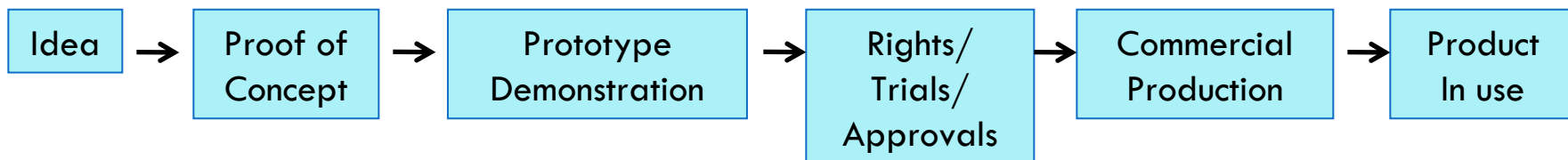
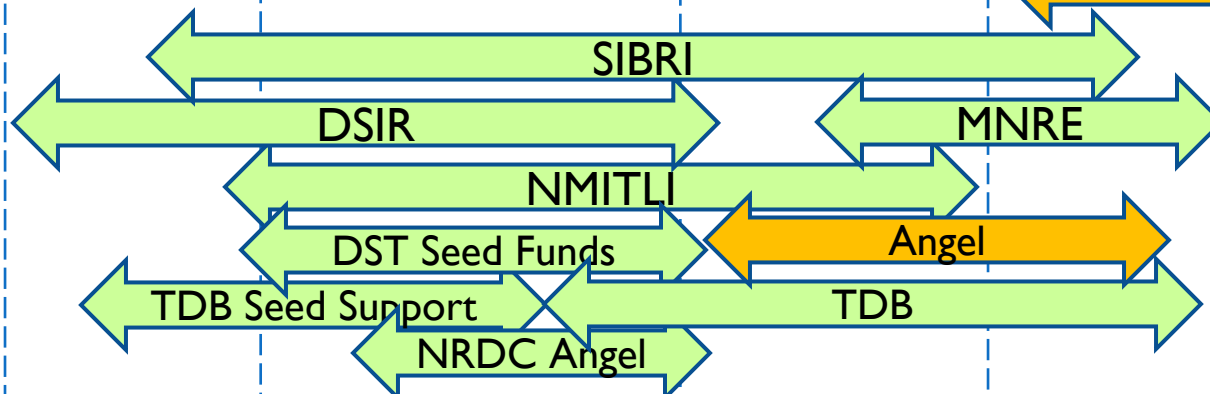
5-15 lakh

15-50 lakh

50 lakh – 2 crore

2 - 10 crore

> 10 crore



Key lessons: TDB seed fund comes early. Needs to enable start-up to next rounds of funding. Cannot set terms which will discourage next investors. Also terms cannot be similar to late stage investors.

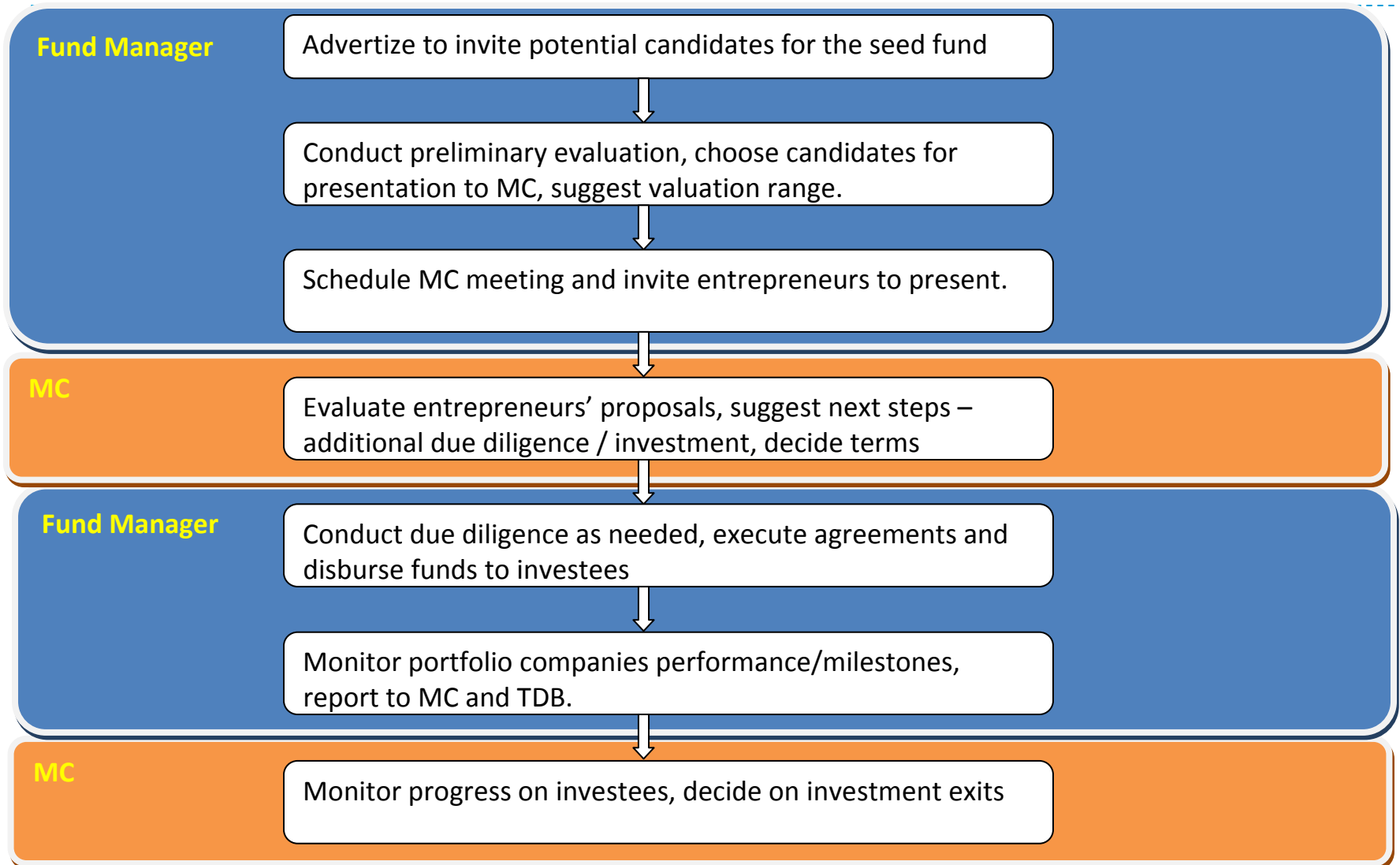
Investment Practices

- ▶ Mode
 - ▶ Equity
 - ▶ Aligns the interests of entrepreneurs and the seed fund.
 - ▶ May consider grants, soft loans or convertible debt for special situations
 - ▶ Social ventures
 - ▶ Startups that have stable revenue/profits
- ▶ Disbursement
 - ▶ Possibly tied to milestones (case-by-case basis)
 - ▶ Fund manager to set aside entire approved amount
 - ▶ Avoid risk of delayed installments
- ▶ Fees
 - ▶ Fund manager will not receive any fee from TDB to implement this scheme.
 - ▶ 3% of investment amount to be charged to investee to cover legal, administrative expenses
 - ▶ Fund manager shall standardize the term sheet to reduce the legal costs.

Process flow



Investment Process



Management Committee (MC)

Mandate:

To evaluate and consider the prospective cases with due diligence. The selections of the project and applicant and disbursement would be made by the MC.

Title / Area of Expertise (per scheme document)
Head of the Business Incubator
Senior faculty / experts from relevant technical area (up to 2)
External Financial Experts (up to 2)
Industry Expert (1)
Successful Entrepreneur (1)
TDB Nominee (1)
Member Secretary (1)

MC Responsibilities / Guidelines

- ▶ Responsibility
 - ▶ Evaluate proposals
 - ▶ Decide on investment amount, terms, modes, milestones, timelines, etc.
 - ▶ Decide on investment exit terms, timelines, etc.
- ▶ Meetings
 - ▶ Once a quarter
 - ▶ New proposals
 - ▶ Milestones → Installments
 - ▶ Annual updates from each investee
- ▶ Investment decisions
 - ▶ Approval requires consent of at least 5 out of 7 committee members
 - ▶ Consider additional capital up to 10% in case of cost overruns

Fund Manager (Venture Center) Responsibilities

- ▶ **New proposals**
 - ▶ Advertise the TDB seed fund to technology entrepreneurs/startups
 - ▶ Preliminary evaluation of proposals
 - ▶ Suggested valuation range

- ▶ **Investees**
 - ▶ Execute investment entry/exit agreements
 - ▶ Track performance, milestones
 - ▶ Annual updates

- ▶ **MC + TDB**
 - ▶ Schedule, manage and record the committee meetings
 - ▶ Summary of new proposals, investees, rejections
 - ▶ Audited reports, utilization certificates, bi-annual portfolio updates, etc.

Evaluation methods



Short-listing Criteria (Make-or-break)

Category	Criteria (To be rated as I/0/-I)
Technology	The venture must have a strong technology/knowledge component
	Key proof-of-concept must be demonstrated & reproducible
	EHS requirements must be met
Market	There must be a formal business plan (including a clear revenue/business model)
Team	There must be at-least one dedicated entrepreneur involved in the venture
	The team (and venture) must have high ethical & professional standards
	The venture must be registered (or be suitable for registration) as a pvt. ltd. Company
Funding	The amount of funding requested must be less than Rs 25 lakh
	The entrepreneur(s) must be willing to share equity in the venture
	The seed funds must be for activities such as product development, prototyping, scale-up, developing IP portfolio, test marketing, trials, certification, testing

Evaluation Criteria (Relative comparison)

Criteria (To be rated as I/0/-I)

Technology

How credible is technology? (Is PoC credible in the opinion of subject-matter experts?)

Regulatory/certification/policy risks

Breadth/depth/feasibility of product roadmap (Is it a platform?)

Sources of sustainable competitive advantage (eg. novelty, patentability, etc.)

Market

Clear, potentially significant/singular value proposition

Size of market potential (TAM/SAM/SOM) - are target customers clearly identified?

Access to distribution channels

Industry attractiveness w.r.t. competition

Team

Quality, experience, credibility & commitment of team

Funding

Is amount of funding requested enough to reach critical milestone?

Is amount of funding requested enough to last at-least 12 months?

Potential to raise follow-on investment

TDB seed fund equity stake in range of 10%-25%

Risk Factors (Examples)

Risk Factors to be considered for Seed Investment

- Can the proof-of-concept be repeated in India?
- Is there too much reliance on one or two customers?
- Will company be able to hire (and retain) skilled employees at reasonable salaries?
- Can company retain any technological “edge” as it grows?
- Is the target market too difficult & expensive access?
- What is company’s burn rate? Can seed capital last long enough to achieve a significant milestone?

Due Diligence (Examples)

Due diligence to be conducted for Seed Investment

- Detailed review of scientific publications and proposed work by domain experts
- Review of proposed project contract (milestones, revenue, etc.)
- Legal due diligence (company affairs, financials, ownership, background checks, etc.)
- Detailed review of prototype by domain experts
- Discussion with existing/potential customers