To,

Chairman & Managing Director,
National Small Industries Corporation Ltd.
NSIC Bhawan, Okhala Industrial Estate,
New Delhi.

Subject: Approved Guidelines on ‘Self Reliant India (SRI) Fund’ for MSMEs—Communication reg.

Sir,

I am directed to refer to your D.O. Letter No. SIC/PSC/105/2020 dated 18th May, 2020 and e-mail communication dated 3rd August, 2020, addressed to Secretary, Ministry of Micro, Small and Medium Enterprises on the subject cited above and to enclose herewith the approved Scheme Guidelines of the ‘Self Reliant India (SRI) Fund’.

2. These Guidelines have been duly vetted by the Ministry of Finance and approved by the Hon’ble Minister (MSME).

3. As contained in the approved scheme guidelines, the Mother Fund will be anchored by a SPV having 100% equity from NSIC.

4. You are kindly requested to initiate necessary action for completion of other formalities in order to roll out the scheme.

Yours faithfully

(Deepak Rao)
Joint Development Commissioner (I &F)
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Copy to:
1. Secretary, Ministry of Finance, Department of Economic Affairs, North Block, New Delhi
2. Secretary, Ministry of Finance, Department of Expenditure, North Block, New Delhi.
3. Secretary, Ministry of Finance, Department of Financial Services, North Block, New Delhi

Copy for information to:
1. PS to Hon’ble Minister, Micro, Small & Medium Enterprises, Udyog Bhawan, New Delhi.
2. PS to Hon’ble Minister of State, MSME, Udyog Bhawan, New Delhi.
3. PS to Secretary, Ministry of MSME, Udyog Bhawan, New Delhi.
4. PS to AS & DC, Ministry of MSME, Nirman Bhawan, New Delhi.
Guidelines for
Self-Reliant India (SRI) Fund

1. Introduction

MSME Sector is very important for Indian economy in terms of contribution to GDP and employment generation. India has over 6 Crores MSMEs across manufacturing and services sectors which employ over 11 Crores people. MSMEs also contribute immensely in exports from the country. The MSMEs are spread in the nook and corner of the country. However, one of the biggest challenges faced by MSMEs in India is the inadequate availability of capital. MSMEs have limited access to external equity primarily because only a handful of players provide early stage equity capital. Even if the equity is made available, the uptake would remain low due to:

- Legal Structure of MSMEs prevents infusion of external equity;
- Smaller investment size per enterprise tends to increase transaction cost and management costs for equity investors making this segment relatively less attractive;
- Information asymmetry between promoters, investors and other stakeholders;
- Entrepreneur’s concern regarding control and management;
- Low probability of non-linear return discouraging the VC funding.

Also, current VC ecosystem seeks technology driven enterprises and have exponential exit stipulations. It is also noted that VCs generally offer early stage funding but very few VCs are available to provide growth stage funding. This is one among the primary reasons that MSMEs have not grown beyond a limit. Also, while listing on an exchange provides lot of benefits to MSMEs and their stakeholders, but MSMEs often shy away from listing due to increased disclosure requirements and compliance burden. Listing can help the MSMEs grow faster and more sustainably over the long term.

Setting up an MSME fund in the name of SRI (Self-Reliant India) Fund would squarely address these challenges, give them a thrust to break their barriers, encourage corporatisation and allow them to grow to their full inherent potential. With
Government intervention, the SRI Fund scheme would be able to channelize diverse variety of funds into underserved MSMEs and address the growth needs of viable and high growth MSMEs.

2. **Objectives of the FUND:** SRI Fund, in the form of Fund of Funds (FoF), will be oriented towards providing funding support to the Daughter Funds for onward provision to MSMEs as growth capital, in the form of equity or quasi-equity, for:

   i. Enhancing equity/equity like financing to MSMEs and listing of MSMEs on Stock Exchanges
   
   ii. supporting faster growth of MSME Businesses and thereby ignite the economy and create employment opportunities;
   
   iii. Supporting enterprises which have the potential to graduate beyond the MSME bracket and become National / International Champions;
   
   iv. Supporting MSMEs which help making India self-reliant by producing relevant technologies, goods and services.

3. **Scope and Target of the Fund:**

   i. Since MSMEs are spread all over the country, the Fund should be dispersed to ensure that impact is created across the Nation and entities in farthest regions of the country can access this funding.
   
   ii. The target group of FoF funding, through the Daughter Funds, would be those MSMEs which have marked potential to grow, but are not able to grow because their requirement for growth capital remains unfulfilled. They do not have access to the market and debt funding is difficult to come owing to borrowing cost, inability to provide security, over leveraging etc. To tackle this:-

   a. The funding would be provided to all existing and interested MSMEs which, after assessment, are found viable, whose growth trajectory is positive, and who have a defined business plan for growth indicating positive funds flow. Previous 3 years CAGR will be considered and due weightage will be given to potential for growth.
   
   b. MSMEs, defined as per the MSMED Act, as amended from time to time, shall be eligible for consideration.
   
   c. Non Profit institutions, NBFCs, financial inclusion sector, micro credit sector, SHGs and other financial intermediaries shall not be eligible for consideration.
d. FoF will seek to actively encourage different term sheets with a view to ensuring non-linear returns envisaged from venture capital funding. It will also factor in the non-monetary aspects, in terms of employment, reduction in regional disparity, overall economic development and establishing supply chains with depth and resilience.

e. Notwithstanding the above, the guidelines on the investment orientation, industry focus and strategy will be worked out at the time of filing the Private Placement Memorandum (PPM)

4. **Structure of SRI Fund:** FoF is an investment strategy of holding a portfolio of other investment funds, rather than investing directly. In the context of AIFs, a Fund of Fund is an AIF which invests in another AIF. Accordingly, SRI Fund will be a combination of Mother/Daughter Funds which will leverage private equity/other funds and thus will multiply the impact of the initial budgetary infusion. Mother Fund will provide funds only to the Daughter Funds for onward investment as growth capital, while the investment in MSMEs will be done by the Daughter Funds. Both the Mother and Daughter Funds will be duly registered as Alternate Investment Funds with SEBI. With a view to providing flexibility to the Daughter funds in providing both equity and debt funding to the MSMEs, the Daughter funds would be Category I or II AIFs registered with SEBI.

5. **Overall Fund Corpus of SRI Fund:**

   (i) Govt. of India will be the sole anchor investor and provide an initial budgetary support of Rs. 10,000 crore to the Mother Fund in phased manner. No other outside investment will be entertained in the Mother Fund. Mother Fund will have Daughter Funds empanelled with it, subject to fulfilment of conditions as may be laid down and following due process.

   (ii) The empanel Daughter Funds will have to raise funds from outside sources, including but not limited to, Banks/FIs, HNIs, VCs/PEs/Institutional Investors/PSUs/Pension Funds/Foreign Developmental Institutions etc. Daughter Funds, after being empanel with the Mother Fund, will mobilise funds and for each 4 units of funds so mobilised, they will be eligible to solicit 1 unit of fund, backended from the Mother Fund. The entire 5 units will then be available to the Daughter Fund for investment. Thus, 80% of the funds will have to be mobilized by the Daughter Funds and 20% will
be provided backended by the Mother Fund. The minimum fund to be released to a Daughter Fund would be Rs. 50 crore and in multiples of Rs. 10 crore thereafter.

(iii) As regards leveraging, the Mother Fund of Rs. 10,000 crore provided by the Government of India, shall stand leveraged to the extent of Rs. 50,000 crores (Rs. 10,000 crores from GoI and Rs. 40,000 crores from Daughter Funds).

(iv) The MSMEs generally procure debt from the financial institutions, and the thumb rule is that financial institutions provide debt keeping a debt : equity ratio of 3:1. The availability of operating funds available to the MSMEs will be further enhanced 3 times, the investment provided to the MSMEs by the Daughter Funds, thereby having significant multiplier effect on availability of growth funds.

6. **Tenure of Fund:**
   - Considering the nature of MSME and difficulties expected in exiting, a longer fund life of 15 years may be kept
   - Commitment Period: upto 6 years from the date of first closing
   - The FoF would be a revolving fund as earnings of the fund from investments made in AIFs would be re-invested.

7. **Fund Managers / AMC:**
   - Fund Managers/ AMC should have prior experience of growth funding of at least 5 years by managing investments as Fund Manager, and they should have experience of managing a Fund of minimum **Rs. 500 crore**.
   - Past Track record of the fund managers performance to be assessed during evaluation for on boarding

8. **Promoting the MSME Investment Ecosystem:**

MSMEs are dispersed across the country and have structures which are quite different than Startup and VC investing. It would thus be important to create and cultivate new set of institutions & entities who can help setup MSME investing ecosystem by contributing to daughter funds.

**Banks/ Insurance Companies/Pension Funds/ Central & State PSUs/Financial Institutions/Industrial Development Institutions** can work to promote MSMEs they are
already dealing with or promoting. These entities can identify the MSMEs and promote them in following ways:

a. PSUs / Financial Institutions/ Industrial Development Institutions may function as mentors to these MSMEs for growth and scale;
b. PSUs / Financial Institutions/ Industrial Development Institutions which have already established teams for investing in respective sectors (Oil PSUs, EIL etc.), can contribute by investing in the MSMEs and can thus act both as a Mentor and an investor.
c. PSUs/ Financial Institutions/ Industrial Institutions may invest in daughter fund also.

9. **Legal and Governance Structure:**
   a. The Mother Fund will be anchored by a SPV (having 100% equity from NSIC) which shall be incorporated as a separate legal entity. The SPV so formed will have an independent Board with CMD NSIC as its Chairman, two Government nominated directors, one NSIC nominated Director and a professional CEO.
b. SPV will apply to SEBI for registering the Mother Fund as a Category I or II Alternate Investment Fund (AIF).
c. An Advisory Board/Committee will be constituted by the Government of India, overarching the entire executive framework of FoF scheme. The Advisory Board will be chaired by the Secretary (MSME) and shall comprise of eminent domain specialists in the field of private equity and venture capital, senior government officials from Government of India.
d. The Advisory Board would formulate broad guidelines for lending/investment from the mother fund, including empanelment of Daughter Funds, investment guidelines including return on investment and tenure, exit options sectoral focus and segmental focus etc.
e. The Advisory Board will also monitor the progress of the scheme periodically.
f. A professional Investment Committee, comprising of experienced professionals including Investment and/or Fund Managers and Risk Managers will be constituted by the SPV Board to manage the portfolio of the Mother Fund.
g. The Investment Committee shall be chaired by an eminent professional with adequate and rich experience in Finance/Banking and/or Capital Markets. The
Investment Committee shall maintain arms length distance with the Government and take decisions on professional lines.

10. **Investment Strategy: Mother Fund:**

   a. The Mother Fund would be unfettered, i.e. can invest in both external AIFs or internally established AIFs/Daughter Funds, if any, that have a good investment track record and are strategic fits.

   b. The Mother Fund will route all its investments, through the approved, specific daughter funds only and will not directly invest in MSMEs.

   c. All investments will have to be approved by the Investment Committee in line with the mandate given by the SPV Board on the advice of the Advisory Board/Committee.

   d. The AIFs will be supported by Mother Fund to the maximum extent of 20%, which in turn would get invested in MSMEs to the extent of five times the amount contributed. These investee companies are expected to scale up and grow into mature businesses and will attract larger rounds of equity capital which will have a large multiplier effect.

   e. The investment focus will be on traditional manufacturing and service MSMEs as they are facing deficiency to a greater degree because the existing VCs/PEs have a bias towards I.T. and Technology based industries, which offer better control and high and faster returns.

   f. The Daughter Funds will be empanelled with the Mother Fund provided they fulfil the following criteria and abide by the below mentioned conditions:

      i. Daughter Fund should be registered as Category I or II AIF with SEBI with a view to having better investment flexibility.

      ii. The Investment Policy, Target MSMEs, tenure, return on investment, hurdle and ceiling rates, and exit policy will have to be submitted to the Mother Fund who shall approve the same and will be adhered to by the Daughter Fund.

      iii. AIFs which have availed commitments from any of the Fund of Funds of the Government of India, like the Fund of Funds for Startups, EDF of the Ministry of Communications and Information Technology, ASPIRE, etc. shall be eligible for coverage under this Fund provided the total corpus contribution from all the Central Government Funds combined does not exceed specified percentage of the corpus amount of the Fund, to be decided by the Advisory Board at the time of preparation of PPM for submission to SEBI, for approval.
Any funding support received by the Daughter Fund from other Fund of Funds of GoI will not be included in the 80% fund required to be mobilised by the Daughter Fund, as it will tantamount to double funding from the GoI. In such cases, investments that qualify as MSMEs for the purposes of complying with the requirement of this Fund shall be excluded from being counted in end use requirements of any other GoI FoF Scheme.

iv. Exposure Limit will be set for each Daughter Fund registered with the Mother Fund. Exposure limit should be capped at 20% of the initial corpus of the Mother Fund i.e. no Daughter Fund can have an exposure limit of more than Rs. 2,000 crore.

v. Mother fund shall release sanctioned funds in proportion to the contribution brought in by the Daughter funds. Daughters fund shall raise the demand of drawing the funds from Mother fund as per the requirements and terms of sanctioned assistance by them to MSMEs. Daughter Funds will be required to invest the funds received from the Mother Fund within 2 months of the same being received from Mother Fund. In case they are unable to deploy the same, they may seek from Mother Fund, further extension of one month, before expiry of initial period of the two months. Mother Fund will take a view in the matter, and in case extension is granted, the funds should be deployed by the Daughter Fund within the extended period, failing which the Daughter Fund shall refund the amount to Mother Fund on the day next to the expiry of the extended period. In case extension is not permitted by the Mother Fund, Daughter Fund shall refund the amount to the Mother Fund on the day next to the receipt of the communication. Mother Fund May impose interest on any fund retained by the Daughter Fund beyond such communication.

vi. The commitment given by the Mother Fund will be valid for 18 months during which the eligible funds are required to do the first close. Failing which commitment done by Mother Fund will be re-evaluated.

vii. After following due process and exercising due diligence, approval for empanelment of the Daughter Fund and fixing Exposure Limit shall be given by the SPV Board or Investment Committee of the Mother Fund if so authorised by the SPV Board.
viii. An independent Fund Manager/AMC shall be assigned the task of Fund Management for the Mother Fund who will be selected after following due process.

ix. Detailed investment strategy and guidelines, including exit options, shall be formulated at the time of preparation of Private Placement Memorandum(PPM) for filing with SEBI.

11. Daughter Funds:

   **Investment Strategy:** There will be more than one daughter funds. The Investment Committee, comprising of professionals shall take investment decisions in regard to proposals received, only in line with the business objectives of the respective Daughter Fund, as approved by the Mother Fund at the time of empanelment.

12. Commercials:

   a. A Management Fee of 1% may be permitted to SPV. The Management Fee will be payable in respect of corpus **actually placed at the disposal of the Mother Fund.**

   b. The AMC (Fund Manager) operating the FoF (Mother Fund) shall be paid operating expenses upto a maximum of 0.50% of the commitments made to Daughter Funds each year, and outstanding commitments for carrying out due-diligence, preparation of memoranda to the Committees/Board, convening meetings etc. This will be paid half-yearly.

   c. All payments and expenses (including the one at a & b above) will be made by debiting the Fund and will be deemed as operational expenses.

13. Risk Management:

   a. Both the Mother Fund and Daughter Funds shall ensure that financial risk management and environmental and social safeguard management systems are in place.

   b. Due diligence will be carried out in execution and implementation of the SRI Fund Scheme so as to safeguard the interest of Government of India, the anchor investor.
14. **Miscellaneous:**

a. The classification of the investments will be done as per extant guidelines.

b. Individual MSME and Group Exposure limits shall be prescribed at the time of filing PPM.

c. Omnibus documentation will be arranged with the Daughter Funds by the Mother Fund.

d. For Investment in individual MSMEs, documentation will be executed by the respective Daughter Fund. However, the documentation shall expressly state the interests and rights of the Mother Fund.

e. The SPV anchoring the Mother Fund shall arrange to prepare a portal and manage the activities online.

f. These guidelines may be amended, if required, to bring them in line with the rules / regulations issued by SEBI or any other statutory body, from time to time.

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