

Small2Big Fund

**An international fund for
Micro, Small and Medium Enterprises
(MSME)**

Sponsor:
**Small Industries Development Bank of India
(SIDBI)**

A Development Financial Institution constituted by an Act of Parliament of India and regulated by Reserve Bank of India for financial and development needs of the MSME sector

Fund Manager:
SIDBI Venture Capital Ltd

*100% owned by SIDBI
Preferred MSME Fund Manager
Impact Investment Manager*

Background of Sponsor

- **Small Industries Development Bank of India (SIDBI)**
 - Is owned by 31 Public Sector Banks and Financial Institutions
 - Is constituted under an Act of Parliament
 - Is under the control of Ministry of Finance, Government of India
 - Is regulated by Reserve Bank of India (RBI)

Background of Sponsor (cont'd)

- **SIDBI**

- Is the Apex Institution for MSMEs in India
- Is an Institution Builder-
 - SIDBI Venture Capital Ltd
 - Credit Guarantee Fund Trust for Micro and Small Enterprises
 - SME Rating Agency of India Ltd
 - India SME Asset Reconstruction Company Ltd
- Has an asset base of over US \$ 11 billion
- Earned net profit of over US \$ 100 million in FY 11-12
- Meets all financial and developmental needs of MSMEs
- Has a “AAA” Rating from 2 major rating agencies in India

Our Motto “We Empower MSMEs”

Background of Sponsor (cont'd)

- **Single Window for meeting financial and developmental needs of MSME sector**
 - **Direct Finance**
 - Growth Capital and Equity Assistance for MSMEs
 - Term Loan Assistance
 - Working Capital Assistance
 - **Refinance to Banks**
 - **Indirect Finance to NBFC**
 - **MicroFinance**
 - **Promotional and Development Activity for MSME sector.**

SIDBI's Financial Performance

Year ended March 31,		2012
	₹ Crore	US \$ Mn.
Income	4606	837
Expenditure	2796	508
Provision & Contingency	736	134
Profit before Tax	1074	195
Tax	507	92
Profit after tax	567	103

1 US\$ = ₹ 55/-

SIDBI Venture Capital Ltd.

- **Wholly owned subsidiary of SIDBI**
- **Manages**
 - 3 Venture Capital Funds aggregating US \$ 221 mn
 - 1 Social Alternative Investment Fund of US \$ 60 mn
- **Focussed on MSMEs**
- **Has successfully exited 70% of its investments**

SIDBI-SVCL Funds under Management

National Fund for Software and IT (1999-2012)

- A US \$ 18 million fund for small Information Technology (IT) & IT Enabled Services (ITES) Sector

SME Growth Fund (2004-2012)

- A US \$ 91 million fund aimed at growing Small and Medium Enterprises (SMEs)

India Opportunities Fund (IOF) (2011-2021)

- A US \$ 112 million fund aimed at growing Micro, Small and Medium Enterprises (MSMEs)

Samridhi Fund (2012-2019)

- A Pound Sterling 40 million fund aimed at impact investing in Low Income States of India. Commitments obtained from DFID and SIDBI. Fund being formally set up. Investment evaluation started.

Achievements of Fund Manager

History and Current Status

NFSIT – Performance

Benefits to the Investors

Investee companies
31
Average investment size
US \$ 600,000

Venture returns to
Investors
10.62% p.a.

Portfolio returns (pre tax)
16.6% p.a. in rupee terms

Benefits to the Economy

Taxes paid in 2 years FY
10 and FY 11 by 24 of the
investees
Approx US \$ 15 million

Follow on/secondary
Foreign Investments
enabled in investee
companies
Approx US \$ 90 million

Tax paid by NFSIT during
2011-12
Approx US \$5 million

NFSIT –Performance (cont'd)

- **Outperformed**
 - Dow Jones Industrial Average by 6%
 - FTSE by 7%
 - Average return on 10 year Indian Government Securities by about 3.5% p.a.

Over a 13 year period from 1999-2012, a long term achievement

SME Growth Fund- Performance

Benefits to the Investors

25
investee companies
Average investment
size: US\$ 3.6 million

Portfolio return of
about 20% p.a. (pre tax)
on 13 full/ partial exits
concluded

US \$ 50 million
distributed back to
investors
(US \$18 million in FY
2012)

Benefits to the Economy

Follow on/ secondary
Foreign investments
enabled US \$ 190
million

Taxes paid by investees
US \$ 26 million

The “small” we invest in are liked by the “Big” investors

NFSIT	Name of the company	Co investors	Foreign investment US \$ mn	Amount invested by NFSIT (US\$ mn)	Multiple of SVCL's investment raised
1	TRSS Imaging, Bangalore	WestBridge (Sequoia), ACER	4	0.4	10
2	ECAD Technologies Pvt Ltd, Bangalore	AT&S, Austria	3	0.4	7
3	Indialdeas.com Pvt Ltd, Mumbai	Clearstone Venture, TA Associates	27	0.7	39
4	RT Outsourcing Ltd, New Delhi	NEA	13	0.6	22
5	Brigus Software (India) Pvt Ltd, Hyderabad	Company buyback funded by VSG, USA	2	1.6	1.2
6	Small Device Mobile Technologies Pvt Ltd, Bangalore	Digital Chocolate, USA	2	0.5	4
7	KMG Infotech Pvt Ltd, New Delhi	Great American Insurance Company	2	2	1
8	Skelta Software Pvt Ltd, Bangalore	Invensys Plc, UK	12	1.3	9
9	Manthan Software Services Pvt Ltd	IDG Ventures, E-Planet, Fidelity, Norwest Venture Partners	29	1.3	22
	Total NFSIT		94	6.8	13.5

The “small” we invest in are liked by the “Big” investors

SGF	Name of the company	Co investors	Foreign investment US \$ mn	Amount invested by NFSIT (US\$ mn)	Multiple of SVCL's investment raised
1	Carzonrent (India) Pvt Ltd, New Delhi	Sequoia, BTS	12.6	3.1	4.0
2	Digibee Microsystems Pvt Ltd, Bangalore	Clearstone Ventures, TA Associates	6.2	5.2	1.2
3	Mudra Lifestyle Ltd, Mumbai	Eland, South Korea	14.4	1.5	9.6
4	Stovekraft Pvt Ltd, Bangalore	Sequoia	10.0	4.4	2.3
5	Fourcee Infrastructure Pvt Ltd	Mayfield, India Equity Partners, General Atlantic	147.0	5.0	29.4
6	Champion Agro Ltd	Buy back by company funded by Bay Capital	6.6	3.6	1.8
	Total SGF		196.8	22.8	9.2

Examples of successful companies- 1

Manthan Systems Pvt. Ltd. – SVCL, through its first fund NFSIT, invested in the Bangalore based company at a very early stage. The company is engaged in software analytical tools/products for the retail industry. It now has a worldwide clientele. It subsequently attracted investments from three foreign VC/PE firms. The company has grown manifold in size (15 times between SVCL's investment and exit, over a 4 year period) and now employs 600 people.

Examples of successful companies- 2

Indialdeas.com Pvt. Ltd. – This is a very early stage investment from SVCL's first fund – NFSIT. The company is a pioneer in the epayments space in India and is currently one of the largest aggregators (in FY2011, it processed US\$ 5.3 bn worth of transactions) and has about 450 employees. After SVCL's investment, it has attracted investment from a couple of the country's largest banks as well as foreign VC investment.

Examples of successful companies-3

Carzonrent India Pvt. Ltd. – SVCL invested from its second fund at an early stage, into the Indian franchisee of a global car rental company. It has now evolved into a provider of a larger gamut of services, under its own brand. It has subsequently attracted two rounds of foreign capital. It has significantly scaled up its operations to about 5000 vehicles currently, providing employment to around 5500 people.

Examples of successful companies-4

Flash Electronics (India) Private Ltd (Flash) has facilities in Pune and National Capital Region for manufacture of auto electrical and electronic components for the 2-wheeler Industry. It has grown from a US\$ 4 million turnover to a US\$ 50 million turnover company in 6 years after our investment. Its EBITDA has increased 66 times in this span. It is a critical vendor for one of the largest 2 wheeler manufacturers in the world and has technical collaborations with European Companies.

Value Addition by SVCL

- Validating the business model and providing growth and expansion capital
- Enabling growth through enabling higher borrowings from the Indian Financial System in companies that would otherwise be ineligible for the loan to the extent required.
- Helping in adding value to the company's industry segment by the innovativeness of the products/services financed

Value Addition by SVCL

- **Introducing Corporate Governance**
- **Corporatising the entities and ensuring compliance**
- **Helping create huge employment opportunities thereby increasing community wealth (eg: Carzonrent – 5500 nos., Prateek Textiles Ltd – 4400 nos, Magnetic Industries Ltd (Champion Agro) etc.)**

Value Addition by SVCL

- Developing a large number of innovative businesses, products and services (Billdesk, Champion Agro brand, Easycabs-Radio taxi, indigenous pharma brand- Sinarest)
- Helping the unorganised sector get organised (Stovekraft)
- Development of ancillary industry (Flash Electronics, IndoShell Mould, Indus Teqsite, etc)
- Providing valuable strategic inputs
- Cross-border acquisitions by Indian MSME (KraftPowercon)

India Opportunities Venture Fund (IOVF)

- A US \$ 878 million support for MSMEs announced in the FY 2012-13 budget of Government of India
- The entire amount would be routed through SIDBI
- SIDBI to set up Funds for
 - Domestic MSMEs
 - Internationalisation of MSMEs
 - Sector Specific Funds –ICE, Traditional sectors, Defence, Infrastructure
 - IPOs on SME Exchange
- First Fund named India Opportunities Fund launched with SIDBI as Sponsor and SVCL as Fund Manager

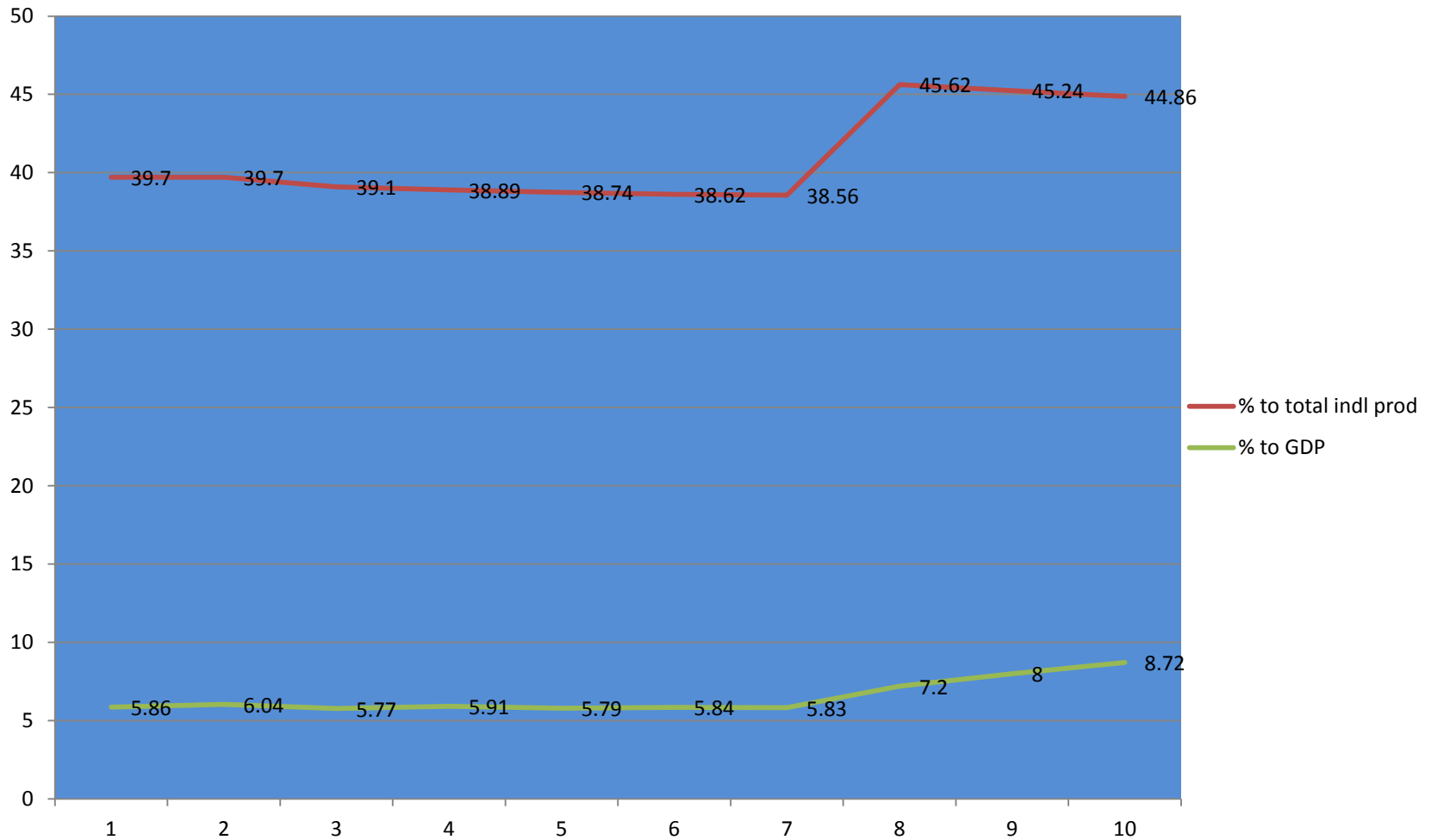
India

- **Large Country –Fourth largest in terms of Purchasing Power Parity**
- **Over 1.2 billion people**
- **Planned economy liberalised since 1991**
- **Vibrant and Growing Industry**
- **Massive and Growing Domestic Economy**
- **Huge demand from Young Population**
- **Opportunity in infrastructure and industry**

MSME Sector in India

- **Accounts for**
 - **45% of manufacturing output**
 - **40% of total exports**
 - **Employs 59 million persons**
 - **26 million units**
 - **Over 6000 products**

MSME contribution as percentage to Industrial Production and GDP



MSME Financing Requirements

- Gap in MSME Financing estimated at US \$ 126 billion
- Debt gap is US \$ 84 billion
- Equity Gap is US \$ 42 billion
- Against this actual supply of equity is US \$ 526 million
- Thus, there is a huge potential for supply of finance to MSMEs in India

India Opportunities Fund

**21 investors, all Indian
Public Sector Banks and
Financial Institutions**

**Closed at US \$ 112
million**

**Seven Investments
committed for an
aggregate of US \$ 12
million**

**SME Fund focussed on
Growth of MSMEs**

Samridhi Fund

Samridhi stands for prosperity

Target 8 low income states in India

An impact investment fund aimed at triple bottom line

DFID UK has committed Pound Sterling 35 million (US \$ 50 million)

SIDBI has committed ₹50 crore (US \$ 9 million)

Operations started while Fund being set up. Applied to SEBI for registration

Proposed Fund- Small2Big

- **MSME Growth and Strategic Acquisition Fund (Small2Big Fund)**
- **Will be a Category I SME Fund registered under Alternate Investment Fund (AIF)**
- **Fund would be structured in line with investors' needs**

Fund Set-up

- A 10 year Fund
- Sponsor SIDBI (US \$ 45 million)- “Skin in the game”
- Foreign investors (US \$ 105 million) – looking for commitments

Management

- **Board of Advisors**
 - 2 representatives of SIDBI, 1 independent and 2 representatives of foreign investors
 - Advice on investment policy
 - To meet once a year
- **Investment Committee**
 - One representative from SIDBI
 - Representation from each investor investing US \$ 25 mn or above
 - 2 independent members
 - 2 representatives of the Fund Manager-SVCL
 - Approving Investments and Disinvestments

Organisation

- At present, we have 15 employees at Mumbai and 7 employees at Lucknow
- Further dedicated team would be added for Small2Big fund
 - CIO of the Fund and 8 employees (dedicated- will be hired once soft commitments are in place)
 - Inputs from CEO, CIO and CFO of SVCL would be available on shared time basis
- Facilities to be housed within SIDBI
 - No separate set up is required as facilities are available on reasonable cost basis from SIDBI
 - Separate set up can be created once the Fund is ready to operate

Currency risk and mitigation

- Currency risk will be partly mitigated with some investee companies located abroad or earning revenues abroad
- However, by the very nature of the Fund, there will be cross currency risk

Business Plan - Investments

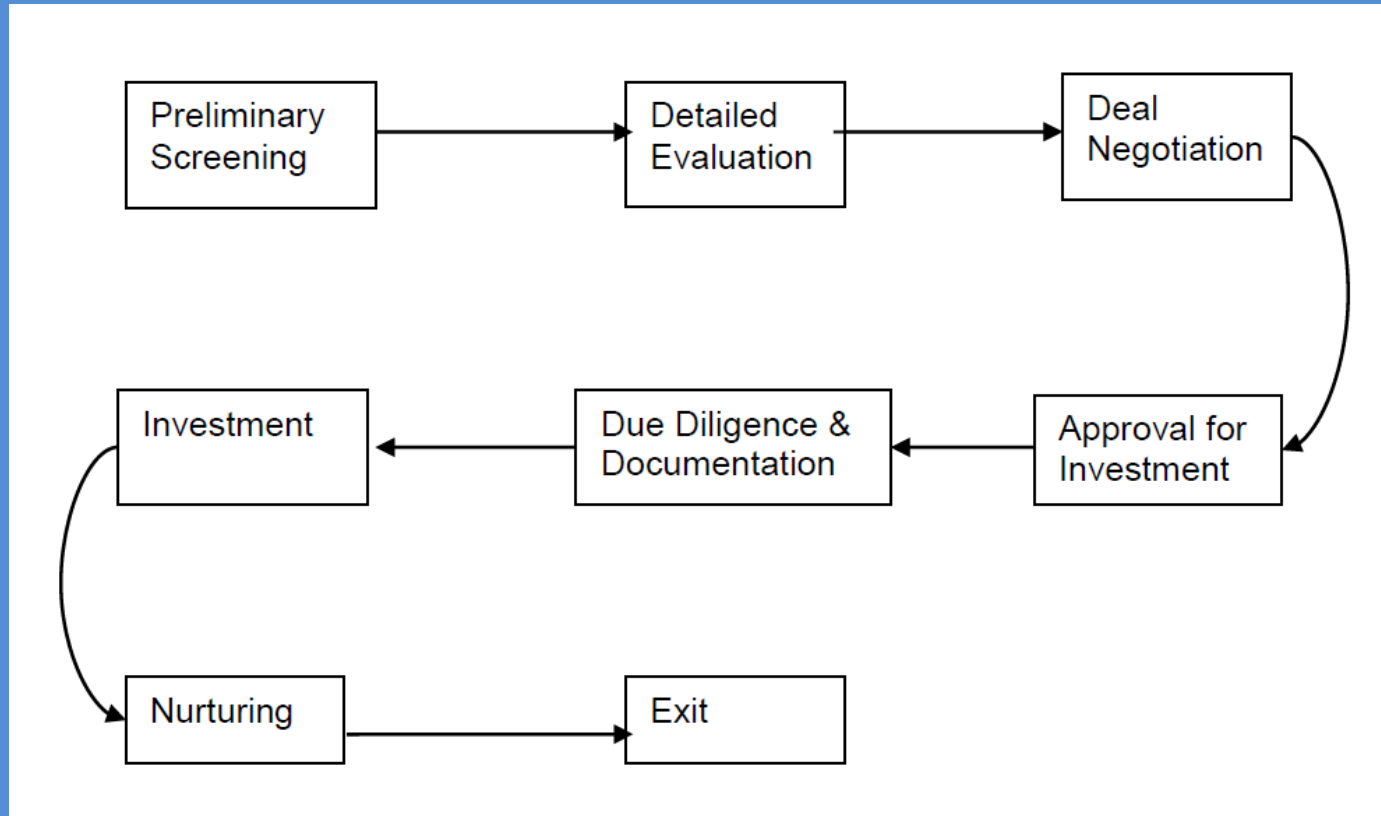
Calender Year	2013	2014	2015
			US \$ Mn
Investment	48	72	120
No of proposals	6	12	20
Promoter Equity/ Sweat	24	48	64
Domestic Convertibles	12	-	-
Leveraged loans	48	72	120

We will be identifying investment opportunities through Industry Associations, various Government Agencies, Business Contacts, SIDBI's portfolio of projects, Indian Government Agencies

Investment Strategy

- **Equity Funding of Indian MSMEs with capability to set up their own subsidiaries abroad or enhance marketing abroad**
- **Equity Funding of Indian MSMEs seeking to takeover SMEs abroad**
- **Equity Funding of Foreign entities seeking to set up MSMEs in India**

Decision making process - Snapshot



Preliminary screening

- **4 – stage screening process**
 - Individual team member who receives or solicits the proposal
 - Internal Project Committee
 - Investment Committee
 - Due diligence by independent agency
- Screening based on Investment policy guidelines of the fund which will include parameters like –
 - Stage of investment.
 - Business model and profitability potential.
 - Potential market size.
 - Expectation of investment amount and duration.

Detailed evaluation

- PC will discuss the cases and if found worth pursuing will assign the proposal to an investment team for detailed evaluation.
- Assigned Investment team will first check the necessary details of the proposed investee undertaking and its Promoters to satisfy itself that the proposed investment satisfies the KYC norms stipulated by the regulatory authorities.
- Thereafter, the team will discuss and make detailed analysis of various aspects of investment proposal.
- Further interaction / request more information from the Promoters, the top management of the company to understand their expectation from the business and investment.
- Visit to the place of business of the company in order to understand and observe the things on ground.
- The most important aspect which will be evaluated in detail at this stage is entrepreneurial qualities of the Promoter(s) of the company.

Deal Negotiation

- In case the investment proposal is found suitable after the detailed study, the same will be placed before the senior members of Investment team.
- At this stage –
 - Valuation of the company.
 - Structure of the proposed investment.
 - Exit options.
 - Exit time frame and other terms and conditions will be discussed and negotiated with the Promoter(s).
- Terms will be negotiated to secure all reasonable investor rights including veto rights, board representation, information rights and mechanism, liquidation preference, exit mechanisms, etc.
- However, these terms of investment will be subject to approval / modifications by the Investment Committee.

Approval for investment

- Investment team shall prepare an Investment memorandum and submit it to the Investment Committee (IC).
- IC generally comprises of Nominees of the Contributors, Independent experts and CEO of SVCL.
- At the meeting, Investment Manager will brief members of the IC committee about –
 - Rationale for the proposed investment.
 - Potential benefits from the investment.
 - Special features and characteristics of the proposed investment proposal and
 - Most likely divestment mechanism.
- Thereafter, IC will interact with the Promoter(s) and senior management team of the potential investee undertaking to make their first hand assessment of the entrepreneur and the senior management team.
- Based on their assessment and discussions on the proposals, members of the committee will make the final decision about the investment proposal and also the terms and structure of the investment, which will be binding on the Investment Manager.

Due diligence and Documentation

- Prior to making any investment, detailed legal and financial due diligence of the proposed investee undertaking shall be carried out by a reputed firm to ensure and verify (indicative list only) –
 - Basic legal compliance to ensure proper structuring of the proposed investment.
 - Availability of necessary regulatory and legal permissions / approvals.
 - Existence of any litigations / court cases etc.
 - Background checks and verifications of the documents like analysis of accounting policies, financial statements, tax compliance etc.
- Documentation will be prepared by the legal consultant of the Fund after receipt of satisfactory due diligence report (DDR) or after sorting out issues brought out in the DDR.
- Investment Manager will reserve the right to suitably modify the terms and structure of proposed investment to address the issues raised in DDR or can even cancel the approved investment with approval from IC.

Investment

- After the due diligence process is complete, the Company and Promoter(s) will –
 - Execute all the documents stipulated under the terms of investment and
 - Comply with the conditions precedent to the investment.
- Once, all such conditions are complied, the Fund will make investments -
 - As per the requirement of the investee undertaking and
 - By way of subscription to the instruments as stipulated in the terms of investment.

Nurturing and Monitoring

- Investment Manager shall maintain a close relationship with the company.
- Active management participation and monitoring through Nominee directors
- Provide necessary assistance especially in areas like –
 - Putting processes and systems in place. (Corporate Governance)
 - Reviewing existing business model and charting out business plan course correction if required.
 - Appointing a suitable consultant for HR policies for employees to enhance productivity and profitability.

Nurturing and Monitoring

- Investment Manager will have regular review / Board meetings where business achievements are reviewed.
- Monitors progress of investee companies on a monthly / quarterly basis. Provides inputs for improvement of key parameters.
- Appoints Internal / Statutory Auditor and reviews their feedback / reports periodically. Insists on statutory compliance.
- Facilitates resource mobilization and fund raising.

Exit

- At the time of investment, Investment Manager shall develop a clear plan for the divestment in consultation with the Entrepreneur / Promoter(s) commensurate with the investment horizon of the Fund.
- Divestment proposal is approved by the Investment Committee
- Exit may be by way of -
 - Sale of investor's stake to another venture capital / private equity fund.
 - Sale of company / investor's stake to a strategic buyer .
 - Initial Public Offering (IPO)
 - Buyback of investor's stake by entrepreneur / promoter / company.

Experience in financing opportunities abroad

- In our second fund, viz. SME Growth Fund, we have already identified and made an investment of US \$ 8 million in Kraft Powercon (India) Ltd which is a high tech company engaged in the manufacture of industrial rectifiers. However, in the third fund India Opportunities Fund some of our key investors have a regulatory restriction of not being able to invest abroad and hence this Fund is being set up separately.
- Kraft Powercon India Ltd has returned US\$ 3.5 Mn. out of the US\$ 8 Mn. it had borrowed when it leveraged the buyout of the existing management

Experience (cont'd)

- We have made an equity investment in Basil Communications Private Ltd
- Basil UK Limited, a subsidiary of India-based Basil Communications Private Ltd, which trades as Basil Global, acquired the business and assets of Four Ninety Limited, UK to increase its photography, design and artwork services.
- The Four Ninety business, which has offices in Leeds and Milton Keynes, produces large-scale catalogues for clients including Argos, Homebase and Avon Cosmetics. It now forms part of London-based Basil UK.
- The deal further enhances Basil Global's extensive creative services offering, which covers print needs such as illustration, packaging and images, online assistance with websites, banners and e-books, and motion work such as presentations and animated storyboards.

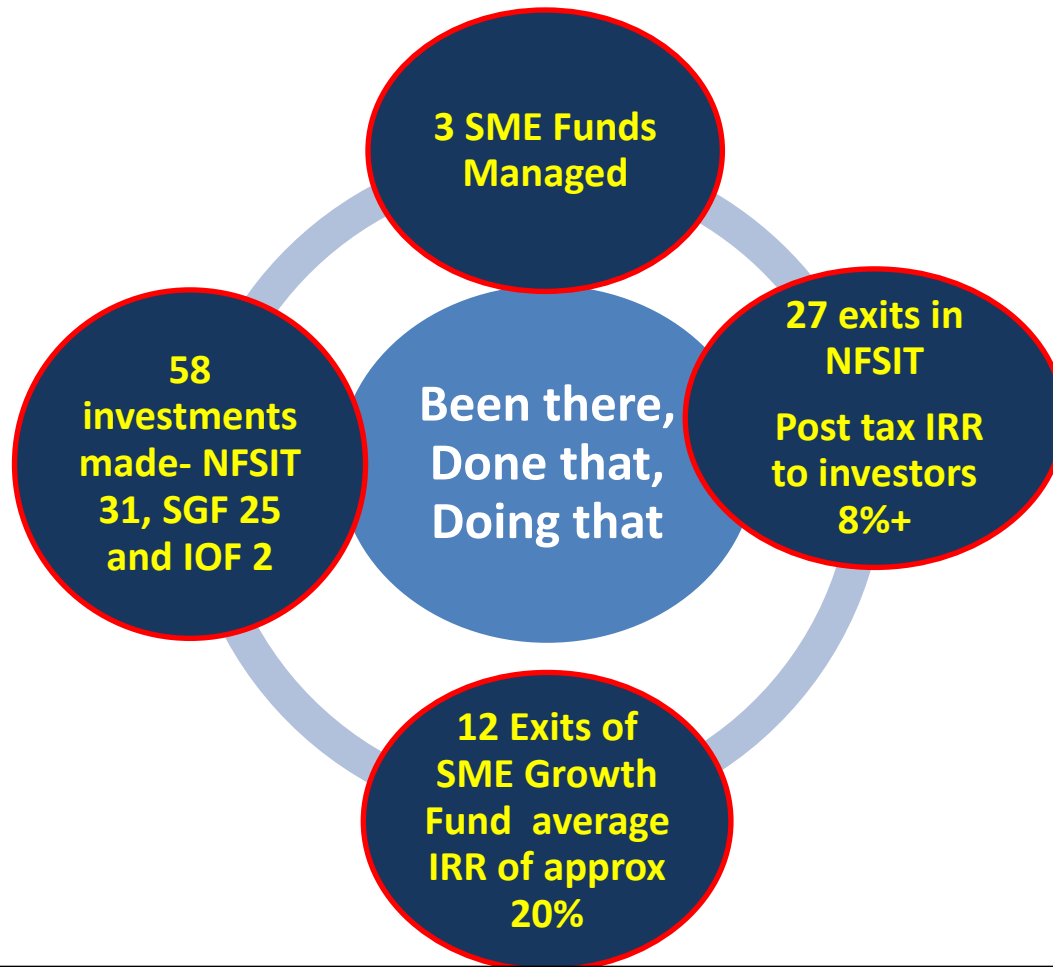
Experience (cont'd)

- “This complex deal covered many specialist legal disciplines, requiring input from our Corporate/Mergers & Acquisitions, Real Estate and Technology & Media teams,” said Salim Somjee of the Kings Hill corporate and commercial law firm.
- Vertex Law’s Nick Austen, who was also heavily involved with the deal, added: “I am delighted that we were able to assist with the acquisition, which sees Basil Global reinforce its position in the global creative industries sector. We thoroughly enjoyed working on securing another international deal and fostering new relationships with Indian businesses and financiers.”
- Ramesh Krishnamurthy, Managing Director of Basil UK, said: “The acquisition of the Four Ninety business adds additional expertise to our offering and will enable us to provide a wider range of services to our clients.
- “We appreciate all the work Nick, Salim and the rest of the team at Vertex Law carried out on ensuring this deal was completed and will not hesitate to work with them again on any future projects.”

But we are uniquely positioned



And possess execution capability



Raised the 3rd Fund of US\$ 112 million and 4th Fund of US \$ 60 million being set up

Thank You