

**'VENTURE CAPITAL FUND FOR SCHEDULED TRIBES (VCF-ST)
OPERATIONAL GUIDELINES**

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SECTION - I

Background:

These guidelines are issued pursuant to the recommendations in the presentation of the Group of Secretaries (GoS) on education and social development made before the Hon'ble Prime Minister under the head 'Affirmative Action' on 13.01.2017 and subsequent decision in the EFC meeting held on 12.05.2021 for the introduction of the Scheme of Venture Capital Fund for Scheduled Tribes (VCF-ST).

VCF-ST will have the following objectives:-

- a. To promote entrepreneurship among the Scheduled Tribes through provision of concessional finance to them
- b. To support innovative ideas through the Technology Business Incubators (TBIs) set up by Department of Science and Technology and other Departments/Ministries/Institutions.
- c. To support, promote, hand-hold the start-up ideas till they reach commercial stage by providing equity and/or credit support.
- d. To promote financial inclusion amongst ST entrepreneurs and to motivate them for further growth of the ST communities.

In order to operationalise the scheme, the proposed "Venture Capital Fund for Scheduled Tribes (VCF-ST) may be formulated under a separate "Trust".

Structure of Fund

- **Name of the Fund:** Proposed “**Venture Capital Fund for Scheduled Tribes**”
- **Structure of Fund:** Proposed as category II Alternative Investment Fund (AIF) registered as a Trust under “Indian Trust Act, 1882”.
- **Initial closing:** Shall be achieved once the minimum corpus of Rs. 20 crores as per the requirements of SEBI is received;
- **Final Closing:** 4 years from the date of initial closing;
- **Investment Period:** 5 years from the date of initial closing;
- **Term of Fund:** 14 years from the date of final closing which can be extended by additional 2 years upon approval of Ministry of Tribal Affairs, Government of India;
- **Life of Trust:** 2 years after the closure of Schemes under the Trust.

SECTION - II
FEATURES OF VENTURE CAPITAL FUND FOR SCHEDULED
TRIBES

[subject to approval of Securities and Exchange Board of India (SEBI)]

Sl. No.	Particulars	Details
1.	Name of the Nodal Ministry	Ministry of Tribal Affairs, Government of India
2.	Corpus	Initial Corpus of Rs. 50.00 Crore may be contributed by the Ministry of Tribal Affairs as Anchor Investor, which can be supplemented later;
3.	Nature of Scheme	Central Sector Scheme
4.	Structure of the scheme	The scheme would be set up as a fund registered under SEBI AIF regulations, 2012 with Ministry of Tribal Affairs, Government of India as the Anchor investor and IFCI Venture Capital Funds Ltd as Sponsor investor.
5.	Sponsors Contribution	Sponsor's contribution of 2.5% of the total corpus or INR 5 crore, whichever is less, in accordance with the terms of the AIF Regulations
6.	Name of Asset Management Company (AMC)	IFCI Venture Capital Funds Ltd.
7.	Duration of the fund	14 years from date of final closing with extension of 2 additional years upon approval of Ministry of Tribal Affairs, Government of India.
8.	Life of Trust	2 years after the closure of Scheme(s) under the Trust.
9.	Closings under the fund	<ul style="list-style-type: none"> • The initial closing under the fund shall be achieved once the minimum corpus of Rs. 20 crores as per the requirements of SEBI is received; • Final closing shall be from 4 years from initial closing.
10.	Drawdown period	The capital contributions towards corpus of fund can be drawn up to 5 years from the date of initial closing.

11.	Investment Period	5 years from the date of initial closing.
12.	Expenses involved in the Scheme	<ol style="list-style-type: none"> 1. Expenses of fund: 1.5% (One time) of the VCF-ST corpus, to be expended over the life of the fund. 2. Management fees to AMC: A management fee @ 1.5% p.a. of the aggregate Capital Commitment during the commitment period (up to drawdown period) and thereafter management fees will be @ 1.5% p.a. of the outstanding Capital Contributions.
13.	Return to the Investors of the fund	<ul style="list-style-type: none"> • To obtain contribution from investors other than Govt. of India, if any, two types of investible units in the fund would be issued i.e. Class A units and Class B units. • Govt. of India with initial contribution of Rs.50 crore would be allotted Class B units. • Other Investors (such as LIC, GIC, other insurance companies and nationalized banks etc.), if they contribute, would be allotted Class A units. • Return of capital to Class A and B unit holders shall be done on proportionate / Pro-rata basis.
14.	Alterations	On any suggestions from GOI/ Department, requirements of SEBI, legal and tax related issues etc. the above conditions terms/structure may vary, may get modified /amended from time to time.

SECTION – III
Scheme Guidelines

Sl. No.	Indicators	Indicative Guidelines in lines with VCF-SC
1	(i) Eligibility Criteria	<ul style="list-style-type: none"> • The projects/units being set up in manufacturing, services and allied sector, including start-ups and units being incubated in the technology business incubators, ensuring asset creation out of the funds deployed in the unit shall be considered. • At least 30% of the beneficiaries assisted under the fund should preferably be women entrepreneurs.
	(ii) Minimum existence and Shareholding Criteria for VCF-ST	<p>Investment under the funds will be categorized as follows:</p> <p>A. For Companies applying for assistance up to Rs. 50 lakh: Companies having:</p> <ul style="list-style-type: none"> i. at least 51% shareholding by Scheduled Tribes entrepreneurs for the past 6 months with management control OR; ii. a new Company provided that the new Company is a successor entity of a Proprietary Firm or Partnership Firm or One Person Company (OPC) or Limited Liability Partnership (LLP) or any other establishment incorporated under any law in force with sound business model which has been in operation for over 6 months, and the predecessor entity had at least 51% shareholding of the Scheduled

		<p>Tribes entrepreneurs with management control.</p> <p>B. For Companies applying for assistance above Rs. 50 lakh: Companies having:</p> <ol style="list-style-type: none"> i. at least 51% shareholding by Scheduled Tribes entrepreneurs for the past 12 months with management control OR; ii. a new Company provided that the new Company is a successor entity of a Proprietary Firm or Partnership Firm or One Person Company (OPC) or Limited Liability Partnership (LLP) or any other establishment incorporated under any law in force with sound business model which has been in operation for over 12 months, and the predecessor entity had at least 51% shareholding of the Scheduled Tribes entrepreneurs with management control.
	<p>(iii)Eligibility Criteria for technology oriented innovative projects</p>	<p>Innovative ideas selected by Technology Business Incubators (TBIs) for incubation funding to cover the cost of carrying out innovation project subject to a ceiling of Rs. 10 lakhs on an average per year for a period of three years aggregating Rs.30 Lakh subject to satisfactory progress.</p> <p style="text-align: center;">Or</p> <p>New Companies having at least 51% shareholding by first time Scheduled Tribes entrepreneurs who have been working in technology oriented innovative projects:</p>

		<p>i. with the support of incubation centers at IITs, NITs, Premier Business Schools, Universities, Institutions, Medical Colleges, NSTEDB under Department of Science & Technology (DST) or supported by corporates, with good potential of commercialization and project is at implementation stage; and / or;</p> <p>ii. without the support of Incubations centers but are having patent/ copyrights with good potential of commercialization and project is at implementation stage.</p> <p>iii. Projects sanctioned by Departments/Ministries of Government of India after due appraisal.</p>
2.	Primary Documents	<ul style="list-style-type: none"> • Documentary proof of being ST will have to be submitted by the entrepreneur at the time of submitting the proposals. • Documentary proofs / certificate from the incubation centers/corporates or documents w.r.t patent/ copyrights in the name of ST entrepreneur need to be submitted at the time of submitting the proposal. • Sanction letter of Department/Ministry of Government of India, if applicable. • Other documents with reference to the eligibility conditions would also need to be submitted, including proof of management control and minimum 51% ST shareholding. • E-documents will also be accepted.

		<ul style="list-style-type: none"> • A tentative list of documents is enclosed as Annexure.
3.	Investment Size	<p><u>For VCF-ST as at eligibility criteria for companies applying for assistance up to Rs. 50 lakhs and above Rs. 50 lakhs:</u></p> <p>Aggregate assistance not more than two times the current net worth of the Company, subject to a minimum of Rs. 10.00 lakhs and maximum of Rs. 5.00 crore.</p>
		<p><u>For VCF-ST as at eligibility criteria for technology-oriented innovative projects</u></p> <p>Max. of Rs. 10 lakhs per year for a period of three years aggregating Rs. 30 Lakh subject to satisfactory progress/review. A portion of the corpus, maximum upto Rs. 10.00 crores, is to be utilized for this purpose.</p>
4	Tenure of financial assistance	<ul style="list-style-type: none"> • Up to 10 years including moratorium period in case of debentures and debt. • In case of Equity/Compulsorily Convertible Preference Shares (CCPS)/Optionally Convertible Preference Shares (OCPS), decision for exit would be taken on case-to-case basis with maximum tenure up to 10 years
5	Moratorium on principal	Maximum of 36 months from the date of first disbursement, to be decided on case-to-case basis.
6	Nature of Financial Assistance	1. Compulsorily Convertible Debentures (CCDs), Optionally Convertible Debentures (OCDs), Non-Convertible Debentures (NCDs), etc.

		<p>2. Shares including CCPS/OCPS (maximum up to 25% of the corpus) can be invested subject to the following:</p> <p><u>Under VCF-ST:-</u></p> <ol style="list-style-type: none"> i. Such investment may be limited to innovative technology-oriented projects/ start-ups fulfilling the conditions mentioned under eligibility criteria; ii. The maximum equity investment in a company can be 49%, subject to maximum investment of Rs.5 crore; iii. Such investment shall be at face value of shares in every company, subject to applicable laws; <p><u>Under other scheme</u></p> <p>The financial assistance shall be provided in the form of Equity/CCPS/OCPS/Debt.</p>
7	<p>Funding Pattern for VCF-ST</p>	<p>Investment under the fund will be categorized as follows:</p> <ul style="list-style-type: none"> • The applicant shall be funded maximum upto 75% of the project cost and the balance 25% of the project cost will be funded by the promoters or through Government subsidy under various schemes of central or state Government or through any other permissible means of raising funds, including bank loans, subject to the conditions imposed by the Trust and the Bank/Financial Institution concerned; • In cases where any other source of funding is sought/available, the promoters will have to contribute at least 15% of the project cost.

		<p><i>** For Companies with sanctioned assistance of above Rs.5 crore, the money released by the Trust/ Fund Manager would be in proportion to the loan tranche released by Bank/department of Govt of India, except in the cases being supported under Innovative ideas category selected by Technology Business Incubators (TBIs) as mentioned at point A above. In no case would the assistance from the VCF-ST exceed Rs. 5.00 crore and in the case of TBIs, exceed Rs. 30 lakhs (annually not more than Rs. 10 lakhs for a period of 3 years).</i></p>
8	Expected Returns Through investment	<p>a. In Equity investment, return at the time of exit by way of buyback / strategic investment / IPO shall be 4% p.a. or as per the valuation whichever is higher.</p> <p>b. Debt/Convertible Instruments - 4% p.a. (For women*/disabled** entrepreneurs - 3.75% p.a.)</p> <p><i>[*For considering a company owned by a ST women entrepreneur, the ST women entrepreneur should hold at least 51% of the shareholding in the company and should be the Managing Director of the Company;</i></p> <p><i>**In the case of disabled entrepreneurs, guidelines issued by the Department of Divyang Welfare for qualifying as disabled would be followed.]</i></p>
9	Re-structuring/ Reschedulement	<p>Restructuring/Re-schedulement can be allowed in cases (including stressed cases) depending on viability and issues involved on case-to-case basis by the Investment Committee. Fund Manager will come up with a circular, on its website,</p>

		clarifying all issue involved in re-structuring/re-schedulement, along with the circumstance in which re-structuring/re-schedulement will be applicable, having regard to proposals of various categories.
10	Exit Mechanism	<ul style="list-style-type: none"> • Exit through payments out of operations, buyback/redemptions by promoters/ companies, strategic investments, listing on stock exchanges or any other exit process • Exit process shall be determined on case-to-case basis depending on the nature of financial assistance and performance of the company.
11	Security requirements	<p>The following securities may be envisaged during the investment:</p> <ol style="list-style-type: none"> a. The assets of the project being funded/ assisted under the scheme shall be charged for security. The project assets will include land, building, plant & machinery and rights on licenses/ patents. b. Pari-pasu charge on assets with the Banks/FIs in case of the companies applying for loan with banks/ FIs on case-to-case basis. c. Pledge of Shares held by promoters and forming at least 26% stake and up to 51% of the Issued and Paid-up capital shall be taken. However, the percentage of pledged shares would be decided on case-to-case basis. d. In addition to the charge on assets, Post-dated Cheques (PDCs)/ Electronic Clearing Service (ECS) and promissory notes shall be taken.

		<ul style="list-style-type: none"> e. Personal guarantees of the promoters along with buyback agreement shall be entered. f. In case no mortgage in the form of project land is available, the borrower may arrange collateral securities. g. Securities envisaged may not be in violation of any State/Central/local laws etc. <p>For investment under any other scheme, pledge of shares held by the ST Promoter(s) in the Company shall be taken.</p>
12	Utilization of Funds	Sanctioned / committed funds and expenses to be considered as utilization of funds.
13	Process of Sanction	<p>Any proposal under the Scheme shall pass through two committees and four stages:</p> <ul style="list-style-type: none"> a. Screening Committee (Preliminary Stage): The proposals shall be put up before the Screening Committee for initial analysis to see (examine) whether the proposals are meeting the Eligibility Criteria & Preliminary Appraisal Parameters. After the clearance by the Screening Committee, the proposal shall be taken up for detailed appraisal, negotiations and structuring. b. Investment Committee (Final Stage) <ul style="list-style-type: none"> i. The detailed proposal prepared by the AMC shall be considered by the Investment Committee for sanction in case of eligible proposals. ii. The proposals appraised by the financing bankers/FIs may also be submitted by them with the appraisals for reference of the AMC.

		<p>iii. The quantum of assistance from the VCF-ST shall be decided by this Committee, while also ascertaining that the additional financial requirements for the project shall be tied up through various sources, including contribution of the promoter.</p> <p>c. Legal Documentation Stage: After the sanction by the Investment Committee, Letter of Intent (loI) along with the terms and conditions of sanction shall be issued to the invitee company. The necessary legal documentation shall be prepared and executed by the AMC.</p> <p>D. Disbursement Stage: After the completion of above process, the disbursement shall be made as per the terms and conditions of the sanction. The disbursement to the investee companies would be done in one lot, if the beneficiary so chooses. Further, the fund shall directly be released in the account of the beneficiary.</p>
<p>14</p>	<p>Composition of Screening Committee /Investment Committee</p>	<p>1. The two committees shall consist of representatives nominated by the NSTFDC/IFCI/IFCI Venture and one expert having sufficient experience from outside.</p> <p>2. None of the representative nominated in the screening committee shall be the representative at Investment Committee.</p> <p>3. The Screening Committee shall meet on monthly/regular basis to analyse the proposals received.</p>

		4. Atleast one member under each Committee shall belong to Scheduled Tribe category.
15	Time limit for completion of the Project	<p>a. The time for completion of the project would be as envisaged at the sanction stage, subject to maximum of 36 months period from the date of disbursement of the first instalment of assistance under the scheme, which may be extended by a further period of 3 months, if reasons for delay are considered justified by the Investment Committee.</p> <p>b. In case of non-compliance to the implementation schedule, the further balance disbursements of sanctioned amount would be subject to approval by the Investment Committee.</p>
16	Monitoring	Periodic visits, inspections of the enterprises shall be carried out by IFCI Trust. Quarterly reports shall be submitted to the MoTA on the progress in the scheme.

Role of NSTFDC

- a. Sourcing of applications with eligible ST enterprises.
- b. Public outreach through existing and new channels.
- c. A nominee from NSTFDC is to be member of Screening and Investment Committee
