

Society for Innovation and Entrepreneurship, (SINE), IIT Bombay

Guidelines for Approval of Funding Support

SINE incubates start-ups at a very early stage. Most of the start-ups are product based with strong technologies, and have long gestation periods. Typically angel/VC funds are not available for such start-ups at a very early stage. Hence seed fund support to such start-ups is a very critical component to SINE's incubation program. SINE generally gets grants from various government departments and under CSR initiatives from the Corporates for providing seed support to start-ups subject to the following guidelines:

1. **Instrument:** Seed support can be in the form of loan, equity or convertible instruments
2. **Amount:** The support amount shall be in up to INR 40 lakhs as per availability and/or as permitted by terms of funding agencies. Beyond this any increase or decrease in the support amount will be at the discretion of the IC.
3. **Investment Committee (IC):** The investment shall be approved by the IC to be set up by the Governing Board of SINE. Broad composition of the investment committee shall be:
 - 3.1. Representatives of governing board members which includes PIC
 - 3.2. An investor
 - 3.3. An entrepreneur
 - 3.4. Industry professional
 - 3.5. A representative from the department who has provided seed grants, if any
 - 3.6. CEO/Head of the incubator

4. Funds usage:

SINE can provide seed funds to its incubatees for their business needs. The Promoters/Company shall ensure that Seed Support shall be used solely for the purpose of the business needs as mentioned in their application for seed support and their business plan.

Broadly the seed support can be sanctioned for the following purposes:

- 4.1. Product development: Procurement of equipment, Testing and trials, outsourcing of technical supports and services for the company's product.
- 4.2. Manpower: Salaries for promoters and employees. However, payment of salary out of the seed fund to promoters shall not exceed 20% of the seed support unless explicitly approved.
- 4.3. Marketing: For test marketing, sales, promotions of companies' products and services including travelling only for business and product promotion.
- 4.4. Mentoring: Seeking professional mentoring assistance.
- 4.5. Professional services: For legal, accountancy, IP, marketing, strategy, regulatory compliance, certification, or any other justifiable professional services.
- 4.6. Contingencies/Overrun. This shall not exceed 10% of the seed support.

- 4.7. For any other business purpose which needs to be justified in the application itself and as recommended/ approved by the Investment committee from time to time.

The Support shall not be utilized for:

- 4.8. Repayment of loans or dues of promoters and their associates to the company
- 4.9. Repayment of loans from any other source nor for payment of interest on the support borrowed from such other source,
- 4.10. For extending loan supports to promoters, their associates
- 4.11. For making any inter corporate deposits or any speculative purpose,
- 4.12. Personal benefit of promoters or their associates
- 4.13. Company/ Promoter buying shares or any other security of the company or any other company
- 4.14. The disbursement of Seed Support shall be as per milestones to be decided at the time of approval of support.
- 4.15. Promoters and the company shall fulfil their own commitments with regards to milestones, financial contribution, etc. before requesting for release of disbursements.

5. Loan:

In case of Seed Support being approved in the form of loan as per statutory norms, SINE may stipulate any or all of the following terms in the loan agreement:

- 5.1. Interest on the loan shall be upto 8%, subject to change. The interest is payable quarterly, and a penal interest of 10% is permitted to be levied in case of intentional default.
- 5.2. SINE may ask for security in the form of hypothecation, in favour of SINE, of the equipment/assets purchased from the support amount.
- 5.3. In the event that the Promoters/Company raises loans from other lenders to be secured on its assets, the Promoters/Company shall simultaneously create pari-passu charge in favour of SINE to the extent of the unpaid amount of the Seed Loan.
- 5.4. If the Promoters/Company raises other loans than the Seed Loan, from other lenders, repayment of such other loans shall not be prior to the repayment of the Seed Loan.
- 5.5. The Promoters/Company shall not distribute any dividend pending payment of interest on the loan amount and repayment of principal amount of support to SINE.
- 5.6. The repayment schedule will be worked out at the time of sanction of support application and shall be part of the Support Agreement. However, if a company exits from SINE incubation facility before the specified repayment period, SINE can direct companies to repay the loan plus interest before its exit if SINE wishes so.
- 5.7. SINE will decide about the mode of repayment, which could differ from company to company.
- 5.8. SINE has the option of converting Loan into Equity. Terms shall be decided at the relevant point of time.

6. Equity or Convertible instrument (CCPS/OCPS): Following would be the broad guidelines for Seed Support in the form of equity:

- 6.1. In case of co-investment, valuation shall be as given by the other investors.

6.2. In case of standalone investment by SINE in the form of CCPS/OCPS, it shall be at the valuation as per the next round of investment.

6.3. In case of CCPS/OCPS SINE may stipulate a discount or a cap on the valuation at the time of conversion.

6.4. SINE may stipulate other clauses such as exit period, tag-along, drag-along, etc. in the agreement between SINE and the Company.

7. Monitoring: An appropriate monitoring process will be put in place for the seed support provided to the companies. Monitoring will include the following aspects:

7.1. Fund utilisation

7.2. Timely completion of activities listed in the seed support proposal.

7.3. Maintain appropriate record of assets purchased from the seed support.

7.4. Periodical utilisation reports as stipulated by SINE. SINE may seek audited reports of utilisation where it deems necessary.

7.5. To ensure that the promoters/ company will submit audited annual reports in a timely manner.

7.6. SINE may reserve a right to review or cancel the undisbursed portion of the Seed Support in case of non-performance or non-compliance of the terms. In case of slow or lack of progress in performance of the company, SINE may revise the terms of sanction of the support and stipulate such additional conditions as SINE in its absolute discretion deem necessary.

7.7. To ensure that the Promoters/Company shall take prior concurrence of SINE for effecting material changes or developments taken place in their companies that are likely to affect its business.

7.8. To ensure that the Promoters/Company shall take care of all its statutory liabilities.

7.9. To undertake periodic assessment, and to seek any such information as may be required by SINE and/or from concerned authorities from time to time.

7.10. To ensure that the Promoters/Company shall observe/comply with the conditions as may be stipulated by SINE for monitoring progress.

8. Other terms:

8.1. SINE shall ensure that the Promoters/Company shall not escrow its future cash flows or create any charge or lien or interest of whatsoever nature thereon without prior permission of SINE till the Support amount remains unpaid.

8.2. SINE may reserve a right to nominate any person as a Director, or as an Observer, or as an Advisor, who shall be invited for all the Board meetings and all management meetings, the decisions of which are likely to have impact on the business and financial viability of the Company.

9. Application: Applicants will submit the following documents/ information along with an application for seed support:

9.1. Purpose for which seed support is required

9.2. Copy of the Resolution passed by the board of the Company

9.3. Certificate of Incorporation

9.4. Memorandum and Articles of Association

9.5. If an application is made after commencement of operations of a company, the company will submit its latest financial position

9.6. Promoters' contribution to the capital

9.7. Any other material to substantiate its seed support application such as outstanding client orders, letters of intent for placing orders, strategic alliance agreements with customers, invoices for services rendered, and alike.

10. All seed support is subject to prevailing regulatory compliances. The Promoters/Company shall comply with provisions of the relevant Rules, Regulations and Acts applicable to the Promoters/Company.

11. SINE shall collect necessary KYC related documents, appropriate due diligence, execute appropriate legal agreements with the companies listing out the above terms and conditions. Non-compliance of the terms and conditions may invite a legal action from SINE and may force the Promoters/Company to exit from the Business Incubator. SINE may initiate legal action if non-compliance is wilful or a fraudulent act.

12. In case a company fails in its business or stops its operations, SINE may exercise a prudent approach towards the company and its promoters as long as the promoters have made full efforts to achieve a success, and there is no wilful or fraudulent act.

13. This is a suggestive guideline. SINE may adopt a modified approach based on the inputs from IC or directives and guidelines of the funding agencies.