

**SEED FUNDING GUIDELINES
FOR
PROMOTING MANUFACTURING START-UPS**



National Research Development Corporation
(An Enterprise of DSIR, Ministry of Science and Technology, Govt. of India)
20-22, Zamroodpur Community Centre, Kailash Colony Extn.
Ph: 011-29240401-07; Email: seed-funding@nrdc.in
Website : www.nrdcindia.com



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1. Preamble

NRDC had implemented Angel funding scheme in 2009 to promote innovations and start-ups and made few investments. The scheme is supported by DSIR, Ministry of Science and Technology, Govt under the promotional programme for nurturing ideas and innovation into successful start-ups. Considering the emerging innovation and start-up ecosystem in the country and the government of India flagship programmes like, Start-up India, Stand-up India and Make-in India, NRDC and DSIR has formulated a seed funding programme for promoting Start-ups.

The programme would work in line with the National priorities and its focus would be to build an innovation driven entrepreneurial eco system with an objective of socio-economic development through wealth and job creation. NRDC aims to nurture Start-ups through scouting, supporting and scaling of innovations based on its six decades of experience in promoting innovations/ entrepreneurship in the country.

2. Objective

Early stage finance is a key to the development of new innovation and the emergence of new knowledge-based companies. The scheme aims to-

- a) Promote and accelerate start-ups/aspiring entrepreneurs in the country who are incubating their ideas in any state/central government funded incubators.
- b) Promote fruitful utilization of research works carried out in the country by various public or private financed institutions or business houses or by any other person.
- c) Enlarge the knowledge and technological entrepreneurial base by encouraging entrepreneurs, belonging to the first generation, so that they undertake development and commercialisation of new products or new application of existing products or new technologies or processes.

3. Definition

- a) **Seed Funding** - Provisioning of fund to start-up by NRDC
- b) **Incubation Centre** –Any incubation centre (TBI/STEP/AIC) funded by state/central government and incorporated as section 8 company for creation of Incubation Centre where the entrepreneur/ Company/Start-up is being incubated



- c) **Company/Start-up** – Company/Start-up (as defined by DIPP/DPIIT, Ministry of Commerce and Industry, GoI) seeking financial support from the NRDC under the seed funding scheme
- d) **Assisted Company/ Start-up** – Assisted Company/Start-up in which the NRDC has equity participation
- e) **Core Promoter** - Individual or group of individuals who have formed the Company
- f) **NRDC** - National Research Development Corporation
- g) **Equity Participation** - Equity shares of the Company held by NRDC
- h) **IPO** - Initial Public Offer
- i) **IPR** - Intellectual Property Rights (Patents, Trade Marks, Copy rights, Engineering drawings and Designs, Business Models)
- j) **Project** - Assisted Company, engaged in development and commercialisation of new products or new application of existing products or new technologies or processes
- k) **Investment & Disinvestment Committee** – The Committee which would appraise the proposal and takes decision regarding investing and disinvesting in the Company/Start-up
- l) **Monitoring Committee** - The Committee which would monitor the progress of the Company/Start-up post seed funding

4. What the NRDC Proposes To Do

The NRDC proposes to participate in the equity share capital of start-up and early stage growth focused, innovative companies. It proposes to invest in innovative entrepreneurs at the crucial stage where the ventures are just getting off the ground. It is high stake investing, which can result in unexpected returns. The NRDC attempts to create the best possible environment for high impact entrepreneurs to start and grow their business. The scheme supports innovations that has the potential to build and shape the development of technology driven entrepreneurs.

Through this scheme, the NRDC would select start ups and early stage companies and provides a part of the capital required, as Seed funding to



innovators, who prima facie have the potential to develop into significant technical and commercial entities.

Further, the NRDC proposes to initiate the network of Seed Investors by way of syndication with them and other institutions involved in financing technology intensive projects. The proposed syndication will help the NRDC in attracting bigger projects, sharing risks, evaluation by more screeners, greater due diligence, saving on processing and monitoring cost of financing. It also results in knowledge exchange, networking, collaborative efforts, and the development and refinement of policies, procedures and processes for financing Seed/investments in future.

5. Who can be funded?

- a) Indian manufacturing Start-ups and early stage growth focused innovative companies (mainly engaged in development and commercialization of new products or new applications of existing products or new technologies or processes) based in Incubators in any State/Central Government supported institutions are eligible to seek seed funding from the NRDC.
- b) The Company should be incorporated under the Companies Act.
- c) The incubatee company must have been in existence for at least six months with the incubator, prior to submitting a fund request for seed funding.
- d) Company/Start-up should be registered with DIPP/DPIIT, Ministry of Commerce and Industry, GoI.

6. Which Activities can be funded?

- a) Fabrication, testing and trial of prototypes
- b) Setting-up pilot / demonstration plant including testing and trials
- c) Industrial product design
- d) Field trials (including limited market development, except as stand-alone activity)
- e) Phase I/II/III trials in case of pharma products,
- f) Setting up the first unit to demonstrate Commercial scale manufacturing using the innovative technology.
- g) Start-ups looking for scaling-up the on-going manufacturing facilities
- h) Technology sourced from public funded R&D organisation / universities for commercialisation



- i) Any other relevant activity / component of the project as recommended by the Investment and Dis-investment Committee

7. Type and Extent of Financing

- a) Equity participation
- b) The NRDC's equity stake would be upto a maximum of 26% of the paid up share capital of the Company.
- c) The extent of funding would be upto maximum of Rs. 30 Lakhs.

8. Appraisal and Selection by Investment & Disinvestment Committee

The Company needs to submit the complete proposal with Business Plan (including presentations to the NRDC / IDC).

An Investment and Disinvestment Committee (IDC) duly approved by the Board, shall appraise, select, invest and disinvest. The Committee shall be comprised of the following:

- a) CMD, NRDC as Chairman
- b) One official Director from NRDC Board
- c) Seed funding expert
- d) Financial Expert(s) to be nominated by NRDC
- e) In charge, NRDC at DSIR
- f) One TAC Member
- g) One Senior Official (CTO) from NRDC, Convener

The CMD's approval for exact composition by name of the IDC committee would be taken separately and the tenure for the members would be for a period of 3 years. Domain Experts as "invited members" will be invited as per the applications received on the discretion of CMD.

9. The Terms of Reference for IDC

- a) Appraise the investment and disinvestment proposals presented and recommend to CMD for approval regarding investing / disinvesting. NRDC would release the funds as agreed in the Investment Agreement (Please see Annexure – IC)
- b) Empowered to take decision for any change in Capital structure of Start-up.
- c) Power to decide the amount to be invested in the Start-up and its share purchase price shall depend on the valuation carried out by independent agency.
- d) Power to decide the exit time and value of disinvestment of shares as per the investment agreement (Please see Annexure – IC)
- e) Review the progress of the Start-up project at least once in a year



- f) Record the deliberations and its recommendations in the form of minutes of meeting
- g) All the IDC meeting expenses and incidentals of the Members of the Committee will be borne by NRDC
- h) CMD shall have the power to replace the member on superannuation / resignation of any member whatever the case may be whenever required
- i) The decision taken by the CMD is final in all aspects related to the seed funding scheme implemented by NRDC.

10. Evaluation criteria for IDC and due diligence process

Applications will be evaluated for their scientific, technological, commercial, managerial and financial merits. Due diligence process would be based on the following broad parameters which are inter-alia:

- a) Size of investment
- b) Size of company, industry trends
- c) Market Size including realistic plan for market penetration
- d) Technology yielding a product with a distinct competitive advantage
- e) Management team
- f) Successful IPR review (including IPR to be developed and its customers)
- g) Competition
- h) Technical milestones achieved to date and schedule for future events
- i) Revenue/ Business Model - Projected Returns (including how the company will make money for investors and willingness of the entrepreneurs to forego compensation until the cash flow of the venture becomes positive.)
- j) Promoters / Entity not a defaulter to any of its lenders
- k) Capacity to raise funds from the market
- l) Capability to implement the project
- m) Any other criteria as recommended by IDC

11. Evaluation Procedure

- a) Preliminary review by NRDC on receipt of the proposal
- b) Pre-screening and brief on the project highlighting pros and cons of the project by NRDC
- c) Selection / short-listing of start-ups by IDC based on the technical due-diligence and financial merits
- d) Financial, Legal and Corporate due diligence of the short-listed start-ups, found technically viable by the IDC, to be carried out by the empanelled agency of NRDC



- e) Based on due-diligence report, the valuation would be carried out by the empanelled agency, if required.
- f) Approval by CMD, NRDC
- g) Issuing of term sheet / sanction letter for Financial Assistance by NRDC
- h) Execution of Legal Documentation
- i) Release of financial assistance
- j) Reporting to Board
- k) Formation of Project Monitoring Committee (PMC)
- l) Implementation of the Project

These steps are not sequential and can be taken up in parallel / simultaneously. Further, these include presentations by the Company and on-site visits by the experts/committee members.

The NRDC reserves the right to amend the Broad Guidelines on Seed Funding without notice.

12. Disbursement of Investment

- a) Pre-investment Activity
 - i. The NRDC would release the funds on execution of all the required documents agreed in the Investment Agreement in a single installment.
 - ii. No management fees shall be payable to Incubator.
 - iii. The Company and the promoters of that company need to execute legal documents, viz., investment and disinvestment agreements, undertakings, etc. before release of funds by the Corporation. (It may include nomination of Director(s) on the Board of directors, buy-back/ disposal/ pledging of shares, providing personal undertaking and guarantees by the promoters, lien on IPR assets, project monitoring, inspection, audit, termination, resolution of disputes, etc.)
 - iv. The Corporation's participation in equity capital will not count as promoter's equity.
- b) Post-investment Activity
 - i. The Assisted Company will acknowledge the efforts of the Corporation by notifying on the finished product- 'innovation supported by National Research Development Corporation'.
 - ii. Nomination of Director(s) by NRDC on the Board of the Assisted Company.



- iii. The Start-up shall issue the share certificates in favour of NRDC within one month of disbursement of NRDC seed fund.

13. Project Monitoring Committee (PMC)

The Project Monitoring Committee will have the following Members:

- a) One local Technical Expert - Chairman
- b) In charge, Incubation Centre or his nominee
- c) One local Financial expert
- d) CTO of NRDC - Convener

NRDC to pursue for the half yearly progress reports from the start-up

The Project Monitoring Committee will review the progress of the Start-up project and would meet atleast once in a year

Inspection, Audit etc., by NRDC as mutually agreed.

14. Exit Option

- a) When the objective of translating new technology to a commercial venture has been achieved and when an opportunity is available to make good returns on NRDC investment, the IDC may take a decision on the basis of PMC recommendations to exit as per the procedure stipulated in the agreement. However, the NRDC reserves the right to exit at its discretion.
- b) Generally, the period of investment would be 3 to 7 years from the date of investment.
- c) When the NRDC decides to disinvest, the equity shares may be first offered to the promoters (i.e. first right of refusal lies with the core promoters). In case of refusal, the NRDC shall be free to dis- invest its equity in favour of any other entity.