



GOVERNMENT OF KERALA

Abstract

Finance Department - Setting up of a Government sponsored Venture Capital Fund for promoting startups in Kerala in line with the announcement in the Annual Budget 2021-22 - Sanctioned - Orders Issued.

FINANCE (INFRASTRUCTURE) DEPARTMENT

G.O.(Rt)No.4681/2022/FIN Dated, Thiruvananthapuram, 27-06-2022

Read: 1) Budget Speech of 2021-22 of Government of Kerala (*Paragraph No.111*)

ORDER

In the Annual Budget 2021-22 of Kerala State, it was proposed to set up a Venture Capital Fund to activate the rapid growth of small-scale enterprises and start-ups. It was proposed that the fund would be mobilized through the participation of KFC, KSFE, KSIDC, Kerala State Co-operative Bank, Commercial Banks and the deposits of Non-Resident Keralites. An amount of Rs.1 crore was earmarked to set up this fund for meeting the initial expenses. Accordingly, a proposal for setting up the proposed Venture Capital Fund sponsored by Government of Kerala was prepared.

The salient feature of the proposed Fund are as follows:

i. **FUND STRUCTURE, SIZE AND SPONSOR:**

It is proposed to have a Fund Size of Rs 250 Cr with a green shoe of Rs 250 Cr and a term of 8 years from the date of final closing (extendable by another 2 years) and a commitment period commencing at the date of first closing and terminating at the end of 3 years from the date of final closing.

The fund is proposed to be set up as a Trust, settled and sponsored jointly by agencies from among KFC, KSFE, KSIDC or other financial institutions owned/controlled by Government of Kerala on behalf of Government of Kerala. The Sponsors shall make Capital Commitments of Rs 25 Cr/ Rs 50 Cr in total (10% of Fund Size) based on whether the green shoe is exercised. The Sponsors will ensure that, the Sponsors' Capital Commitment or continuing interest will always be at least Two-point Five Percent (2.5%) of Corpus of the Fund or INR 50 million, whichever is lower, in line with SEBI regulations.

The Fund shall raise the balance capital contribution from Central government financial institutions, Pension Funds, Endowments/ Foundations, Development Finance Institutions, Commercial Banks, Insurance Firms, HNIs/ Family offices/NRNs, Corporates etc.

ii. **FUND STRATEGY, SECTOR FOCUS AND KEY FUND TERMS:**

Given Kerala's inherent strengths in diverse sectors such as Information Sciences, Engineering and Technology, Tourism, Ayurveda, Agriculture, including organic farming/ specialized farming, it is proposed to have a broad-based sector agnostic fund, which would have adequate flexibility in its mandate to allocate risk capital across various sectors.

The Fund will primarily focus on start-ups, located in Kerala or having a significant majority of their operations in Kerala that have achieved a certain level of maturity in terms of credibility and validation of business model, achieved a product-market fit and a threshold revenue, and have a promoter profile that lends credibility on their execution ability et al. The Fund shall invest in companies typically with pre-money valuations within a suitable range (sweet spot) as elaborated in **Annexure A**.

The Fund may focus on a portfolio size of about 20 - 25 companies with the capital size ranging between INR 10 Cr to INR 25 Cr per company. The Fund shall target a gross internal rate of return ("IRR") of 25% from the investments that it makes. The Investment Manager shall work closely with the portfolio companies to bring significant value addition in their business development, product distribution, product strategy, technology, and engineering et al. The Key Fund terms are given in **Annexure B**.

iii. **INVESTMENT MANAGER:**

The Fund shall be managed by an Investment Manager, which shall be a professional board run Company, having an investment team with the desired credentials.

Kerala Infrastructure Investment Fund Board (KIIFB) has already promoted Kerala Infrastructure Fund Management Limited (KIFML) to act as Investment Manager to Kerala Infrastructure Fund (KIF), a Category – II AIF, sponsored by KIIFB, which targets investments in commercially viable infrastructure projects in the State.

Given that KIFML is already incorporated to manage KIF, and given that with separate investment teams, KIFML could manage multiple funds, it is proposed that a separate investment team be set up in KIFML, under a Head – VC Fund, to manage the proposed VC Fund.

In terms of organizational structure, the Head - VC Fund, shall report to the CEO of KIFML. While CEO, KIFML ensures the governance and adherence to the mandate for the funds being managed by KIFML, the Head - VC Fund shall have autonomy with respect to the VC Fund including matters related to fund raise, investment strategy and process, investment team etc.

The Fund shall pay an annual management fee to the Investment Manager, which shall be payable bi-annually in advance from the assets of the Fund. In addition, the Investment Manager shall also receive an amount equal to their share of Preferential Return (proposed to be at 20%) based on the value at which the Fund Investments are liquidated (appropriately adjusted for any distributions in specie to Contributors).

The Government have examined the matter in detail and sanction is hereby accorded for setting up of a Kerala Government sponsored Venture Capital Fund for promoting startups in the State of Kerala as proposed above. The Key Fund terms (as given in *Annexure B*) will be altered only as decided by the Finance Department from time to time.

(By order of the Governor)
ANIE JULA THOMAS
ADDITIONAL SECRETARY

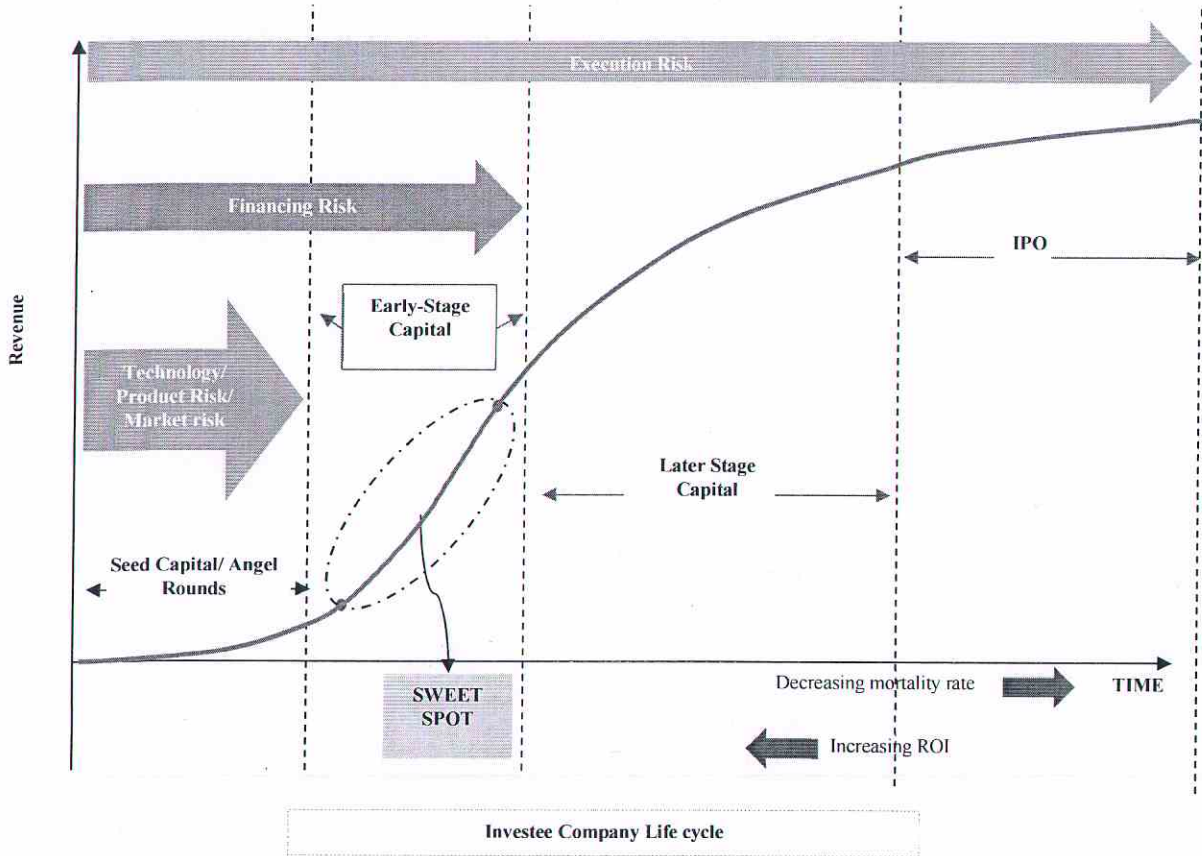
To:

The Principal Accountant General (A&E /G&SSA), Kerala, Thiruvananthapuram
The Accountant General (E&RSA), Kerala, Thiruvananthapuram
The General Administration (SC) Department, *Vide item No.....dated:.....*
The Private Secretaries to Hon'ble Chief Minister
All Private Secretaries to Hon'ble Ministers
All Secretaries to Government All Departments of Secretariat
The Chief Executive Officer, Kerala Infrastructure Investment Fund Board (KIIFB)
The Chief Executive Officer, Kerala Infrastructure Fund Management Ltd (KIFML)
The Managing Director, Kerala Financial Corporation
The Managing Director, Kerala State Financial Enterprises Ltd
The Managing Director, Kerala State Industrial Development Corporation
The Nodal Officer (www.finance.kerala.gov.in) & (www.kiifb.org)
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Section Officer

ANNEXURE A - STAGE OF INVESTMENT:



ANNEXURE B - KEY FUND TERMS:

| TERMS | DETAILS |
|------------------------|--|
| Category of Fund | Category-I Alternative Investment Fund – Venture Capital Fund, regulated by SEBI |
| Name of the Fund | Kerala Innovation Fund |
| Structure | Investment Trust with 3rd party Trustees |
| Fund Sponsor | Sponsored jointly by agencies from among KFC, KSFE, KSIDC or other financial institutions owned/controlled by Government of Kerala on behalf of Government of Kerala. |
| Term | 8 years from the date of final closing (extendable by another 2 years) |
| Class of Units | Class A units – for Domestic & Overseas Private Investors – Both Retail and Institutional. Class B units – for DFIs such as ADB, JICA, IFC and others, SIDBI, Impact Fund of Funds, Foundations, and others. Class C units – for Sponsors (Kerala Government Entities) Class D units – for Investment Manager |
| Commitment Period | Commitment Period commencing at the date of first closing and terminating at the end of 3 years from the date of final closing |
| Fees | Management Fee – 3% p.a. in INR terms |
| Hurdle Rate | 10% in INR terms. |
| Target IRR | 25% in INR terms. |
| Investment Instruments | Equities in identified investee companies, hybrid instruments which are compulsorily convertible into equity. |
| Portfolio Size | About 20 - 25 companies with the capital size ranging between INR 10 Cr to INR 25 Cr per company. |