

# De-mystifying Impact Investing

## An Entrepreneurs' Guide

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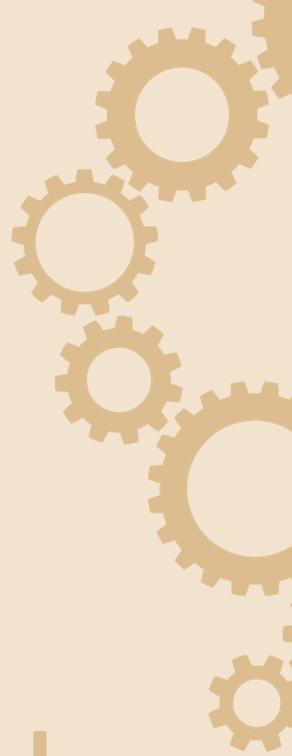
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# This Handbook

**T**his handbook has been designed as an easy read to provide information on not just a number of impact funds but also on investing essentials like the instruments used, investment process, term sheets as well as what investors look for. The information collected in this handbook was born out of interviews with numerous entrepreneurs and investors and envisages plugging the essential information dissymmetry present in the industry and supporting and encouraging entrepreneurs to make more informed and efficient decisions.

# Foreword





## Foreword

Dear Readers,

It is widely acknowledged that India is one of the major markets for impact investing with innovative entrepreneurs who serve the “Bottom of the Pyramid”, pioneering investors that walk the extra mile to help entrepreneurs scale their business models, and a supportive and highly evolved ecosystem comprising a diverse set of stakeholders.

Together with SIDBI, the Small Industries Development Bank of India, GIZ, under the framework of Indo-German bilateral cooperation funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) aims to make a contribution to further strengthen the eco-system for impact investing. Our joint “Responsible Enterprise Finance Programme” started in late 2013 and as one of our focus areas we work to increase the number of enterprises that have access to risk capital.

Within this framework, we have collaborated with a number of stakeholders to increase transparency in the industry and support capital flow to social enterprises as well as strengthen incubators and help entrepreneurs get investment ready. A recent report launched together with Intellecta entitled The Indian Impact Investing Story shows that USD \$ 1.6 billion of capital has been invested in 220+ impact enterprises across India since the year 2000.

For social entrepreneurs it is often a challenge to understand when to raise which kind of capital including grants, seed funds, angel investments, impact oriented venture capital as well as debt, which investors to approach for their financing needs and how investor involvement may impact the development of their business. This guide addresses some of the questions we have heard frequently when talking to entrepreneurs, and we hope that it will be of help when looking for capital from impact oriented funds:

Written by entrepreneurs for entrepreneurs, it lines out requirements, investor expectations as well as investor types in an easily accessible way, and also offers support to entrepreneurs in asking the right questions and approaching the right investors for their particular needs.

We are very interested in your feedback as well as suggestions for our future work, and would kindly ask you to take a few minutes to fill in the enclosed postcard and send it back to us.

Enjoy reading and good luck on your journey towards raising capital!

Wolfgang Leidig  
Director Private Sector Development  
GIZ India

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# Content

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## Chapter-I

# Introduction

“Because the people who are crazy enough to think they can change the world, are the ones who do.”

–Steve Jobs



## Introduction

One of the most challenging tasks for any entrepreneur is to raise funds for his or her venture from others. It requires not just good business but also persistence, negotiation skills and a thorough understanding of the position of the investor sitting opposite him or her. Most entrepreneurs understand their own needs and constraints very well but often fail to acknowledge the requirements and limitations of the investors, creating deadlocks and breakdown of talks. In the development sector, this problem is further compounded as the return expectations are not clear and the investor mindset is harder to understand since their requirements cannot be boxed into financial parameters alone. Besides, entrepreneurs often start their journey heavily passionate about their missions and causes, speaking a language very different from the quantitative-heavy investor speak. This handbook has been designed for early stage entrepreneurs and potential change-makers and attempts to de-mystify the language and requirements of typical impact investors that they will encounter while raising funds. This handbook has been written by entrepreneurs and for entrepreneurs and has a number of interviews, quotes and comments from those who have successfully and unsuccessfully raised capital over the past five years. Furthermore, the handbook also tries to highlight some of the different 'impact funds' with the objective of reducing the time and effort that the entrepreneur spends in finding the right funding match.



## The Genesis

The social sector has been historically grant funded. This means that based on the impact and social work that the entrepreneurs perform, philanthropic individuals have been giving them money and support, often not expecting any returns other than just evidence of the good work. This sort of funding has been extremely beneficial in areas where commercial models are challenging or the solutions are

risky and require a high degree of experimentation or innovation. Besides, very early stage enterprises also gain from these grant funds as they can utilize it to ameliorate their business model and sharpen their offerings. Over the past few years, probably since the late nineties, there has been a tacit understanding that in some cases 'grant' or 'free' funds might not be the best way to have a social impact and might not be able to create a growth-based ecosystem. This realization might have also come from the lack of sustainable results and a high amount of pilferage that some social organizations have unfortunately shown. Also, the argument has been that the 'social' mindset and 'free funds' have also retarded professional behavior and innovation often leading to heavy wastage and high resource drain. Finally the recessions in the recent years and the drying up of grant funding sources have also reduced the popularity of pure philanthropic capital as many large donors have been forced to reduce their development spending significantly.

From all this 'a new class of investors' has emerged who, while looking to make a social impact with their funds, also look for financial returns (or at least a return on capital). This group has coined themselves 'Impact Investors' and over the past five years, have mushroomed in every country and sector that earlier was grant funded or regarded as social. While this development is positive and has been welcomed by entrepreneurs, this class of investors is still very unstructured, unregulated and lacks a credible track record of matching their words with their actions. India, being one of the largest playgrounds for development professional has seen a large share of 'impact investment funds' with nearly 80 funds presently investing or looking to invest here (list of contacts enclosed in Appendix 1).



## The Conundrum

This 'Impact Investor' funding source is often confusing for entrepreneurs as even though they all call themselves 'impact focused', their expectations, metrics, requirements and expertise are all very diverse and very little information is available publicly on most of them (especially for the seed and early stage funds). This often makes entrepreneurs looking for funding waste a lot of time finding the correct match and also makes the search tedious, taking precious time and resources away from the real challenge that they have set out to solve. Another issue a number of entrepreneurs face with this source of funding is the difference in language used by the investors, often quite financial and quantitative in nature, which typically lies outside the domain of understanding of the social entrepreneurs. It might be interesting to note at this juncture, that our research while drafting this handbook showed that while a number of 'impact funds' proclaim their affinity to high impact, they are also typically very inclined to make 'tangible profits' from their investments and often use the same standards and terms that are prevalent in pure profit centric investments in other fields like technology or consumer goods. While interacting with over 25 potential entrepreneurs looking for funding during the research for this handbook, we observed that less than 25% were aware of what the investors looked for, what terms would be in place to get the investment and what to expect post investment and less than even 10% had proper information about the impact investors that they were going to pitch to (like the returns expected, length of fund cycle, support services etc.).

This asymmetry of information is very dangerous to entrepreneurs since in order to get funding they are often expected to share fine details of their models (often without any Non Disclosure Agreement) while not knowing anything about the investors opposite him or her. Consultants and advisors who claim to represent the entrepreneurs also often make the investor's side even more opaque and confusing, compounding this problem further. In many cases it is seen that entrepreneurs either pitch too early or too late, missing out on investment opportunities available.



## The Growing Trend

According to a global impact investment market study by JP Morgan<sup>1</sup>, and the Global Impact Investment Network (GIIN), investors see this impact investing as a market 'in its infancy and growing' with almost USD 4 billion planned for investment in the coming years. The Monitor Institute<sup>2</sup> estimates that over the next 5-10 years impact investments will grow to 1% of global assets under management.

A large number of these impact funds operate like regular funds with a fund cycle of 10-12 years but a few of these are donor based, i.e., their funding source is philanthropic donations. According to the Harvard Kennedy School definition, the level of financial returns that investors find acceptable depends on their investment philosophy and the rates of financial return they perceive acceptable. Hence, they make decisions on the sectors and businesses to invest in based on these values and criteria, and what may be seen as having a positive social and environmental impact by one investor may be perceived differently by another.<sup>3</sup>

Many of the impact investors targeting India are headquartered outside the country, with more than 50% of them headquartered in the USA and the remainder being headquartered primarily in Europe, and also South East Asia and Australia. The skewed distribution of headquarters outside India highlights that a large proportion of impact investing in India, is financed by American investors<sup>4</sup>. While most of the Impact Funds are private and have raised funds internationally, The Government of India's National Innovation Council (NIC) has also set up the India Inclusive Innovation Fund (IIIF) at a value of INR 500 Cr to give out seed

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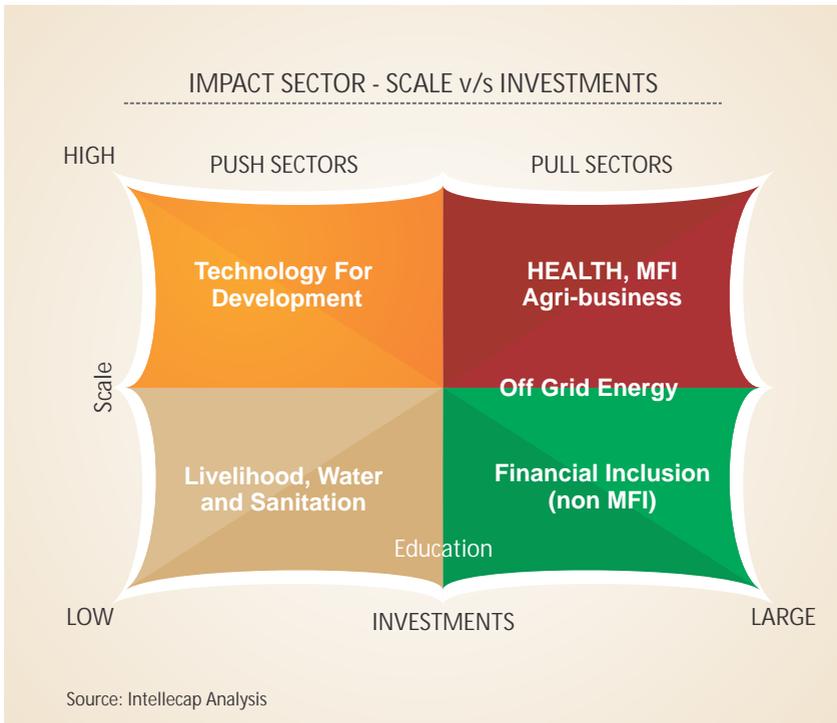
<sup>1</sup>JP Morgan GIIN 2011

<sup>2</sup>Monitor Group, 2009

<sup>3</sup>Harvard Kennedy School, 2010

<sup>4</sup>Enablers for Change, GIZ Study, 2012

funding and grants in the country<sup>5</sup>. Examples of other initiatives<sup>6</sup> at the multilateral level include the SME Finance Challenge by the G-20 group of nations to find and scale sustainable solutions for financing small enterprises globally, and the current G20 and IFC Challenge on Inclusive Business Innovation (a global search for businesses with innovative, scalable, and commercially viable ways of working with low-income people in developing countries)<sup>7</sup>. Also in India, it has been seen that most of the investments made by these funds have been in the Southern and Western and states like Karnataka and Maharashtra<sup>8</sup>.



<sup>5</sup>National Innovation Council, 2011

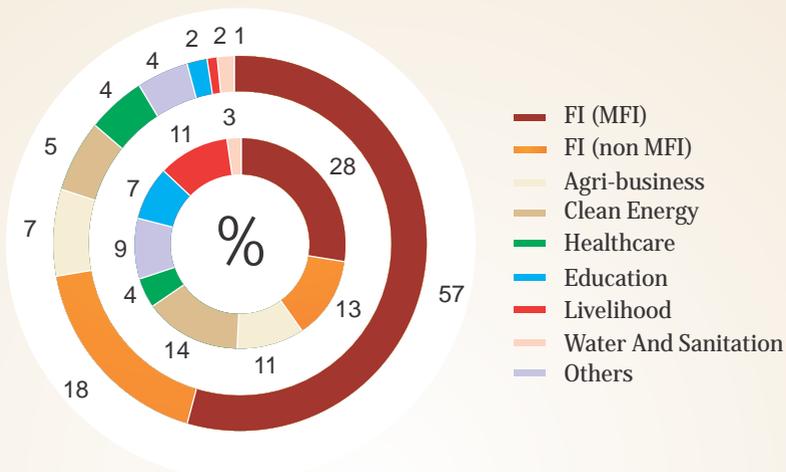
<sup>6</sup>[http://innovationcouncilarchive.nic.in/index.php?option=com\\_content&view=category&layout=blog&id=25&Itemid=28](http://innovationcouncilarchive.nic.in/index.php?option=com_content&view=category&layout=blog&id=25&Itemid=28)

<sup>7</sup><http://www.g20challenge.com/>

<sup>8</sup><http://intellecap.com/publications/invest-catalyze-mainstream-india-impact-investing-story>

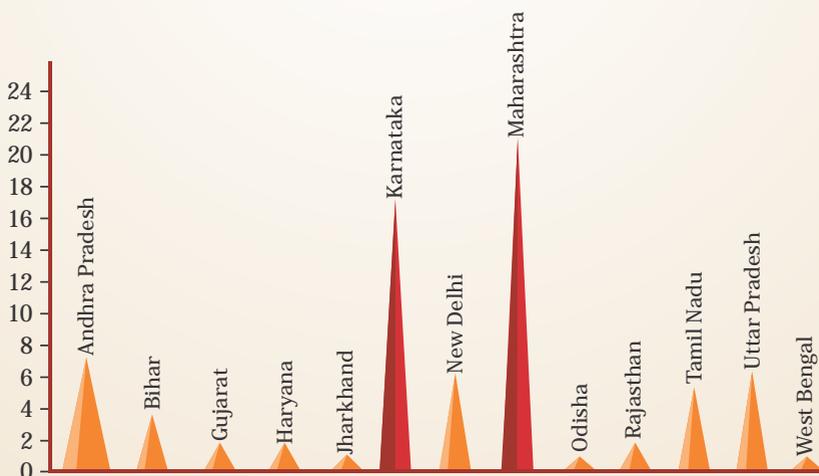
## SECTOR-WISE SPLIT OF AMOUNT INVESTED & NUMBER OF DEALS

Internal Ring Represents Number of Deals in Impact Enterprises  
Outer Ring Represents Amount of Investment in Impact Enterprises



Source: Intellect Analysis, VCC Edge, Venture Intelligence, Deal Curry

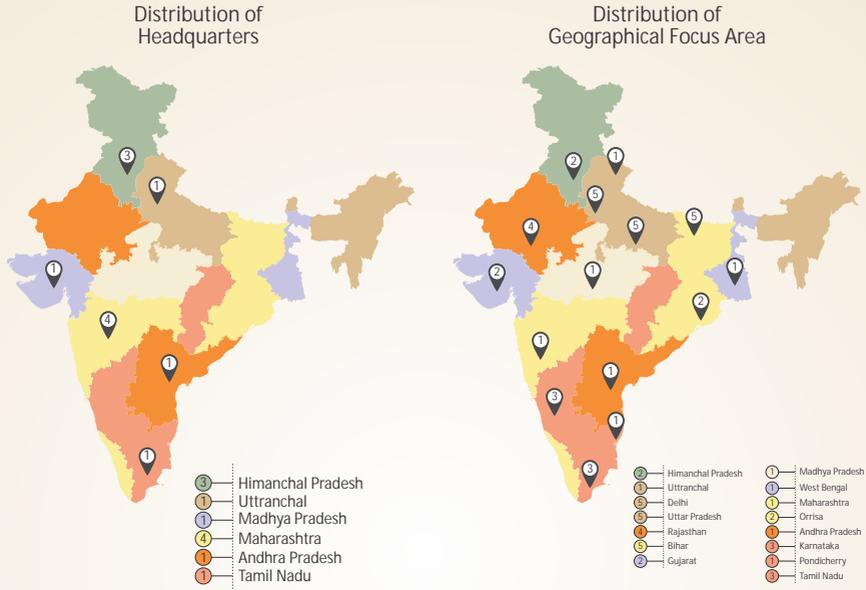
## SHOWING STATE-WISE RECIPIENTS OF INVESTMENTS AS INDICATED IN THE DESK RESEARCH AS WELL AS SURVEY RESPONSES



Source: Enablers for Change – A Market Landscape of Indian Social Enterprise Ecosystem, GIZ Study, September, 2012, page 45

GEOGRAPHIC PROFILE OF INVESTORS AND INVESTMENTS

Illustrating Headquarters And Geographical Focus of The Impact Investor Sample As Per Desk Research



Source: Enablers for Change – A Market Landscape of Indian Social Enterprise Ecosystem, GIZ Study, September, 2012, page 45

## Chapter-II

# Type of Investment Instruments

“Constantly think about how you could be doing things better and keep questioning yourself”

–Elon Musk (Founder, PayPal)

Often while raising funds, the first question asked to any entrepreneur is the 'type' of investment that he or she is looking for. This is a difficult question as every type of investment instrument has its advantages and disadvantages and a social enterprise may need both debt and equity depending on the activities. Besides, a number of quasi-equity products are now being recommended which are complicated and hence entrepreneurs should understand these well before committing to an investment.

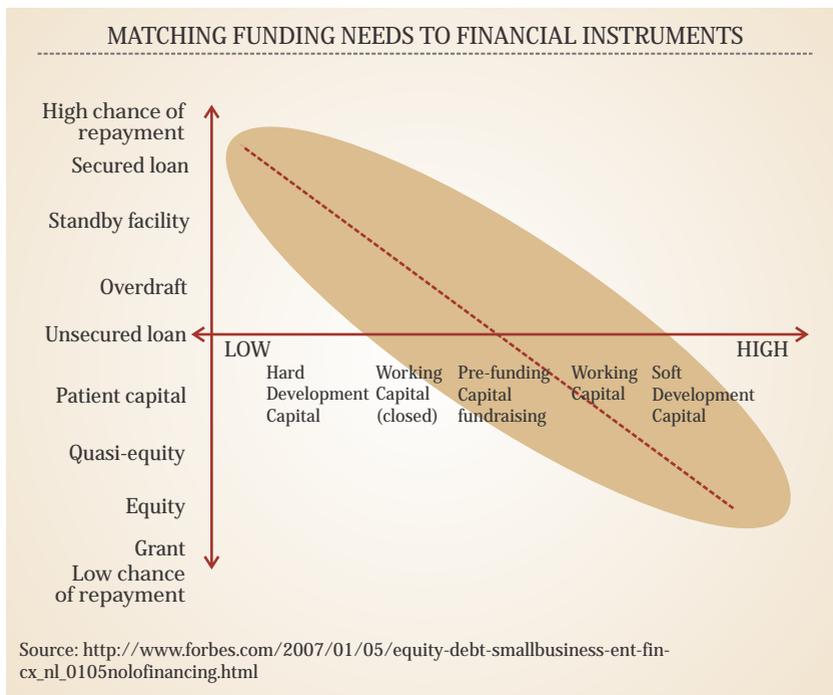
Impact investors employ a number of investment instruments to support entrepreneurs financially based on the nature and strategic focus of their funds and also at times the sector and geography of the social enterprise. These investments are governed by the Ministry of Corporate Affairs (MoCA)<sup>9</sup>, Government of India and the Reserve Bank of India (RBI)<sup>10</sup> norms and need the required paperwork to be completed with the proper authorities. The primary investment instruments in play are debt, equity and quasi-equity instruments along with grants and awards (which are less classified as impact investments and more as donations).

While international investors are not allowed to do pure debt investments in India, quasi equity investments that mimic many features of a debt product are often encouraged.

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<sup>9</sup>[www.mca.gov.in](http://www.mca.gov.in)

<sup>10</sup>[www.rbi.org.in](http://www.rbi.org.in)



## Debt

Debt means a simple 'loan' that the company takes from an institution or individual for its funding requirements. This loan has a set time period, interest rate (sometimes called coupon rate) and is also considered a superior investment (i.e. it gets priority over equity and others in the case of dilution or bankruptcy of the company). In case a security or collateral is attached to the debt, it is termed as 'secured debt' and if no security amount or collateral is needed (loans from friends and family might be by this time), then it's called as 'unsecured debt'. Unsecured debt<sup>11</sup> also includes credit card debt, medical bills, utility bills and any other type of loan or credit that was extended without a collateral requirement. It presents a high risk for lenders since they may have to sue to get the

<sup>11</sup><http://www.investopedia.com/terms/u/unsecureddebt.asp>

money they're owed if the borrower doesn't repay the full amount owed. As a result of this high risk, unsecured debt tends to come with a high interest rate. Unsecured debt can be wiped out by bankruptcy, but taking this dramatic step makes it more difficult to obtain financing for the next seven to ten years. On the other hand, under the terms of a secured loan, the lender can seize the collateral used to guarantee the loan if the borrower defaults. Examples of secured debt include mortgages, which are secured by houses, and auto loans, which are secured by cars. Because the borrower has more to lose by defaulting on a secured loan and the lender has something to gain, this type of loan will have a lower interest rate than an unsecured loan.



### Advantages of Debt over other financial instruments

- The lender has no management say or direct entitlement to profits in your business
- The upside or payout is limited to the interest rate that the loan entails (so even if the enterprise makes more profits than estimated, the obligation will still be fixed)
- The only obligation to the lender is to repay the loan on time. Loans from close relatives, friends may have flexible repayment terms and may be without collateral



### Disadvantages

- In most cases, a security or collateral needs to be provided to get the loan (for a secured debt)
- The bank or loan agency can go after the entrepreneur (in most cases) if the loan is not paid on time
- The loans may take valuable cash away from the company at a very early stage



## Equity

Equity means 'shares' of the company and equity as an investment instrument entails selling a share of the company for a certain price based on an agreed upon valuation. Equity can be infused into a private limited company as well as a publicly listed company (whose shares are traded on the stock market) but in the context of impact investing, equity into a private company is more relevant.

Before understanding equity as an instrument for impact investing, it is important to highlight the features and constraints of a private limited company in which equity capital is infused.

In India, a Private Limited Company is the most common legal entity for social enterprises and this type of legal structure can have at the most 200 shareholders increased in 2013. The shares of this form of company are not traded in public and not issued through an initial public offering. This is a very popular legal entity (as compared to a 'Proprietorship' or complete ownership) since it entails 'limited liability' for the promoters. 'Limited Liability'<sup>12</sup> means that if the company experiences financial distress because of normal business activity, the personal assets of shareholders will not be at risk of being seized by creditors. For registering a private limited company, two shareholders are sufficient (both Indian citizen) and this structure is also preferred by most impact investors since it is more transparent and has better and stronger governance laws (as compared to completely owned proprietorships). The only issue with a private limited company is that growth is limited to 50 shareholders and the shares cannot be transferred to anyone else without the agreement of other shareholders.

<sup>12</sup><http://www.dineshbakshi.com/igcse-business-studies/business-organisation/revision-notes/879-private-limited-companies>

Equity financing spans a wide range of activities in scale and scope, from a few thousand raised by an entrepreneur from friends and family, to giant investments running into the billions by venture capitalists and private equity firms. A non-resident entity can infuse funds in an Indian social enterprise as a contribution to capital subject to the conditions prescribed in the Foreign Direct Investment (FDI). Capital that can be repatriated by way of withdrawal of capital or transfer/ assignment of partnership interest or through winding<sup>13</sup>. Equity shares need to be issued by the Indian company typically within 180 days of receipt of funds from the foreign investor.



### Advantages of Equity over other financial instruments

- No collateral is needed for equity investments which means that no other asset of the entrepreneurs is risked
- Cash flow (the most important thing to manage by early entrepreneurs) does not get affected for the invested period
- The investors share the risk of downside and hence safeguarding the entrepreneur to a certain extent
- The entrepreneur can use the cash for all the start-up costs, instead of making large loan payments to banks or other organizations or individuals when the cash flows are not strong
- Depending on the investors, they may offer valuable business assistance that the entrepreneur may not have



### Disadvantages

- Equity investors usually end up taking a larger share of the business' profits than a bank or other lender. (Since an investor is at a greater risk of losing his or her investment, the entrepreneur will need to compensate the investor for this risk with a bigger payoff)

<sup>13</sup>[http://indiainbusiness.nic.in/newdesign/upload/Publications/Doing%20Business/funding\\_business.pdf](http://indiainbusiness.nic.in/newdesign/upload/Publications/Doing%20Business/funding_business.pdf)

- The investors will technically be co-owners, and they have a legal right to be informed about all significant business events, as well as a say in management (depending on how you frame your term sheet)
- The company will always have a responsibility to take the investors' interests into account when making business decisions, even if it's not what's best for the entrepreneur

*Loans or Equity Investments: Which should the Entrepreneur choose?<sup>14</sup>*

*If you're trying to finance a startup venture, it's better to seek equity investments, because you generally only have to repay investors if the business turns a profit.*

*For ongoing needs of a running company, loans are better for businesses with cash flow that allows for realistic repayment schedules, and for businesses that can obtain the loan without jeopardizing personal assets.*

*Deciding whether to borrow money or to take on co-owners can be tricky and very specific according to the business and sector.*

*Typically, seed stage impact investments are often equity rather than debt since the risk associated with the business is higher and cash flows are not always well defined. Also, international institutions or individuals cannot give direct pure debt to Indian enterprises (according to the Reserve Bank of India guidelines) and hence often equity sometime remains the only option (other than quasi-equity instruments and convertibles explained below).*

<sup>14</sup>[http://www.forbes.com/2007/01/05/equity-debt-smallbusiness-ent-fin-cx\\_nl\\_0105nolofinancing.html](http://www.forbes.com/2007/01/05/equity-debt-smallbusiness-ent-fin-cx_nl_0105nolofinancing.html)



## Quasi – Equity

There are situations in which debt financing is inappropriate or too onerous for social enterprises (especially in early stage, high-risk startups), while the use of share capital is simply not possible because of the way many such enterprises are legally structured and the high risks they carry<sup>15</sup>. In such circumstances, quasi-equity instruments may offer a useful source of finance. This is a kind of investment instrument that falls under the category of debt taken on by a company but has some traits of equity, such as flexible repayment options or being unsecured. These investments' risk-return profile typically falls between debt and equity in a company's capital structure. Some types of quasi-equity may be converted from possessing debt to equity characteristics, and vice versa.



## Types of Quasi-Equity Instruments used by Impact Investors<sup>16</sup>

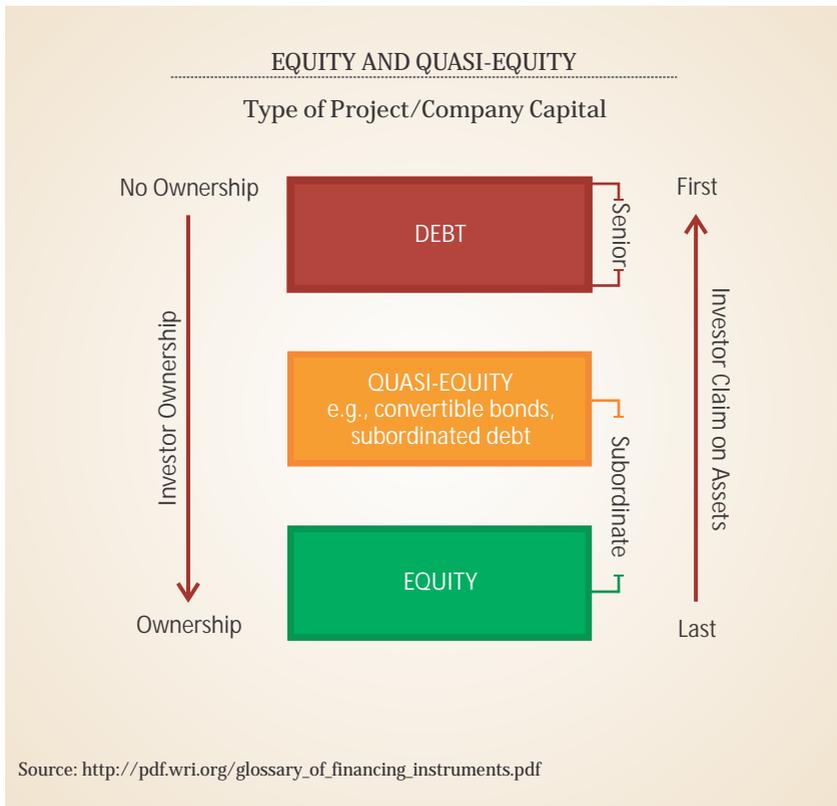
**Convertible Bonds:** A type of bond (loan) that can be converted into shares of common stock in the issuing company, or into cash of an equivalent value. A convertible bond is essentially a bond with a stock option; because interest is paid before any stock dividends, this is a safer instrument for the investor relative to an equity investment.

**Subordinated Debt:** Riskier than traditional debt, subordinated debt has a lower claim on assets; that is, if a project/company falls into bankruptcy, subordinated debt will be repaid only after other, more "senior" debt is repaid<sup>17</sup>. While subordinated debt is a riskier investment, investors can potentially achieve higher returns from subordinated debt investments relative to traditional debt.

<sup>15</sup><https://www.cafonline.org/pdf/VenturesomeQuasiEquityMarch2008.pdf>

<sup>16</sup>[http://pdf.wri.org/glossary\\_of\\_financing\\_instruments.pdf](http://pdf.wri.org/glossary_of_financing_instruments.pdf)

<sup>17</sup><http://www.rockefellerfoundation.org/app/uploads/Accelerating-Impact-Full-Summary.pdf>



An investor's claim on assets is higher in the case of quasi equity rather than pure equity making it more popular with impact investors. Additionally, in a number of cases, the valuation of a social enterprise at an early stage is very difficult to compute and hence quasi-equity instruments like convertible bonds etc. are a better fit as they postpone the valuation discussion to the next round.

### CCPS – Compulsory Convertible Preference Shares:

Another option for investors to invest in a company in India (especially by international impact investment funds) is through the issue of preference share capital. Foreign investments through convertible preference shares, which are compulsorily convertible into equity shares, are treated as FDI.

The following regulatory laws are relevant:

- According to Indian Company Law, preference shares have to be redeemed within a period of 20 years, and issue of preference shares is permissible only as a rupee-denominated instrument.
- The rate of dividends paid to non-residents should not exceed the limit prescribed by the Ministry of Finance (currently fixed at 300 basis points above State Bank of India's prime lending rate).
- Preference shares need to be issued within 180 days of receipt of funds from the foreign investor.

NOTE: Preference shares that are not compulsorily convertible into equity shares are construed as External Commercial Borrowings and hence, need to conform to the ECB guidelines (treated as international debt) and are not always available to impact investment funds.

Some additional clauses for international investors (new guidelines issued by RBI and SEBI in October, 2013)<sup>18</sup>:

Investment in security: Equity shares or fully, compulsorily and mandatorily convertible preference shares / debentures

<sup>18</sup><http://www.kpmg.com/IN/en/services/Tax/FlashNews/RBI-issues-pricing-guidelines-for-FDI-instruments-with-optionality-clauses.pdf>

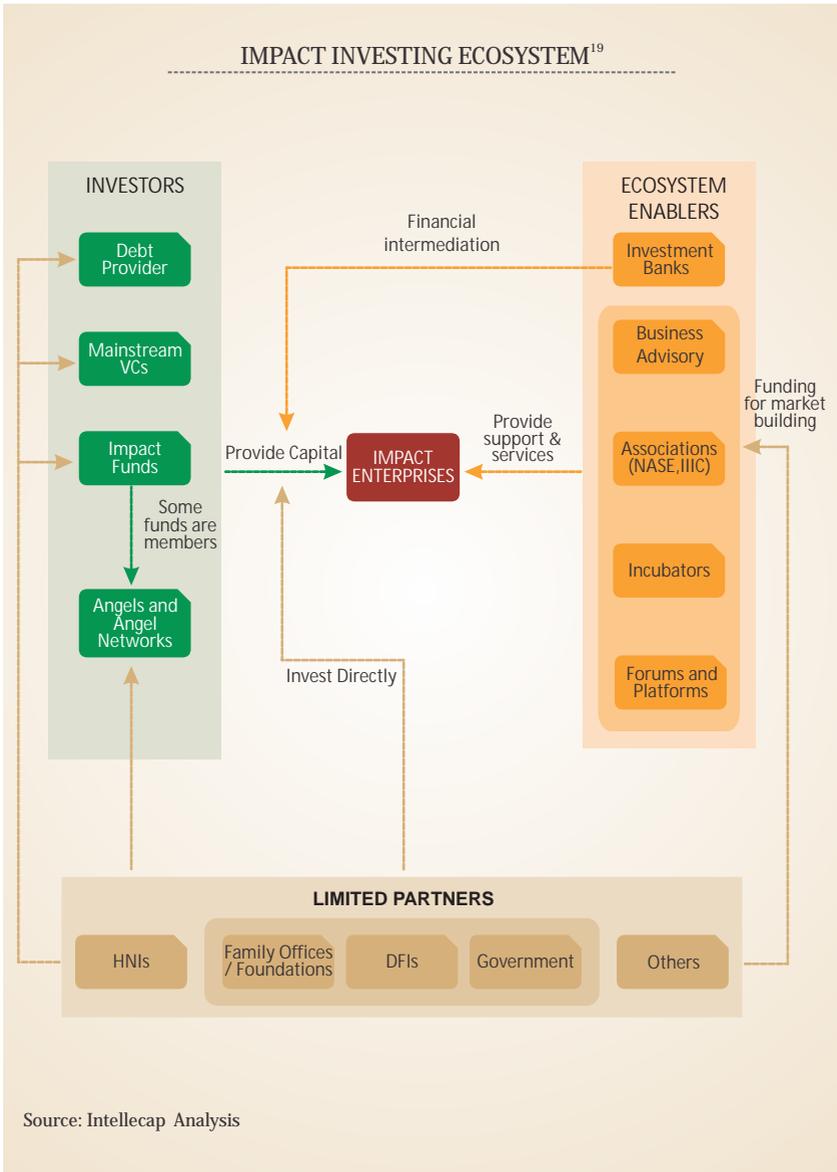
containing an optionality clause (like call and put options) but without having any option / right to exit at an assured price will be reckoned as an eligible instrument to be issued to a person resident outside India for FDI as long as other terms and conditions specified in the FDI Policy are complied with.

**Transfer of security:** The equity shares or fully, compulsorily and mandatorily convertible preference shares/ debentures containing an optionality clause can be transferred by a non-resident to any person in accordance with the FEMA regulations.

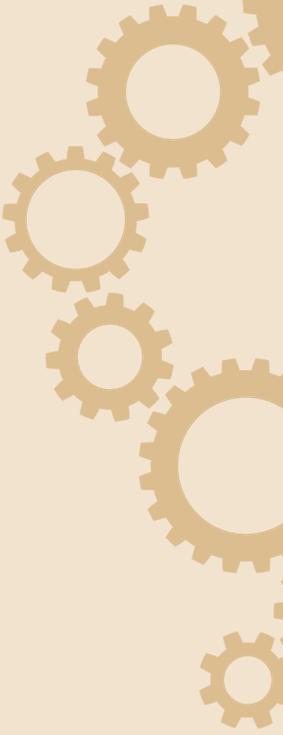
The non-resident seller has held such instruments for a minimum lock-in period of 1 year or such higher lock-in period as prescribed for specified sectors under the FDI policy; and the pricing on exit or exercise of option is in accordance with the following applicable conditions:

- In case of a listed company - at the market price determined on the floor of the recognized stock exchanges in India;
- In case of equity shares of an unlisted company - at a price not exceeding that arrived on the basis of Return on Equity (RoE) as per the latest audited balance sheet. RoE means Profit After Tax / Net Worth wherein Net Worth would include all free reserves and paid-up capital.
- Any agreement permitting return linked to equity as above shall not be treated as violation of FDI Policy.
- In case of preference shares or debentures - at a price worked out as per any internationally accepted pricing methodology at the time of exit, duly certified by Chartered Accountant or a SEBI registered Merchant Banker.

The guiding principle of such amendment is that the non-resident investor is not guaranteed any assured exit price at the time of making such investment or in any agreement and shall exit at the price prevailing at the time of exit subject to lock-in period requirements.



<sup>19</sup> <http://intellecap.com/publications/invest-catalyze-mainstream-india-impact-investing-story>



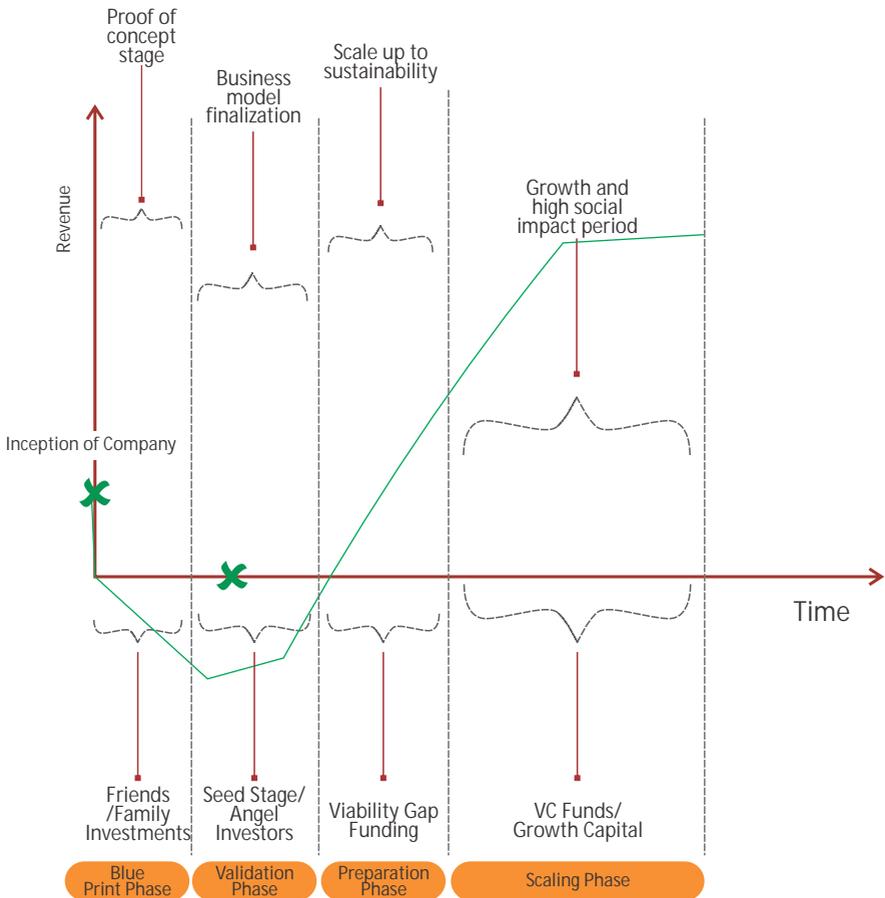
## Chapter-III

# When to Raise Investments, How Much and on What Terms?

“As we look into the future, leaders will be those who empower others”

–Bill Gates

A major challenge for most social entrepreneurs is to figure out when they should raise investments and how much. The impact investment landscape in India has over 60 funds along with a number of other angels, incubators and networks who fund enterprises at different stages and invest different amounts of capital, hence its imperative for the entrepreneur to approach the right investors at the right time. Depending on the maturity stage of their social enterprises and the business model, entrepreneurs should carefully select the funds to which they apply.



## KEY STAGES IN SOCIAL ENTERPRISE LIFECYCLE AND ASSOCIATED FUNDS<sup>20</sup>



Source: [http://acumen.org/content/uploads/2013/03/From-Blueprint-to-Scale-Case-for-Philanthropy-in-Impact-Investing\\_Full-report.pdf](http://acumen.org/content/uploads/2013/03/From-Blueprint-to-Scale-Case-for-Philanthropy-in-Impact-Investing_Full-report.pdf)



### Blueprint

A social enterprise in its initial stages of life will need to invest its resources into blueprinting the intervention that it is trying to make. This is the period from the time of inception to about the time when the revenue model and social impact is properly understood by the entrepreneur. Often starting alone, the entrepreneur is driven by not much more than a strong sense of 'moral imagination', striving for radically better solutions to meet the needs of the poor. This stage involves connecting the capability for business and often-technical innovation to address the needs of customers or suppliers in the BoP.

The goal of this stage is to develop a clear sense of what the business will offer, what it will do and how it will do it. In other words, there needs to be a compelling initial business plan. At the end of this first stage, product prototypes and any critical novel technologies should have been demonstrated successfully, resulting in what some might call a product or technical 'proof of concept'.

During this stage the entrepreneur is burning cash and it's hard to attract any kind of investors other than friends and family. Some innovation funds and awards may be available and the entrepreneur should also try to access grants (often showcasing the social impact and innovation) if possible.

<sup>20</sup>[http://acumen.org/content/uploads/2013/03/From-Blueprint-to-Scale-Case-for-Philanthropy-in-Impact-Investing\\_Full-report.pdf](http://acumen.org/content/uploads/2013/03/From-Blueprint-to-Scale-Case-for-Philanthropy-in-Impact-Investing_Full-report.pdf)



## Validation

In the second stage, entrepreneurs need to validate the commercial viability and scalability of the business model described in the blueprint. This involves running market trials in which business plan assumptions are tested. The entrepreneur is also expected to select the proper distribution channels, the marketing strategy, the suppliers etc. The goal is to make the enterprise post revenue and ensure that the value proposition is replicable. Entrepreneurs also need to ensure that the financial returns are enough for sustainability and attracting investors while keeping the social impact high. Models of inclusive business call for a particular effort and rigor at this stage because motives are almost always a blend of the social and the financial, which can weaken the focus on commercial viability. The goal for this stage should be an enterprise that makes revenues and has a business as well as an operational and financial model that can be validated.

At this stage, typically one to three years from inception of the company, the entrepreneur can be attractive to seed investors and impact angels. Seed investors and angels tend to take high risks but are often strategic in nature and bring in more than just finances. The value proposition for these investors is the high returns that they can make if the enterprise raises subsequent rounds of funding.



## Preparation

This is a new stage that exists because most enterprises in the social space need more funds post their seed round before they can be investment worthy for larger impact venture capitalist funds. The funds raised in this round can be also called 'viability gap' funds and are typically needed to prepare the enterprise organizationally to be able to scale.

Successful market launch done earlier sets the stage for social enterprises (mostly post revenue and post seed investment) to build their market and impact. However, alongside this initial period of commercial activity and growth, the enterprises need to prepare the conditions in the market and within the firm in order to support sustainable scaling. This is especially true where the firm is, in effect, attempting to create a new market, by virtue of establishing a new category of product or a new value chain model. This is also a stage where the entrepreneur has to delegate a number of duties to others and build talent into the team. Suppliers and partnerships also need to be tested to ensure proper preparation for scaling.

Often at this stage, the enterprise may also have some access to debt and can utilize it for its working capital requirements. A number of impact funds in India cater to enterprises in this stage, providing firms the bridge capital that is needed for demonstrating scale and putting the systems in place.



## Scaling

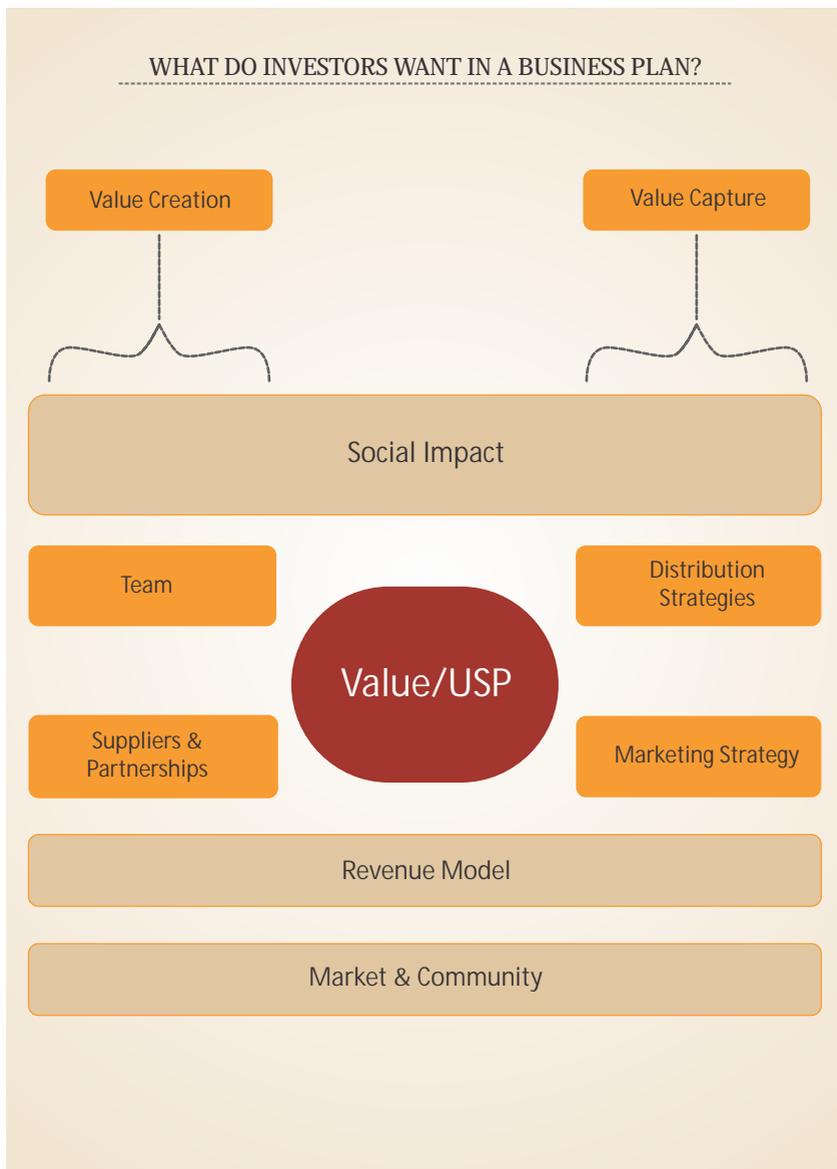
If the social enterprise can successfully surmount these challenges, it emerges in a strong position to scale activities in order to reach many more customers or suppliers at the BoP. During this stage, firms face new challenges as they enter new geographies, control costs, exploit efficiencies, and manage a more diverse and sophisticated group of investors and stakeholders. They will often also be responding to competitors, as new entrants are attracted by the success of the pioneer firm and see a way to benefit from the investment that it has made in preparing the market. Impact Venture Capital funds are accessible to the entrepreneur at this stage.

### Four Stages of the Pioneer Firm's Journey



STAGE

	<i>Developing the blue-print for the future business</i>	<i>Testing and refining the business model</i>	<i>Enhancing the conditions required for scaling</i>	<i>Rolling out the model to reach large numbers of customers and/or suppliers</i>
<b>KEY ACTIVITIES</b>	<ul style="list-style-type: none"> <li>• Understand customer needs</li> <li>• Develop initial customer proposition</li> <li>• Develop business plan</li> <li>• Develop core technologies and/or product prototypes</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct market trials</li> <li>• Test business model assumptions</li> <li>• Refine business model technologies and/ or product as required</li> </ul>	<ul style="list-style-type: none"> <li>• Stimulate customer awareness and demand</li> <li>• Develop supply chains upstream and downstream</li> <li>• Build organizational capability to scale: systems, talent, plant, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Move into new geographies and segments</li> <li>• Invest in assets and talent</li> <li>• Enhance systems and processes</li> <li>• Exploit scale efficiencies</li> <li>• Respond to competitions</li> </ul>
<b>KEY NEEDS</b>	<ul style="list-style-type: none"> <li>• Innovation capability</li> <li>• Strategy development and business planning</li> <li>• Talent networks</li> <li>• Seed funding</li> </ul>	<ul style="list-style-type: none"> <li>• Operationalizing the model</li> <li>• Focus and cost, value and pricing</li> <li>• Learning orientation and flexibility</li> <li>• Innovation capability</li> <li>• Funds to facilitate market trials and refinement</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing strategy and execution</li> <li>• Supply chain design and implementation</li> <li>• Systems and processes</li> <li>• Talent and networks</li> <li>• Funds for marketing supply chain, fixed assets inventory</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive strategy</li> <li>• Realizing scale efficiencies</li> <li>• Risk management</li> <li>• Formalization of impact standards and expectations</li> <li>• Stakeholder management</li> <li>• Funds to support expansion</li> </ul>
<b>END MILE-STONES</b>	<ul style="list-style-type: none"> <li>• Compelling initial Businessplan</li> <li>• Demonstrated core technologies and for product prototype</li> </ul>	<ul style="list-style-type: none"> <li>• Refined business model, technologies product</li> <li>• Validation of viability and scalability</li> <li>• Indication of customer demand</li> </ul>	<ul style="list-style-type: none"> <li>• Strong customer awareness and demand effective supply chains</li> <li>• Organizational systems, talent, assets in place to support scaling</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainably reaching BoP customers and/or suppliers</li> </ul>



### The Top 10 things investors want to see<sup>21</sup>:

1. What is unique / differentiated in both the short and long term for your product or service offering? What's your "secret sauce"? What will keep others from copying you?
2. What have you learned via your pilot / proof-of-concept? We expect you had some failures as well as successes – tell us about both.
3. What are you hoping to accomplish in the next 12 months? E.g. key milestones, validations, expected learnings?
4. Explain your business unit economics – meaning how do you make money and hopefully profit on each unit/service sold, excluding corporate overhead. Many BoP Startups serve local areas (villages, towns, cities) – what do the economics look like for any one of them?
5. Characterize the "Business Unit Total Addressable Market (TAM)" for your product/service around your pilot market area. E.g., how many customers are there within some stated distance from your business unit facility? What penetration of that TAM do you expect for each business unit when it's running at scale?
6. Why is your team the right/best team to achieve your objectives? What skillsets are you missing?
7. Characterize your social impact – how do you define it? How will you measure it over time? What are key assumptions that support getting to 100k BoP families in 5 years? (Or if your ability to scale is not that fast, how do you characterize a compelling impact you'll have on each person/family you touch?)
8. What have you learned from competitors or similar companies operating in similar areas, in India or other developing economies? Who are local, regional and national competitors, and why will you prevail over them?
9. How did you spend the money you've raised/earned/been granted so far? What valuable assets have you created with it?
10. What is the minimum amount (and if different, your desired amount) that you'd like to raise in this financing round and how will those funds be used over the next 18 months? How are you thinking that investors will get their capital back with a strong financial return?

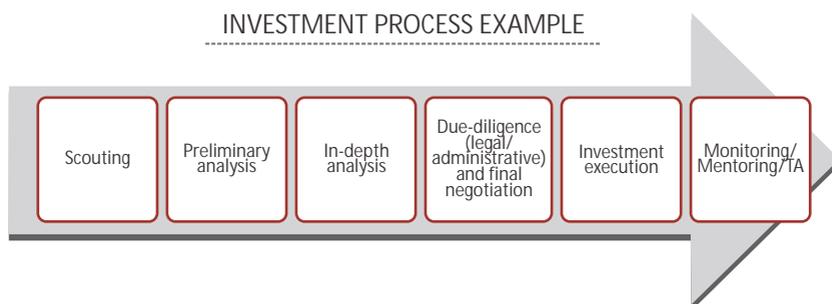
<sup>21</sup><http://usf.vc/updates/10-things-we-really-want-to-know-about-a-bop-startup/>



## The Investment Process

It is also essential for entrepreneurs to understand the investment process and ensure that they keep the time and resources available for it. The different impact funds profiled in the following chapters have outlined their time for investment decisions but typically the process is between 6 to 9 months. The engagement is also very time consuming (and sometimes frustrating) so it's important for entrepreneurs who are not very strong with financial models and investments to have sound mentors and advisors supporting them.

A sample process is given below<sup>22</sup>, each fund may have its own variation but typically the following steps are always present.



### Scouting of opportunities:

Impact funds find potential investees through competitions, conferences, references, networks etc. At this stage the fund just wants to understand the social enterprises value proposition and get to know the entrepreneurs. In some cases, investment funds also track entrepreneurs and their performance for a period of time before engaging further. Funds also check for alignment with their vision and strategy and if the financial and social returns match their expectations.

*Entrepreneurs should be very careful and prepared before approaching a fund and should understand the funds expectations regarding risk and returns well.*

<sup>22</sup><http://www.opesfund.eu/>

### Ask the Fund:

1. What is the source of your capital or the money you will invest? Is it philanthropic?
2. What is the length of your fund cycle? How many years are still left before you have to pay back your investors?
3. What kinds of exits do you generally expect from your investees?
4. What kind of returns do you expect and what management control do you exert? Do you need a board seat? What MIS reporting will be needed?
5. What kind of additional support services do you provide? Will you help with the next round of funding?

### Preliminary Analysis:

This is often conducted by an associate of the fund in consultation with the entrepreneur and subject matter experts. Often the business plan and other public documents are analyzed along with sometimes the cash flow statement and/or the past sales and unique features.

Entrepreneurs should request the list of analysis requirements to be sent at the start of the talks as well so that the process is structured. Also, this is the time to ask questions to the fund and check if it's a right fit for the long-term goals of the enterprise. It's important that the entrepreneur takes an active interest, as it's their responsibility to ensure that the relationship gets created on an equal and productive front. The fund may also check the background of the entrepreneur and the team strength.

### In-depth Analysis:

This stage often involves an analysis of the financial and operational model taking into account the stage of the enterprise. By this time, the fund has shown sufficient interest to the entrepreneur and projections and valuation discussion have been initiated.

Entrepreneurs should not hesitate to present a Non-Disclosure Agreement (NDA) to safeguard their business interests and intellectual property rights at this stage and should also engage a chartered accountant or financial expert as needed. Also, another recommendation is to document the communication between the fund and the entrepreneurs, as these can be helpful in future negotiations.

### Due Diligence:

By this stage the fund has probably prepared its investment proposition and presented it to their board (or investment committee). Based on its decision, the fund may employ external parties to perform a due diligence which will verify the claims and figures cited by the entrepreneur. The nature of the investment instrument and the initial legal terms will also be drafted during the due diligence if they haven't been expressed before.

Also, by this stage the valuation of the company and other terms and conditions in the term sheet will also be negotiated.

Entrepreneurs should definitely seek advisors and mentors for their term sheet discussions. Furthermore, it is always recommended to also conduct a valuation exercise internally to ensure proper alignment of expectations and the ability to explain the entrepreneur's position during the negotiations.



### Valuing your enterprise

Valuation is an art and not just a tricky and complicated exercise but also one that is often the main point of contention between entrepreneurs and investors. Different impact investors choose to

value entrepreneurs in different ways and very few are transparent in sharing their methodology or calculation.

Broadly for early stage enterprises, it is better to avoid the valuation exercise and push it to the following round completely. In some cases, early stage investors prefer revenue multiples basing their valuations judgment on present as well as future projections.

It is important to understand the following methods for company valuation has some information on the market.

### 1. Use of multiples:

This is used when there is very little information available on the enterprise but the investor has some information on the market.

- Revenue Multiple – This is dependent on the sector the enterprise is working and ranges typically between 5 and 7 times the present revenue or in some cases the average revenue over some years.
- EBITDA Multiples – Often not preferred by entrepreneurs a multiple of the Earning Before Interest, Taxes, Depreciation and Amortization (EBITDA) is also considered.
- P/E Multiple – Again Price to Equity (P/E) multiple is more relevant in the case of larger and profitable firms, an analysis based on P/E multiples is not common in the impact investment sector.

The drawbacks of these multiple based methods are that they don't really consider the business strategy or uniqueness of the enterprise and don't take into account a number of factors like costs, innovativeness, growth trends etc.

### 2. Use of Discounted Cash Flow (DCF) Technique for Valuation

A valuation method used to estimate the attractiveness of an investment opportunity. Discounted cash flow (DCF) analysis uses future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value, which is used to evaluate the potential for investment.

A number of tools are available that help in calculating DCF and a general template is given below:

Working capital			
Year	0	1	2
Revenue			
Costs			
Depreciation of equipment			
Profit/Loss from asset sales			
Taxable income			
Tax			
Net Operating Profit After Tax (NOPAT)			
Depreciation			
Profit/Loss from asset sales			
Operating cash flow			
Change in working capital			
Capital Expenditure			
Salvage of assets			
Free cash flow			

*non-cash item*  
*non-cash item*

*Adjustment for for non-cash*

*Capital items*

While filling in this template the following should be considered:

- The goal of the template is to estimate cash flows, not profits.
- Template is made up of three parts–
  - An “Income Statement”
  - Adjustments for non-cash items included in the “Income statement” to calculate taxes
  - Adjustments for capital items, such as capital expenditures, working capital, salvage, etc.
- The “Income Statement” portion differs from the usual income statement because it ignores interest. This is because, interest, the cost of debt, is included in the cost of capital and including it in the cash flow would be double counting.
- Sign convention: Inflows are positive, outflows are negative. Items are entered with the appropriate sign to avoid confusion.
- There are four categories of items in the “Income Statement”. While the first three items occur most of the time, the last one is likely to be less frequent.

- Revenue items
  - Cost items
  - Depreciation items
  - Profit from asset sales
- Adjustments for non-cash items is to simply add all non-cash items subtracted earlier (e.g. depreciation) and subtract all non-cash items added earlier (e.g. gain from salvage).
  - There are two types of capital items–
    - Fixed capital (also called Capital Expenditure (Cap-Ex), or Property, Plant, and Equipment (PP&E))
    - Working capital
  - It is important to recover both at the end of a finite-lived project.
    - Salvage the market value property plant and equipment.
    - Recover the working capital left in the project (assume full recovery).

Recover the working capital left in the project (assume full recovery)

Taxable income      ▶▶ Revenue - Costs - Depreciation + Profit from asset sales

NOPAT              ▶▶ Taxable income - Tax

Operating cash flow      ▶▶ NOPAT + Depreciation - Profit from asset sales

Free cash flow      ▶▶ Operating cash flow - Change in working capital - Capital Expenditure + Salvage of equipment - Opportunity cost of land + Salvage of land

Adjustment of noncash items      ▶▶ Add the noncash items you subtracted earlier and subtract the noncash items you added earlier.



## The Term Sheet

For most entrepreneurs, getting to this stage is an achievement in itself. The impact space has seen different types of terms for investments and it's super critical for entrepreneurs to understand them before signing a term sheet.

The term sheet conditions are important both for economic as well as control reasons.

Economic Terms (for reforms)	Control
Valuation	Participation Rights
Instrument	Tag Along
Dividend	Right of first refusal
Liquidation Preference	Drag Along
Option Pool	Voting Rights
Anti-dilution	Board Representation
	Information Rights

The following are the basic terms and clauses<sup>23</sup>:

### 1. Price (based on Valuation)

- Pre money : valuation before the money comes in
- Post money: valuation of the company just after money comes in

<sup>23</sup>Center for Innovation, Incubation and Entrepreneurship (CIIE), Indian Institute of Management – Ahmedabad presentation: Demystifying term sheets since 2002 (Mr. Shashank Rastogi, Director, CIIE)

*Example:*

If pre-money valuation is computed at 800,000 and the investment is of 200,000, then the post money valuation is 1,000,000 and hence the investor gets 20% of the shares.

*Sample Language*

*“Amount of Financing: An aggregate of INR X million, representing a \_\_% ownership position on a fully diluted basis, including shares reserved for any employee option pool. Prior to the Closing, the Company will reserve shares of its Common Stock so that \_\_% of its fully diluted capital stock following the issuance of its Series A Preferred is available for future issuances to directors, officers, employees and consultants.”*

*Price: INR \_\_\_\_ per share (the Original Purchase Price). The Original Purchase Price represents a fully-diluted pre-money valuation of INR \_\_ million and a fully-diluted post money valuation of INR\_\_ million. For purposes of the above calculation and any other reference to fully-diluted in this term sheet, fully-diluted assumes the conversion of all outstanding preferred stock of the Company, the exercise of all authorized and currently existing stock options and warrants of the Company, and the increase of the Company's existing option pool by [ ] shares prior to this financing.”*

**2. Instruments**

- Pure equity
- Pure debt
- Convertible debt
- Convertible preference shares

**3. Stock Option**

- Shares set aside for current or future employees so that they stay committed to long term growth of the company.

### Sample Language

*“Employee Pool: Prior to the Closing, the Company will reserve shares of its Common Stock so that \_\_% of its fully diluted capital stock following the issuance of its Series A Preferred is available for future issuances to directors, officers, employees and consultants. The term “Employee Pool” shall include both shares reserved for issuance as stated above, as well as current options outstanding, which aggregate amount is approximately \_\_% of the Company’s fully diluted capital stock following the issuance of its Series A Preferred.”*

- Each investor wants to ensure that they get the ESOP pool created before investment – avoids dilution of investor for this pool.
- Legally – one needs to set aside these shares in a trust, most investors would work on a gentleman's agreement.

### 4. Liquidation

The right of the investor to get his or her share of proceeds before anyone else takes away the money.

### Sample Language

*“Liquidation Preference: In the event of any liquidation or winding up of the Company, the holders of the Series A Preferred shall be entitled to receive in preference to the holders of the Common Stock a per share amount equal to [x] the Original Purchase Price plus any declared but unpaid dividends (the Liquidation Preference).”*

- Liquidation includes acquisition, asset sales etc.
- Investor wants to ensure that the money is returned to her before anyone else including friends and family
- Preference is subordinated to debt
- Typically non-negotiable
- Most benevolent is 1X, people do take 2X or 3X

### 5. Participation Rights

Does the investor get more money as if they held proportionate shares in the companies after the liquidation preference is satisfied?

**Full Participation:** there is no limit to the proceeds that investor gets

**Participation:** After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on a common equivalent basis.

**Capped Participation:** there is a limit to the proceeds that investor gets

After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on a common equivalent basis; provided that the holders of Series A Preferred will stop participating once they have received a total liquidation amount per share equal to [X] times the Original Purchase Price, plus any declared but unpaid dividends. Thereafter, the remaining assets shall be distributed ratably to the holders of the Common Stock.

Investor wants to ensure that they share an upside

- Pure Debt is non-participative
- Typically non- negotiable?

## 6. Dividend

What does the investor get if dividend is declared by the company?

### *Sample Language*

*“Dividends: The holders of the Series A Preferred shall be entitled to receive [non-]cumulative dividends in preference to any dividend on the Common Stock at the rate of [8%] of the Original Purchase Price per annum[,when and as declared by the Board of Directors]. The holders of Series A Preferred also shall be entitled to participate pro rata in any dividends paid on the Common Stock on an as-if-converted basis.”*

- Investor wants to ensure that they share in profit distribution
- Most lawyers suggest preferential dividend
- Cumulative-accumulate even when it is not declared-similar to interest

## 7. Tag Along

If promoters (not company) sell shares, investor also wants to sell them

### *Sample Language*

*“Co-Sale Agreement: The shares of the Company's securities held by the Founders shall be made subject to a co-sale agreement (with certain reasonable exceptions) with the Investors such that the Founders may not sell, transfer or exchange their stock unless each Investor has an opportunity to participate in the sale on a pro-rata basis. This right of co-sale shall not apply to and shall terminate upon a Qualified IPO.”*

- Investors don't like promoters exiting, fully or partially
- If promoters sell more than 50% of their holding, expect investors to seek complete exit
- Non-negotiable

## 8. Drag Along

Investor finds a suitable buyer, buyer wants more shares and investor is forcing others to sell.

### *Sample Language*

*“Drag-Along Agreement: The [holders of the Common Stock] or [Founders] and Series A Preferred shall enter into a drag-along agreement whereby if a majority of the holders of Series A Preferred agree to a sale or liquidation of the Company, the holders of the remaining Series A Preferred and Common Stock shall consent to and raise no objections to such sale.”*

## 9. Vesting

Investors want to ensure that the promoters stay in the company for a significant time after the investment is made.

### *Sample Language*

*“Stock Vesting: All stock and stock equivalents issued after the Closing to employees, directors, consultants and other service providers will be*

*subject to vesting provisions below unless different vesting is approved by the majority (including at least one director designated by the Investors) consent of the Board of Directors (the “Required Approval”): 25% to vest at the end of the first year following such issuance, with the remaining 75% to vest monthly over the next three years. The repurchase option shall provide that upon termination of the employment of the shareholder, with or without cause, the Company or its assignee (to the extent permissible under applicable securities law qualification) retains the option to repurchase at the lower of cost or the current fair market value any unvested shares held by such shareholder. Any issuance of shares in excess of the Employee Pool not approved by the Required Approval will be a dilutive event requiring adjustment of the conversion price as provided above and will be subject to the Investors' first offer rights.*

*The outstanding Common Stock currently held by \_\_\_\_\_ and \_\_\_\_\_ (the “Founders”) will be subject to similar vesting terms provided that the Founders shall be credited with [one year] of vesting as of the Closing, with their remaining unvested shares to vest monthly over three years.”*

- Investors don't like promoters exiting, fully or partially
- Some upfront vesting and quarterly vesting over 3-4 years
- If you are completely new- one year cliff

## 10. Board of Directors

This is to ensure that the investor has a say in strategic direction of the company.

### *Sample Language*

*“Board of Directors: The size of the Company's Board of Directors shall be set at [n]. The Board shall initially be comprised of \_\_\_\_\_, as the Investor representative[s] \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_. At each meeting for the election of directors, the holders of the Series A Preferred, voting as a separate class, shall be entitled to elect [x] member[s] of the Company's Board of Directors which director shall be designated by Investor; the holders of Common Stock, voting as*

*a separate class, shall be entitled to elect [x] member[s], and the remaining directors will be [Option 1: mutually agreed upon by the Common and Preferred, voting together as a single class.] [or Option 2: chosen by the mutual consent of the Board of Directors].”*

- Some investors would take board observer seats
- Don't supersize the board
- Negotiate on specifics but don't be stubborn

## 11. Conditions Precedent

Things to be done before investment happens

### *Sample Language*

*“Conditions Precedent to Financing: Except for the provisions contained herein entitled “Legal Fees and Expenses”, “No Shop Agreement”, and “Governing Law” which are explicitly agreed by the Investors and the Company to be binding upon execution of this term sheet, this summary of terms is not intended as a legally binding commitment by the Investors, and any obligation on the part of the Investors is subject to the following conditions precedent: 1. Completion of legal documentation satisfactory to the prospective Investors; 2. Satisfactory completion of due diligence by the prospective Investors; 3. Delivery of a customary management rights letter to Investors; and 4. Submission of detailed budget for the following twelve months, acceptable to Investors.”*

- “Satisfactory Completion of due diligence” is standard
- “Approval by investor partnership” is a red flag
- “Employment terms for the founders” please get details.

## 12. Anti – Dilution

What happens if you issued shares to James at 10 per share and in 6 months at 1 per share to me- James invokes anti dilution.

### *Sample Language*

*“Anti-dilution Provisions: The conversion price of the Series A Preferred will be subject to a [full ratchet / broad-based / narrow-based*

*weighted average] adjustment to reduce dilution in the event that the Company issues additional equity securities (other than shares (i) reserved as employee shares described under the Company's option pool,, (ii) shares issued for consideration other than cash pursuant to a merger, consolidation, acquisition, or similar business combination approved by the Board; (iii) shares issued pursuant to any equipment loan or leasing arrangement, real property leasing arrangement or debt financing from a bank or similar financial institution approved by the Board; and (iv) shares with respect to which the holders of a majority of the outstanding Series A Preferred waive their anti-dilution rights) at a purchase price less than the applicable conversion price. In the event of an issuance of stock involving tranches or other multiple closings, the anti-dilution adjustment shall be calculated as if all stock was issued at the first closing. The conversion price will also be subject to proportional adjustment for stock splits, stock dividends, combinations, recapitalizations and the like.”*

- Full ratchet- all shares assumed to be of INR 1 value
- Weighted average considers the magnitude of the round as well.

### 13. Information Rights

Invertors want to know what is happening, in a form that they understand

#### *Sample Language*

*“Information Rights: So long as an Investor continues to hold shares of Series A Preferred or Common Stock issued upon conversion of the Series A Preferred, the Company shall deliver to the Investor the Company's annual budget, as well as audited annual and unaudited quarterly financial statements. Furthermore, as soon as reasonably possible, the Company shall furnish a report to each Investor comparing each annual budget to such financial statements. Each Investor shall also be entitled to standard inspection and visitation rights. These provisions shall terminate upon a Qualified IPO.”*

A sample (but real) term sheet has been shared in Appendix 2



## Due Diligence List

Post the term sheet stage, most investors will conduct a thorough corporate and legal due diligence. The following is a list of some of the things that they will look for and which the entrepreneur will have to provide:

NOTE: This is not a comprehensive or complete and list specific things might be desired by specific organizations<sup>24</sup>

S.N.	Document Requested	Related Period
	Corporate & Legal	
1	Certificate of Incorporation	General
2	Registers maintained under the Indian Companies Act including member register, register of contracts etc.	General
3	Minutes books for the company including Board, Shareholders and Audit Committee	From Inception
4	A brief note on accounting system, entries during closing, reconciliations carried during closing, chart of accounts, inter unit elimination and consolidations	General
5	LFAR / Management Letter of Statutory Auditors	2 financial years
6	Signed Audit reports for the past 2 years	-same-
7	A complete list of licenses	Current
8	Copy of Statutory Compliance Reports placed before the Board of Directors	2 financial years
9	List of documents filed with statutory authorities, registration details (TAN, VAT, PT, ST etc) including Annual Return filed for the company	
10	All documents filed with ROC along with payment challans	From Inception

<sup>24</sup> Special thanks for inputs support and listings to Mr Anuj Sharma from Ascoasta (anuj.sharma@ascoasia.net)

S.N.	Document Requested Corporate & Legal	Related Period
	Corporate & Legal	
11	Board resolutions for MD salary	General
12	Register of Charges for existing Charges created (if any).	General
13	Material Contracts: Copies of all contracts, agreements, arrangements or understandings, in written form, that are in full force and effect, including:	From Inception till date
	a) Contracts with any key suppliers, purchasers, distributors, customers, local community, regulatory bodies etc.;	
	b) Any lease agreements or other agreements for access to immovable property (by whatever name called) to which the Company is a party;	
	c) Any existing agreements with clients or customers;	
	d) Each type of form agreement previously used or in use currently with clients or customers;	
	e) Any agreements with third party vendors of Company products/ services;	
	f) Any agreements to supply goods or services on behalf of a third party to clients or customers;	
	g) Any contracts with consultants;	
	h) Any other contract exceeding USD 1,000 in value; and	
	i) Any other material contract.	
	j) Details and copies of all license agreements, to and from the Company. Please also provide copies of all approvals obtained in relation to such arrangements	
14	Customer / Clients and Suppliers:- List of the Company's customers or clients and the Company's suppliers, including identification and details of those on which business is particularly dependent and any arrangements which are significant in relation to the business	-same-

S.N.	Document Requested	Related Period
	Corporate & Legal	
15	Related party transactions for the year and balances. Copies of agreements with such related parties.	From Inception till date
16	Shareholding history: details of share capital and reserves, shareholding structure and pattern, number of shares issued and details of other reserves. Details of any preference shares, convertibles, options or ESOPs. All relevant contract pertaining to Equity shareholders/ CCPS/ CCDs	From Inception till date
17	List of all persons/entities holding options, warrants, convertible loans or other rights exercisable to acquire equity interests of the Company.	From Inception till date
18	Confidentiality or nondisclosure agreements (NDA), covenants not to compete, or agreements to assign inventions, discoveries or intellectual property rights executed by the Company	-same-
19	Litigation specific:	-same-
	a) All pending, threatened or potential litigation, administrative proceedings, government investigations/inquiries, arbitration or claims affecting the Company or any affiliate or subsidiary, including all related pleadings, correspondence and other documents. These items may include but are not limited to: environmental violations, employment issues, intellectual property infringements, real estate disputes, contract disputes, etc.	
	b) Provide a list of all orders, decrees, judgments, settlements, injunctions or rulings by any court or agency which may bind or affect the Company or its subsidiaries.	
	c) Claims/disputes against, by or involving the Company, including customer or consumer complaints.	

S.N.	Document Requested	Related Period
	Corporate & Legal	
20	Details of any subsidy/ benefits taken from and paper filed with the Govt department	General
21	List of Statutory Due together with Payment dates	From Inception till date
22	List of Capital Purchases / Projects pending together with commitments	From Inception till date
23	Process note/ Standard Operating Process (SOP) for cash management and revenue booking	General
	Human Resources & Payroll	
1	Organisation chart with respective roles and responsibilities	General
2	List and copies of all agreements, guarantees or other business arrangements or understandings (whether written or oral) with directors or advisors	From Inception till date
3	Any employment agreements, change-of-control agreements, vesting or forfeiture agreements or severance arrangements, non-competition agreements, plans, agreements, arrangements, policies or understandings, whether written or oral, relating to any compensation, remuneration or benefits (such as bonuses, insurance, car and travel allowances and relocation reimbursements, termination, salary continuation	From Inception till date
4	All documents pertaining to any loans, commitments or agreements between the Company and its officers or other employees or directors or any loans, commitments or agreements between officers, other employees or directors and the Company	From Inception till date
5	Actuarial Valuation report for Gratuity, Leave encashment (short-term and long-term)	latest

S.N.	Document Requested	Related Period
	<b>Human Resources &amp; Payroll</b>	
6	Effective rate of bonus to employees in the last 2 years and entitlement under the Payment of bonus act	2 financial years
7	Employee cost, head count and reconciliation with Payroll	- same-
8	Working for Statutory Bonus Provision	2 financial years
9	Calculation for Employee Gratuity, Leave Encashment and other retirement benefits. Compliance with AS-15 issued by Institute of Chartered Accountants of India followed? (If applicable)	-same-
10	Reports from actuary for calculation for above along with assumptions used	General-Current
11	Employee information (on payroll and temporary) - positions, numbers, date of joining, salaries etc.	2 financial years
12	Annual return filed with PF/ ESI	-Same-
13	Note on Employee attendance recording and tracking and Sample Employee attendance records	General-Current
14	Insurance details of directors and Employees, if any	General-Current
	<b>Taxation</b>	
1	Status of past Tax assessments of the company	From Inception till date
2	Significant past disputes or ongoing disputes (if any) with tax authorities. Details of all appeals and the quantum of tax involved	-same-
3	Break up of year wise provision for tax, advance Tax and TDS	-same-
4	Provision for tax and deferred tax working	-same-
5	Tax audit report, Tax returns and Assessment orders	-same-

S.N.	Document Requested	Related Period
	Taxation	
6	Sales Tax & VAT and Service Tax	-same-
7	Sales Tax / VAT /Service Tax assessment status, latest completed assessment and details of appeals & monthly returns	-same-
8	Copy of assessment orders from all status for the last 2 years if any	-same-
9	List of pending tax assessments, appeals and demands with tax department	-same-
10	Sales Tax & Service Tax liability workings, if any	-same-
	Financial	
1	Fixed Assets	From Inception till date
	i. Fixed assets register with location details	
	ii. Details of assets for the past 2 financial years	
	iii. Details and basis for all additions to fixed assets during the period under review	
	iv. Details of personal guarantee provide by the promoters, if any	
	v. Details of charges on fixed assets, if any	
	vi. Papers relating to physical verification of fixed assets last carried out.	
	vii. Copies of Insurance policy on fixed assets	
2	Soft copies of financial records: Trial Balance; Detailed General ledger; Detailed Debtors Ledger; Detailed Creditors Ledger; P&L; B/s	-same-
3	P&L	-same-
4	Sales: Sales breakdown–geography–wise; client–wise; segment–wise	

S.N.	Document Requested	Related Period
	Financial	
5	Debtors Outstanding with detailed ageing analysis	
6	Creditors Outstanding with detailed ageing analysis	-same-
7	Detailed break-up of debit balances in Creditors account with reasons	Current
8	Review of major supplier accounts and liabilities (latest available),copies of confirmation of balances,if any	Current/ Last financial year
9	Statement of Capital Expenditure:- Location-wise with details of assets	Current status
10	Capital Expenditure Projections: capacity planned etc.	-same-
11	Extract of capital work in progress account	-same-
12	Details of Miscellaneous Income, copy of the ledger account for the past 2 years	-same-
13	Interest Reconciliation Schedule with Borrowings	Current
14	Liabilities	2 financial years ending current & status
15	Cash Flow	-same-
16	Investments	-same-

S.N.	Document Requested	Related Period
	Financial	
	i. Break-down of investments with details as to tenor, maturity date and interest rate	
	ii. Maturity profile of investments as per maturity term	
17	Intangible assets	-same-
	i. List of all intangible assets i.e. trademarks, copyrights, patents, and other intellectual properties of the Company	
	ii. All applications for registration or certificates of registration w.r.t intangible assets.	
	iii. Break-up of the capitalized expenses	
	iv. Amortization policy followed by the company	
18	Break-up of Cash and Bank Balances Confirmation obtained from all Banks about bank balances	Latest
19	Details of the accounting policies of the company with revenue recognition, provisioning, write-offs and subsequent recovery from patients/ clients	General

## Chapter-IV

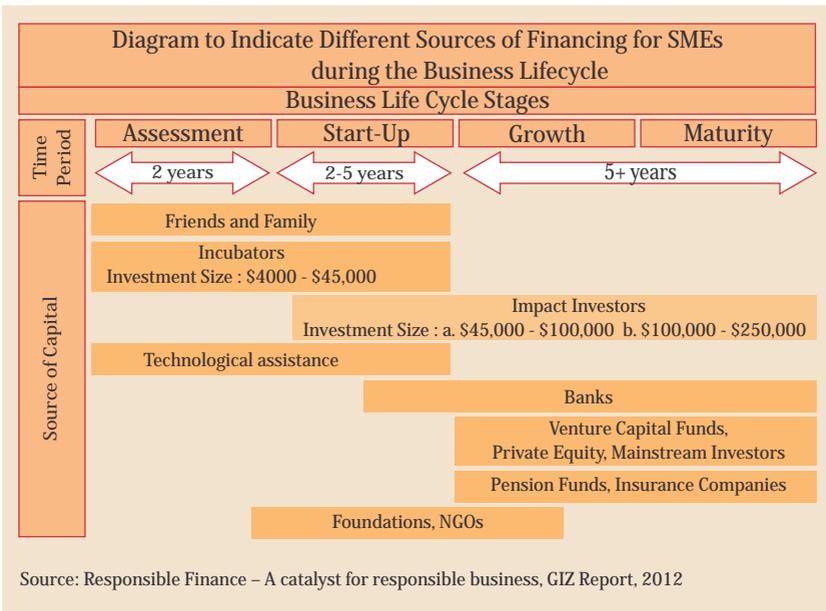
# Impact Investors in India

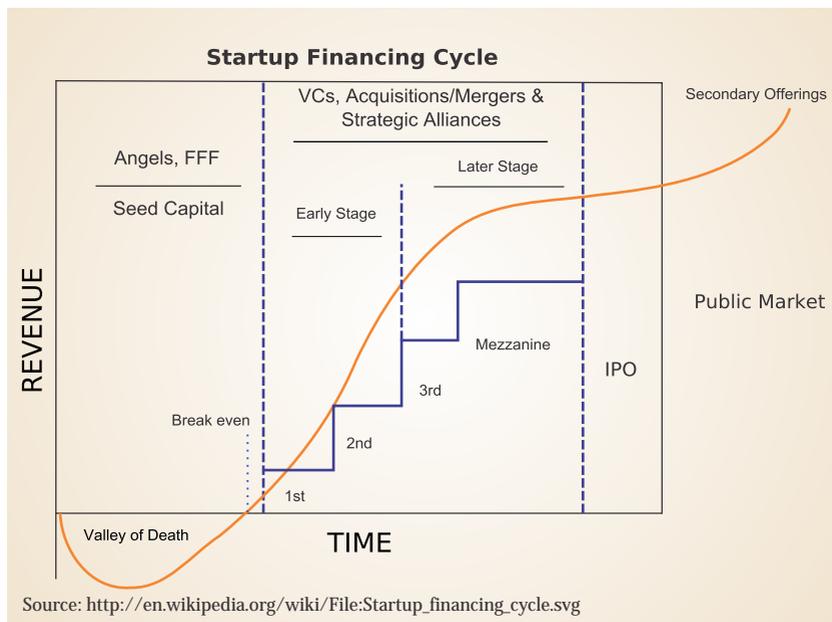
“People don't take opportunities because the timing is bad, the financial side is insecure. Too many people are over analyzing. Sometimes you just have to go for it.”

–Michelle Zatlyn

Over the past three years, the Indian social enterprise landscape has seen an exponential increase in impact investors. While most investors are based in Bangalore, Mumbai or Delhi, their investment interest is often pan India. The most popular sectors that have emerged are Energy, Education, Healthcare and Livelihood and nearly 85% of the investments have been made in these sectors alone. In this chapter, we categorize and provide details of some of the main impact investors that are interested to increase their portfolio and are looking to invest in early stage entrepreneurs. The investment size varies significantly among the investors ranging from INR 20 Lakhs to INR 12 Cr and also through a number of investment instruments.

These investors are divided into Seed Stage, Viability Gap Stage and Impact VCs and this handbook pays special emphasis to the investors in the first two categories. The classification is done on the basis of the investment ticket size and company maturity requirements. The new category 'Viability Gap' has been introduced since we have noticed from experience that a number of impact investors (who might designate themselves as VCs) actually have smaller ticket box and less stringent requirements than typical VCs and cannot hence be correctly classified with the really bigger VC funds.





## The Seed Investors

Seed investors can be used to pay for preliminary operations such as market research and product development<sup>25</sup>. Investors can be the founders themselves, using savings and loans. They can be family members and friends of the founders. Seed capital can be distinguished from venture capital in that venture capital investments typically tend to come from institutional investors and tend to involve significantly more money, an arm's length transactions, and much greater complexity in the contracts and corporate structure that accompany the investment. Seed funding involves a higher risk than normal venture capital funding since the investor does not see any existing projects to evaluate for funding. Hence, the investments made are usually lower (in the tens of thousands to the hundreds of thousands of dollars range) as against

<sup>25</sup>[http://en.wikipedia.org/wiki/Seed\\_money](http://en.wikipedia.org/wiki/Seed_money)

normal venture capital investment (in the hundreds of thousands to the millions of dollars range), for similar levels of stake in the company.

Seed money may also come from crowd funding<sup>26</sup> or from financial bootstrapping rather than an equity offering. Bootstrapping in this context means making use of the cash flow of an existing enterprise. Investors make their decision whether to fund a project based on the perceived strength of the idea and the capabilities, skills and history of the founders.

List of profiled Seed Investors:

- Center for Innovation, Incubation & Entrepreneurship (CIIE)
- Ennovent
- Ankur Capital Fund
- Villgro Innovation Fund
- Rianta Capital
- Unltd India
- Unitus Seed Fund

Special Cases

- Spark Fund
- Be! Fund

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<sup>26</sup>Grant, Rebecca. "Crowdfunding vs. seed funding: All money is not created equal". VentureBeat.

Interview with ChintanBakshi<sup>27</sup>, Co-founder and ex-COO of United Villages.

Interviewer: How has your experience with impact investors been? Where do you think they can add the most value?

Chintan: From our experience, we did raise money from a couple of impact investors in the US in the first round, but when we tried to raise funds in a later round from Indian investors, we ran into a number of problems. Most investors were somehow not able to understand whether this qualifies as impact or was social enough to be called impact. We were caught somewhere in the middle in a debate where our model did not seem very high impact on one end, and when we went to regular VCs they did not find us attractive enough or scalable enough compared to an internet based, ICT based business like ecommerce which doesn't have a lot of variable costs. We had a lot of variable costs, we had a model that was very localized, and we needed staffing at the local level and that was our issue. We got squeezed in between from Social Investors who thought we were not social, so our argument to them would be that we are creating a rural distribution network, of course we are using FMCG as a starting point but in the longer run once the network like this is created this can be very valuable and you can use it to distribute a lot of socially useful products, people can run pilots and those kind of things. But somehow their definition of social was different.

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<sup>27</sup>Interviewed in Jan, 2014

I remember filling up a couple of social benefit formats, which was not able to kind of justify the social value. That was our issue from our side. It is of course very subjective and a lot of entrepreneurs may not necessarily have this skill if you are not from the NGO/Social background.

Interviewer: In hindsight, do you think that you did not explain your social impact/benefits clearly enough or was it a challenge in the way investors understood impact?

Chintan: Both. It was a challenge on both sides. I later did some fundraising for some non-profits, and if I have to sort of do an investment proposal now, I would do a much better job. In our team, we hardly had anyone from a social background, we mostly had people from a corporate background and we had a tough time convincing investors that we were social. And you also have to understand that our model was not directly intervening on hygiene, water, health etc. which are sort of the “hot” social items. We were social from futuristic perspectives.

Interviewer: But then, you were also creating a lot of rural entrepreneurs, and were able to bring a lot of better quality products to people through your distribution network– I am sure it had a huge social value.

Chintan: Correct. We did also use that saying we were creating jobs etc, but as you know, a lot of social investors have themes. Themes like water, sanitation, education, etc are probably more hot themes than what we were doing– distribution, entrepreneurship at the local level, etc. Maybe we did not meet the right set of investors.

Interviewer: My next question, I know you mentioned this already, but from your experience, how do you feel social entrepreneurs should prepare for investments and what should they know about impact investments?

Chintan: I think, another issue (I might be digressing slightly a bit here) which I have seen is that social entrepreneurs- at the outset when you have a model and an Idea, a social entrepreneur should not necessarily raise their first round of investment, but probably raise it more as a grant, and use that to refine the model before moving to commercial capital or an impact investor. I think from my perspective that probably seems to be a better path, rather than just directly going to an impact investor or a commercial investor. There is a higher need to refine the model on the field, assuming that a lot of these social entrepreneurs tend to be focused on rural markets, rural contexts etc. which has a lot of challenges. I think it is probably wise for a social entrepreneur to look at starting with a grant, doing a few pilots, refining the model and then with some data, approach the impact investors and all that.

You need to be able to converse in the language of impact investors and grant making organizations beneficiaries, outcomes, outputs etc. and at the same time also have the commercial understanding of the project from a finance perspective. So you need to have both the skills. You need to go through one module on how to do a grant making proposal, and also one module on how to do an IRR, and Cash flow sort of a thing for a hard-nosed VC, I think both are required and you are somewhere in the middle.

Interviewer: Coming back to what you just mentioned about starting with a grant and then going onto raise capital later, grants are very difficult to come by, especially if you have started as a for-profit company unless you have probably scaled at a certain stage.

Chintan: See a lot of social investors have a non-profit arm, which can give grants. In the future, the way I see it, a lot of social impact entrepreneurs may want to start as non-profit, pick up an idea, implement that for a time, understand the key drivers, challenges etc and refine the model and once the model is ready then chase commercial investors. That's the ideal way path, the way it looks to me. If I have to rewrite what we have done with United Villages, I think we ideally should have started that way, we should do a pilot with a very high social impact as an NGO, create the impact at the grass-root level, understand and refine the model without the VCs breathing down your neck, which I think is which is very lethal and can be suicidal. In the initial stages, your model is not that scalable, as VCs will like to believe. So the initial couple of years should be done ideally as a grant – it's almost like R&D for say 2 years, so don't disturb me. You can't have VCs breathing down your neck telling you that you haven't met your targets etc. That's the way it should be done, that is what my thought is.

Interviewer: Also when you look at impact investors: who do you think are the relevant players social entrepreneurs should pursue. Maybe from your experience highlight a case.

Chintan: We later had to raise funding from commercial capital, which we did from Oxigen which made a strategic investment into us. They aren't of course a VC and hence I am not sure I can throw light into that as we weren't really successful in raising funds in the second round. We did approach Unitus, Acumen, Village... what's that name? sorry I forget the name, Intellectap, Aavishkaar, we approached about 6-7 of them but then we ultimately had to go for a strategic investment from Oxigen. We also approached Ennovent, but it didn't work for us.

# LEGEND

**STAGE**

SEED FUNDING  VIABILITY GAP FUNDING 

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**FOCUS AREA**









ENERGY HEALTHCARE EDUCATION SANITATION TECHNOLOGY AGRICULTURE LIVELIHOOD

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**INVESTMENT TICKET SIZE**





25 LAKHS 50 LAKHS 50 LAKHS 200 LAKHS 200 LAKHS 300 LAKHS

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**FUND SIZE**




₹ 40 Cr ₹ NA

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**EXPECTED IRR**






5-10% 10-15% 15-20% ~20%

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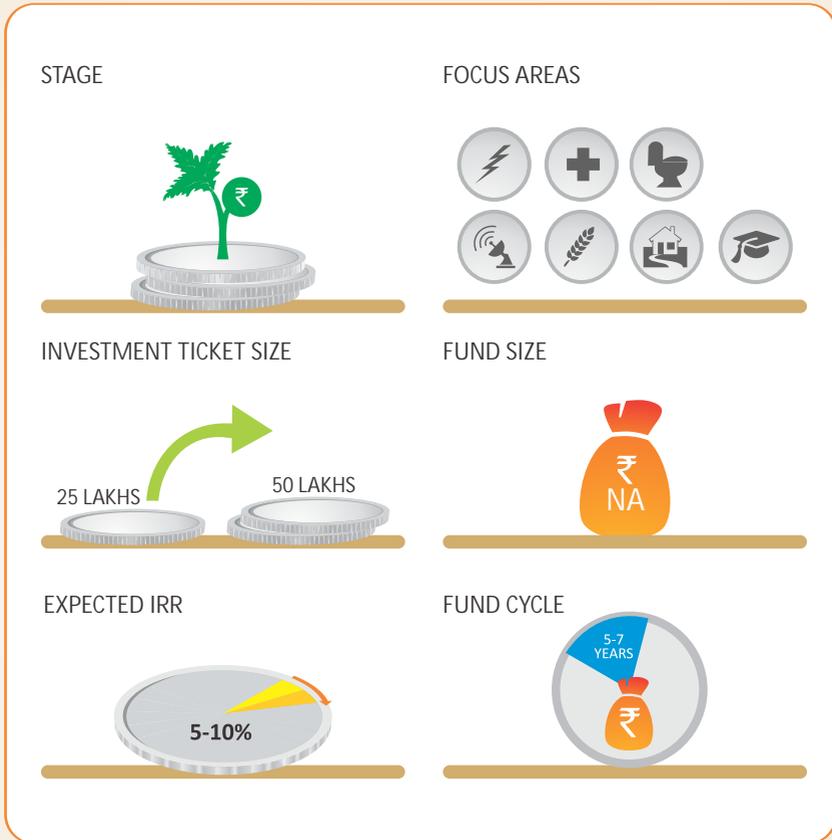
**FUND CYCLE**





3-5 YEARS 5-7 YEARS 7-10 YEARS

# CENTER FOR INNOVATION, INCUBATION & ENTREPRENEURSHIP (CIIE)



CIIE supports for profit social enterprises with a stated mission to serve the underserved in high impact sectors such as energy access, healthcare, education, livelihood, agriculture & food security and technology for development.

As an incubator based out of India's premier business school, IIM Ahmedabad, CIIE has also been one of the most prolific seed investors in the Indian startup ecosystem. It has 60+ portfolio companies under management including some of the leading social enterprises in India.

As an investor CIIE deploys patient capital with a time horizon ranging between 5-7 years. As any other equity investor, CIIE is keen to invest in a large market opportunity being addressed by a working solution being implemented by a capable team.

CIIE focuses on building long-term relationship with the founding team and performs thorough due diligence on the organization before investing. A typical investment round can take anywhere from 3-6 months.

As per Shashank Rastogi, former Director (Operations) CIIE, "For a Start-Up to be successful, it needs to become independent of the founding team (the impact orientation is ingrained in the organization) and the organization should be able to scale up operations"

While they do not impose any impact metrics to the Start-Up, CIIE itself puts a heavier emphasis on impact over financial returns as long as the potential of getting a muted return is possible.

Led by a team in which all key members have their own startup experience, CIIE has a unique organizational culture which encourages entrepreneurial trait among its employees by providing them flexibility to try out new entrepreneurial ideas as well as create new entrepreneurship support initiatives.

The investment vehicle typically preferred by CIIE is equity or quasi equity products like convertible debt for early stage startups. CIIE takes a board observer position on all its portfolio companies and prefers to remain in close contact with the entrepreneur(s) to develop a high level of trust, in an attempt to make the control redundant. They typically invest upto USD 50K and require a

quarterly MIS which is customized for each enterprise. As an incubator they have dedicated resources who maintain frequent communications with the startups and support in terms of capacity building, business development, legal, accounting, human resources and a varied level of services internally or through partners.

CIIE prefers an exit via secondary sale and expects an IRR of 10-15% from its portfolio companies.

In addition to all this, CIIE leverages the IIMA alumni, faculty and student network while also creating new networks of mentors, investors, support organizations, service providers etc.

### *Sample Investment:*

#### Boond Engineering & Development (P) Ltd.

Boond ([www.boond.net](http://www.boond.net)) is an energy access social enterprise that delivers high quality sustainable energy solutions in rural areas of India. The products range from small solar home systems to large community micro-grids and the company has done over 1200 installations so far. Boond partners with local financial institutions to provide loans to customers so that they can buy the systems on easy monthly installments; and ensures reliable servicing through its last mile energy centers.

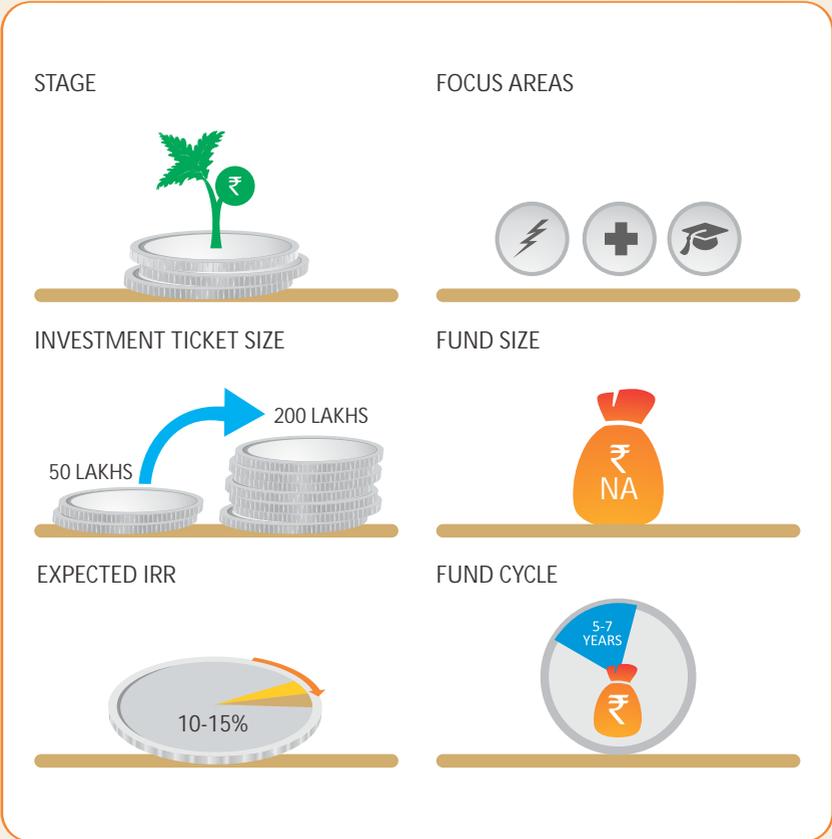
In order to successfully overcome the last mile distribution challenge of bringing these products to Indians rural communities, Boond trains young people in becoming entrepreneurs to sell and service these development products. Thereby Boond also provides livelihood to the rural unemployed while at the same time ensuring that clients are well trained on how to use development goods. Till date, Boond has impacted the lives of over 50,000 people in 10+ districts in four states of India, but its goal is to grow pan India with 10 distribution points within the next few years. Boond is based on a sustainable model with incentives for everyone working for a common cause. It has also raised two funding rounds – seed from CIIE and Series A from Opes Impact Fund, Rianta Capital and some angel investors.

### Is CIIE the Investor for you?

- Yes – if you are working on a product having a huge market and have a capable team and solution.
- Yes – if you believe that your model needs refinement and you need incubation support till you raise your next round of funding.
- Yes - if you need capacity building, mentoring and access to potential addition capital from angels/ impact circle members.
- No – if you are looking at large size funding or are beyond seed stage.

Note: CIIE does consider startups which have a proof of concept and are still in the process of refining prototypes.

# ENNOVENT



Ennovent is an innovation accelerator providing not only access to finance, but also helping startups through various services like mentoring, access to the Ennovent Impact Circle (Angel group) and access to solutions to develop effective business models and scale the impact of viable enterprises.

Ennovent was originally set up as a fund in 2008 and has a fund life cycle of 10 years. It primarily invests in companies which have a demonstrable social impact and cater to low-income/ BOP customer segment. Ennovent sets a high bar in terms of its portfolio and looks for a strong management team with realistic and viable business and financial model. It carefully assesses the organization strategy in terms of sustainability and profitability and seeks clear value propositions in terms of the products and services offered.

This high benchmark is reflected in its portfolio which has so far invested in 2 social enterprises across the energy and healthcare sectors in its 5 years of existence (as of March 2014). They are currently evaluating startups for an investment and are looking to close a few investments soon.

As per Digbijoy Shukla, Director, Ennovent Impact Circle, impact is at the core of its investment strategy. If it doesn't find a demonstrable social impact on low income people, it cannot invest in the company.

Ennovent looks for organizations which serve the low income segment earning (USD) 5.5 per day or less in rural or urban markets and which has a fair profit margin. Ennovent will conduct a due diligence which can take between 3-6 months and will also include field visits and interactions with customers etc.

Ennovent also brings entrepreneurial expertise in its core team and has a team member who has built, scaled and exited out of commercial ed-tech venture. While they are primarily based out of Delhi, they have a presence across India through its robust network and staff.

The investment vehicle typically preferred by Ennovent is equity but they also consider quasi equity products like convertible debt

especially in the Indian market. The fund usually takes a board seat if they are the lead investor in an early stage companies. For mature startups raising higher capital, Ennovent usually requires a board observer seat.

### *Sample Investment:*

Ennovent, Ankur Capital Invests in ERC Eye Care  
18 December 2013 Assam-based ERC Eye Care has raised funds from Ennovent Impact Investment Holding and Ankur Capital along with participation from angel investor Sadeesh Raghavan and Ennovent Circle, ET states.

Source: <http://www.dealcurry.com/20131218-Ennovent-Ankur-Capital-Invests-In-ERC-Eye-Care.htm>

### Is Ennovent the Investor for you?

- Yes – if you are making a huge social impact and working with the low income population/BOP.
- Yes – if you believe that your model is stable but has a quick pickup time and you are likely to raise additional capital in a short to medium duration of time.
- Yes – if you need capacity building, mentoring and access to potential addition capital from angels/impact circle members.
- No – if you are looking for money fast as their investment process is long and selective.
- No – if you are looking for money at a prototype or idea stage.

## ANKUR CAPITAL FUND

STAGE



FOCUS AREAS



INVESTMENT TICKET SIZE



FUND SIZE



EXPECTED IRR



FUND CYCLE



“600 million people in India make less than \$2/day. We believe creating inclusive businesses can change this.”

Ankur Capital is a relatively new seed fund operating out of Mumbai, India. It primarily invests in healthcare, education and livelihood business models and focuses on models that remove inefficiencies in supply chains or create direct employment opportunities in low-income communities or work for skill development, healthcare and education.

The fund size is around INR 40 Cr and operates on a 9 year cycle with the funds raised at return expectation of 5 to 10% for its investors. The investment process is fast and efficient, often completing investment decision within 6 months and the fund has already invested in three social enterprises (PBK Waste Solutions Pvt. Ltd., Crop-In Technologies Pvt. Ltd. and ERC Eyecare Pvt. Ltd.) within a short period of time as of March 2014. The team consisting of a high number of consultants and corporate players is experienced with investing but does lack strong credible entrepreneurial experience as compared to funds like CIIE & Ennovent. Through its large number of partners, the fund also offers value added services to its investees and plays an active role in the social enterprises strategy development. The goal of the fund is to do 4-6 deals a year and is open to all enterprises pan India.

According to fund's partner Rema Subramaniam<sup>28</sup>, the fund backs entrepreneurs that have a proven model, are post revenue and are looking to scale. They are best suited to enterprises with inclusive models that need not just financial help but technical expertise as well. According to her, a successful social enterprise should be impact focused, with strong underlying business viability, like any other commercial business. The expected IRR, often ranging around 15% with a 5-7 year exit period. While most exit options are entertained, the fund does have substantial hands on way of working with the investee companies, even insisting in cases for weekly

<sup>28</sup> 1. Survey conducted in Jan, 2014

2. [www.ankurcapital.com](http://www.ankurcapital.com)

3. <http://www.ankurcapital.com/crop-in-technologies.html>

engagement. They also take a board seat and provide direct support for most business operations like finance, HR, legal etc. to the social enterprise.

The funding process is short and very entrepreneur centric with the fund is looking for enterprises that can utilize the expertise of the investment team and partners. All kinds of investment vehicles are entertained and the fund also encourages co-investments and helps in subsequent rounds of fundraising as well<sup>29</sup>.

### *Sample Investment:*

#### Crop-In Technologies Pvt. Ltd.

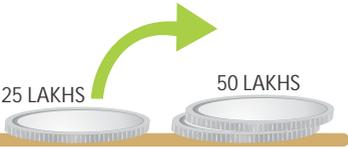
Crop-In addresses the low productivity and traceability issues faced by small farmers through the use of an innovative mobile-based farm management solution. The cloud-based ERP and Business Intelligence platform allows monitoring and real time feedback from large buyers and agro-experts. The Crop-In team effectively uses the produce value chain to support the agro-extensions costs for farmers.

#### Is Ankur Capital the Investor for you?

- Yes – if you need technical, operational or strategic support along with money.
- Yes – if you need money fast and are looking for a quick turn around time.
- No – if you don't like investor interference and constant engagements and already have your systems fairly built up.
- No – if you are looking for money at a prototype or idea stage.

<sup>29</sup><http://www.ankurcapital.com/crop-in-technologies.html>

# VILLGRO INNOVATION FUND

STAGE	FOCUS AREAS
	
<p data-bbox="174 683 426 708">INVESTMENT TICKET SIZE</p> 	<p data-bbox="575 683 680 708">FUND SIZE</p> 
<p data-bbox="174 935 318 960">EXPECTED IRR</p> 	<p data-bbox="575 935 698 960">FUND CYCLE</p> 

“From an idea that your family would invest in to an idea a VC would invest in”

Villgro Innovation Fund is an early stage seed fund that provides patient capital to social enterprises of up to INR 50 Lakhs. Based out of Chennai (with branch offices in Delhi and Mumbai), the fund has been operating for a number of years (founded in 2001) and has already made early stage investments into a very high number of social enterprises. Considered one of the early stage investors, the fund values social impact quite highly and has a substantial risk appetite but also expects a high financial return as well. This risk appetite comes mostly from the grant support that the fund has from a number of donors like the Rockefeller Foundation, the Lemelson Foundation, Technology Development Board (Government of India), IDRC (Canada), Halloran Philanthropies, Citi Foundation etc. to name a few.

The fund has a number of partnerships with other larger impact investors and hence is quite supportive in later fundraising rounds. Additionally, the incubation process is very structured and provides enterprises with investment readiness programs and services that are required to commercialize their ideas. The Villgro network is also quite huge and hence the fund offers a number of expert mentors to the social enterprises it invest in.

Successful investments for Villgro are defined as those that provide innovative solutions to challenging problems by creating financially viable and scalable business model and thus creating a significant social impact on underserved communities. Mr. Pinaki, the Chief Investment and Incubation Officer<sup>30</sup> of the fund believes that social enterprises cannot sustain their impact if they don't scale and do not provide financial returns. The fund typically is efficient in due diligence and investment decision are often made in under 6 months.

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<sup>30</sup>Survey conducted in Jan, 2014

The investment vehicle is mostly equity and sometimes quasi-equity products and exits are preferred in 3-5 years, mostly as secondary sales. The fund always takes a board seat and needs regular MIS reporting from the social enterprise. Often if the investment is high risk and early stage then a limited grant support is also provided to the investees. Since the fund is quite well known, it gets a number of applications for investments and is hence quite selective and difficult to get. Over the past three years, the fund has made a total of seven investments and a few of these have already gone on to raise further larger rounds (as of March 2014).

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### *Sample Investment:*

#### Biosense

Biosense has pioneered a unique technology to non-invasively measure Hemoglobin and other related blood analytes. The product, TouchHb medical device, detects and monitors Anaemia in a most usable and cost-effective manner without the need for pricking.

The founders of Biosense, felt and experienced the problem of anaemia up close during their medical posting. At a tribal village, that was nearly 20 km away from the nearest Primary Health Centre (PHC), a large chunk of the women were evidently anaemic but the lack of roads made it nearly impossible for villagers to travel to the PHC to get their blood samples tested. They started tinkering in their college dorm-room and began development towards a device to solve this problem. The device that they made failed the first time. In fact, it failed another 30 times, before they got 32nd time lucky! The innovation posed many challenges – the village women didn't like to have needles pricked into them and village level health workers had to find it simple enough to use, etc. It has taken them a lot to overcome these challenges, but today they have a workable model of the device called the TouchHb. It is a hand-held needle-free battery operated device

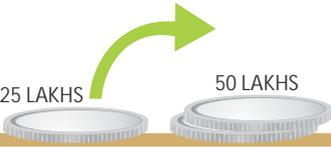
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that enables screening for anaemia and simplifies monitoring and treatment of this condition on a regular basis. Villgro has assigned a Senior Advisor to Biosense to help the team focus on long-term strategies and short-term execution goals. A 100-day-execution plan was put in place to complement Villgro's incubation funding. The plan focused on creating key systems and processes, introducing and running governance mechanisms and filling gaps in the business plan encountered during due diligence. Villgro aids Biosense in fundraising as well by vetting investors and facilitating the fundraising process.

Is Villgro Innovation Foundation the Investor for you?

- Yes – if you need additional services and access to a large mentor network.
- Yes – if you have an innovative product and need help with commercialization.
- No – if you don't like multiple rounds of applications and very stringent and selective criteria.
- No – if you are not confident that you can provide >20% returns in 4-5 years time.

# RIANTA CAPITAL ZURICH (ARTHA)

STAGE	FOCUS AREAS
	
INVESTMENT TICKET SIZE	FUND SIZE
	
EXPECTED IRR	FUND CYCLE
	

Rianta Capital Zurich is an independent advisory firm to a family Trust in Zurich. It supports the Artha Platform an online community and website dedicated to building relationships between impact investors and donors, and social entrepreneurs and capacity building support organizations or "Artha community" working on or in India. The platform doesn't charge any joining fees and membership to it is by invitation only.

So far Artha has invested in more than 13 social enterprises across different sectors (as of March 2014). A primary requirement for obtaining an investment from Artha is to have high impact as the core of the enterprise business model.

Ms. Audrey Selian, Director of Rianta Capital and founder of Artha defines a good startup as one which has high impact within its core business model and is able to achieve financial/operational sustainability in 5-7 years from the investment. She looks for entrepreneurs who are adaptable and are capable of absorbing good advice and deflecting the bad ones. The startup needs to have a good product or service which is relevant to the market they serve.

Activity on the Artha Platform is undertaken within a small cluster of practitioners who tend to know one another and who work closely together; disclosure regarding progress on contracted due diligence activities is thus a fundamental basis for the operation of the website and is based on an 'honor code'. Users are expected to generally uphold transparency and information sharing as core values of this community.

While Artha team is backed by significant entrepreneurial expertise, most of the sector specific/technical aspects of the work are outsourced. Artha platform is engaged in significant amount of capacity building and mentoring for the entrepreneurs and also provides them access to support organizations on the ground.

The investment vehicle typically preferred by Artha is equity but they also consider quasi-equity products like convertible debt especially in the Indian market. The fund usually prefers to hold a board observer position and may occasionally request a board seat.

### Is Rianta the Investor for you?

- Yes – if you are making a huge social impact and have already proven your model at a smaller scale.
- Yes – if you believe that your model is stable but has a slow pickup time and you are less likely to raise additional capital in a short duration of time.
- No – if you are looking for money fast as their investment process is long and heavily process driven.
- No – if you want to exit your social enterprise within 3-4 years, and expect to take away a significant financial upswing.

## UNITUS SEED FUND

STAGE



FOCUS AREAS



INVESTMENT TICKET SIZE



FUND SIZE



EXPECTED IRR



FUND CYCLE



Unitus Seed Fund makes seed-stage venture investments in “BoP startups”. The initial investment size ranges from INR 30 lakhs to 90 lakhs (USD50,000 to 150,000) with the potential for additional investment capital as critical progress is achieved. The fund's objective is to invest in startup businesses which are primarily focused on serving very large, underserved low-income populations in India delivering quality, affordable products and services and/or creating new or improved livelihood opportunities<sup>31</sup>.

For a successful investment, the fund looks for a good management team, a potential to serve over 100,000 families over a period of 5 years, a business that has matured beyond a concept stage with a clear value proposition and an effective distribution and marketing strategy. The fund looks for a balance of financial profits and values and also provides business model support and connections to help entrepreneurs validate and refine their business model, product-market fit, operational strategies, governance, and plans for scaling up. The fund also has a very structured impact assessment process and reporting in which they work with the entrepreneur to develop a small number of measurable impact goals, which are monitored at least quarterly.

The 'Profit and Values Approach' also governs the investments as the fund is committed to delivering both profits and social impact for our investors. The fund also helps in successive rounds of investments through its partners including Mumbai Angels, the Indian Angel Network, as well as with other seed impact VC. Interestingly, the fund is also open to invest in college student led businesses as long as they have the relevant operational experience.

- The investment vehicle is mostly equity and quasi-equity since being an international fund, it cannot invest in pure debt but its investment cycle is extremely fast and efficient often completing the investment within 60 days. To ensure such efficiency and speed, the fund encourages entrepreneurs to think on the following things in their pitch:

<sup>31</sup> 1. <http://usf.vc/get-funded/>

2. [usf.vc/portfolio/hippocampus](http://usf.vc/portfolio/hippocampus) Survey conducted in January 2014

- Uniqueness or differentiation
- Learning from pilots or proof of concept
- Short-term (12 months) goals
- Unit addressable market and unit economics
- Team and competitors
- Social impact

The fund has made 9 investments over the past few years and is looking for more who fit their profit and values standards (as of March 2014).

### *Sample Investment:*

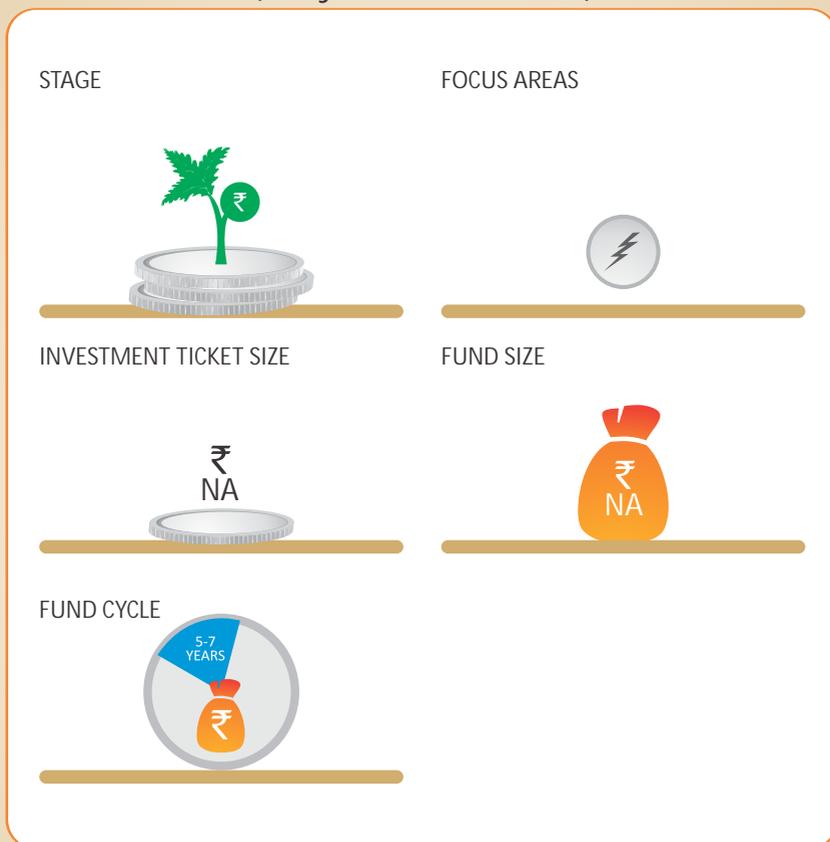
#### Hippocampus Learning Centres

HLC establishes Kindergarten and after school support centres. These centres are established in the village and operated by women from the community. The children pay an affordable fee to cover the costs of operations thereby leading to a sustainable enterprise. Over the next 3-5 years, HLC hopes to reach out to more than 3,000 villages, employing 12,000 teachers and reaching out more than 300,000 children annually. HLC hopes to be able to bridge the gap in learning between rural India and urban India significantly. HLC believes that one of the sure shot ways out of poverty is education. HLC's work focuses exclusively on the 700 million rural Indians with the aim of improving the learning of children. HLC establishes learning centres in villages offering preschool and after school programs to age groups from 3 years to 10 years with the aim of improving a child's capacity to learn and do better in school. The fees at these centres are between Rs.60-Rs.100 (USD\$1-\$2) per month, which is affordable for poor families. The curriculum is centrally developed to cater to mixed age groups and is largely teacher facilitated. HLC hires women from the local community as teachers, trains them to run the centres and provides them ongoing support. HLC intends to make these ongoing sustainable community enterprises and also achieve financial sustainability as an organization. HLC is based in Bangalore, India.

### Is Unitus Seed Fund the Investor for you?

- Yes – if you need to raise capital quickly (with 2-3 months)
- Yes – if you look to raise a bigger round of funding in 2-3 years post the seed round.
- No – if your model does not support profits or high scaling within 5 years.
- No – if your model is capital Intensive.

## SPARK FUND (Only for Cookstoves)



*Some funds are specific like Spark Fund is for cook stoves. These funds might be better for early stage entrepreneurs since these have a better understanding of the technology and often run by experts in the specific field.*

Spark Fund is an initiative of Global Alliance for Clean Cookstoves<sup>32</sup> as a part of its strategy to strengthen supply and enhance demand in the cookstove and fuels sector through innovation and tailored entrepreneurial capacity development. The innovation needs to be a disruptive change to business as usual, through the development of new, innovative ideas along the value chain and spur the development of a thriving global market for clean cooking solutions.

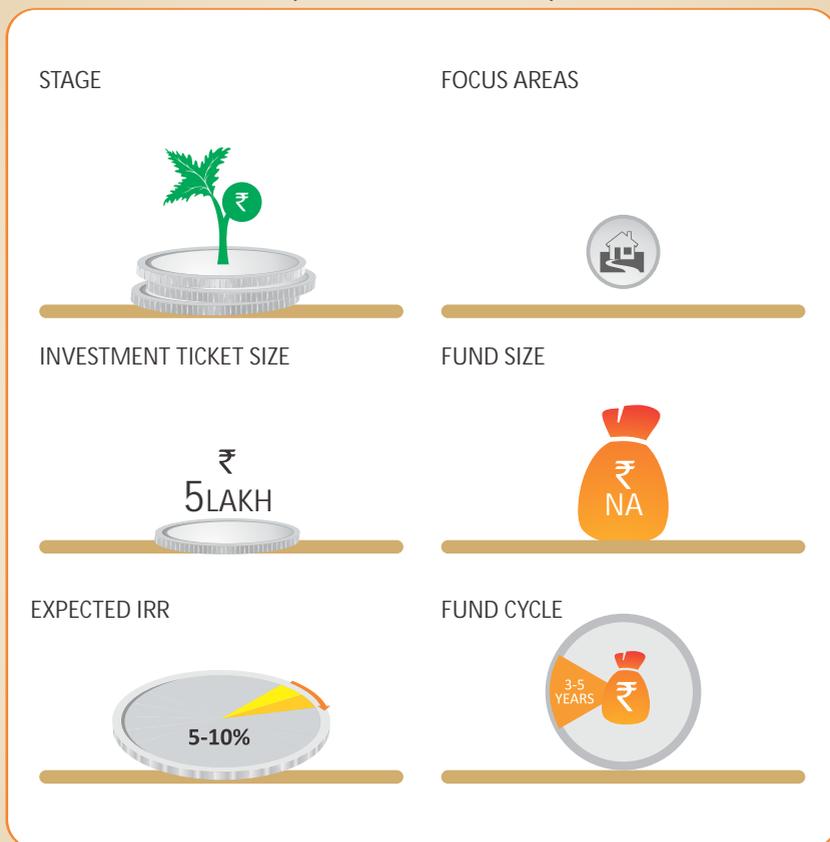
Though providing grant capital, the design of the Fund is meant to mirror early stage investment capital and the Alliance seeks to identify and invest in actors and innovations that have scalable approaches with the potential to transform the sector through their success. It is expected that successful applicants will be able to leverage grant funding provided by the Spark Fund to attract additional capital to fully scale their enterprises. The Spark Fund will also generate a pipeline of innovative platforms and entities that can be slated for investment in future rounds of the Spark Fund and educate impact investors on the potential that exists in the sector.

The fund looks to put in USD 2 million annually into the initiative and is agnostic to the geography. According to Jen Tweddell, Manager, Impact Investing, “Spark aims to bridge the pioneer gap – the dearth of impact investors willing to invest in early stage businesses”.

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<sup>32</sup><http://cleancookstoves.org/about/news/12-18-2014-alliance-launches-spark-fund-round-iii.html>

## BE! FUND (Micro-investors)



*Some seed funds might not be for conventional entrepreneurs but are bold initiatives that deserve respect and a special mention in this report.*

Be! Fund, founded in 2010 is a unique impact seed fund that invests in base of the pyramid entrepreneurs looking for startup capital but who also need substantial support for other business activities (like accounting, legal, marketing etc). The fund invests in young people aged 18-29 who live in poverty and have a sustainable business idea to solve a local, social problem. It does a large number of investments in a year; mostly of a few lakhs each but ensures a continuous engagement and mentoring for the entrepreneurs. Successful enterprises are defined as those that adopt new approaches for solving a problem and have cash flows that make it viable for them to be sustainable with a year or so. Financial sustainability is given high importance since the entrepreneurs are typically role models for their communities and helps inculcate fiscal discipline.

The fund has a size of INR 1Cr and is grant-based and is one of the very few investors in this high-risk community. With over 45 investments in the past three years, the fund is definitely making a very high social impact and behaves more like a partner to the social entrepreneurs rather than investors<sup>33</sup>.

Another innovative feature of this fund is that once their entrepreneurs repay the investment and are successful the fund tells their stories on national television and as graphic novels to children in schools. The focus states selected by this fund are Bihar, Karnataka and Maharashtra and the fund also offers a two-day course in accounting and reporting to the potential investees.

Be! Fund's investment process is also tailor made to BoP entrepreneurs and very well structured. When it gets an application for funding (often when the potential investees see advertisement or program on the media), an interview is conducted on the telephone and subsequently in person. Be! Fund also partners with the NGO BASIX for this. The Be! Fund team writes business plans,

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<sup>33</sup>1. Survey conducted in Jan, 2014

2. [www.befunindia.com](http://www.befunindia.com)

3. case study same as website

creates cash flow statements and goes to visit the entrepreneur where the live, to conduct a site level visit. A sector expert reviews the plan, and every three months, they present over 10 business plans at multiple Investment Committee meetings, where the committee decides whether or not to invest. The fund is well supported by Deutsche Bank and UBS and has a very strong advisory committee led by a very experienced founder Ms. Lisa Heydlauff.

### *Sample Investment:*

#### Poonam's Sweet Box Company

#### Problem to be solved & business idea:

To create bespoke sweet boxes for the growing sweet industry on a religious pilgrimage route. Poonam's enterprise will create jobs for women, brought, lack of water here closed the leather industry, a traditional source of employment for Poonam's community.

Poonam comes from a Dalit community called Dhor which traditionally works in the leather tanning business. Due to the persistent drought and lack of water, the revenue of the leather industry, which requires a lot of water, has almost stopped forcing thousands of Dhor community members to seek alternative sources of income. Poonam was persistently moved by the difficulties her community faced, especially the women, who without diverse skills and due to persistent poverty are unable to find other ways to support themselves.

Poonam heard about Be! Fund on the radio and knew it was her chance. She was inspired to start a venture that would create employment opportunities for women. Poonam did her research and discovered a potential in the sweet box making business because her village is located close to many frequently

visited pilgrimage centers in Maharashtra. The local shop keepers have to procure sweet boxes from as far as 80 to 150 km away. Procuring from a distance costs them money and precious time in addition to the storage costs of large quantity of sweet boxes. Poonam's sweet box enterprise will take customized orders and sell sweet boxes at a lesser price which will be delivered at the shop while providing continuous employment to seven women.



### Viability Gap Investors

This is a new stage in the investment process where social enterprises that have raised seed funding and have a proof of concept are looking for funds to scale to a demonstrable level. Typically these enterprises are still not large enough to attract the big venture capitalists and needs a number of systems and processes in place before they can raise larger rounds. They are also enterprises that are post revenue but have not yet managed to showcase financial sustainability.

A number of funds in India are operating in this space, providing between INR 50 Lakhs to INR 2 Cr to social enterprises, mostly as equity or quasi-equity instruments.

#### List of profiled investors

- Arun
- Maitreya Rural Growth Venture
- Contrarian Capital India Partners
- Das Star Ventures
- Opes Impact Fund
- ICCO Investments

### Interview with Sujay, Co-founder and CEO of Ikure

Interviewer: “Being a successful entrepreneur who has raised funds from multiple organisations, we wanted your take on this. Sujay, having raised money from multiple sources can you name some of these organisations?”

Sujay: Thanks iKure was conceptualized in 2009 and we formed the company in 2010. We received seed funding from Webel Venture Fund which is a Govt. of West Bengal enterprise in 2010 and then we received a small grant from MSME Govt. of India in 2011. In 2012 we received angel investment from 2 HNI's, namely Mr. Jayesh Parekh (the co-founder of Sony Television Entertainment and NandanBaluste who is ex CRY. Then in 2013 we raised investment from Calcutta Angels and we also secured funding from CIIE, IIM Ahmedabad and Village Capital, which was part of a program called Technology for Impact. And recently we have raised another round of funding through certain Japanese investors.

Interviewer: Is this a Japanese fund or are these a group of investors?

Sujay: It's a Japanese fund called Arun LLC social integration fund

Interviewer: Sujay, you have worked with a lot of impact investors. We'd like to know how your experience has been working with these investors. Where do you think they can really add value to your organization the most?

Sujay: I would definitely say that raising investment is a full time activity. The vision and goal of your organization should match the investor's preferences as well as investment expectations and other things. When we were trying to secure the first round of angel investment that was a challenge

because being a social enterprise our market is rural health care consumers with a limited paying capacity. At that stage, raising funds is a challenge as you have to prove that you are viable and scalable. Once we were able to showcase that we can crack that challenge, we were able to secure funds. In terms of raising investment, right from the stage where you have the first round of discussion with the investor till you reach stage where you are signing the final set of documents, it can take anything from six months to a year. You have to be really patient and have a plan B in place wherein your operational expenses have been met otherwise meeting your day to day costs will hound you. So these things have to be taken care of when dealing with investors. Till the time money is not in your bank, you should not be absolutely sure that you are getting the investment.

Interviewer: Sujay you mention how proving business viability is a challenge as the paying capacity of the customers of social enterprises is low. In that context, when we look at impact investing what is the tendency of investors – are they looking at impact per se or return on investment or how is the balance between the two maintained?

Sujay: I would say that impact investors are investors first and then look at impact as their preference. So business viability is necessary as they are not giving you their money as charity. So business viability needs to be ensured and the market that you have is willing to pay and can pay for your goods and services. Over that the impact that you create is a plus point, however, the core of your model that is the business viability needs to be ensured.

Interviewer: What kind of weightage do investors give? Is the IRR lower than the commercial segment or similar?

Sujay: In the initial stages, the IRR was a little lower than other commercial segments. Also the window size – how long

they can invest – was longer than other commercial segments. These are two aspects which are different. Investors are not too worried about IRR as long as they are sure that the business is viable and scalable. Investors would also like to know when they would be able to exit. Let's say they are investing at an angel stage they'd be interested to know how fast you can go to a series A stage. Likewise if you are at a series A stage, then when will you reach a series B stage and so on. Another thing that investors look for is knowing if there are other investors interested in funding you. They like to know if it is possible for them to make a decent exit.

Interviewer: Keeping in mind the varied investors you've had, what has been their greatest value add?

Sujay: In our case, other than the money both Jayeshbhai and Nandan have been playing a crucial mentoring role. There are several challenges you face from operational challenges to scale up challenges and compliance challenges, in dealing with these investors are really helpful in guiding you. Our other investors have been really helpful by opening us up to their network. However, this depends on the level of comfort and the frequency of engagement between the investor and enterprise.

Interviewer: What advise do you have for a startup entrepreneur who intends to raise investment? What are some of the keys they need to aware about regarding impact investment?

Sujay: In terms of raising investment, their business model needs to be strong. They should have complete clarity regarding their model. Because investors are willing to take the next step only when they have complete confidence in your enterprise.

Interviewer: Who do you think are the relevant players in the impact investing space with regards to social entrepreneurship?

Sujay: Groups such as I3N and Intellectap; angel investors such as Calcutta Angels and Mumbai Angels. We also have Ennovent, and there are foreign investors too now.

Interviewer: Have you observed any change in the investors during the investment stage; was there any change in their attitude/expectations pre-investment and post-investment?

Sujay: I would not call it a change per se. When you are signing a legal document, there are certain expectation which they would want to be met, like these reports, audit report, performance reports etc which they will like to be sent at a certain frequency, they would want the board meetings to happen regularly. So what you have to ensure is that you keep them updated with the various developments which keeps happening within your organization at regular intervals, both good and bad. In case there is some stiff challenges you are facing, you will have to update them that “this is what we had expected and these are the challenges we are facing, so that the investors are also aware of the going on in the organization. This need not be on a daily or weekly basis, but monthly update is also fine. Let’s say you got covered in some media or magazines, even from a business angle you have been able to crack these many deals, or take these many orders etc. So these are things you need to be keeping them aware of. Even from their end, if there are some networks which they feel can help you or they can connect you with someone to help the business, they will be wanting to do that. They should get the feel and know that the enterprise is very aggressive and actually growing which is very crucial. As long as you are able to meet that, I don't think there should be any problem.

Interviewer: Sure, thanks. So essentially if I am to summarize, there will not be any drastic change in the investors pre or post investment.

Sujay: Also I would like to mention over here that we had a

very large investor who approached us and we had to say no to that. It depends, as those investors were very commercial in nature and it was not fitting into the scheme of things at iKure. So it's not that you have to do something very very different than your original business model to raise the funds. If you try to keep pleasing the investors, then your actual passion and the reason for your work on the ground to create better services at the group might just fade away. There has to be a balance met of helping the investors, while keeping in tact the main purpose with which you originally started your business. That has to be ensured as if you convert to a very commercial enterprise, then the very purpose of your existence might be lost.

# ARUN LLC

STAGE	FOCUS AREAS
	
<p data-bbox="176 683 426 710">INVESTMENT TICKET SIZE</p> 	<p data-bbox="575 683 684 710">FUND SIZE</p> 
<p data-bbox="176 938 319 965">EXPECTED IRR</p> 	<p data-bbox="575 938 703 965">FUND CYCLE</p> 

“ARUN means dawn in Khmer. It represents hope and energy to make a new society” Arun LLC is a Japanese Fund capitalizing on funds from Japanese individuals and corporate partners. It was set up in 2009 and initially started its investment activities in Cambodia where it has already invested in over 5 social enterprises. It started its operations in India in 2013 and has already invested in a healthcare company based out of West Bengal.

Arun LLC envisions a society where all members live and enjoy the full range of their talents and abilities regardless of background and economic status. It invests in enterprises that conduct business aiming to solve the country's poverty and the problems that stem from poverty. Its investment is evaluated not only by the economic returns which the company is able to provide, but also the social impact it is able to create. Arun also operates a social platform where Japanese investors and investees in the developing countries can foster mutual understanding and share ideas.

According to fund's partner Mr. Satoko Kono, a good investment is one which is able to provide a strong financial return, while it has high social impact which is measurable and tangible. The enterprise should give equal weightage to financials returns and social impact.

The fund backs entrepreneurs that have a proven model, are post revenue and are looking to scale. They are best suited to enterprises with inclusive models that need not just financial help but also expertise in terms of legal, social impact analytics. Arun will invest in enterprises, which has strong underlying business viability, as its expected IRR is greater than 20% with a 3-5 year exit horizon. While exit options vary case to case, the fund provides substantial hands-on support for value-up, business matching and advisory. Arun may take a board seat on occasions and requires quarterly reporting updates.

Arun has very strong due diligence requirements which can take longer than 6 months in most cases. The due diligence will involve field visits and checking out operations of the organization on ground. They invest mostly in equity and are flexible with debt funding. The founding team and directors at Arun brings entrepreneurial expertise to the fund.

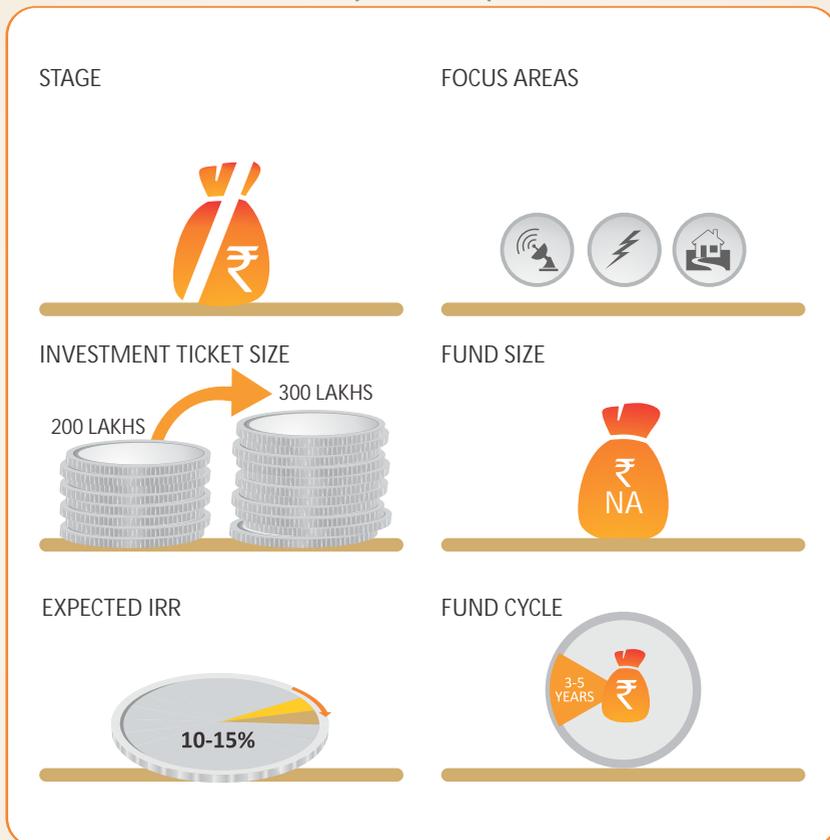
*Sample Investment:***iKure**

Rural health care is a big problem in India. Most often, the 600 million people living in rural areas can't access it and the government spending just 4% of their expenditure on it is not helping improve the situation either. We reported last September how Sujay Satra, an ex-employee of Oracle, is working to solve this problem with iKure. They connect doctors with rural areas through health workers and they are able to give a first level of diagnosis and good advice for other doctors in hospitals; all this through regular broadband and data card lines. His idea has expanded and become bigger in the last four years. iKure has just raised a bridge round of INR 70 lakhs from its existing angels of the Intellectap Impact Investment Network (I3N), Japanese fund ARUN LLC and Mumbai Angels.

**Is Arun LLC the Investor for you?**

- Yes – if you have an exhaustive business plan with strong financial and impact model and have already a proof of concept on ground.
- Yes – if you need money fast and are looking for a quick turn around time.
- No – if you require investor support and constant engagements and need to have your systems built up with a robust impact model in place.
- No – if you are looking for money at an prototype or idea stage.

## MAITREYA RURAL GROWTH VENTURE (MRGV)



Maitreya Rural Growth Venture is a relatively new entity in the impact investment space based out of Mumbai. Established in 2012, the fund is a subsidiary of parent Maitreya Group which forays into an array of businesses across sectors.

They have already invested in 2 companies in the social impact space. They are not a typical fund and do not raise investments from external sources. MRGV invests in sectors across energy, technology, environment, agribusiness and looks at an investment horizon of 3-5 years.

With a vision of creating a growth platform for proven scalable and sustainable social enterprises in India, MRGV is working to identify growth stage social enterprises which create impact in rural India.

MRGV has a speedy investment process which can be completed in 3-6 months. The team conducts field visits and does detailed financial due diligence prior to an investment. They work extensively on the financial models of the organizations and want to be actively involved at a strategic level through a board seat in all its investees.

The investment vehicle typically preferred by MRGV is equity but in some circumstances they also consider quasi-equity products like convertible debt. The fund will take a board seat for all portfolio companies and requires quarterly reporting. They also play an active role in the strategic operations of the company. They prefer an exit via secondary or strategic sale.

Is MRGV the Investor for you?

- Yes – if you are making a social impact and working with the low income population on a business which has strong financial viability and makes sustainable profits.
- Yes – if you are looking at raising quick capital and will be looking on raising subsequent follow up investments in the coming 2-3 years.
- Yes – if you need strategic advisory and a hands-on investor and are willing to provide a board seat for the same.
- No – if you are looking for money at a prototype or idea stage.

## CONTRARIAN CAPITAL INDIA PARTNERS

STAGE



FOCUS AREAS



INVESTMENT TICKET SIZE



FUND SIZE



EXPECTED IRR



FUND CYCLE



Contrarian capital is a relatively new fund which was set up in India in 2013. Based out of Mumbai, Contrarian seeks to create superior financial returns for its investors through investments in businesses delivering core goods and services in under-penetrated Indian markets. Contrarian's investee companies create unique business models that aim to bridge access gaps for low-income consumers or producers, thus creating barriers to entry while capturing volumes at sustainable margins.

Contrarian is an angel fund of the size of 60 crore INR. Their minimum investment ticket size is INR 50 lakh in an enterprise which is less than 3 years in operation. They aim to identify startups which have a strong and committed promoter team which has completed its proof of concept or primary R&D cycle. Contrarian prefers to invest in enterprises which are working on access creation for low income communities as either producers or consumers with a focus on creating capital efficient delivery systems which have high scalability by potentially leveraging technology to overcome operational barrier.

Contrarian has a very fast and investment process which can be completed in less than 3 months. The team spends considerable time with the entrepreneurs to understand the business model, strategy and also conducts field visits to access ground realities. Contrarian aims to provide active strategic inputs to its portfolio companies and hence seeks a board seat in all its investees. While they are yet to make an investment in a company, they are actively engaged with various startups and intend to close a few funding in the next few months.

Somak Ghosh, Contrarian's managing partner has very strong entrepreneurial experience as he was part of the founding team at Yes Bank, India's fourth largest private sector bank, where he managed roughly 70% of the bank's assets. According to him "Impact investment is a large domain but there are few funds – maybe 10% of total stakeholders – that are strictly for-profit with a strong social purpose. Most focus on the social impact and financially are about being sustainable, which means cost-coverage rather than providing investors with an opportunity for superior

returns. That is one key area of difference (in Contrarian)”

The investment vehicle typically preferred by Contrarian is equity but they also consider quasi-equity products like convertible debt. The fund usually needs regular MIS and the frequency which is decided based on the stage of an investee and the type of business. They prefer an exit via secondary or strategic sale.

*Mr. Somak Ghosh was a founding member of YES Bank which, less than nine years after starting its operation, is now the fourth largest private sector bank in India. Last year he stepped down from his role at Motilal Private Equity to launch a new venture capital fund, Contrarian Capital, targeting underpenetrated markets in India. He tells Ben Thurman why he decided to move on from this role and how he aims to move the idea of investing in BoP businesses from niche to mainstream.*

Ben Thurman: After two decades at Rabo Bank and YES Bank, you were awarded a public service fellowship at Harvard in 2011. What impact did this sabbatical have on your career goals?

Somak Ghosh: I pretty much knew what I wanted to do before I went to Harvard. In fact, it was part of a planned exit strategy from my role at YES Bank. But while I knew I wanted to create a fund for small growing businesses, my time at Harvard allowed me to flesh out the idea and sharpen the focus of exactly where I wanted to position the fund.

Thurman: The name of your fund – Contrarian Capital – suggests an innovative approach. How are you different from other established players in the impact investing space?

Ghosh: Impact investment is a large domain but there are few funds – maybe 10% of total stakeholders – that are strictly for-profit with a strong social purpose. Most focus on

the social impact and financially are about being sustainable, which means cost-coverage rather than providing investors with an opportunity for superior returns. That is one key area of difference.

Secondly, one of the outcomes we hope to achieve is “mainstreaming the industry.” Unless we can mainstream this asset class, global asset managers will never commit significant sums of money. That's really important: this sector cannot remain niche, cannot remain CSR-oriented. We need to develop a broader stakeholder base not only for Contrarian, but for the industry as a whole.

Thurman: Many entrepreneurs complain of a lack of funds, while investors cite a lack of investible enterprises. Do you think there is a capital gap? Or do you see a lack of entrepreneurship?

Ghosh: My personal view is that it's a capital gap; and that gap is accentuated by the not-always-helpful capital that is available. Often businesses access a lot of grant capital and their vision for the business, their focus – or lack of focus – on cost control and profitable growth take a beating. Because early “investors” who are essentially philanthropic grant-makers do not instill that consciousness, when the entrepreneur is looking for more mainstream capital, they fall short of the mark. The second part is the confusion that persists in this sector: there are too many non-investible businesses because people with societal goals are confusing the issue. Often their business model is not suitable for somebody who wants a return of capital. So there appears to be a lot of funds in this business; but only a small proportion of funds and a small proportion of entrepreneurs are focused on delivering mainstream returns measured on mainstream metrics and delivering a social service. In this particular segment, I believe there is a capital gap.

Thurman: Why have India-focused funds struggled to deliver returns in recent years?

Ghosh: I would say that global investors and limited partners need to be a little bit more discerning about the kind of fund managers they are putting their resources in. India is a difficult country to invest in and funds which are raised in London or New York will be far less successful than funds which are run by local investment managers, with local teams on the ground with understanding of local business environment and challenges.

Thurman: You anticipate that the bulk of your investment will be in India's fourteen poorest states. Why?

Ghosh: These states present a unique demographic opportunity. Along with the overall abysmal infrastructure, local state government is unable to meet its financial obligations. So there is a segment of the population that is not theoretically poor, but in actual terms is poor because their cash flow is insecure and highly dependent on a bankrupt state exchequer. If somebody is able to devise products of value targeting this economically floating population, it opens up huge business opportunities in offering healthcare or energy and water access.

Thurman: Finally, what advice would you give to an entrepreneur seeking early stage investment?

Ghosh: Most early stage entrepreneurs are so focused on immediate survival that they don't have a long-term vision and don't adopt business strategies, which are designed for scale. The first piece of advice: if you are in business, settle for nothing but scale. Don't imagine yourself as a small business all the time, but think of yourself as a small growing business. The second piece of advice is to select partners – whether your employees, shareholders, suppliers, vendors, or

markets – who support the growth that you are aiming for and don't restrict your growth choices.

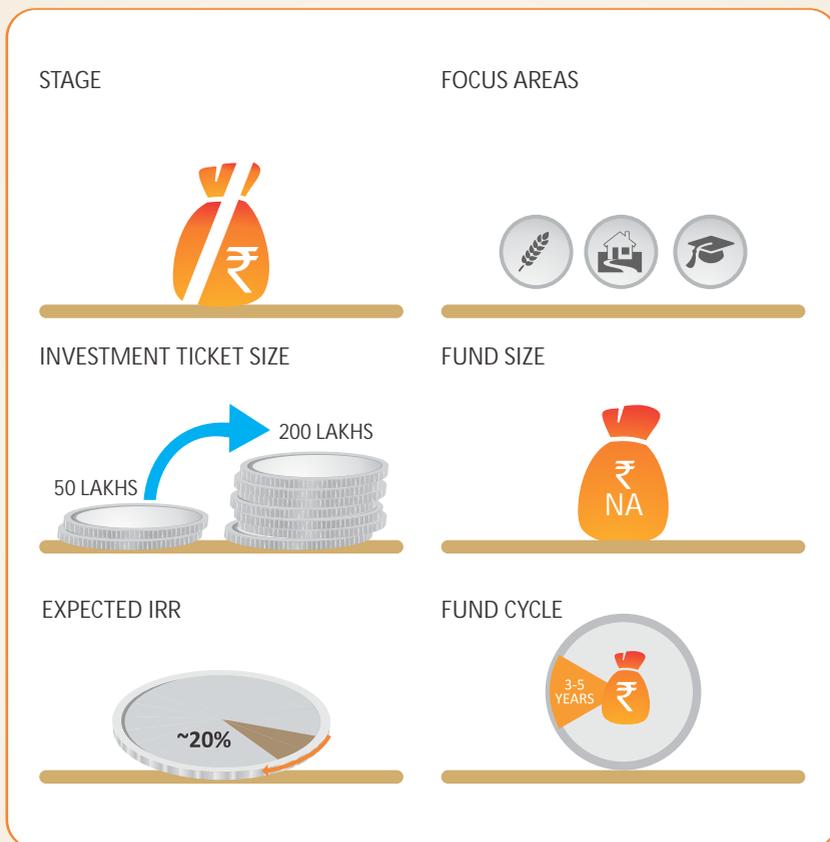
Source: Interview excerpt from:

<http://dowser.org/somak-ghosh-a-contrarian-approach-to-impact-investing/>

### Is Contrarian the Investor for you?

- Yes – if you are making a social impact and working with the low income population on a business which is financial viable and makes sustainable profits.
- Yes – if you are looking at raising quick capital and will be looking on raising subsequent follow up investments in the coming 2-3 years.
- Yes – if you need strategic advisory and a hands-on investor and are willing to provide a board seat for the same.
- No – if you are looking for money at a prototype or idea stage.

## DAS STAR VENTURES



“Success begins with a DREAM. It is made tangible by INNOVATION, fueled by OPPORTUNITY, sustained by VALUE and monitored by RESPONSIBILITY.”

Das Star Ventures established in 2011 was set up to generate new models of investing, enabling first entrant entrepreneurs to raise money and build expertise, leading them towards accelerated value creation. Led by Ms. Durga Das an accomplished serial entrepreneur, and Mr. Sohail Khan, the fund aims to be India's first premier 'Mentor-Leader' based investment vehicle. The Company has built a lean, professional and effective team that is poised to identify promising enterprises with potential for accelerated growth, and to mentor them in critical areas through a close engagement process such that they are geared to achieve success in the marketplace.

The fund looks for entrepreneurs who have demonstrated that their business goals make good economic sense and promote good values towards societal good and environmental health. Alongside, they believe that the social enterprise should demonstrate a viable need in any industry and have the idea and program necessary to fill that need. The fund is extremely market focused and requires the entrepreneur to fill up a detailed market analysis along with the business plan for funding. It is very focused on scale and provides a number of support services to its investors including market linkages and sales support.

Over the past three years, the fund has made four investments and according to Ms. Durga Das, Managing Director<sup>34</sup>, the fund wants entrepreneurs who are prepared for the long haul and have the courage to face challenges, other than being scrupulously honest. Value is also provided to the team setup by the entrepreneur as well as domain level experience. The fund has INR 20 Cr under management and has a short fund cycle of 3-5 years with a

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<sup>34</sup>Survey conducted in Jan, 2014  
www.dasstar.com

preference for cash out exit. Equity and debt are both considered as investment vehicles and financial returns are given equal importance to social impact. The fund typically invests in 1-2 enterprises in a year but the investment process is clear and straightforward.

*Sample Investment:*

Supra Energy

Offers alternative energy lighting solutions for everyday needs; from energy saving lighting solutions to solar powered LED lanterns for those living in villages and remote parts of the country. Supra develops and delivers products that meet our most basic needs- THE LIGHT in our lives.

Is Das Star Ventures the Investor for you?

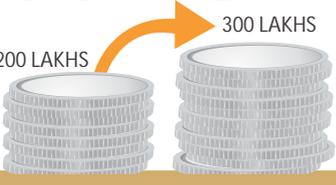
Yes – if you need support for sales and commercialization of your product or services.

Yes – if you want to develop partnerships need mentors and have a market based solution.

No – if you cannot pay returns of over 20% within a time frame of 3-4 years.

No – if you don't prefer cash outs.

# OPES IMPACT FUND

STAGE	FOCUS AREAS
	
<p data-bbox="176 683 427 708">INVESTMENT TICKET SIZE</p> 	<p data-bbox="575 683 680 708">FUND SIZE</p> 
<p data-bbox="176 938 315 963">EXPECTED IRR</p> 	<p data-bbox="575 938 703 963">FUND CYCLE</p> 

“Opes is an impact investment fund targeting sustainable business that tackle the most critical problems affecting the Base of the Pyramid”

Opes Impact Fund is based out of Milan, Italy with its Indian office in Bangalore, India deploying philanthropic capital to make investments that yield both social and financial returns. All the funds returned to Opes are re-invested back into new ventures. The geographical focus of the fund is on social enterprises in East Africa (Kenya, Uganda, Tanzania) and India and in sectors of Energy, Agriculture, Water, Sanitation, Education and Fair Trade<sup>35</sup>.

The fund was founded in April 2013 and has two investments in India till date and is in advanced stage of due diligence with a number of other enterprises. With a fund cycle of ten years, it is one of the most patient impact funds and great for social enterprises that need a longer time to maturity. The IRR expected is also lower than any other investors ranging between 0-5% due to the philanthropic capital it has raised. Typically the engagement period with entrepreneurs is between 6 to 9 months and the fund conducts in-depth scrutiny into the sustain-ability and social impact of the social enterprise being evaluated. A high amount of weight is also given to the mission of the enterprise and the commitment of the entrepreneur to persistently work towards the mission. Additionally, the Opes investment criteria also concentrates on evaluating the afford-ability of the product or services offered by the social enterprise as well as the inclusivity of the business model.

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<sup>35</sup><http://www.opesfund.eu/eng/investmenti.aspx>

Giovanni Gerola, Director of Investments for Opes Impact Fund, defines a good investment as one that has a significant social impact while having the ability to return at least the capital. He looks for enterprises that have managed to survive the first few years in the business while making a large social impact on the field<sup>36</sup>.

The Opes investment process also involves multiple visits to the field locations of the social enterprise to understand the operations and the community engagement alongside a financial due diligence and interviews with the key stakeholders. The fund has substantial entrepreneurial expertise in the team and is supported by its institutional founders – CtmAltromercanto (the largest alternative trading organization in Italy) which provides Opes with its network, Microventures (an international microfinance player) supporting Opes in due diligence and understanding of the Indian subcontinent, Acra CCS (an NGO working for international cooperation) and providing Opes a strong microfinance and social business support team, FEM (an NGO working for market based solutions in emerging countries) helping with technical assistance and research and Fondazione Maria Enrica, supporting training activities in developing countries.

The investment vehicle typically preferred by Opes Impact Fund is equity but they also consider quasi-equity products like convertible debt especially in the Indian market. The fund does bring on its directors to the board of the social enterprise and insists on some amount of governance rights.

Boond Engineering & Development (p)ltd. , one of North India's fastest growing solar energy access companies working is also an inverter of opes Impart Fund.

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<sup>36</sup>Survey conducted in Jan, 2014

*Some Sample Investments:***Opes invests in Afripads Ltd (Uganda)**

Milan, 27 of December 2013 – Fondazione Opes announced today the closing of an equity investment in Afripads Ltd (<http://afripads.com/>), Ugandan company that manufactures and sells low-cost, washable (reusable) cloth sanitary pads with the target end-user being primary and secondary school-age girls and women in East Africa.

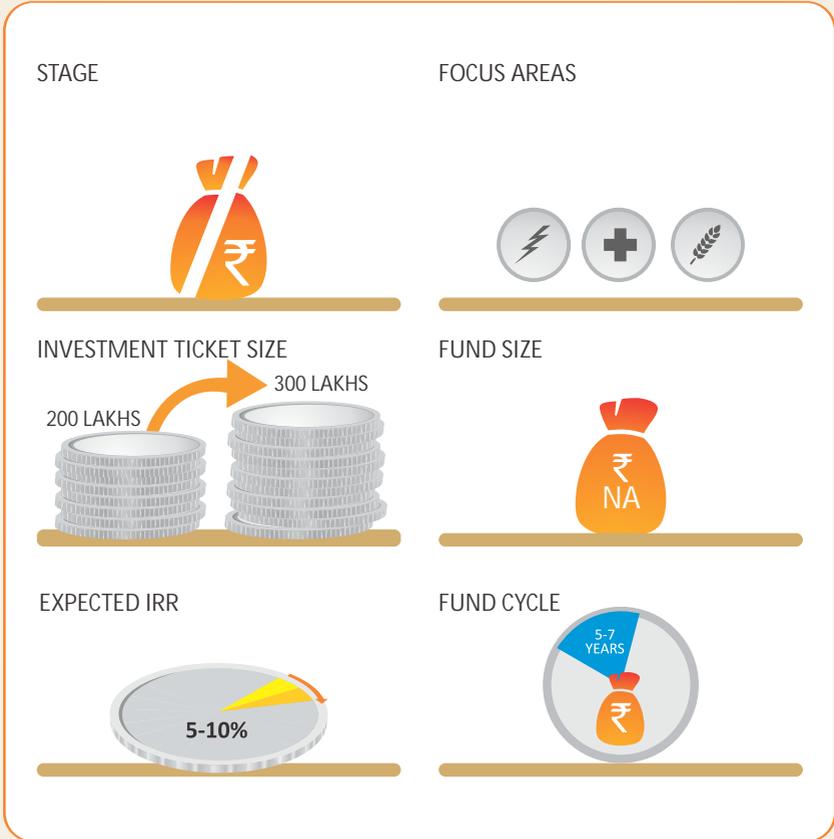
**Opes invests in Ecopost Ltd (Kenya)**

Milan, 20 of August 2013 – Opes has closed its second deal in Kenya: Ecopost Ltd ([www.ecopost.co.ke/](http://www.ecopost.co.ke/)), a Kenyan company that manufactures high-quality products such as fence posts, roof tiles, road sign posts from waste plastic. The Company collects plastic from Nairobi's streets through a network of collection yards, creating employment for Nairobi's poorest and reducing dumped garbage. EcoPost's products replace wooden posts which have contributed to Kenya's substantial deforestation over the past 30 years.

**Is Opes the Investor for you?**

- Yes – if you are making a huge social impact and have already proven your model at a smaller scale.
- Yes – if you believe that your model is stable but has a slow pickup time and you are less likely to raise additional capital in a short duration of time.
- No – if you are looking for money fast as their investment process is quite long and heavily process driven.
- No – if you want to exit your social enterprise within 3-4 years, and expect to take away a significant financial upswing.

# ICCO INVESTMENTS



### “Strategy 2020: Towards a Just and Dignified World”

ICCO Investments is a new impact fund that has a credible background in funding microfinance business before taking the plunge into impact investing. The parent organization ICCO (an interchurch organization for development cooperation that works in over 44 countries) was founded 50 years ago while the fund was started in 2013 and has not made any investments so far but is presently in talks with a number of potential investees. The funds have been raised at very low interest (0-5%) and hence the fund can afford to take high risks. Other than equity participation, the fund also provides a limited number of grants to seed stage companies as well as loans and guarantees. The vision of the organization is to make significant improvements in the position of small-holders in the value chain through access to various services and they wish to do between 2 to 4 deals a year. The interest areas are primarily energy and agriculture and the fund has active interest in the north and northeastern states of India.

According to Mr. Kailash Iyer, Regional Investment Manager, the fund considers social enterprises successful if they provide significant impact while providing sustainable returns to the investors. They look for visionary entrepreneurs, robust management and a successful financial model, structuring the impact vs. financial ratio at 80:20. While the return expected is low (0-5%), the fund does look for an exit in 4-5 years, either with return of loans or through new investors. The fund also provides its investees with linkages across the world but has limited technical support expertise available. It takes a board seat and needs regular MIS, while monitoring of the social enterprise is done continuously.

### Is ICCO Investments the Investor for you?

- Yes – If you are looking for a fund with prior expertise in microfinance and a large international network.
- Yes – If you are in the field of agriculture and have a model that can support only low investor returns.
- No – If you need money quickly since they are yet to make their first investments and hence the processes are not yet well structured or efficient.
- No – If you need a longer investment period than 4-5 years.



### Impact Venture Capitalists

These are large-scale venture funds operating within the social enterprise space with specific investment targets, which are usually above a million dollars. These funds look at growth stage social enterprises in requirement for higher capital infusion, which has a proven business model with strong revenue figures. While most of these funds provide patient capital with an exit horizon of between 5-10 years, they look at capital returns, which are closer to the commercial market returns (>20% IRR). Almost all these funds will require a board seat as part of their investment criteria and will have strong due diligence requirements which range from Team, financials, legal, compliance etc. The due diligence for these funds usually takes longer at between 6-9 months considering that the capital raised is also higher. Most of these funds operate in specific

geographies and sectors and have specific investment mandates. A glimpse of some of the leading impact investment funds are provided below:

### Accion Venture Labs<sup>37</sup>

Established in 1961, Accion is a world pioneer in microfinance, which has over the last 50 years helped build 63+ microfinance institutions in 32 countries across four continents. These institutions are currently reaching millions of clients. The Accion U.S. Network is the largest microfinance network in the United States and, since inception, has served hundreds of thousands of clients with loans and support. Accion Venture Lab is an investment initiative that provides patient seed capital and support to innovative financial inclusion start-ups, fostering experimentation and promoting business models that improve financial access for people living in poverty worldwide. Accion invests between U.S.\$100,000 to \$500,000 in equity or quasi-equity instruments and is open to co-investment options. It prefers to be an active investor and offers day to day support to its portfolio companies through in-house technical experts and connect to the global Accion network.

### Acumen Fund<sup>38</sup>

Acumen raises charitable donations to invest in companies, leaders, and ideas that are changing the way the world tackles poverty. Set up in 2001, it has so far invested in 75+ companies which combined serves a 100 million lives across the world. Acumen invests patient capital for an enterprise range from \$250,000 to \$3,000,000 in equity or debt with payback or exit in roughly seven to ten years. Acumen invests in Agriculture, Education, Energy, Health, Housing, or Water and prefers companies which are in an early-mid stage of

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<sup>37</sup><http://www.accion.org/venturelab>

<sup>38</sup><http://acumen.org/>

scaling up. Acumen has a very strong due diligence requirement and looks at companies with a very strong management team, having potential for significant social impact and a business which has a sound business model with an ability to provide financial returns and scale. Acumen also provides additional support to the organization through capacity building and enabling it with global best practices.

### Insitor Fund<sup>39</sup>

Insitor Management is a fund working with startups and early-stage businesses, bridging the gap between angel investments and later-stage funding offered by most impact investors.

Insitor believes that long-lasting development will only come from a market-based approach that allows low-income consumers, producers, and workers to operate in a fair and inclusive marketplace. Insitor's goal is to contribute to the development of such a marketplace, ultimately serving the unmet needs of low-income communities while promoting a responsible and sustainable economy.

Insitor believes in the 'invest and build' approach, contributing expertise in finance, strategy, and operations as well as support in resolving legal and regulatory issues. In most cases, takes an active board membership. Insitor looks to obilize significant co-investment and facilitate further rounds of funding. Insitor invests above 0.5 million dollar. Insitor Impact Fund, a multiple-compartment investment company organized into two sub-funds, Insitor Poverty Alleviation Fund and Insitor Energy Access Fund and has invested in companies like Biosense, MeraGoan Power, Barefoot Power amongst others.

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<sup>39</sup><http://www.insitormangement.com/>

## Unitus Impact Fund<sup>40</sup>

Unitus Impact is a venture capital firm investing in scalable businesses that improve the livelihoods of the working poor in Asia's fastest growing economies (India and Southeast Asia, particularly Indonesia and Vietnam). Headquartered in San Francisco, California, Unitus Impact with regional offices in India and Cambodia. They invest in companies improving existing supply chains and/or creating innovative distribution of essential goods to underserved customers while achieving market-rate commercial returns for its investors.

## Aspada<sup>41</sup>

Aspada provides early stage risk capital to companies in India that help create market linkages, improve livelihoods, and provide access to essential goods and services. As a holding company, Aspada backs category leaders in large markets, with the intention of mobilizing significant future rounds of capital as the portfolio companies grow. The Aspada Investment Company is a permanent capital vehicle anchored with a significant commitment from the Soros Economic Development Fund. Aspada typically looks at companies that provide essential services (affordable healthcare delivery, high quality education, well-functioning supply chains) to a mass market. They prefer to invest in scalable "platform" plays that provide the basic infrastructure that can act as product and service distribution points. Aspada invests greater than 1 million USD in its portfolio and has invested in companies like SV Agri, Capital Float, Schedulers Logistics amongst others.

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<sup>40</sup><http://unitusimpact.com/>

<sup>41</sup><http://www.aspadaadvisors.com>

## Aavishkaar<sup>42</sup>

Aavishkaar is one of the pioneers of impact investment in India and possibly the first impact focused venture fund in India. The fund believes in spurring an entrepreneurship centric approach to development. With a vision to be a catalytic investor for early stage entrepreneurs, Aavishkaar has already invested in over 50 enterprises across funds and sectors so far. Aavishkaar looks at investing in sustainable and scalable enterprises, which have the intent, passion and the capability for execution. In 90% of their investments, Aavishkaar was the first time investor for the enterprise. Most often, it prefers to invest in enterprises, which have a strong team lead by a strongly driven promoter/promoters. Tej Gujadhur, Director of Aavishkaar defines a successful investment as one that yields good financial returns to both the promoters and the fund along with impacting lives in semi-urban and rural areas.

Aavishkaar doesn't believe in segregating impact and financial returns into 2 separate buckets and doesn't prioritize one over the other. With an expected IRR that is in line with the social enterprise market it invests in early stage scalable businesses that can bring back financial returns along with creating a huge impact in the underserved areas and sectors. Aavishkaar is relatively quick with its investment timelines taking generally up to 3 months to close an investment deal. It prefers to act as a partner to its investee companies and brings in its own technical expertise and partners to assist their portfolio companies. It requires a board seat in the investee organization and requires monthly MIS reporting for its investees. The Aavishkar team spends considerable amount of time with their portfolio companies on ground to enable their success and growth.

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NOTE: The above information about the large funds has been transcribed from the data released by them on the public domain. It is advised that entrepreneurs approach them directly for details and specific questions.

<sup>42</sup>Survey conducted in May, 2014

Interview with Satyan Mishra, Co-founder and MD, Drishtee

Interviewer: “How has been your experience with impact investors? Where do you think they can add value the most?”

Satyan: “ In my opinion there has been lot of efforts in this field and there are good investment firms like Acumen fund. we have taken both debt in equity and we have realized that equity has a role to play but the money that comes into the organization, if it is debt and easy debt which can be repaid in time with some flexibility, that really helps an entrepreneur much more than equity. Since equity does not have a fixed payment and it is flexible if it is bound to a business plan and if the business plans change every six months. While debt has flexibility and the entrepreneur knowing that a payment has to be made, has the flexibility to choose a few business's that can give that kind of return and at the same time is not bound to a business plan and continues to experiment, learn and move forward. In my opinion impact investment is expecting to pay debt and not as much equity”.

Interviewer: From your experience, how do you feel social entrepreneurs should prepare for investments and what should they know about impact investments?”

Satyan: “Social enterprises should be ready for investments. From day one the expectations need to be alive between the investor and the enterprise because there are cases where there is a mismatch and as I mentioned earlier equity is a difficult instrument. If it comes at a point where the

enterprise is still getting formed, then it maybe a very good tool for the corporate world, it may not be as helpful in the social world”.

Interviewer: “Which players in India do you feel are relevant Impact investors that social entrepreneurs should pursue? Any particular case study or example you would like to highlight”

Satyan: “I don't know. I think Acumen Fund. They have invested in all the major social enterprises. Grameen foundation has made some investments”.

Interviewer: “What are the changes that happen post investment that the entrepreneur should be aware about? How should he or she prepare for it? What major changes can he or she expect?”

Satyan: “That depends on the instruments used for funding itself. The functioning requires a lot of changes. Report composition changes, shareholders come into the picture. There is discipline of board meetings, records. Equity investment here should come at a slightly more mature state. Like in the corporate world equity comes first and debt comes later. But in this phase debt can come first and equity can come later at a more mature state”.

## Chapter-V

# Key Takeaways

“It's always fine in the end, so if it's not fine then it's probably not the end”

–Indian Proverb



Entrepreneurs can navigate impact investing easily if they are well informed and understand the rules of engagement properly. The key elements for the whole investment process are persistence, flexibility and honesty along with a sense of self-belief and clarity about the social impact and financial sustainability.

It's important to remember that impact investors are just like any other investors and hence learning the financial language and understanding the investment process (as outlined in Chapters 2 and 3) can be a huge advantage. Besides, researching on the impact funds and reaching out to them for information on their philosophy, methodology and preference is also essential. While learning to adapt to investment friendly ways and being flexible is advisable, it is very important for entrepreneurs to adhere to their mission and be clear about the kind of investors they want on board. A mismatch of expectations or vision can be a death call for an early stage enterprise and hence more than valuation or any other term, its important to have an alignment of the vision and mission.

The following 12 takeaways might be of use for potential fund seekers:

1. Start research on funds and their details early. The investment process takes anywhere between 3 months to a year.
2. Be clear about your own value proposition and vision and ensure that you are able to communicate properly.
3. Understand what the investor is looking for and attempt to showcase your strengths in a way that is understandable to the investor (Chapter 3 provides some sample questions that are always asked).
4. Be flexible but don't alter your business model or vision. Rather, try to find the investor that suits your needs.

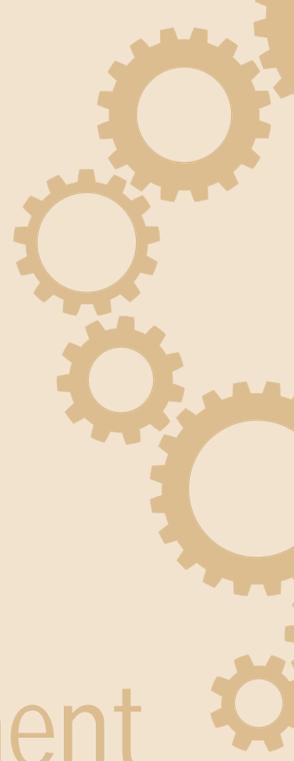
5. Evaluate the amount and kind of funds that you need and target that kind of investor (seed/gap fund/VC etc).
6. Develop the way you would like the funds to come in (debt/equity/grant etc. as explained in Chapter 2) and investigate your own level of preparedness financially and legally.
7. When you pitch your business, be sure to be honest about your weaknesses and requirements. Many funds offer additional support services that might be very useful for you.
8. When you meet investors, be confident and ask the right questions on their vision, return expectations, duration of investment, post investment engagement etc. (a list of such questions is shared in Chapter 3 as well). Remember, there is no good or bad investor – just the right one that matches your requirements.
9. Conduct a financial valuation exercise yourself (or get a finance expert to help) so that you have a fair estimation of the worth of your company before meeting an investor.
10. While negotiating remember, that valuation is just one of the conditions and it's important that you understand all the clauses in the term sheet. Also, remember that the investment process is expensive with high legal and accounting costs, so ensure that you discuss this too before with the potential investor. Typically most funds take about 3-6 months for due diligence post the term sheet (remember to budget for that time in your financials).
11. Prepare a separate strategy for impact assessment and social value of your company and ensure that is also acknowledged and is a part of your investment negotiations.

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12. Be optimistic, structured, confident and clear – It is your enterprise and you should be in the driving seat while raising funds. A successful investment will transform your enterprise and make you the change-maker that you always dreamt of.
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All the best!

Appendix-1

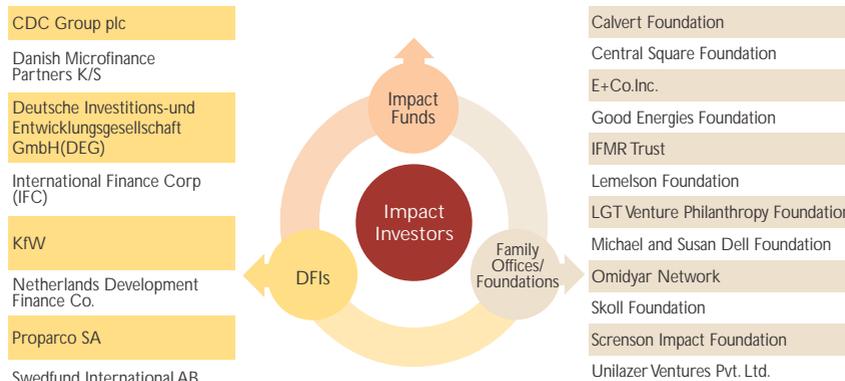
# Impact Investment Map



# At a Glance<sup>43</sup>

## Impact Investors in India

Aavishkaar Goodwill India Microfinance Development Co. Ltd.	Insitor Fund SCA
Aavishkaar Goodwill India Microfinance Development Co. Ltd. II	Khosla Impact
Aavishkaar India II Co. Ltd.	LGT Venture Philanthropy Foundation
Aavishkaar India Micro Venture Capital Fund	Livelihood Investment Fund
Accion Gateway Fund	Lok Capital I
Acumen Fund	Lok Capital II
Ankur Capital Fund	MicroVentures Investments
Aspada Fund I	Micro Vest
Bamboo Finance	NMI Frontier Fund
Bellwether Microfinance Fund	Oasis Fund S.C.A.
BlueOrchard Private Equity Fund	Omnivore Capital Ag-tech Fund
Charioteer Fund I	Opes Fund
Creation Investments Social Ventures Fund I	Opportunity International Australia
Creation Investments Social Ventures Fund II	Pearson Affordable Learning Fund
DWM Microfinance Equity Fund I	Pragati Fund
First Light India Accelerator Fund	responsAbility Ventures I
Frontier Investments Group	Rural Impulse Fund I
Grassroots Business Fund	Rural Impulse Fund II
Gray Ghost Ventures	Samridhi Fund
Gray Matters Capital	Song Fund
Impact Investment Holding (Ennovent)	Unitus Equity Fund (Elevar)
Incube Connect Fund	Unitus Equity Fund II (Elevar)
India Financial Inclusion Fund	Unitus Impact Partners LLC
India Microfinance Equity Fund	Unitus Seed Fund
Indian Fund for Sustainable Energy	Upaya Social Ventures
India Inclusive Innovation Fund	



Source: Invest. Catalyze. Mainstream: The Indian Impact Investing Story, Intellectap Publication, April 2014, Page 58

<sup>43</sup><http://intellectap.com/publications/invest-catalyze-mainstream-india-impact-investing-story>

Appendix-2

# Sample Term Sheet



January 29, 2014

Attention: Mr. ABC

### Indicative Term Sheet<sup>44</sup>

XY Partners Pvt. Ltd. (“Investor”), which expression should include any entity, which is owned, controlled and/or managed by or affiliated to the investor is pleased to express its in-principle interest in pursuing a potential investment in ABC Pvt Ltd (the “Company”/“ABCPL”). The said investment is referred to as the “Transaction”. This indicative proposal (“Term Sheet”) sets out proposed terms for the “Transaction”, which shall subject to the fulfillment of conditions prescribed in the legally binding documentation in connection with the Transaction (“Transaction Documents”/“Definitive Agreements”) between the Investor, the Company and the Promoters of the Company (collectively the “Parties” to this Term Sheet)

No.	Subject	Terms
1	Investor	Funds managed/advised by XY Partners Private Ltd (“XYPPL”)
2	Company	ABCPL Pvt. Ltd. (“ABCPL”)
3	Promoter	Mr. ABC
4	Key Person	Mr. ABC will be referred to as Key Person and shall commit to remain with the Company in executive position, as shall be determined in accordance with the Definitive Agreements.  The Key Person shall undertake not to compete with the Company and to devote his full time and attention to the Company (other than as disclosed and acceptable to the Investor) as long as the Investor retains its shareholding in the company, whichever is earlier.
5	Proposed Transaction	XYPPL will consider investing INR xxxxMn in the Company

<sup>44</sup>Disclaimer: This term sheet is only for indicative purposes and is one of the man examples of term sheets used by investors

No.	Subject	Terms
6	Valuation	<p>The proposed investment by XYPPL will be made at a maximum pre money valuation of the Company at INR xxxx Mn and will be further subject to</p> <ol style="list-style-type: none"> <li>Company achieving a revenue of xxx crs as of March 2014 AND</li> <li>All investors in this round investing at the same pre-money valuation of xxx crs</li> </ol>
7	Type of Instrument	Compulsorily Convertible Preference Shares having a face value of INR __ each.
8	Use of investment proceeds	The Company shall use the proceeds from the transaction based on the business plan as agreed between the Investors, the Company and the Promoter.
9	Transaction Documents; Expected Date for Signing & Closing	XYPPL, ABCPL, Promoter and Key Person shall enter into a share purchase agreement, which shall inter alia reflect the terms and conditions of this Term Sheet, and any other agreement that may be necessary for the furtherance of the said Transaction (“Transaction Documents/Definitive Agreements”) within 30 days from the date of signing of this Term Sheet. Thereafter, the closing of the Transaction (“Closing”) shall take place within the time frame to be specified in the Transaction Documents, subject to completion of all the Conditions Precedent
10	Undertaking from the Promoter group and the Company Obligation	<p>The company undertakes the following:</p> <ol style="list-style-type: none"> <li>To keep the investors updated on all material events till the signing of the Definitive Agreements</li> <li>No lien on any of the Promoter's or Promoter Group's shares/securities in the share capital of the company at any point of time, except when required by banks/financial institutions in the ordinary course of business of the company including borrowing, subject to Investors' consent</li> </ol> <p>Other undertakings as may be required will be provided in the Definitive Agreements, arising as a requirement pursuant to the due diligence.</p>

No.	Subject	Terms
11	Conversion and Terms of CCPS	<p>The Investor's CCPS will be convertible into equity shares of the Company, at the discretion of the investor, at a conversion ratio of 1:1 or at a maximum pre-money valuation of INR 50 Mn, whichever is lower.</p> <p>The conversion will take place at the next significant round of investment. The conversion ratio shall be adjusted based on future share splits, consolidation, anti-dilution etc.</p> <p>If next round is not raised within the next 36 months, the Investor's CCPS will automatically convert, without any additional payment to the Company for such conversion, into common equity shares of the Company immediately before expiry of a period of 36 months from the date of issue or prior to an IPO or at the sole option of the Investors, whichever is earlier. Such converted common equity shares shall rank paripassu to other common equity shareholders of the Company.</p>
12	Voting Rights	<p>The Investors shall be entitled to exercise similar voting rights as equity shareholders of the Company, and in computing the Investors' holding for the purposes of voting rights; the Investors' entire holding shall be taken into account on an "as converted" basis, irrespective of the number of equity shares held by the Investors.</p>
13	Employee Stock Plan	<p>Prior to the Investment by XYPPL, the Company will make a provision for issue of equity shares/options to senior management and key employees amounting to 10% of the paid-up capital of the Company prior to XYPPL's investment.</p>
14	Board of Directors-	<ol style="list-style-type: none"> <li>a. XYPPL shall have the right to appoint one Director to the Board</li> <li>b. ABCPL shall constitute such sub-committees of the Board of Directors as XYPPL may require from time to time, and XYPPL shall have the right to appoint their Nominee Director as member to every such sub-committee</li> <li>c. ABCPL shall reimburse all reasonable expenses incurred by XYPPL's Nominee Director, while attending Board or sub-committee meetings of ABCPL</li> </ol>

No.	Subject	Terms
		<p>d. At least one representative of XYPPL will need to be present in any Board or sub-committee as formed by the board meeting of ABCPL, in order to constitute valid quorum for any such meeting, unless this right is specifically waived for a particular meeting by XYPPL. No Board meeting shall be held without this valid quorum. No business/ resolution in relation to the Affirmative Rights shall be deemed to be approved or transacted unless the same has been approved by the Nominee Director of ABCPL.</p> <p>e. The Chairman shall not have a casting or deciding vote.</p> <p>f. The Company shall schedule a business review meeting with the Investors Director and the Investors once in three months in conjunction with the quarterly board meeting. The company will share MIS (in a format to be agreed between Investors and the Company) on a monthly basis with the Investors. It is further agreed that more frequent meeting could be scheduled between the Investors and Company based on mutual convenience.</p>
15	Conditions Precedent to Closing	<p>The Proposed Transaction will be subject to, inter-alia (among other things), the fulfilment of certain conditions precedent, including those mentioned below, to the satisfaction of the Investors:</p> <p>a. Completion of due diligence by Investors (including but not limited to financial, commercial, legal, tax), and the results of such due diligence being to the satisfaction of the Investors and the resolution to Investors satisfaction of any issues arising there from;</p> <p>b. Agreement on the terms of the investment, and completion and execution of the Definitive Agreements, including shareholders' and share purchase agreements, and receipt of any required legal opinions regarding compliance of the investment's structure with local laws and such other matters customary for this type of transaction or reasonably required by the Investor;</p>

No.	Subject	Terms
		<p>c. All necessary governmental, corporate and third party consents for the investment; Amendments to the Articles of Association of the Company, if any, as required by Investor;</p> <p>d. Continued accuracy of representations and warranties;</p> <p>e. The absence of any material adverse change in the financial condition, operations or prospects of the Company;</p> <p>Any other conditions precedent that may be deemed necessary by the Investor pursuant to the due diligence reports accessed and due diligence conducted on the Company or otherwise.</p>
16	Affirmative Rights	<p>Subject to applicable law and as long as the Investor continues to remain invested, Investor would hold standard affirmative rights as held by existing Investor. In case of deadlock within external Investor group on an affirmative rights matter, XYPL agrees to abide by the majority decision, (defined as decision of greater than 75% of the external investor group by shareholding) or such dispute resolution mechanism as may be agreed by the external investor group.</p> <p>The Investor will not hold back any decision which leads to non compliances of Statutory provisions applicable on the Company by the regulators.</p>
17	Representations and Warranties	<p>The Company shall provide representations and warranties to the Investor in the Transaction Documents, as are customary in a transaction of this nature. In addition, the Promoter and Investor will provide representations and warranties with respect to their constitution, power to execute these agreements, no legal bar etc. In addition, the Company will indemnify the Investor with respect to any potential liabilities which may arise and not disclosed to the Investor as part of the aforementioned Transaction Documents.</p>

No.	Subject	Terms
18	Co-Sale/ Tag Along Rights	<p>If the Promoters or Key Persons propose to sell any or all of their Equity Shares in the Company, then the Investor shall have the right, but not the obligation, to sell its Equity Shares pro-rata, along with the Promoters/Key Persons and on the same terms. ("Tag Along Right").</p> <p>Notwithstanding anything contained herein above, if the Promoters propose to sell any or all of its Equity Shares in the Company that results in the change in the management of the Company, then this tag along right will continue to be available to the investor irrespective of Promoter shareholding and the investor shall have the right but not the obligation at its option to sell any or all of its remaining Equity Shares along with the Promoters and on the same terms.</p>
19	Pre-Emptive Rights	Without prejudice to the provisions above, XYPPL shall have the right, subject to the regulatory requirements, to subscribe to such additional shares or any other equity linked securities by ABCPL to the extent required to maintain its percentage of shareholding (computed on a fully diluted basis), at the same terms as the new issue.
20	Anti-Dilution Rights	Without prejudice to the provisions above, XYPPL shall have Full Anti Dilution Rights in the case of issue of additional equity at a price lower than the weighted average price of the shares issued to XYPPL by ABCPL. Full Anti Dilution means that the weighted average price of the shares owned by XYPPL after the new issue of shares shall be the same as the lowest average cost per share to any future investor.
21	Information Rights and Visitation Rights	For so long as an Investor (includes its affiliates) continue to hold any stake of the Company it shall be entitled to standard information rights, including audited annual financial statements, unaudited quarterly financial statements, monthly financials, budgets and standard inspection and visitation rights.

No.	Subject	Terms
22	Right of First Refusal	If Promoter or Key Persons desire to sell or otherwise transfer (directly or indirectly) all or part of the Shares, representing its equity participation in the Company to a third party, the proposing transferor shall give notice in writing that he wishes to transfer such shares and XYPPL shall have a right and a priority over the other Shareholders/Third Party to buy as long as XYPPL can match the offered terms by another Shareholder/Third Party.
23	Exit	<p>The Company, Promoters and the Investor agree that they will work together in 'good faith' to ensure an exit for the Investor in a timely manner and shall assist the Investor in selling a part or whole of its shares, at the Investor's option, to one or more third parties. The Company and the Promoters would work towards facilitating an exit for the Investor through various mechanisms including but not limited to an IPO, third party sale or a buy-back. The various exit mechanisms would be detailed in the Transaction Documents.</p> <p>The exit rights mentioned in clauses 23, 24, 25, 26 and 27 would come into effect at the end of 'Exit Date', which is defined as earlier of 84 months, or a holding period matching existing investors or other investors in current round</p>
24	Secondary Sale	At any time after the Exit Date, subject to the terms and conditions of this Agreement, in the event of a capital expansion proposed to be undertaken by the Company, the Company and the Promoters shall, at the option of XYPPL and/or their respective Affiliates (as the case may be), ensure that up to 50% of the investment proposed to be made by the Future Investor(s) shall be utilised for the exit of XYPPL (as the case may be). The exit price available to the Investor would be the same as the price at which balance 50% contribution is being committed to the Company by the respective Future Investor(s)

No.	Subject	Terms
25	Strategic Sale/ Tag Along post Exit Date	If the Promoters or Key Persons propose to sell any or all of their Equity Shares in the Company, at any time after the Exit Date with the Investor not having been given an exit yet, then the Investor shall have the right, but not the obligation, to sell all of its Equity Shares, on a preferential basis on the same terms and conditions as offered to the promoters/key persons XYPPL is prepared to enter into inter-se understanding with other investors (current and future) so that this option is available to all investors in an equitable manner.
26	Drag Along	XYPPL shall be entitled to enforce a Drag-Along right on the Promoters after Exit Date. In the event that any other investors enforce a Drag Along on the Promoters, XYPPL would be entitled to participate in the Drag Along on a preferential basis.
27	Buyback	In the event the Promoters and ABCPL are unable to provide an exit to XYPPL before the Exit Date, subject to applicable law and without prejudice to the Clause 25 (Drag-Along Rights), XYPPL shall have the right to call upon ABCPL and or Promoters to purchase the Investor Shares, as per the prevailing regulations regarding buybacks, at a valuation that gives an IRR of 25% for Investor's capital after adjusting for dividends received by the investors, if any.
28	Liquidation Preference	Liquidation preference as agreed with existing institutional investor (CIIE) or as agreed with other investor(s) in current round shall also apply to XYPPL's shares.
29	Other duties and restrictions for Promoters	Non Compete, Share Transfer Restrictions and other clauses (as agreed with existing institutional investor, CIIE) would apply to Promoters
30	Indemnification	ABCPL and the Promoter shall indemnify XYPPL against any loss, liability and / or damage that may be incurred by XYPPL in connection with the investment shares or in case of any breach of the representations and warranties of ABCPL and / or Promoters as may be included in the Transaction Documentation or in case of any breach of any covenant or agreement made by ABCPL and / or the Promoters in any of the Definitive Agreements.

No.	Subject	Terms
31	Exclusivity	<p>This term sheet is valid for a period of 30 days from the date of signing of the same within which it is expected that the Transaction Documentation would be completed. During this time, the Company agrees to negotiate the above-contemplated transaction with the Investor on an exclusive basis. The Company agrees that it will not solicit, negotiate, or otherwise encourage or accept any other offers to purchase the Company's securities during this period. Additionally, during this period, the company will not do anything which would result in change in the equity structure described herein.</p>
32	Confidentiality	<p>The terms of this Term Sheet, and all discussions and negotiations between the Parties relating to this Term Sheet and/or the Transaction are intended for use by each of them only and shall be kept confidential, except as required by law or the rules of any stock exchange or regulatory authority and the disclosure of such information by the Parties to their affiliates and/or representatives. However, post the signing of the Term Sheet, XYPPL, will be allowed to make general public disclosures about their investment.</p>
33	Governing Law and Arbitration	<p><b>Governing Law:</b></p> <p>This Term sheet and the Transaction Documents shall be governed by the laws of India and the Courts at Mumbai shall have jurisdiction.</p> <p><b>Arbitration:</b></p> <p>Any dispute arising out of or in connection with this Term Sheet or the Transaction Documents shall be settled by arbitration by a sole arbitrator in accordance with the rules laid down by the Arbitration and Conciliation Act, 1996 and the place of arbitration shall be Mumbai.</p>
34	Expenses	<p>The Investors would undertake a detailed due diligence of the Company including but not limited to commercial, costing/accounting, legal to reconfirm their intent to invest. Investors may appoint outside agencies in consultation with the Company to undertake such due diligence. The Investor shall provide the scope of services to them.</p>

No.	Subject	Terms
		<p>The Company shall extend full cooperation to such agencies to complete the due diligence in the agreed time frame. The Company shall pay for expenses related to the change of Articles to reflect the investment and also agrees to pay stamp duty for execution of the same.</p> <p>All business due diligence costs will be borne by the Investor Legal costs related to drafting and finalization of the Definitive Agreements will be borne by the Company</p>
35	Termination	<p>Unless otherwise agreed by the Parties, this Term Sheet shall terminate within 30 days from its execution. It shall automatically stand terminated upon execution of the Transaction Documents.</p> <p>However, Clause 31 (“Confidentiality”), Clause 32 (“Governing Law and Arbitration”) and Clause 33 (“Expenses”), shall survive the termination of this Term Sheet and shall remain binding on the Parties.</p>
36	Amendment	The Parties may amend the terms of this Term Sheet by mutual consent in writing.

The foregoing accurately describes the basis on which the undersigned are willing to proceed with regard to the Transaction.

For XYPartners Private Limited (XYPPL)	For ABCPL Private Limited (ABCPL)
<p>Signature: Name: Mr. XYZ</p> <p>Date: Place:</p>	<p>Signature: Name: Mr. ABC</p> <p>Date: Place:</p>

# List of Abbreviations

ASICC	A Standard Industrial Commodity Classification
BEML	Bharat Earth Movers Limited
BEL	Bharat Electronics Ltd.
BHEL	Bharat Heavy Electricals Ltd
CDAS	Centennial Development Advisory Services
CPSEs	Central Public Sector Enterprises
CCI	Competition Commission of India
CUTS	Consumer Unity & Trust Society
DRDO	Defence Research & Development Organisation
DI	Development Institutes
DG	Director General
DIC	District Industries Center
EM	Entrepreneurs Memorandum
FY	Financial Year
FDI	Foreign Direct Investment
FAQ	Frequently Asked Questions
GAIL	Gas Authority of India Limited
GDP	Gross Domestic Product
HAL	Hindustan Aeronautics Ltd
HLL	Hindustan Latex Limited
HPCL	Hindustan Paper Corporation Ltd
HR	Human Resources
IIE	Indian Institute of Entrepreneurship
IOC	Indian Oil Corporation
ISRO	Indian Space Research Organization
ITC HS	Indian Trade Clarification based on Harmonized System
ICT	Information and communications technology
IT	Information Technology
ITT	Invitation to Tender
KVIB	Khadi & Village Industries Board

KVIC	Khadi & Village Industries Commission
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprises
MoMSME	Ministry of Micro, Small and Medium Enterprises
M&E	Monitoring and Evaluation
MSMED	MSME Development
MSME-UP	MSME Umbrella Programme
NALCO	National Aluminium Company Limited
NEN	National Entrepreneurship Network
NIC	National Industrial Classification
NIESBUD	National Institute for Entrepreneurship and Small Business Development
NIMSME	National Institute for Micro, Small and Medium Enterprises
NOPAT	Net Operating Profit After Tax
NSIC	National Small Industries Corporation
NTPC	National Thermal Power Corporation
NTPC	National Thermal Power Corporation Limited
NLC	Neyveli Lignite Corpn. Ltd.
OoDC	Office of Development Commissioner
ONGC	Oil and Natural Gas Corporation
OECD	Organization for Economic Cooperation and Development
PQQ	Pre-qualification questionnaire
PSU	Public Sector Unit
REIL	Rajasthan Electronics & Instruments Ltd
R&D	Research & Development
SC/ST	Scheduled Caste/ Scheduled Tribe
SCOPE	Standing Conference of Public Enterprises
SAIL	Steel Authority of India
TC	Testing Center
TS	Testing Station
UNPCDC	United Nations Procurement Capacity Development Centre
VC	Vendor Central
VDP	Vendor Development Programme
WTO	World Trade Organization

# References

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- <sup>44</sup> Disclaimer: This term sheet is only for indicative purposes and is one of the many examples of term sheets used by investors

# About the Author

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Rustam Sengupta

Rustam Sengupta is a social entrepreneur and base of the pyramid (BoP) expert. He researches on sustainable social enterprise design and implements his work first hand on the field. Rustam is the founder and CEO of Boond ([www.boond.net](http://www.boond.net) | [www.boondfoundation.org](http://www.boondfoundation.org)), a social enterprise that promotes solar energy access in remote and rural parts of India. He is an expert in designing and data analysis for products and services for the BoP and has also been consulting to numerous universities and institutions on market entry and emerging market economics. Boond has won a number of awards (Echoing Green Fellowship 2014, Economic Times Power of Ideas 2010, Nokia DLD Global Challenge, UN Women etc.) and more importantly has impacted the lives of over 50,000 people in remote villages of Rajasthan, UP and Kashmir over the past two years.

Rustam is an INSEAD MBA graduate and also holds an MS in Electrical Engineering from the University of California, Irvine. He has lived across three continents and worked in banking and consulting for companies like Standard Chartered (in Singapore), Syngenta (in Switzerland) and Deloitte Consulting (in the US).

He loves theatre, acting and directing plays in his spare time and is also an avid traveler who has been to over 35 countries in all the inhabited continents of the world. Rustam believes in sustainable models for development and social impact and other than putting everything he has in Boond also spreads the message of sustainability by teaching courses on social responsibility and climate change in Indian universities and consulting with international development agencies.

His latest report was on the state of Indian rural healthcare enterprises with GIZ titled 'Sustainable & Inclusive Innovations in Healthcare Delivery – A Business Model perspective'.

TEDx Change Delhi Talk: <http://youtu.be/UB4kZTm2BsE>

TEDxSPSU Talk: <http://youtu.be/n2tSVIfH9rU>

Times Now Show Amazing Indians: <http://youtu.be/sAqP61ZVWio>

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# Survey of Impact Funds

(Conducted in Jan-Mar 2014)



