



Dear Investors:

Just this past week, Aavishkaar India Micro Venture Capital Fund (AIMVCF) completed one full year of operation. On this occasion, we wished to express our sincere gratitude to the faith you had reposed in the mission of Aavishkaar and in the ability of the people behind it to fulfil that mission.

This is also an opportunity to share with you the milestones that Aavishkaar has crossed in the last year, the plans that it has for the coming year and to seek your support for them.

Aavishkaar India completes a year of operation

India's Capital Markets Regulator, Securities and Exchange Board of India (SEBI) granted the Certificate of Registration to AIMVCF as a domestic on-shore venture fund in May 2002. However, SEBI withheld permission to start investing until the minimum capital of Rs.5.0 crores (Rs.50 million equals roughly USD1.1 million at current exchange rates) was raised.

Between May and August 2002, Aavishkaar managed to raise more than Rs.1.0 crores (Rs.10 million or USD220,000) and sought permission from SEBI to commence investment activity. On seeing our commitment and ability to raise nearly 20% of the minimum required capital, and with a commitment from Aavishkaar International to raise the remaining amount, SEBI granted Aavishkaar India permission to commence investment activity vide their letter dated August 13, 2002.

This past twelve months has been a period of continuous excitement and learning for all of us in Aavishkaar and it is only the beginning. As a pioneering venture fund dedicated to small and medium enterprises, Aavishkaar Management Team and its Management Board members are constantly learning the grassroots realities, imperatives and funding needs. At the same time, Aavishkaar India Management Team is educating prospective entrepreneurs, alliance partners on the priorities of Aavishkaar India as a venture fund.

Preparation of a long-term business plan, sharing of information, financial projections over a five-year period, making implicit underlying assumptions explicit, identifying operational and external risks are some of the aspects that Aavishkaar India constantly seeks to impress upon prospective entrepreneurs and most often, with success.

Indeed, in Aavishkaar India, we see not only the possibility of supporting viable business ideas and entrepreneurs but also strengthening the fundamentals of their businesses through processes such as the above as integral to our mission.

Aavishkaar India Portfolio

Servals Automation Private Limited

As most of you might be aware, Aavishkaar India made its first investment in November 2002, in Servals Automation Private Limited (SAPL). SAPL has licensed and patented two innovations from the innovators. One is a rain-gun (water-sprinkler for small farms, lawns and gardens) and the other is a fuel-efficient and safety-enhancing burner for kerosene stoves.

A recent article in *Financial Times* ('The World in Drier Straits' dated August 11, 2003) mentions that water saving techniques could save up to a quarter of the water used to grow rice. The 'Chandra Prabha' rain-gun is a small contribution to the increasingly important task of finding and conserving enough water for the world's needs. Aavishkaar is pleased to have associated itself with the task and with the project.

SAPL sales in the first two quarters of this year of both the rain-gun and for the fuel-efficient burner have been somewhat below expectations. Aavishkaar is learning, along with the entrepreneur, the difficulties of translating promising concepts into a successful business reality. Aavishkaar is working with the entrepreneur to develop markets for the products. As a concrete measure, Aavishkaar India has attached a mentor to the project. The mentor is an alumnus of the 1985 batch of the Indian Institute of Management, Ahmedabad. He comes with considerable industry experience.

Thus, Aavishkaar India has taken the first concrete step in translating the concept of volunteer mentors who had committed their time to Aavishkaar's mission. Going forward, at the stage of clearing a project for investment, Aavishkaar India would identify a mentor willing to be associated with the project and acceptable to the entrepreneur.

Shri Kamdhenu Electronics Private Limited

The second project that Aavishkaar India funded was Shri Kamdhenu Electronics Private Limited (SKEPL) in April 2003. The product portfolio of SKEPL (called Akash Ganga) includes Micro Processor based Milk Collection System, Computer based Milk Collection System, Milk Analyser, Dock Automation System and Truck Route Monitoring System with particular focus on Milk Collection system and Milk analyser. Aavishkaar India felt that 'Akash Ganga' products were examples of the exciting application of technology to the rural domain with a commercial objective.

Many others have shared our judgement. Digital Dividend, affiliated to the World Resources Institute, has published a case study on SKEPL (http://www.digitaldividend.org/knowledge_bank/knowledge_bank_01_akash.htm).

Writing about Aavishkaar in his wonderful web site, www.goodnewsindia.com, Mr. D. V. Sridharan writes of the potential of SKEPL to make a difference to milk producers:

"After all there are close to a 100,000 village milk co-operatives in 200 districts across India through which over 10 million members market 17 million litres of milk daily. Pause a moment and take in the implication of that potential. So, although there are over 500 Akashgangas at work now, they are mostly in Gujarat, a small slice of the huge market. AIMVCF's investment is presumably to take Akashganga country wide."

Whereas SAPL was a start-up enterprise with all the attendant risks, SKEPL was a going concern with an annual turnover of around INR 1 crore. The company sought Aavishkaar investment to enable them to expand their operations to other states in the country.

These two are, admittedly, a small sample. Yet, the direction that Aavishkaar has set for itself is clear. It is committed to identifying, supporting and nurturing enterprises that have commercial and transparent social value.

Aavishkaar India is about to make its third investment

It is likely that Aavishkaar India would be making its third investment in the next few weeks. The project is in the niche area of renewable energy based power generation technologies such as micro-Hydel projects for electricity generation and Gasifier technologies for Industrial Boilers using biomass waste. Micro-Hydel projects will take power to hilly terrain where the State Electricity Boards are still unable to lay power lines or if installed, power supply is erratic and of unreliable quality. The technology uses natural water streams to generate power.

Strengthening its network of alliance partners

In this investment, Aavishkaar India would be breaking another ground. Winrock International India (www.winrockindia.org), a non-profit organization working in the areas of natural resource management, clean energy and climate change, is likely to offer loan finance to the project, equivalent to the total sum of equity contributed by the entrepreneurs and Aavishkaar India.

Similarly, Aavishkaar India is in talks with The Energy and Resources Institute (TERI – formerly known as the Tata Energy Resources Institute) to commercialise a renewable energy project that they had successfully incubated in Bikaner and Uttaranchal.

Project Pipeline is healthy and growing

To reiterate, Aavishkaar India is breaking new ground. Not enough incubating institutions exist in India that bring ideas from the '*Lab to the Land*'. Hence, identifying projects to be considered for investing remains an unstructured exercise, conducted through mostly personal contacts in rural India, Internet Search and conversations with various grassroots organisations.

Over time, Aavishkaar sincerely believes that its presence would give rise to such institutions and smoothen the process of identification and funding of eligible projects. Aavishkaar is confident that it would be a catalyst for positive change in these areas.

We had anticipated some of these issues when we commenced operations and had entered into MoUs with several institutions to assist us in identifying suitable projects for investment. Among these were Infrastructure Development and Finance Corporation (IDFC), Asoka Foundation, Rural Innovation Network (RIN) and others.

As of July, Aavishkaar India is pleased to report that potentially there are fifteen projects in the pipeline and more are being added to the list. We are hopeful that we would complete investments in another two to four projects before the end of the year.

Other Aavishkaar activities

Aavishkaar India participated in the III Baramati Annual Conference on Information and Communication Technologies and Social Entrepreneurship. Aavishkaar India CEO Vineet Rai participated in the panel discussion on funding micro enterprises that was chaired by Ms. Naina Lal Kidwai of HSBC India.

Aavishkaar India participated in the IFC (at the invitation of the Executive Vice President of IFC - Mr. Peter Woicke) and World Bank sponsored Round Tables on Sustainable financing for Small and Medium Enterprises. In the latter event, a senior bureaucrat in the Department of Economic Affairs of the Ministry of Finance (Govt. of India) has complimented the Aavishkaar initiative: "*Your organisation's efforts are surely pioneering in the field and would add lot of value when scaled up*".

Aavishkaar (Yours Truly) will be presenting a paper on Sustainable financing at the 'Sustainable Management in Action' conference organised by the University of Geneva on September 5, 2003.

Aavishkaar in the limelight

Between May and July, Aavishkaar received widespread publicity in Indian media. Aavishkaar India was written about in www.goodnewsindia.com (<http://www.goodnewsindia.com/Pages/content/economy/aavishkaar.html>) and that led to Aavishkaar India being noticed by a good number of non-resident Indians living in America.

Subsequently, it was followed up with a note in www.iitiim.com and in newspapers like Financial Express, Business Line and Economic Times. Business India, a fortnightly and long-standing Business magazine in India published a two-page article on Aavishkaar in its issue dated July 21, 2003.

The Aavishkaar website has been revamped. It has taken some time but our belief is that it has been worth the effort. Please do visit the new web site at www.aavishkaar.org and give us your feedback and suggestions for improvement.

Aavishkaar seeks to reach Rs. 5.0 crores of capital

Aavishkaar has, so far, mobilised nearly Rs.2.2 crores of capital from 36 individual investors who have invested in Aavishkaar International Private Limited in Singapore. Additionally, two investors have invested directly in Aavishkaar India.

Rupees 2.2 crores or Rupees 22 million is equivalent to SGD790,000 and USD450,000 (approximately). The minimum capital that Aavishkaar has to raise, to comply with the statutory norms for a domestic venture capital fund is Rs.5.0 crores (i.e., Rs.50 million = USD1.1 million or SGD1.92 million).

Aavishkaar aims to grow into a Rs.50 crore venture capital fund before the decade is out. The first milestone is to reach Rs.5.0 crores. Although Aavishkaar India does not have enough projects to absorb the current corpus, let alone Rs.5.0 crores, it is important to reach this milestone for various reasons:

- (i) It would enable Aavishkaar to fulfil an important statutory requirement for an off-shore venture capital fund
- (ii) It would enable Aavishkaar to earn enough by way of interest income and cover its cash expenses fully without dipping into the corpus
- (iii) Such interest income would enable Aavishkaar to hire one or two more persons and strengthen both project sourcing and mentoring
- (iv) Annual operating expenses would fall in line with our earlier projections of around 4-5% of the overall fund size

Aavishkaar needs your support

You were the pioneer investors in Aavishkaar. You had faith in the relevance and value of the mission and trust in the people behind it. These core propositions are still valid and, if any, stronger than a year ago.

Aavishkaar India Management Board member, Professor Krithivasan Ramamritham is now the Head of the Kanwal Rekhi School of Information Technology (KReIT) at IIT, Mumbai. The Klaus Schwab Foundation nominated another Board member, Mr. Vijay Mahajan as one of the outstanding social entrepreneurs of the year last year and IIT Delhi conferred the Distinguished Alumnus award on him this year.

With such distinguished and committed people, Aavishkaar can grow only stronger and better in times to come.

We continue to need your blessings and support in this endeavour. You have reached out to Aavishkaar. We are grateful for that.

Please do help us to reach out to more people – your friends, relatives, acquaintances and colleagues. Please do let us know if you hear of a worthy grassroots project that Aavishkaar India should support.

Please do write to us and keep us on our toes. Our email addresses are available on the web site: www.aavishkaar.org. Of course, you are always welcome to increase your stake in Aavishkaar.

I will be back with another Investor Update after we make our third investment. Until then, thank you for encouragement and support.

Anantha Nageswaran
Director
Aavishkaar International

Singapore
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