

1) How do you find ideas and entrepreneurs deserving of funding? Is there a ready list of projects waiting to be funded or is it part of your responsibility to find & nurture these ideas?

Aavishkaar sources investment opportunities in three ways. Vineet Rai, the CEO of Aavishkaar India, has significant experience working with grassroots entrepreneurs. He was a founder of both the Grassroots Innovation Augmentation Network (GIAN) (where he was also CEO) – a grassroots innovation incubator based in Ahmedabad – and the Rural Innovation Network (RIN). Maulik Shah and Pradeep Pathiyamveetil, Aavishkaar India’s senior Project Managers, have significant experience in grassroots India as well. The networks of Vineet, Maulik, and Pradeep are a large source of Aavishkaar deal flow.

Aavishkaar additionally signed MoUs with a number of organisations working in rural areas and funding agencies, which receive proposals that are not suitable for them to fund. Some of the agencies Aavishkaar has tied up with include Drishtee, Indian System of Agri Business Professionals, Ashoka (social Entrepreneurship), Infrastructure Development Finance Corporation, Tamil Nadu Small Scale Industries Association and Rural Innovation Network. We are also working very closely with some organizations in Rural Finance and Entrepreneurship Development such as BASIX India (www.basixindia.com), The Energy Resource Institute (TERI – www.teriin.org), BAIF Development Research Foundation (www.baif.com), and Winrock International, among others. These organisations act as the intermediaries between entrepreneurs and Aavishkaar India.

Finally, Aavishkaar India receives project proposals through referrals from friends and associates and directly from independent entrepreneurs who have heard of Aavishkaar. The efforts of the Aavishkaar team have spread knowledge of the organization and its goals throughout India.

2) What is the process for approving projects for funding? Is there a proposal system, and if so who writes the proposals (i.e. entrepreneurs themselves or Aavishkaar personnel)?

Aavishkaar has a well-defined process for evaluating projects for investment. We have a three-stage process. The first stage is the preliminary view of the opportunity by the CEO and Project Manager based on the business plan and a meeting with the entrepreneurs. If the CEO and Project Manager have comfort with the entrepreneurs and the company’s high level goals, the opportunity moves to stage 2.

In the second stage, the Project Manager requests more information from the management team and constructs a memo containing his views on whether the project fits the mandate of Aavishkaar India: to support environmentally friendly, socially relevant and commercially viable projects that increase incomes or provide necessary goods and services to rural or semi-urban India. The CEO reviews this memo and tests the Project Manager’s views. If both agree on the quality of the project, the second stage memo is sent to the management board. The board debates the merits of moving the project to stage three and discusses key questions that must be answered during the stage three review. If all board members are satisfied, the project is moved to stage three.

Stage 3 is a detailed process involving understanding the operations, markets and financial projections of the proposed or running venture, evaluation of past record, references, field visits and cross checks. The Project Manager and CEO prepare a detailed memo with financial projections and it involves negotiations with entrepreneurs on the valuation of the company, on the term-sheet (containing the broad parameters of Aavishkaar India's engagement with the entrepreneur), etc.

Once Stage 3 is completed, it goes back to the Management Board. The process gets livelier here with substantial interaction between the Project Manager, CEO, and the Management Board through emails and telephonic conversations, etc.

If the memo is approved at stage 3, Aavishkaar signs a term sheet and conducts an audit and legal due diligence of the investee company. Where appropriate, Aavishkaar India takes a Board seat in the company being funded. Mostly, the funds committed to the Company are released in instalments. The Project Manager conducts a monthly review of the Company and the CEO joins him every quarter. Aavishkaar India seeks to identify an active role for itself in nurturing every business it supports financially.

The Management Board is comprised of six individuals:

- (1) **Arun Diaz** (former banker with 28 years experience in Standard Chartered Bank in India and abroad)
- (2) **Jennifer Meehan** (Grameen Foundation - located in Shanghai),
- (3) **Sushant Gupta** (Angel Investor and Consultant to small enterprises)
- (4) **Praveen Gandhi** (active private equity investor with Infinity Ventures) and
- (5) **Sameer Wagle** (a Venture Capital Associate, formerly with GVFL in India and with Vertex Management in Singapore)
- (6) **Anantha Nageswaran** (formerly with Credit Suisse; now a hedge fund manager based in Singapore)

3) How do the funds get used? Is it a simple hand-over-the-money process or does Aavishkaar India remain involved in making the project come to fruition? What is the role of the Project Managers?

The business plan defines the use of the invested funds. Aavishkaar India relies on its extensive due diligence and hence avoids trying to take signatory powers. However, monthly and quarterly reviews are done to ensure that the money is being used as specified in the business plan. The project manager and CEO are very closely involved. Aavishkaar India also tries to arrange for a mentor for the company who can be involved in brainstorming with the CEO of the company and the Aavishkaar India Project Manager responsible for the investment. Aavishkaar India continues to play an active role in helping the companies meet their business objectives in addition to the periodic reviews.

Some examples of Aavishkaar role: interviewing and arranging for MBA students to conduct focus studies on market -finance, developing processes for the company, lobbying on policy issues, getting experts in design and technology to provide insights to the entrepreneur on shop floor operations, among others.

4) Are you funding projects in all parts of India, or only West and South? Is there a plan to begin work in the North (specifically Delhi area)? Do you have someone coordinating activities in North India?

Officially, we are concentrating in Western and Southern India although we have evaluated two projects in Delhi. Both the projects are brilliant projects but we have not been able to fund them due to valuation issues (Drishtee and IASL). We do keep looking at projects in the North with other intermediaries. TERI has referred to us a project that is in Rajasthan and Uttaranchal on renewable energy, which we are evaluating.

Aavishkaar India operates primarily in the West and South because the Fund does not want to increase the cost base too much at this stage. As the corpus expands, Aavishkaar India expects to be able to add to its headcount and extend coverage to other parts of India.

5) How much is spent on operations & salaries and procurement of additional funding?

For the current year our total expenditure would be close to Rs. 20 lakhs or US\$ 48K. As Aavishkaar is registered as a 'for-profit' Trust, it does not have a fixed management fee structure. When Aavishkaar India fund size reaches Rs.50 million (USD1.1 million dollars), expenses would be close to 4% of the total fund size.

Aavishkaar India believes that a viable size for the Fund is around INR 10 crores (INR 100 million or USD 2.2 million at current exchange rates).

Procurement of additional funding has not entailed costs for Aavishkaar until now. Management Board members undertake the task and they bear any incidental expenses connected with it so as not to burden the Fund with such expenses.

6) Will you stop investments once the Rs. 100 million cap is reached?

Aavishkaar's first fund may stop investing but Aavishkaar could have another fund by then - Aavishkaar II, for example. The current fund has a life of 7 year extendable by 2 more years.

7) What is the process for reviewing the financial performance of the company and of its investments, with the investors?

As mentioned earlier, Aavishkaar India conducts monthly and quarterly reviews and the progress of the investments made are shared with the Management Board. Aavishkaar International keeps investors updated with periodic newsletters.

8) What do you see as the time horizon for Aavishkaar India (i.e. is there an exit strategy in place or will it depend on success of investments etc)?

7 to 9 years. We are little over 3 years old. We have extensively studied the issue of exit. International experience suggests that exit is a universal problem for all venture funds that operate in non-traditional domains.

Most venture capitalist are of the opinion that if the company does well, exit is not an issue and if it is not doing well, no amount of exit strategy would make exit easier.

We do examine exit options at the funding stage itself but we are not worried about it at this stage. Our belief is that various approaches would evolve on their own stream. Perhaps, each venture would require a unique exit plan.