

1. What is the profile of people who have invested in Aavishkaar?

Investors are mostly individuals - friends who are professionals or businessmen. They are mainly expatriate Indians from Singapore and other places. There are several non-Indian investors too.

2. What is the mechanism for investment in Aavishkaar?

An Indian resident may invest directly into Aavishkaar India in Indian Rupees. The minimum investment is INR5.0 lakhs and it is mandated by the Securities and Exchange Board of India (SEBI), which regulates the venture capital industry in India. You will be issued Units in Aavishkaar India and each unit carries a face value of Rs.1000.

The other route is to invest in Aavishkaar International Private Limited (AIPL), a Singapore incorporated private limited company. AIPL is a collective investment vehicle to aggregate individual (non-resident Indian or foreigners) investments and invest them into Aavishkaar India. AIPL has obtained approval from the Foreign Investment Promotion Board of India to invest into Aavishkaar India on a repatriable basis so that both principal and dividends may be repatriated.

3. What is the minimum investment an investor can make. What is the average size of investment?

The minimum investment is Singapore dollars 10,000, roughly USD 6500 based on the current exchange rate. There is no ceiling! The average size of the investments so far is around Singapore dollars 25,000.

4. What is the form of investment?

The investment will be in the form of Shares issued by AIPL. Each share carries a face value of SGD1.00. There is no premium since Aavishkaar India has not earned any returns on its investments yet and hence shares are still issued at face value.

5. What rate/ form of returns can an investor expect?

Returns will be based on returns made by Aavishkaar India on its underlying venture investments. If Aavishkaar India is able to successfully exit from its investments either by selling its stake back to the owner or to a third party or collect periodic cash payments and then quit, it would then distribute the returns to investors including AIPL. Quite a few investors have invested directly into Aavishkaar India.

Based on our assumptions of a maximum cost of 5.0% of the corpus as operating expenses for the Fund in India and an assumption that 40% of our investments fail (every two out of five) and the rest earn a return of around 30% annualised, the return in Indian Rupee terms worked out to around 10-12% per annum. We assumed an annual depreciation of around 4-5% of the Indian Rupee against the US dollar and said that investors could reasonably hope to receive around 6-7% return in USD terms. There are no guarantees, however and the downside risk is that the entire investment could become worthless if all of Aavishkaar India investments turn out to be worthless and Aavishkaar India loses its invested capital.

Naturally, if the Indian Rupee appreciates further against the USD, returns would be higher in USD terms.

We do not expect Aavishkaar India's underlying investments to start generating cash-flows for the Fund for up to five years from the date of the investment. Our first investment was made in November 2002.

6. What exit strategies are available to investors?

Investors into Aavishkaar India would receive the net asset value of their units when the Fund exits all its underlying investments.

Those in Aavishkaar International - being shareholders - would receive dividends - depending on cash flows received from Aavishkaar India. When they wish to exit their investments, they can exit by selling it to another interested investor at a NAV to be determined by AIPL based on the NAV of Aavishkaar India investments and translated at prevailing exchange rates. These NAVs are to be approved by auditors both for Aavishkaar India and AIPL

7. Has anyone from the US invested in Aavishkaar?

Yes, we have a few investors from the US.

8. What are the tax/ accounting issues for US based investors?

Not much at all. Aavishkaar India does not have to pay Indian taxes on its incomes and capital gains, as it is a registered venture fund. Venture capital funds are exempt from taxes in India on their incomes and capital gains. When it distributes dividends to AIPL, that distribution might be subject to withholding tax by the Indian tax authorities.

However, it is highly likely that the Singapore tax authorities would give tax credit for the taxes paid in India, as the income of AIPL was not generated in Singapore but in India.

Then, AIPL distributes the income to its shareholders as dividends. Singapore does not levy any withholding tax on distribution of dividends and capital gains too are exempt from tax.

Once you receive the dividends in your hands, you would treat this dividend, as you would do for any other income that you receive in the US and include it in your tax return. To the extent that dividends are tax-exempt in the US, you can claim exemption on that too.

Therefore, we see little tax implications either in India or in Singapore. Investors probably benefit from investing via Singapore, as Singapore does not tax dividends (from this year) and capital gains (that has been the case for a long time).