

DST GUIDELINES FOR SEED SUPPORT SYSTEM (SSS) FOR START-UPS IN INCUBATORS

1.0 Preamble

Technology Business Incubators (TBIs) and Science & Technology Entrepreneurs Parks (STEPs) are a facility to incubate technological ideas or innovations to enable startups to succeed in the market place. It helps the young firms to survive by providing them specialised support services during the critical period of a business venture i.e. the start-up phase. *The goal of a TBI is to nurture innovation/ knowledge/ technology based enterprises led by new age/first generation entrepreneurs.* Around 75 STEPs/TBIs have been promoted at the institutions of higher education across the country including both publicly and privately funded Universities and institutions e.g. IITs, IIMs, NITs, NID , PSG, Manipal Univ, VIT etc by the National Science & Technology Entrepreneurship Development Board of the DST .

2.0 The requirement

While the STEPs/TBIs are able to support the “Space, Services and Knowledge” requirements of startups but, wide gap exists in financial support required by a technology driven start up in the initial phase which are not being addressed properly.

The basic idea of seed support is providing financial assistance to startups with new and meritorious ideas, innovations and technologies. This would enable some of these innovative ideas/technologies to graduate to a level where they will be able to raise investments from angel/Venture capitalist or they will reach a position to seek loans from commercial banks /financial institutions . Thus the proposed seed support is positioned to act as a bridge between development and commercialisation of innovative technologies/products/services. *NSTEDB provides a financial assistance of upto Rs. 200 lakhs as grants in aid for the seed support to appropriate and suitable TBIs/STEPs .*

3.0 Eligibility Conditions

There are some conditions for a TBI to be eligible for submitting application for the seed support system to DST. Once the TBI has been sanctioned the seed support by DST, the seed support would be available to the incubatee start ups who meet the eligibility

conditions as mentioned below in para 3.2. It may be added that the Seed Support is given as grant by DST to the TBI, chosen for this. The TBI disburses it to the deserving incubatees in the form of soft loan, equity or a combination of these.

3.1 Eligibility for TBI to apply for seed support

- Operational TBI with atleast 5 start ups requiring seed support is eligible to apply to DST for seed support. Seed support is normally given to DST funded TBIs, but other TBIs with exceptionally good performance can also be supported.

3.2 Eligibility Conditions for Incubatee Start Ups for seed support

- Incubatee should be a registered company with minimum of three months residency at the TBI
- Incubatee has to be an Indian start-up. This support is not meant for Indian Subsidiaries of MNCs/foreign companies. Persons holding Overseas Citizens of India (OCI), Persons of Indian Origin (PIO) would be considered as Indian citizens for the purpose of this scheme.
- The share holding by Indian promoters in the incubate start up should be atleast 51%.

4.0 Additional Guidelines of the Assistance under SSS

- ◆ The seed support would be managed by identified TBIs/STEPS recommended by the National Expert Advisory Committee on Innovation, Incubation and Technology Entrepreneurship
- ◆ Seed Support is given as a grant to implementing TBI/STEP, while the TBI disburses it to the deserving incubatees as soft loan or equity or a combination of both.
- ◆ The Seed Support would be disbursed to incubatees (physical resident units within the TBI/STEP) which are registered units only on the recommendation of the Seed Support Management Committee constituted by the TBI. It is necessary that there exists a proper legally vetted agreement between the incubatee and TBI/STEP.

- ◆ The seed support would be disbursed to the deserving incubatees with proper due diligence by the TBI/STEP.
- ◆ The seed support would generally cater to early stage financing for commercialization of the indigenous ideas , innovations and technologies.
- ◆ This seed support would be used by the incubated entrepreneur only and would not be used by the incubator for facility creation.

5.0 Quantum of Seed Support

It is expected that the seed support of Rs. 200 lakhs would be judiciously disbursed amongst its deserving incubatee start-ups. **Any startup will not receive the seed support more than once.** The experience tells us that the normal requirement of seed support is to the tune of Rs. 25 lakhs. The upper limit of seed support to a start up is Rs. 50 lakhs. The TBI should have examined all cases of seed support before putting the matter up to the Seed Support Management Committee for selection. After the seed support is recommended to a incubatee, the terms of agreement with the incubate start up should be framed by linking progress milestones, monitoring norms and reasonable repayment and recovery provisions. Incubatee start ups requiring seed support for only capital equipments may not be encouraged.

6.0 Broad Areas and Items to be covered under the Seed Support Assistance

The start-ups would be supported primarily on the following from the seed support

- ◆ Product development
- ◆ Testing and Trials
- ◆ Test Marketing
- ◆ Mentoring
- ◆ Professional Consultancy (To attract professors/experts from institutions to work with start ups.)
- ◆ IPR issues
- ◆ Manpower for day to day operations
- ◆ Any other area as deemed necessary and recommended by the Seed Support Management Committee of TBI/STEP.

7.0 Mechanism of Selection, Disbursement, Governance and Fund

Management of SSS

- 7.1. The TBI/STEP CEO would be responsible for its proper disbursement and management of the seed support.
- 7.2. The seed support grant should be utilized fully by TBI/STEP within a period of three years from the date of receipt of the first installment of funds.
- 7.3. NSTEDB would disburse the grant of maximum Rs. 200 lakhs in installments to the selected TBIs/STEPS.
- 7.4. TBI/STEP would take measures to enhance the capabilities and skill set of the TBI/STEP team to manage the seed fund. The financing of start ups in the TBI/STEP have to be done with efficiency and care.
- 7.5. Each of the TBI/STEP implementing SSS would constitute a committee called the **Seed Support Management Committee** whose members would be experts who can evaluate the prospective incubatees under physical incubation requiring seed support. Suggestive composition of **Seed Support Management Committee** would be as follows:
 - i) Head of HI/TBI (Chairman)
 - ii) A banker/VC
 - iii) Domain expert (1 from Industry and 1 from academia)
 - iv) Representative of Chamber of Commerce
 - v) One successful Entrepreneur
 - v) NSTEDB/DST Nominee
 - vi) Incubation Manager/CEO (Member secretary)
- 7.6 Selection of Incubatee Startups for DST Seed Support :
 - ◆ Website/Newspaper advertisements indicating availability of seed support
 - ◆ Announcement for call for applications.
 - ◆ Shortlisting the applicants as per eligibility criteria given in 3.2
 - ◆ Decision by Seed Support Management Committee out of shortlisted applicants.
 - ◆ The selection should be made fast.

7.7 The TBI/STEP would execute a legal agreement with the incubatees who are selected for the seed support and this agreement should be signed before the release of the first installment of seed fund to the incubatee. Subsequent disbursement schedules should be linked to the achievement of milestones of the incubatee. The TBI/STEP should ensure that the necessary terms and conditions related to the Seed Support, repayment schedule and equity are clearly spelt in the agreement. Terms regarding default in repayment must be defined clearly in the agreement.

7.8 TBI/STEP would have flexibility in disbursement of Seed Support to the incubatees as defined in the agreement. The support could be treated as a soft loan / royalty sharing agreement /minority equity stake of the TBI/STEP depending on the incubatee.

7.9 Some of the clauses on seed fund recovery already in practice by some of the TBI/STEP are given in the Annexure I.

7.10 The Grantee will indemnify, defend and hold harmless the Department of Science and Technology (Grantor) from and against, and in respect to, any and all losses, expenses, costs, obligations, liabilities and damages, including interest, penalties and attorney's fees and expenses, that the Grantor may incur as a result of any negligent or willful acts or omissions of the Grantee.

8.0 Repayment of Seed Support

8.1 Efforts to get the repayment of the entire seed support money by the incubatee within 5-7 years, with at least 30% of the amount of soft loan to be paid back within incubation period . Wherever possible, equity model be encouraged.

8.2 In exceptional cases the Seed Support Management Committee would be empowered to relax certain conditions on repayment on a case to case basis for convincing and justifiable reasons, and these relaxations should be reported to the DST.

8.3 The cases of default must be reported to the Seed Support Management Committee. Such default cases must also be reported to DST while submitting the Annual Report on seed support.

9.0 Accounting and Utilisation of Seed Support Grant from DST

9.1 A separate savings bank account to be opened for the seed support. The total seed support from DST is released in 2-3 installments. TBI/STEP would submit a detailed

report on the status of utilization of grants along with the Utilisation Certificate and Statement of Audited Expenditure for each F.Y. The TBI/STEP should report the seed support sanctioned and disbursed against each incubatee start up in the statement of audited expenditure for the period (April 1 to March 31 of each F.Y) under report .

- 9.2 Book of accounts for the disbursement of grant and for the seed support repayments may be kept separately. Interest on the unutilized core seed support grant received from DST only must be reported in the Utilisation Certificate (UC). The interest earned on the recovered repayments from the seed supported companies should be accounted separately and not mixed up with DST grant. The amount collected against repayments may be utilized as seed support for next round of incubatees and not for any other activity of TBI, except for the condition described in para 12.
- 9.3 Interest earned by institution on the seed support account should be separately mentioned in UC as this amount of interest would be adjusted against the subsequent releases to be made out of the total sanctioned grant of seed support. The normal duration of seed support utilization by TBI is 3 years from the date of receipt of 1st installment by the TBI/STEP. This period of 3 years for utilization of the seed support grant by TBI can be extended by the NEAC for valid reasons.

10.0 Indicators of Successful Implementation of Seed Support

It is expected that the TBI utilizes the entire seed support within 5 years. Minimum Repayment amount received from the seed supported companies should be around 30% . Seed Fund to an incubatee is also regarded as a means to attract and raise external angel / venture capital funding and should be appropriately leveraged by the start ups. Quantum of angel and VC funding raised would also be an indicator of the Success of TBI. Successful positioning of the product in the market, acquiring new customers, growth in team, investments, revenue and customer base would be broad parameters of any successful management of the seed support.

11.0 Repeat Applicants for Seed Support

A TBI could be considered for reapplying for the Seed support to DST when it has 100% of the seed fund disbursed or committed to its incubatee start ups. There should be good seed fund management system in place. For a second time applicant

for seed support , minimum of 30% of soft loan recovery should be there at the time of applying to DST. There should also be a new pipeline of about 5 start ups in incubation requiring seed support .

12.0 Management Fees for the Seed Support

The issue of management fees for the seed support and the overhead associated with it has been raised repeatedly by incubator managers. While it is genuine demand, it is felt that such a fee should come out of good investment made by the TBI. DST proposes to motivate and encourage TBIs/STEPS who show growth of the seed support fund through the inflow from the loan repayment/royalty /realization of equity stake for funding future proposals. It is proposed to give an incentive of 15% on the surplus generated at the end of each year which would be retained by TBI for its activities.

13.0 Settlement of the Seed Fund in case of Closure or Discontinuation of TBI

In case of closure /discontinuation of the TBI, the total unutilized seed support amount available with the TBI at the time of closure may be refunded to DST along with the total repayments received from the seed supported incubates before closure of the TBI. In case the recovery of repayments from seed supported is not possible within 2 years of the closure of the TBI, it may be recommended for written off and the accounts be deemed as settled.

Annexure -I

Some of the Clauses of the Seed Support Agreement between TBI and the Incubatee Startup related to Repayment already in practice by some of the TBI/STEP are placed below.

- a) In case the seed support is disbursed as a soft loan then , the loan repayment period can normally vary from 2-5 years depending on the revenue model and moratorium of interest payment which can be around 6 months. In some cases TBI/STEP can also accept post dated cheques as a part of the Seed support payment recovery schedule.
- b) The loan agreement provides for repayment of loan after a moratorium of one or two years after full disbursement based on the project. The interest is @6% per annum and repayment is in 5-8 half yearly installments depending on the quantum of loan. If an incubatee fails to pay the installments on time as per the schedule mentioned in the agreement, penalty of 2% on total due amount shall be charged. If an incubatee defaults in making payments repeatedly then part / full outstanding loan amount with interest shall be converted into fully paid equity. There is also a provision to right on IP in case of repeated default.
- c) Terms of default may be defined clearly in the agreement.
- d) In case the agreement is for royalty sharing, the incubatee has to pay a royalty of 4% of Gross Revenue from sales of the product, for the period of 3-5 years from the launch of the product.
- e) In exceptional cases the Seed Support Management Committee would be empowered to relax certain conditions on recovery depending on a case to case basis with convincing justifiable reasons, and these cases should be reported to the DST.