

Startup India Seed Fund Scheme

Startup Series #9

Funding from angel investors and venture capital firms becomes available to startups generally only after the proof of concept has been provided. In order to provide funding opportunities to startups at the early stages and bridge the capital inadequacies, DPIIT has created the Startup India Seed Fund Scheme (SISFS).

*In continuation to our '**Startup Series**', we would now look at the Seed funding scheme available to startups recognized by DPIITs in **#9** of the Series.*

Startup India Seed Fund Scheme (SISFS)



SISFS provides **financial assistance** to eligible startups (refer subsequent slide for definition) for proof of concept, prototype development, product trials, market-entry, & commercialization. Eligible startups can apply on the **Startup India portal**.

SISFS is a **sector agnostic scheme**, which means that startups from any sector can apply for the scheme. The Seed Fund will be disbursed to selected startups through **eligible incubators** across India.

DPIIT has created SISFS with an outlay of **INR 945 Crore** and it is estimated to support 3,600 entrepreneurs through 300 incubators.

Seed Funds are offered to promising businesses that fail to take off due to capital inadequacy at an early stage with an objective to have a **multiplier effect in validation of business** ideas of many startups, leading to **employment generation**.

*In addition to SISFS, there are certain state specific seed funding schemes as well. As on December 2020, **18 States** have provided seed funding to more than **1,300 startups**. In the top performing state, 30% of all the beneficiaries i.e., more than 400 beneficiaries have availed this support.*

Eligibility Criteria for Startups

- A startup, **recognized by DPIIT, incorporated not more than 2 years** ago at the time of application.
- The startup must have a business idea to develop a product or a service with an **active market, viable commercialization, and scope of scaling**.
- The startup should be using technology in its core product or service, or business model, or distribution model, or methodology to solve the problem being targeted.
- **Preference** would be given to startups creating **innovative solutions** in sectors such as social impact, waste management, water management, financial inclusion, education, agriculture, food processing, biotechnology, healthcare, energy, mobility, defense, space, railways, oil and gas, textiles, etc.
- Startup should not have **received more than Rs 10 lakh of monetary support** under any other Central or State Government scheme. This **does not include prize money** from competitions and grand challenges, subsidized working space, founder monthly allowance, access to labs, or access to prototyping facility.
- **Shareholding** by Indian promoters in the startup should be **at least 51%** at the time of application to the incubator for the scheme, as per Companies Act, 2013 and SEBI (ICDR) Regulations, 2018.



Eligibility Criteria for Incubators

- The incubator must be a **legal entity**:
 - A **Society** registered under the Societies Registration Act 1860, or
 - A **Trust** registered under the Indian Trusts Act 1882, or
 - A **Private Limited company** registered under the Companies Act 1956 or the Companies Act 2013,
 - A **Statutory body** created through an Act of the legislature.
- It should be operational for at least two years on the date of application to the scheme.
- It must have facilities to seat **at least 25 individuals**.
- It must have **at least 5 startups** undergoing incubation physically on the date of application.
- It must **have a full-time CEO, experienced in business development and entrepreneurship**, supported by a capable team responsible for mentoring startups in testing and validating ideas.
- It should **not be disbursing** seed fund to incubatees using funding from any **third-party private** entity.
- It must have been **assisted by the Central/State Government(s)**.
- In case it has **not been assisted** by the Central or State Government(s):
 - It must be operational for **at least three years**
 - Must have at **least 10 separate startups** undergoing incubation in the incubator physically on the date of application
 - Must present **audited annual** reports for the last 2 years
- Any additional criteria as may be decided by the **Experts Advisory Committee (EAC)**.



Seed Fund to an eligible startup by the incubator shall be disbursed as follows:

- **Up to Rs. 20 Lakhs** as grant for validation of Proof of Concept or prototype development or product trials. The grant shall be disbursed in milestone-based installments. These milestones can be related to development of prototype, product testing, building a product ready for market launch, etc.
- **Up to Rs. 50 Lakhs** of investment for market entry, commercialization, or scaling up through convertible debentures or debt or debt-linked instruments.
- A startup applicant can avail seed support in the form of **grant and debt/convertible debentures each once as per the guidelines of the scheme.**

01

Department for Promotion of Industry & Internal Trade - Nodal Department

02

Experts Advisory Committee - Government Representatives & Industry Experts

03

Govt assisted / Not-Govt assisted Incubators - Operational for at least 2-3 years

04

DPIIT-recognized Startups
Incorporated less than 2 years ago

ORDER OF DISBURSEMENT



Not more than 20% of the total grant to an incubator shall be given as grants to start-ups by incubator. Rate of interest (as defined under GFR¹) on **unutilized funds available** with incubator would also be considered and **adjusted at the time of next release by DPIIT.**

For startups being **supported through convertible debentures, or debt, or debt linked instruments**, funds shall be provided at a rate of interest of **not more than prevailing repo rate**. The tenure should be fixed at the time of sanction by the incubator, which shall be **not more than 60 months (5 years).**

A **moratorium of up to 12 months** may be provided for the startups. Because of the early stage of the startups, this shall be unsecured and no guarantee from promoter or third-party will be **required.**

Startups will **receive the funds** in their **company bank accounts.**

1. GFR – General Finance Rules

For grants, the first installment to any selected startup shall be released **not more than 60 days from receipt of application** from the startup. The startup shall submit the interim progress update and utilization certificate to initiate the release of subsequent installment of grant.

Startup shall **submit final report and audited utilization certificate** at the end of the project duration. For failed ventures, the entrepreneur will share his/her learnings and the **reasons for failure** in the report and submit this along with the utilization certificate **for the fund amount**.

The incubator or any of its staff members **shall not charge any fee** in cash or in kind from applicants or beneficiaries under the scheme for **any process of selection, disbursement, incubation, or monitoring**.

A **grievance cell** shall be set up at **DPIIT** for the scheme to address **issues of applicants**, such as delayed evaluation of applications, delayed disbursements by incubators, etc.



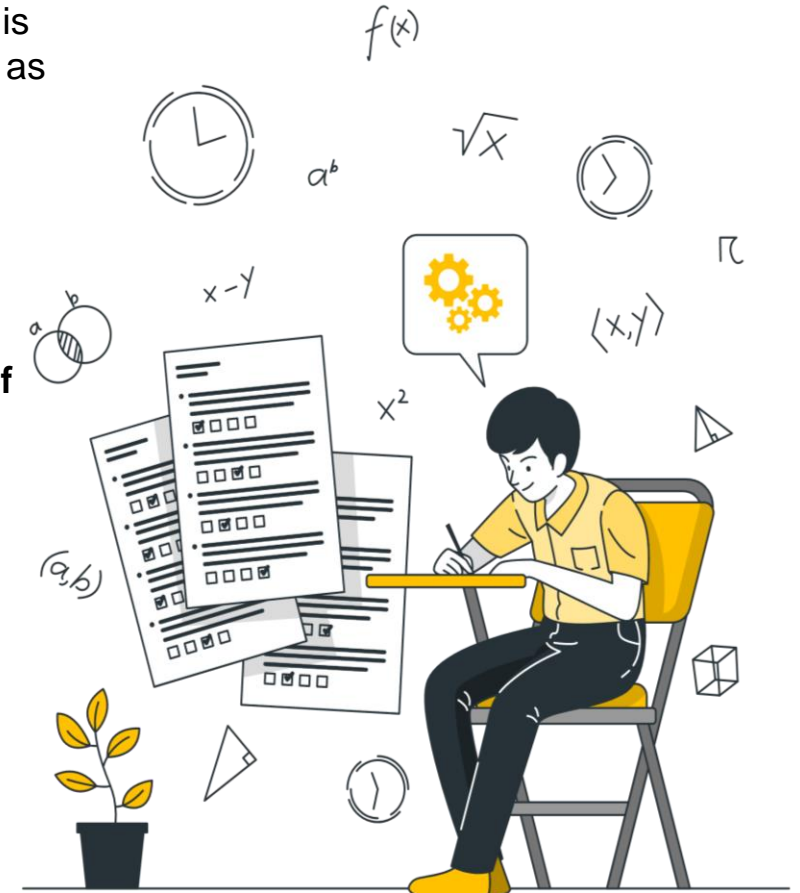
Evaluation Process

Startups submit their application on the Startup India portal and an email confirmation is shared with them. Applicants can apply for seed fund to any three incubators selected as disbursing partners for this scheme in order of their preference.

Application of each shortlisted startup (*based on feasibility, potential impact, novelty, presentation, utilization of fund, etc.*) will be reviewed by an **Incubator Seed Management Committee (ISMC)** formed by the incubators.

The committee will also be responsible for **future assessment of the performance of the startup and disbursement of further tranches**. Each ISMC constitutes of the following members:

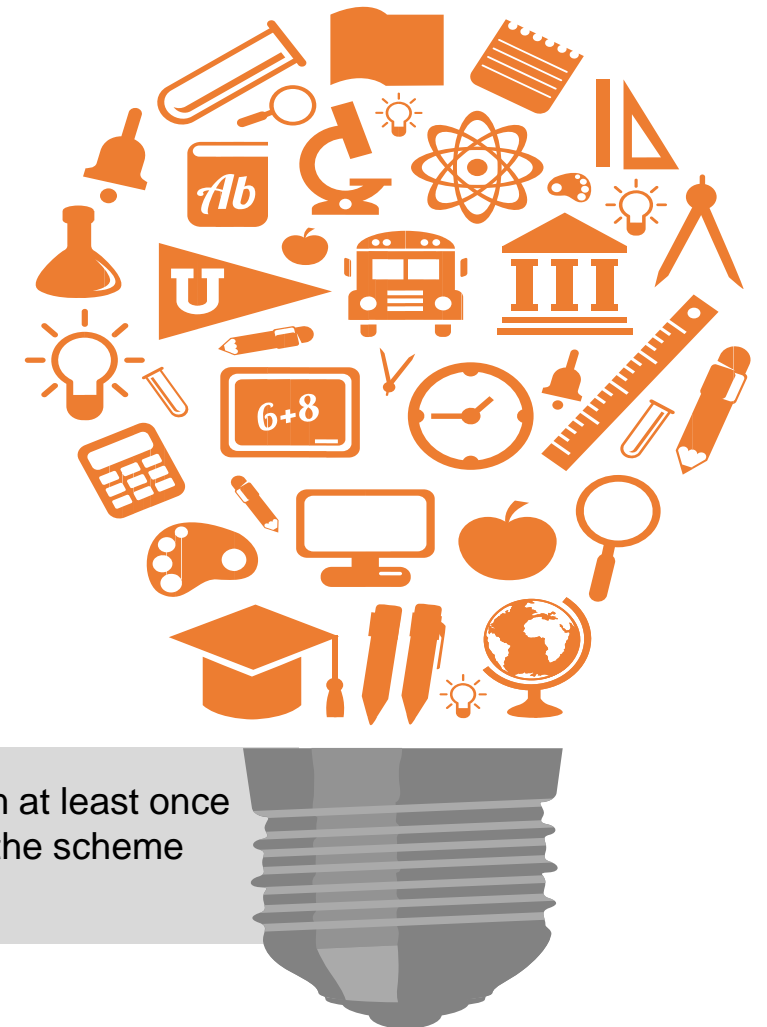
- Nominee of Incubator (Chairman)
- A representative from the State Government's Startup Nodal Team
- A representative of a Venture Capital Fund or Angel Network
- A domain expert from Industry
- A domain expert from academia
- Two successful Entrepreneurs
- Any other relevant Stakeholder



ISMC shall evaluate applicants based on their submissions and presentations and select startups for Seed Fund **within 45 days of receipt of application.**

Obligations of Startups

- A** Seed fund shall strictly not be used by startups for creation of any facilities and shall be utilized for the purpose it has been granted for.
- B** A grant can be used for validation of Proof of Concept, or prototype development, or product trials.
- C** A debt/ convertible debenture can be used for market entry, commercialization, or scaling up.



Each startup will be required to touch base with the incubator team and share updates with them at least once in **15 days via videoconferences or physical meetings**. These updates should be shared on the scheme dashboard at least on a monthly basis.

Stay tuned for more updates on Startups!

In case you have missed the previous alerts, click on the hyperlinks to refer the same.



[Startup recognition](#)



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Startup India Seed Fund



[Carry forward & set off of losses by startups](#)



Other regulatory provisions / benefits

THANK YOU

Chennai - India

M2K Advisors LLP

1st Floor, No. 62, 3rd street,
Abhiramapuram, Alwarpet,
Chennai - 600018
Tamil Nadu

Hyderabad - India

M2K Advisors LLP

Manjeera Trinity Corporate
JNTU Road, Plot No S2 ,
Telangana- 500072
Hyderabad

Singapore

M2K Advisors Pte Ltd

The Octagon,
105 Cecil Street, #07-02
Singapore 069534

USA

M2K Sai Advisors Inc

1 AUER CT,
2nd Floor, East
Brunswick
New Jersey - 08816

For any queries, reach us at:
Mukesh@m2k.co.in; Swetha@m2k.co.in; +9144 4263 9000

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