IMPACT INVESTORS COUNCIL

Emerging Funding Facility for Start up enterprises

(Explained in subsequent sections)

1. Eligibility Criteria
2. Nature of Funding: Collateral and Seniority details/Interest rate
3. Repayment structure
4. Governance mechanism for rapid turnaround

(I) Underlying Philosophy adopted in designing Framework

The funding process has to be kept simple and sector agnostic. There is little scope to incorporate sector specific nuances in order to ensure ease in administration and quick turnaround.

Purpose of Funding - To provide business continuity specifically to start ups in the context of complete demand compression in the context of lockdown as well as its overflow effects. The debt will help cover fixed costs and repayment funding for a period of time.

In other words, the debt provision is not to be provided for the purpose of covering expenses incidental to business growth. It is pure sustenance funding to ensure that the business stays afloat and continues to run operations during this period with some additional support to fund collateral damage in this period (receivables going bad, investments to support WFH and so on). Any growth funding (receivables, inventory, market expansion, product development etc) which are concomitant with sales needs would have to be funded through other funding sources : which is what the company would have done under normal business conditions.

(II) Eligibility Criteria

The following minimum eligibility criteria has to be met to secure the funding:

(i) Available of last years' audited financial statements FY 19
(ii) One round of institutional funding/incubator funding/ accelerator funding. If possible we can include angel funded enterprises too.
(iii) No default history on any pre-existing debt (prior to 1 March 2020)
(iv) No outstanding statutory dues prior to 1 January 2020
(v) Promoters not in defaulter list (personal promoter CIBIL score above 650)
(vi) No material litigation against company and promoters
(vii) No negative net-worth in the company as on March 1, 2020

Sectors of national importance such as health care, education, agriculture, lending, insurance, waste management etc could be given priority

(III) Sanction Amount

Funding would represent 6 months of the following cumulative costs based on a banks statement analysis

(i) 75% of average of last three month's formal employee+ contract worker costs (minus incentives and bonus : the 25% has to come from the organization bringing enhanced cost efficiencies)
(ii) 100% of average of last three month's administrative and establishment costs (adjusted for one time pay-outs/incentives)
(iii) 100%Interest and repayment, if any (adjusting for moratorium benefits) (we can remove this if need be to avoid any support to existing lenders)

Use bank statement analysis and founder conversations to run this process. Reduce need for latest financial statements etc which may not be available.

The funding amount can be fine tuned depending on a more refined selection criteria based on revenue visibility, business model resilience and so on if needed.

(IV) Nature of funding and Repayment Structure

(i) Nature of debt will be Subordinated debt (in lines with SIDBI preference)
(ii) Unsecured
(iii) First right to any equity flows till debt repaid (sidbi will have right to exercise if needed)
(iv) Cash flow trapping through a specified criteria
(v) Could be backed up by CGTMSE
(vi) Low interest rate preferably sub 10 pc to reduce financial burden

Repayment Period: 36-48 months with a one year moratorium

(V) Governance Mechanism

A formal approved debt pay-out policy to be drafted along with a due diligence procedure. Considering the criticality of quick turn-around in fund pay-outs, the governance mechanism to be at three levels by reputed and recognised counterparties.

1. Documentation check and verification by a panel of accredited Chartered Accountants, in a time-bound fashion
2. Due Diligence and evaluation (on the basis of a pre-decided check list) and decision on amount of funding to be carried out by SEBI/RBI registered rating agencies. PLEASE NOTE this is not a rating but a basic due diligence with pre determined turnaround timelines typically could be 3-5 working days post receipt of information kit.

3. Exception decision cases: SIDBI internal empowered committee.

The process will need to be run on an automated work flow digital platform (which several credit evaluation organizations/bank have at this point) to allow for seamless data upload, analysis, online processing and sanction with zero touch