

SRI Fund–Venture Fund For Healthy MSMEs

MSME – BUSINESS SURVIVAL STRATEGIES, 2021

Now-a-days, multi variants of debt and equity funding are available to businesses. These variants are popularly known as hybrid instruments as they carry features of debt as well as of equity. Funding through Venture Capital Funds is available through 'Preference Shares' or 'Debentures' instruments which are convertible into 'Equity Shares' at some later date.

These convertible instruments (popularly known as 'Quasi-Equity') are win-win model for investor and investee. From time to time, various ministries of Government of India have also created Corpus for Venture Funds. The public sector venture capital funds are allocated to various institutions. Some of the institutions managing venture funds created by Central Government are:

- SIDBI Venture Capital Limited
- IFCI Venture Capital Funds Limited
- NABARD Venture Capital Funds Limited
- NSIC Venture Capital Funds Limited
- CANBANK Venture Capital Funds Limited
- NEDFI Venture Capital Limited
-Many More

Complete list of active venture capital funds is available on SEBI website https://www.sebi.gov.in/sebi_data/docfiles/14832_t.html

In any business, venture funds are willing to put money in following three situations:

- **Nascent Stage:** If the business model is unique and robust and have potential of scaling up;
- **Towards Next Orbit:** If the company is already into profits and with onset of new innovations, the company is ready to move towards next orbit in foreseeable future;
- **Listing Potential:** If the company is at the cusp of getting listed in next 3-5 years.

Getting funds from venture funds is not an easy task but this is also not very difficult. The performance / expected performance; transparency; promoters intellect; technological innovations are some of the key factors which matters.

Getting funds from 'Venture Capital Funds' is time consuming task. Usually, it takes from 5-8 months.

Client company and fund facilitator both shall have patience and shall be ready for long journey. Various due diligences ('Business Model' due diligence; Compliance due diligence; Financial due diligence, etc.) takes time. Usually VC Funds engage third parties to carry out due diligence.

THE SELF RELIANT INDIA FUND

During Pandemic Period, the Finance Minister Ms. Nirmala Sitharaman announced intention to create INR 10,000 Crores 'Fund of Funds' to be infused as equity funding into healthy MSMEs under 'Atmanirbhar Bharat' Package'. At that time she said that this fund would facilitate funding to MSMEs to an extent of INR 2 lakh Crores. Later on budgetary provisions were made and finally this fund of INR 10,000 Crores 'Mother Fund' has been created and has been named as '**SELF RELIANT INDIA FUND**'. NSIC Venture Capital Fund Limited '**NVCFL**' (the wholly Owned Subsidiary company of NSIC Limited) has been assigned the enormous task of managing this equity fund.

Managing large size VC Fund is not possible, hence two stage model has been adopted for disbursement. NVCFL disburses funds to enlisted 'Daughter Funds' and these 'Daughter Funds' infuse funds in 'MSME Entities'. At the level of 'Daughter funds' the corpus grows to five times as they need to introduce additional funds to the extent of 80% to get 20% of the corpus released from SRI Fund. That way, INR 50,000 crores would be infused into healthy MSMEs in the form of equity shares / hybrid instruments (to be converted into equity at some later date). While creating the SRI FUND, the main objectives were:



The nodal agency NVCFL (NSIC Venture Capital Fund Limited) is registered with SEBI as Category II Alternative Investment Fund. NVCFL invests in enlisted AIFs which in turn are required to invest in MSMEs to the extent of minimum 5 times of the funds received in their schemes from NVCFL.

Eligibility: MSMEs (as per updated limits and definition of MSME Development Act, 2006) are eligible to receive funding from daughter funds. However, the followings are not eligible:

- NBFCs
- Non-profit Institutions
- Micro Credit Sector
- SHGs
- Financial Inclusion Sector
- Other financial intermediaries

Investment Policy: SRI Fund as Mother Fund follow the following protocol:

- No direct investment in MSMEs. Investments in MSMEs to be made by down the line daughter funds.
- Target MSMEs: With marked potential to grow but shy of growth capital.
- Daughter Funds - Monetary Aspects to be taken care of while investing in MSMEs: (i) Positive growth trajectory (ii) Previous 3 year's CAGR (iii) Defined business plan for growth with positive fund flow (iv) Weightage for potential to grow.
- Daughter Funds - Non-monetary Aspects to be taken care of while investing in MSMEs: (i) Employment potential (ii) Reduction in regional disparity (iii) Overall economic development (iv) Establishing supply chain with depth and resilience.
- Focus Area: Diverse sectors such as traditional MSME, agriculture, pharma, auto, chemicals, etc. Healthy mix of manufacturing, services and agriculture businesses.
- Focused Geographies: No preference but promoting maximum income and job creation, across the country.

Macro Data: May, 2025 position is as under:

S. No.	Criteria	Figures (in Nos./INR)
1.	Empanelled Daughter Funds	64 Number
2.	Beneficiary MSMEs	609 Units
3.	Investment from SRI Fund to MSMEs	1435 Crores
4.	Investment by Daughter funds in MSMEs	11141 Crores
5.	Total Investment in MSMEs	12576 Crores
6.	Commitment under Management	5875 Crores

Macro data reflect few notable facts:

- Out of 10000 Crores, commitments have been made for INR 5876 Crores only, i.e. INR 4124 Crores are still uncommitted.

- Empanelled daughter Funds are 64 where committed money is INR 5876 Crores, i.e., the Daughter Funds for full allocation will reach to somewhere around 110.
- Investments already made to MSMEs out of SRI Fund have reached to INR 1435 Crores, i.e., INR 8565 Crores are yet to be disbursed. Thus, ample scope to connect MSMEs for equity infusion.
- Investment by Daughter funds in MSMEs has reached INR 11141 Crores whereas targeted amount is INR 50,000 Crores, thus leaving ample scope for future disbursement.
- By this time 609 units have received equity or equity like funding, i.e., average disbursement is $12576/609 = \text{INR } 20+$ Crores per unit. By any standard, this is not a small amount. The funded MSME shall be eligible for additional Debt funding of INR 60 Crores. If the money is used wisely for business growth, then this shall result into additional turnover of INR 400-500 crores.

THE DAUGHTER FUNDS

Till May, 2025, sixty four (64) Daughter Funds have signed agreement with SRI Fund.

The Analysis of the 64 daughter funds reflect following notable facts:

- The ultimate corpus will be much higher than 50,000 crores as NVCFL is sanctioning less than 20% contribution in daughter funds.
- Sector specific daughter funds dominate the list.
- Corpus amount of daughter funds varies between 300 Crores to 2500 Crores.
- Large size daughter funds are sector agnostic (means all sector or equal treatment to every sector).
- Funds are concentrated in the commercial capital of India, i.e., Mumbai.
- Contact details of funds are available on <https://www.nvcfl.co.in/Corporate/EmpanelledDaughterFunds>
- Name of the SEBI empanelled AIF managing the fund is also available on above mentioned link.

THE BENEFICIARY MSMEs

Some of the features of initial 609 beneficiary MSMEs are as under:

- Complete list of beneficiary MSMEs is available on the nvcfl portal <https://www.nvcfl.co.in/Corporate/BeneficiaryMSME>.
- Out of 609 beneficiaries, micro units are 455 followed by small units 110 further followed by medium size units 44. Small is more attractive to Daughter funds.

- Female dominated SRI fund beneficiary MSMEs units 87.
- SC Units are mere 2 whereas there is no beneficiary under the ST category.
- MSMEs doing traditional businesses are less whereas start type and technology driven nascent stage MSMEs dominates the list.
- Beneficiary MSMEs are spread across all over India.

THE PROFESSIONAL OPPORTUNITY

The Opportunities – Advantage PCS

OPPORTUNITY 1: PCS can play proactive role as facilitator as they are known as 'Equity Savvy Professionals' whereas CAs are known as 'Debt Savvy Professionals';

OPPORTUNITY 2: PCS can act as third party due diligence agency representing Daughter funds to carry out due diligence of target MSME;

OPPORTUNITY 3: PCS can represent MSMEs seeking equity/equity like funding from such Daughter Funds and can facilitate as co-ordinator during legal/ compliance due diligence;

OPPORTUNITY 4: PCS can prepare various documents required for the purpose of approaching 'Daughter Funds';

OPPORTUNITY 5: PCS can act as 'Post Disbursement Virtual Compliance Officer' and can facilitate periodic compliances and event-based compliances;

OPPORTUNITY 6: PCS, who are qualified Registered Valuer can, extend valuation services to 'Daughter Funds';

OPPORTUNITY 7: Beneficiary MSMEs are also required to submit ESG reports on YoY basis to Daughter funds and daughter funds are supposed to submit these to SRI Fund authorities. PCS can also provide such niche services to Beneficiary MSMEs.

TIPS TO GET CONNECTED WITH OPPORTUNITIES

Every professional has his own ways to explore opportunities. However, followings can help the PCS to get connected with Daughter Funds:

NVCFL Webportal: The willing professionals shall spent quality time on NVCFL website and shall visit the list of 'Empanelled Daughter Funds' carefully. Who knows, one of your batchmate might be working in one such fund, if you find one such person, nothing like it. Be on the look out for 'daughter funds' getting freshly added to SRI fund at NVCFL portal, connect with them and be ready to get first mover advantage.

Website of Daughter Funds: Every AIF managing company has working website and has investment philosophy, investment policy, contact details and information about companies to whom funds have been

disbursed. Information about key employees is also available. Visiting five such websites will give you an idea about working culture of these funds.

Attend Seminars and Programs of AIFs Forums: Attending such events and programs gives you inside view of their work culture; their non-emotional attitude; connect with regular staff of AIFs and much more. You never know when someone working with Daughter Funds will find value in your services.

Empanelment with Daughter Funds: These companies work on lean team and empanel third parties for various type of assignments such as (i) Refreers (ii) Due diligence agencies (iii) Third party valuers (iv) The compliance professionals (v) Pool of independent Directors (vi) Monitoring Agencies and so on. Find out the role that is a best fit for you and your firm and get connected with 1-2-3 daughter funds.

Take Membership of One BMO: As member of Business Member Organization, you are in the 'august company' of your future client. Find out robust MSMEs there and facilitate Equity funding to such robust MSMEs.

Data Mine your Own Clientele Basket: Analyse your own clientele basket and find out healthy MSMEs looking for equity or equity like funding. Share knowledge and facilitate. Open dialogue with 3-4 Daughter funds. Your client company needs only one.

These are not the only ways. As a professional, you may find your own ways to get connected with opportunity to enjoy niche services as equity facilitator. All the best for starting new journey as 'equity funding professional'. If you have already started then all the best for scaling up this exciting and unexplored arena of practice.

REFERENCES:

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