

SEED FUND POLICY

IIITD INNOVATION AND INCUBATION CENTER

IIITD Innovation & Incubation Center (hereinafter “Incubation Center”) is a not-for-profit company promoted by IIIT Delhi with an objective of promoting knowledge based companies. The center helps technopreneurs develop products and services that utilize the tangible and intangible resources at IIIT Delhi. This Policy establishes rules and regulations governing the seed investment process, including disbursement, evaluation, dispute resolution and other matters related for seed investment disbursement.

Section-1: DEFINITIONS

Unless defined herein, the terminology, words and phrases appearing in the policy shall be interpreted as per the dictionary meaning or as used in business.

- 1.1 *Intellectual Property* means all statutory Intellectual Property recognized by the Indian Laws this includes but not limited to Know-how, Patents, Design, Copyright, Algorithms, Trade Mark, Process specifications, software, source-code, trade-secret, etc. This is merely an indicate list.
- 1.2 *Conflict of interest* means any interest that affects the seed investment sanction process.
- 1.3 *Non-dilutable Equity* means an equity whose ratio remains constant in respect of the promoters’ equity; in case the promoters increase their equity then they shall have to give more equity so as to maintain the equity ratio. However, this is not applicable in case of third-party investment, including angel or venture capital funding.
- 1.4 *Incubate Company*: Any company permitted to incubate by the Incubation Center and operate from the incubator shall be called ‘Incubate’ or ‘Company’

Section-2: ELIGIBILITY

Seed Investment is not an automatic right for the incubated company. It is subject to fund availability and qualifying the eligibility criteria as established.

For availing the seed investment from the Incubation Center, the applicant has to qualify the following criteria:

1. The applicant should be a private limited company incorporated under the Indian Companies Act.
2. The Applicant should be an incubated company for a period not less than 3 months as on the date of seed investment application.
3. The Applicant should have a paid-up capital not less than 1 Lakhs.

Section-3: PROCESS

The seed investment shall have following stages:

- 3.1 *Application:* Any incubated company desirous of obtaining seed investment and meeting the criteria as set in Section-2 hereinabove shall make an application to the Incubation Center in an approved format.
- 3.2 *Evaluation:* The incubation center shall constitute a committee comprising of experts in technology domain, financial experts, business experts or any other person deemed fit to evaluate the seed investment application. The seed investment application may be evaluated on following criteria:
 - 3.2.1 Technology innovation
 - 3.2.2 Business model innovation
 - 3.2.3 Market addressed
 - 3.2.4 Customer feedback
 - 3.2.5 Scalability & potential
 - 3.2.6 Competitor evaluation & pricing

- 3.3 *Sanction:* The Board of the Incubation Center based on the Evaluation Committee recommendations may approve the investment which shall not exceed rupees ten lacs for any incubated company.
- 3.4 *Disbursement:* The Committee shall approve the release of investment linked to milestone and conditions deemed fit to ensure the proper utilization.
- 3.5 *Periodic Assessment:* The incubation Center shall evaluate the performance of incubatee every quarter. The emphasis of evaluation will be on checking if the milestones specified in the incubation application have been achieved or not. The assessment will be done on the financial health of the company in terms of its order booking, expenses, profitability, and utilization of seed money investment for the specified purposes and its ability to repay the investment. Further seed fund disbursal will be dependent on the progress shown in previous appraisal.

Section-4: TERMS & CONDITIONS

- 4.1 The incubated company desirous of availing seed-fund shall submit a seed investment application duly signed by the promoters and directors.
- 4.2 The incubated company shall compensate for any loss or damage due to any act or omission by the incubated company, its promoters, directors or employees to Incubation Center or IIIT Delhi.
- 4.3 Any Intellectual Property that is solely created by the incubated company using investment from the Incubation Center shall be owned by the incubated company. However, the IIIT Delhi's IP Policy shall apply in case:
 - i. There is contribution from any faculty/students/staff from IIIT Delhi
 - ii. The IP was developed using funds, facilities and laboratory/equipment of IIIT Delhi and the company has not paid the charges for such utilization.

Notwithstanding anything contrary contained herein, the statute, rules and regulations of IIIT Delhi shall prevail over this policy.

4.4 Consideration: The incubation center shall charge cash and non-cash consideration from the incubated companies against the services and facilities.

4.4.1 Cash Consideration:

<i>Facility</i>	<i>Charges</i>
Charges per Incubation Units	Standard Incubation charges
Common Facility charges	As per specified rate list
Any other	As requested at the time of providing service

4.4.2 Non-Cash Consideration:

The startup may be face resource crisis including financial crunch and the incubation center as a part of its objective of supporting the incubated company may defer the payment due towards the center in case the incubated company expresses its inability to pay the dues. However, the center may take equity against such dues.

All the equity against seed investment shall be held in the name of “IIITD Innovation & Incubation Center”

Facility	Equity
Incubation permission at Incubation Center	Upto 50% of Incubation service charges for maximum of 2%-5% of promoter’s non-dilutable equity. This non-dilutable equity shall be maintained in proportion to the promoter’s equity i.e. if promoters increase their shareholding then they shall have to give additional shares to IIITD Innovation & Incubation Center to maintain the proportionate equity, however this clause shall not apply in case of any third-party investment in the company.
Any unpaid dues or deferred payment	1% of the promoters’ non-dilutable equity for each 1 lakh or part thereof. Committee can recommend after recording with specific reason, equity sharing at any other rate.

4.5 The entire funding may also be sequenced in sub-steps which are pegged to mutually accepted goals achieved by the firm. These steps could be decided on a case to case basis.

Section-5: VALUATION

A mutually accepted valuation of the firm has to be achieved for funding and investment in equity. There are many factors affecting the valuation of the startup, some of which are listed below:

- i. Team size, number of seats taken, and time of the promoters
- ii. Technology and intellectual property rights owned by the company
- iii. Valuation in past funding, if any
- iv. Investment made by promoters in the business including both tangible and intangible assets
- v. Market characteristics and traction in market
- vi. Product (or service) characteristics
- vii. Current/ forecasted market size and revenues
- viii. Profits projections
- ix. Risk arising from many factors such as competition and alternate technologies/products

Section-6: EXIT

- 6.1 The exit policy for the debt investments/debt component of investment must be designed to protect the investment without causing the failure of startup.
- 6.2 The exit policy with respect to equity investment or equity component of investment must take into account the following:
 - i. The Incubation Center shall have the first right to sell the equity held by it when a third party invests by buying the existing equity of the startup from the promoters.
 - ii. The Incubation Center shall have the first right to sell equity in an IPO/FPO which has a component of existing equity on offer.
 - iii. The Incubation Center shall have the right to sell the equity to a third party through private placement with a prior communication of the sale to the startup.

iv. Any sale of equity amounting to change in control of the company to another management/promoters or company must be communicated to the Incubation Center in advance. The Incubation Center must be included as a party in these negotiations. The valuation of the equity in such transactions must be approved by the Incubation Center for the deal to go through. These include, but are not limited to, mergers, acquisitions and sale of majority interest in the company.

6.3 Six months before the exit, the incubatee will communicate to the Incubation Center desire to exit and specify one of the option with respect to the investment in the company of the Incubation Center:

- a) Value the investment as investment plus 1.5% per month from the first date of disbursement of seed fund
- b) Continue the investment with the consent of Incubator as it is until a third party invest in the company at which point the Incubation Center the company will take a decision whether to continue or exit.
- c) Get a mutually agreed valuation done by independent party

The valuation amount can be paid in one installment at the time of the exit or agreed number of installments within twelve months of the exit. Such amount will be charged at interest at the rate equivalent to State bank of India fixed deposit rates for one-year duration.

Section-7: AGREEMENTS

A shareholder's agreement stipulating the conditions, has to be entered in to by both the parties before the disbursal of the seed money. Incubation Center will have right to appoint an auditor to examine the books of account of the company in case if so desired.

Section-8: USE OF SEED INVESTMENT

- 8.1 Seed investment shall be utilized as per the seed investment utilization plan as approved by the Incubation Center.
- 8.2 Seed investment is not for personal expenditure of directors, promoters or employees.

- 8.3 In case the incubated company misuses or violates any rules or guidelines of seed investment, then the Incubation Center shall have the right to suspend further disbursement, if remaining and recover the investment disbursed with a penal interest of 18% per annum.

Section-9: CONFLICT OF INTEREST

All the applicants shall expressly disclose all conflict of interest, including any personal or professional association that may give rise to any conflict of interest.

Section-10: DISPUTE RESOLUTION

Any and all disputes between the Incubation Center and the incubated company shall be referred to Civil Courts of competent jurisdiction of Delhi.