Startup Accelerator of MeitY for Product Innovation, Development and Growth

SAMRIDH

SCHEME DOCUMENT

Government of India
Ministry of Electronics & Information Technology
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1. Overview

1.1 Introduction

One of the key focus areas for MeitY Startup Hub is to empower Start-up ventures to boost entrepreneurship, economic growth and employment across the country. The Start-up ecosystem in the country has largely benefited from the initiatives and the overall push towards entrepreneurship has inspired many to start their own business.

The idea behind this proposal is to provide startups which already have brilliant solutions and proof of concept for their product the more facilities to enhance their product using innovative technologies for the market with a solid business plan and enable them to easily obtain investments from venture capitalists and angel investors.

1.2 Background

Ministry of Electronics & IT (MeitY) has various programs like "Technology Incubation and Development of Entrepreneurs (**TIDE 2.0**)", "Centres of Excellence (**CoEs**)" in emerging technologies, "MeitY Startup Hub (**MSH**)", "Next Generation Incubation Scheme (**NGIS**)" to promote technology incubation and Start-ups. However, significant numbers of start-ups die within the first few years.

As per the research by MIT Sloan, around 50% of the Start-ups fail by 4th year of their inception.

The key reason for the failure of these start-ups is not faulty product/service, but lack of right funding at the right time, not understanding market dynamics for their products, limited knowledge of user perception of their product, and not improving their product through constant innovation and continuous feedback. A lot of Start-ups often do not have access to funds required for above purposes along with other needs such as research and development, expansion of organization, use of latest technologies for growth etc.

The Government of India including MeitY has various programs to promote incubation services to startups, there is an urgent need to conceptualize and run an accelerator program to help these start-ups and other start-ups with **Social Impact** and **to solve India's problems** at **scale**. The Startups from aforementioned programs will act as a feeder for the SAMRIDH program. The accelerator program provides startups with a platform to enhance their products and secure investments for scaling their business.

Accelerator programs usually have a set timeframe in which individual companies spend anywhere from a few weeks to a few months working with a group of

mentors to scale up their business and avoid problems along the way with little focus on technology up-gradation. Y Combinator, Techstars, and Brandery are some of the most well-known global accelerators.

Accelerators start with an application process typically called a cohort, but the top programs are typically very selective and may be sectoral specific. Incubators operate on an open-ended framework including timeline focusing on product maturity. They focus more on the longevity of a startup and are less concerned with how quickly the company grows. Whereas, India has more than 500 incubators but is still nascent in its accelerator ecosystem with following few examples:

- K-Start
- Talks
- Axilor Ventures
- Byron
- GSF Accelerator
- Gain Accelerator
- T-Hub

In addition, many of the matured incubators are ready to move to the next level thereby providing acceleration support to startups.

1.3 Objective

One of the key objectives is to provide funding support and fiscal incentives to start-ups. It was observed in the Start-up India 2018 report that once a Start-up gains traction, there is a gap in accessing the growth stage funding to scale up the operations. The national average score of this pillar comes out at 2.13 on the scale of 10 in the report which shows that a lot needs to be done to develop a growth stage funding mechanism. Moreover, the report also has mentioned that the enablers such as incubators and accelerators are also important partners in the overall Start-up ecosystem which supports and accelerates the successful development of businesses.

As per NASSCOM Strategic Review 2019 report, start-ups in Enterprise software and services like FinTech, EdTech, HealthTech etc. together comprise nearly 50% of the total number of start-ups. Services like FinTech, EdTech and HealthTech alone comprise 26-30% of the total number of start-ups. Moreover, advanced technologies like IoT are being used in 15-17% of startups, AI in 54-58% of startups and AR/VR in 26-28% of startups across segments like Home Automation, HealthTech, FinTech, RetailTech, Real Estate, Edtech etc. Thus, there is a need to develop accelerators to support these core technologies and future technology services.

1.4 Other State Government Initiatives

Various State Governments have established measures for venture funding support and have either supported venture funds by providing funds contribution or have created their dedicated venture funds to support Start-ups. Some of these State Govt. mechanisms are as under:

1. **Kerala**:
   a. Kerala Startup Mission (KSUM), the nodal agency for Startup initiative in Kerala has invested into 2 Venture Funds i.e. UNICORN and SEA Fund with a condition that double the amount invested by Govt. of Kerala in these Funds will be invested by these Funds in Kerala based startups.

   b. The fund operates in a Fund of Funds type investment model and has so far entered into a commitment of ₹ 12.5 crore with above mentioned funds.

   c. A similar amount has been invested by UNICORN and SEA resulting in a corpus of ₹ 25 crore for Kerala State based Startups.

2. **Rajasthan**:

   a. A venture funding mechanism has been established in the form of Rajasthan Venture Capital Fund (RVCF) which is managed by Rajasthan Asset Management Company Pvt. Ltd.

   b. The fund invests in Early and growth stage companies with equity exposures ranging from ₹1 crore to ₹ 10 crore.

   c. So far, 36 Startups have been provided venture funding through above mentioned venture funds.

3. **Jharkhand:**

   a. 30% of Jharkhand Entrepreneurship Development Fund, with a corpus of ₹ 50 Crore, is earmarked as Jharkhand Angel Fund. Earmarked amounts for Angel fund will be allocated to dedicated Asset Management Company for Angel funding to Startups.

   b. The ticket size for angel funding will be from ₹ 10 Lac to ₹ 1 Crore.

c. The profits/ returns so generated from investments in startups shall be reinvested in the Jharkhand Angel Fund.

1.5 Small Industries Development Bank of India (SIDBI):

SIDBI has been addressing the key requirement of availability of capital to Start-ups for the past more than two decades through supporting / subscribing to various venture capital funds / Alternative Investment Funds (AIFs). Some of the examples of SIDBI working with various central government ministries in startup domain are as under:

1.5.1   Ministry of Commerce & Industry, Government of India has entrusted the management of Fund of Funds for Startups (FFS) with a corpus of ₹10,000 crore with SIDBI to support various Alternative Investment Funds (AIFs), which in turn would invest twice of SIDBI's contribution in start-up businesses.

1.5.2   Ministry of Micro, Small and Medium Enterprises also entrusted SIDBI with the management of ASPIRE Fund with a corpus of ₹310 crore to support various AIFs, which in turn would invest twice of SIDBI's contribution in various MSME / startup businesses, including rural and agro space.

2. Scope and Opportunity

2.1 Scope and Opportunity

There are various factors which makes it a right time for Government's intervention in this area, some of which are as under:

2.1.1 Indian Software Product ecosystem is continuously evolving and SAMRIDH may support potential IT based startups to scale.

2.1.2 Government is floating various challenges for Indian Software Products like VC challenge, App Challenge etc. SAMRIDH may act as an enabler for the emerging companies/start-ups to take their products/solutions from prototype stage to commercialization.

2.1.3 Considering the current state of the economy, and the loss of revenue of companies and hence software professionals losing their jobs, MeitY proposes a measure to support Indian tech startups due to the issues faced by them by COVID-19 and its associated fall-out. India has around 9300 tech-start-ups and continues to be the world's third-largest tech start-up ecosystem. Technology Startups, like most businesses, have been adversely impacted by COVID-19

and its associated mitigative measures. These are facing following major challenges:

- Around 90 percent tech start-ups in India have reported a decline in revenue
- About 30-40 percent have suspended operations or will close down because of the Corona virus pandemic
- VCs are not investing due to market uncertainty and Start-ups not achieving the milestones
- FDI from China is through Government route now
- Challenge is to sustain during this pandemic and be ready for economic distress by maintaining cash flows, business continuity and IP creation

3. SAMRIDH: Startup Accelerators of MeitY for Product Innovation, Development and Growth (SAMRIDH):

3.1 Overview:

The SAMRIDH scheme will support existing and upcoming Accelerators to select and accelerate potential IT based startups to scale for solving India's problems creating positive social impact. The SAMRIDH scheme will provide support to selected Accelerators for extending Accelerator Services as defined below to startups and even provide first round of funding of up to ₹40 lakh (with an average of ₹ 30 Lakh per startup per cohort). The programme will invite applications from existing and upcoming Accelerators to become partners with MeitY and provide startups accelerator programmes of 6 months every year. It is proposed to support around 300 tech Start-Ups through about 40 cohorts (size of 8-10 Start-Ups) under the program.

3.2 Objectives:

The SAMRIDH scheme will support existing and upcoming Accelerators to select and accelerate potential product based startups to scale. The program will focus on accelerating the startups by providing customer connect, investor connect and internationalization connect services.

3.3 Implementing Agency

It is proposed that MeitY Startup Hub (MSH), shall act as the implementing agency for SAMRIDH. MSH will take equity in Start-Ups for Government's contribution via Promissory/SAFE Note, same as accelerator which will be utilized for self sustainability of the program. A Project Management Unit will be formed for the overall implementation of the program.

3.4 Investment Model

- Commit an investment of up to ₹ 40 lakh to the startup (with an average of ₹ 30 Lakh per startup per cohort) based on the growth stage of the Start-Up.
- Equal matching investment by the accelerator / investor of up to ₹ 40 lakh (with an average of ₹ 30 Lakh per startup per cohort) to the start-up based on the current valuation and growth stage of the start-up.
- Accelerators are encouraged to take equity from the start-ups from such investments in the selected start-up based on a SAFE / Promissory Note.
- SAFE notes take the legal form of Compulsorily Convertible Preference Shares ("CCPS") as governed by sections 42, 62 and 55 of Companies Act, 2013 ("the Act") read with Companies (Share Capital and Debentures) Rules, 2014 and Companies (Prospectus and Allotment of Securities) Rules, 2014.
- However, the startup will have the option to utilize the appropriate investment vehicle including participation in equity, debt, and other financing mixes as deemed appropriate by startup, investor and accelerator
- For the Government funding in the start-up, Meity Startup Hub, the proposed implementing agency of SAMRIDH will utilize the same investment vehicle as the accelerator / investor which will be utilized for self sustainability of the program.
- The accelerator will not be allowed to take any equity for services provided under the scheme and value addition so achieved due to such services, as scheme provisions financial support to the accelerator.

3.5 Disbursement Model

Accelerators shall be tasked with developing customized acceleration programs to fit the needs of each startup in the cohort and provide services ranging from customer connect, investor connect, capacity enhancement, product enhancement etc for which they shall be provided a budget of Rs. 2.0 Lakhs per startup to a maximum of INR 20 Lakhs per cohort.

4. Eligibility & Selection Procedure

4.1 Accelerator Qualification

1. Have been in the business of incubation for more than 3 years and supported more than 50 start-ups of which at least 10 have received non-public investment.

OR

Having targeted accelerator programs with an experience of running at least 3 cohorts with activities listed as desirable under SAMRIDH,

2. Have operations in India
3. Have necessary space and infrastructure to carry out activities for the start-ups.
4. Should demonstrate capabilities with regard to:
    a. Supporting Start-Ups for domestic and international market immersion.
    b. Network/Connect with Venture Capitalist/Angel Investors.
    c. On-boarded with leading business mentors.
    d. Structured cohort for accelerating deep tech software product start-ups.

Selection: *The selection of an accelerator will be prioritized based on the highest value to the startup in terms of the equity desired and the services delivered.*

4.2 Accelerator Selection Procedure

Implementing agencies will invite Expression of Interest (EoI) from accelerators having eligibility as stated above. Selection of accelerators will be done by an expert committee comprising representatives from Government, Industry, and Investors. Accelerators with prior experience of running cohorts shall be prioritized over other incubations applying for SAMRIDH.

4.3 Accelerator Services & Activities

Accelerators shall be tasked with developing customized acceleration programs to fit the needs of each startup in the cohort and provide services ranging from customer connect, investor connect, capacity enhancement, product enhancement etc for which they shall be provided a budget of Rs. 2.0 Lakhs per startup to a maximum of INR 20 Lakhs per cohort. In each of the cohorts organized by the shortlisted accelerator, a maximum of 10 startups and a minimum of 5 startups can be supported under the scheme working in the domain area of software products.

The selected accelerators have to provide services to the Start-Ups which include the following:

1. Expert diagnostic for market research and product positioning
2. Mentoring of Startups through experts on the basis of tech vertical
3. Legal Assistance for all matters: IP, Incorporation, and other matters
4. Connected learning, networking through shared platform
5. Co-learning
6. Weekly meets between founders of all startups
7. Demo Day: Presentation to with VCs and angel investors

8. Assistance to startups in negotiating and closing investment deals with VCs and angel investors

5. Program Management

It is proposed to constitute a Scheme Management Committee (SMC) for SAMRIDH in order to oversee all aspects related to effective implementation of the Scheme, review the progress of the program in terms of its objectives from time to time, provide strategic guidance and recommend changes/amendments for the improvement of the program. The composition of the committee would be as under:

(i)	Secretary, MeitY	Chairperson
(ii)	Joint Secretary (IP: SW), MeitY	Member
(iii)	Representative, Start Up India Program	Member
(iv)	Representative, Implementing Agency (2 No.)	Member
(v)	Industry Experts (4 No.)	Member
(vi)	Representative, IFD, MeitY	Member
(vii)	HoD, IPS & ITS Division, MeitY	Member-Convener

6. Financial outlay

Description	Year 1 (Rs. in Cr)	Year 2 (Rs. in Cr)	Year 3 (Rs. in Cr)	Total (Rs. in Cr)
Startup Acceleration Fund	30	30	30	90
Accelerator Services and Activities	2	2	2	6
Administrative Expenses	1	1	1	3
Total	33	33	33	99

7. Exit Management

- The exit from the startup may be carried out by MSH or its designated organization holding the equity of the company, with the approval of SMC.
- Biannual reviews of startups in portfolio will be carried out and the generated reports shall be taken for decision on exiting from the startup.
- The profits/returns generated from investments in startups shall be reinvested in the corpus for further iterations of the accelerator.

APPENDIX-A

Global Competitive Analysis

Top international accelerators were studied to understand their functioning and the reason and attributes for their success were identified, summarized as under:

	Y Combinator (ycombinator.com)	Techstars (techstars.com)	StartupBoot Camp (startupbootcamp.org)	AngelPad (angelpad.com)	IIDF (iidf.vc)
Locations	USA based but founders can be global. This year (2019), for the first time they came to Bengaluru for interview selection of startups.	USA and Worldwide with presence in Bengaluru, India	UK and Worldwide with presence in Bengaluru,& Mumbai, India	USA based but founders can be global	Russia
No. of Exits	271	210	25	33	21
Number of Investments	1801	1336	525	153	335
Revenue ($)	6,182,983,100	3,596,800,000	0	718,250,000	NA

Stake	7% of company for $150k in form of post-money safe for when the safe converts	$100,000 convertible note, $20,000 in return receives 6% equity of the company (on a fully diluted basis, issued as common stock) until the company raises a priced equity financing of US $250,000	€15K in cash, €450K+ in partner services, 6 months of free collaborative office space, industry-specific deals,for between 6-8% equity	7% for $120,000 funding,$300,000 in cloud credits from AWS, Google and Digital Ocean	7% with coworking and pre-seed investments in the amount of 1.4 million roubles
Application Process and Methodology	Reimbursed interviews in USA, funded startups expected to move to the Bay Area for 3 months, incorporated in USA with legal assistance, no office space provided	3 months program, multiple locations and programs, office space, multiple mentors, access to over $300k of cash equivalent hosting, accounting and legal support – plus other credits and perks worth more than $1M	Meet targeted mentors, investors, and partners in your industry, once graduated, become part of the Alumni Growth program	Acceptance rate is less than 1%, work in every day, with the other founders of the cohort ,Thomas Korte and Carine Magescas, husband-wife duo, personally work	120-hour training course, on-site and distance acceleration, established the so-called pre-accelerator, focusing on the development of start-up business models and improving their

					investment attractiveness.
USP	Strong network of alumnis	Multiple locations and Equity Back Guarantee	Industry partnerships, multiple programs and mentorships	Good,OTB companies with huge potential are selected	Govt backed program which has a large reach and organises events throughout the year
Famous Alumni	AirBnb, Stripe, Dropbox, Reddit, Zapier, Weebly, Heroku, HackerRank, Meesho, MyScoot	SendGrid, DigitalOcean, Zipline, Outreach, PillPack, DataRobot, SalesLoft, Remitly	1SDK, 24Sessions, 315Studio,3D By Flow, 3D Click, Abaton Health, Accerion, Adapt Ready	Drone Deploy, All Trails, Paintzen, Pipedrive, Postmates, Buffer, Mopub, Adku	NA