

KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LTD

SHARE CAPITAL INVESTMENT POLICY

July 2024

1. Objectives:

The Government of Kerala has taken various measures to improve the industry friendly environment through EoDB initiatives and formulated the new Industrial Policy in March 2023 to accelerate industrial growth in the State and to create more employment opportunities. The New Industrial Policy aims to facilitate successful scaling up of ventures to capture the growth prospects from the successful Startups, and establish sectoral ecosystems which promote efficient and effective use of available resources and infrastructure. Accordingly, State has identified 22 Priority sectors.

The new share capital investment guidelines are drafted with a view to attract investors for setting up new projects, particularly in the manufacturing sector in Kerala. It is expected that these policy interventions will attract more project investments and capital formation in the State, offer better employment opportunities and accelerate direct & other economic activities. The share capital investment policy aims to provide equity capital support for large capital investments in innovative and high potential businesses to create 'Kerala brand' globally and establish leadership in key sectors identified. The Policy also aims to extend funding support to Startup companies by way of investments in Preference Share Capital for Scaling up projects.

KSIDC, being the premier investment promotion agency of the State, will operate the share capital investment scheme to attract investments to Kerala.

2. Proposed Share Investment policy of KSIDC

The corpus for the share investments is proposed to be raised through budgetary allocation from the Government of Kerala under the "*Make in Kerala*" initiatives and also through gradual disinvestment of existing equity investments of KSIDC by following a prudent price discovery.

A. Share Investment Policy

The conventional approach currently being followed by KSIDC needs to be critically reviewed and new criteria that conform to the regulatory requirements enforced by Companies Act, 2013 and Reserve Bank of India, as well as subserve the current investment promotion perspectives and the expectations of the entrepreneurs need to be introduced.

The details of the Share Capital Investment Policy are as follows:

1. KSIDC may make share investments in equity capital in companies for setting up units in Kerala, greenfield as well as brownfield projects.
2. At any given point of time, investment in shares at cost shall not exceed 20% of Assets Under Management, that is Loans and Investments at cost, of KSIDC.
3. Share capital investments in private limited companies shall not exceed 50% of KSIDC's annual budget for share capital investments.
4. Scaling up support for Start-up companies will be by way of Redeemable Cumulative Preference Share Capital Investment, ranging from Rs 1 crore and up to Rs 5 crores.
5. The dividend coupon rate for such preference share capital will be twice the maximum interest rate of KSIDC, with redemption option within a period of 5 years of investment.
6. Both greenfield and brownfield projects will be eligible for the Share Capital Investment scheme.
7. Only companies where the project cost is a minimum of Rs 25 crores shall be eligible for share capital investment by KSIDC, whether the project is greenfield or brownfield. However, for scale up projects of Startup companies, the project cost needs to be a minimum of only Rs.10 crores.
8. The minimum amount of net worth for public limited companies shall be Rs. 10 crores and for private limited companies, Rs. 5 crores.
9. The total Long-Term Loan & KSIDC's Share Investment together shall not be more than 67% of Project Cost (Debt & KSIDC's Share Investment together at a 2:1 ratio basis) to ensure active promoter contribution in the Project.
10. KSIDC may make investments in the range of 11% to 19% of the total equity share capital of the applicant company. However, in the case of joint ventures, equity stake shall be minimum of 26%.
11. To be eligible for share capital assistance applicant companies who are already in business shall have positive net worth with no accumulated losses, with book value of share being more than its face value, and the company generating net profits in the past three years, without having any overdue to financial institutions / banks.
12. Manufacturing and Service Sector (except Hospitals, Malls and Hotels) shall be given preference in share capital investments by KSIDC.
13. Priority shall be given for investment in ESG compliant companies.
14. Share capital investments in greenfield projects will be only at face value. However, equity share capital investments can be made at a share premium in respect of exceptional cases as detailed below:
 - a) In the case of companies already assisted and currently holding investments by KSIDC, follow-up offers (Rights issue, Qualified Institutional quota etc.) may be considered with share premium and without any minimum project cost criteria of Rs 25 Cr, on a case-to-case basis.

- b) In the case of companies previously assisted by KSIDC (existing as well as old clients who have not settled their loan by OTS or availed any waivers) and having a minimum net worth of Rs. 10 crores for public limited companies / Rs. 5 crores for private limited companies, and no accumulated losses, and net profits for the past five years, and no overdues to financial institutions / banks, when going for expansion.
- c) Existing companies which are not assisted by KSIDC and are having a minimum net worth of Rs. 25 crores with no accumulated losses, and net profits for the past five years, and no overdues to financial institutions / banks, when going for expansion.

The offer price at a premium other than (a) above shall be based on the external valuation through SEBI approved Category 1 Merchant Banker.

- 15. KSIDC shall enter into a promotional agreement with the promoter(s) of the company for buy-back / redemption of shares with predetermined pricing formula for disinvestments and with firm commitment for share buy-back as and when called for by KSIDC if the company is public limited. Promoters holding a minimum equity stake of 51% in the company shall be a party to shareholders agreement.
- 16. However, in private limited companies, KSIDC shall enter into a tripartite Shareholders' Agreement (SHA) with the promoter as well as the company with firm commitment for share buy-back as and when called for by KSIDC, in view of the restrictions in share transfers in private limited companies.
- 17. In all cases considered under this scheme, scale up, new units as well as expansion, the CIBIL score of the promoters shall be 650 or more.
- 18. The appraisal methodology being followed in the case of loan appraisals shall be followed in the case of new share investments as well. Analysis of the company's past performance and future projections for a minimum period of 10 years is to be done. All the financial indicators shall be in line with loan appraisal. The analysis of the business performance shall gauge the company's asset health, assess the overall financial performance and stability.
- 19. In cases where loan and share capital assistance is sanctioned, the disbursement of share capital will be made after raising the promoter's contribution in full and disbursement of entire loan component.
- 20. The NPV of discounted free cash flows shall be positive and the discount rate would be the highest in the existing interest rate band of KSIDC.
- 21. In addition to the existing viability ratios, Return on Equity (ROE) and Price Earnings (PE) ratio shall also be assessed. The ROE should be twice the lowest interest rate in the existing interest rate band of KSIDC.
- 22. Application fee, processing charges and upfront fee shall be applicable at the same rates as in the case of loans.

23. The minimum quantum for investments in equity shares shall be fixed at Rs. 100 lakhs for a company.
24. Investment/exposure in equity of a single company shall be restricted to Rs.25 crores or 25% of KSIDC's annual budget for the share capital investment or as per applicable RBI limit in force at the time of investment, whichever is lower. However, the maximum scale up support by way of redeemable cumulative preference shares in a Startup company shall be Rs 5 crores.
25. The above guidelines shall be subject to RBI guidelines, which mandate that KSIDC's maximum exposure by way of Share Capital Investment and Loan based on the Tier -1 Capital would be as follows:

Particulars	Single Borrower	Group Borrower
Concentration of credit/ investment	25% of Tier 1 Capital	40% of Tier 1 Capital

Powers of the Board

The policy guidelines for Investment are in general and the Board is the final authority to amend, add, relax any criteria/matter set out in the Policy.
