

October 05, 2020

The Deputy General Manager
Investment Management Department,
Division of Funds 6,
Securities Exchange Board of India ("SEBI")
SEBI Bhavan, Plot No. – C4-A, G Block, Bandra Kurla Complex,
Bandra (East), Mumbai 400051.

Attn: Mr. Sanjay Singh Bhati

Subject: Request for Informal Guidance by way of Interpretative Letter under the provisions of SEBI (Informal Guidance) Scheme, 2013 ("**Informal Guidance Scheme**").

Ref: Regulation 19 (D)(2), Regulation 19 (D)(3), Regulation 19(E)(1), Regulation 19(F)(5), Regulation 19(G)(3) of the Securities and Exchange Board of India(Alternative Investment Funds) Regulations, 2012 ("**SEBI-AIF Regulations**").

Dear Sir,

I. Background

- a. Scale Ventures Trust ("**Fund**") is a trust registered with Securities Exchange Board of India ("**SEBI**") as a Category I Alternate investment Fund – Venture Capital Fund - Angel Fund under SEBI-AIF Regulations bearing registration number IN/AIF1/16-17/0274 with effect from November 08, 2016.
- b. Mr. Nilesh Rathi, Mr. Sunil Govardhan, Mr. Siddhant Mantri & Mr. Rahul Narvekar are acting as the trustees ("**Trustees**") of the Fund and presently Scale Management Consultants LLP, a limited liability partnership incorporated under the Limited Liability Act, 2008, and having its registered office at Vrundali, Block No. 4, 851/2 Bhandarkar Institute Road, Deccan Gymkhana, Pune 411 004 acts as the Investment Manager ("**Manager**") of our Scheme Scale India Innovation Fund ("**Existing Scheme**") which has been launched by the Fund.
- c. The Fund has launched one scheme so far which is the Existing Scheme. The Fund wants to launch new schemes in such a way that there will be one

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separate scheme for each investment in an investee company by filing the required term sheet with SEBI in accordance with Regulation 19(E)(1) of the SEBI-AIF Regulations (“**New Schemes Structure**”).

II. Guidance sought

A. Guidance on requirement of corpus of five crore rupees by angel funds:

i. Relevant provision of SEBI-AIF Regulations:

Regulation 19D (2) of the SEBI-AIF Regulations reads as follows:

“An angel fund shall have a corpus of at least five crore rupees.”

ii. We have launched the Existing Scheme and the Fund has abided by the minimum corpus requirement prevalent at the time of launch of the Existing Scheme in the year 2016. We are in process of launching a new scheme under the New Schemes Structure which means each investment will be a separate scheme.

iii. Query:

Whether the minimum corpus of five crore rupees under Regulation 19D(2) will have to be maintained separately by the Fund for each scheme launched under the New Schemes Structure or corpus is required to be maintained at the Fund level?

Given that under the New Schemes Structure we propose to launch separate scheme for each investment, if minimum corpus of five crore rupees is required to be maintained at each scheme level, it would entail that the Fund has to invest minimum rupees five crore in each investee company, which may not be practically possible.

Illustration provided below for clarity:

Considering that our fund is an Angel fund investing in early stage startups, there may be times that the scheme invests only 50 lakhs in a startup and no more. Then what can be done with the balance 4.5 crores corpus since we are investing only in one startup under one scheme? Since we raise funds from Angel investors only after they approve then they will only invest that much amount as required to

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be invested in a startup and a drawdown of only that much amount will be made by the Manager (in the case of the above illustration, INR 50 lakhs).

The minimum INR 5 crores can be maintained at Fund level but how can it be maintained at per scheme level?

B. Guidance on maintenance of continuing interest by Sponsor or the Manager:

i. Relevant provision of SEBI AIF Regulations:

Regulation 19G (2) of the SEBI AIF Regulations:

“The manager or sponsor shall have a continuing interest in the angel fund of not less than two and half percent of the corpus or fifty lakh rupees, whichever is lesser, and such interest shall not be through the waiver of management fees.”

- ii. The Manager has been maintaining the required continuing interest in the Fund under the Existing Scheme.
- iii. The Fund is in process of launching a new scheme under the New Schemes Structure under which the sponsor of the new scheme intends to maintain the required continuing interest as per Regulation 19G (2).

iv. Query:

Once the Fund launches several schemes under the New Schemes Structure can the sponsor and the Manager TOGETHER maintain the continuing interest of two and half percent of the corpus or fifty lakh rupees, whichever is lesser (“Minimum Interest”) at Fund level?

Illustration provided below for clarity:

Can the Sponsor maintain 1.25% or INR 25 lakhs and Manager maintain 1.25% or INR 25 lakhs out of the total 2.5% of the corpus or INR 50 lakhs?

III. Fees:

As per the requirements prescribed under the Informal Guidance Scheme, we attach herewith a demand draft for INR 25,000 (Indian Rupees Twenty-Five Thousand only) in favour of the “**Securities and Exchange Board of India**” payable at Mumbai.

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IV. Confidentiality:

We waive the option to request for confidential treatment of this application for an interpretative letter under paragraph 11 of the Informal Guidance Scheme.

We request you to kindly issue an interpretative letter under the provisions of paragraph 4 & paragraph 5 of the Informal Guidance Scheme. In the event that you require any clarifications or further information in this regard, we request you to kindly contact us or our legal advisors (who are duly authorized to represent us in this matter):

Scale Ventures Trust

Name: Nilesh Rathi

Address: Vrundali Block NO. 4, 851/2 Bhandarkar Inst. Road, Deccan Gymkhana, Pune 411004.

E-mail: nilesh@scalegroup.in

Phone: 9822039254

Legalogic Consulting

Name: Vikas Agarwal

Address: Unit 3A, Level 3, PV House, 55, Damle Road, Lane adjacent to Indsearch, Off Law College Road, Pune, Maharashtra 411004.

E-mail: vikas.agarwal@legalogic.co.in

Phone: 9881202080

Yours faithfully,

For **Scale Ventures Trust** through **Scale Management Consultants LLP**



Name: Nilesh Rathi
Authorized Signatory

