

Golden Gujarat Growth Fund

Channelising investments in infrastructure

Gujarat is a major contributor to the country's economic growth and accounts for nearly 16 per cent of the total industrial output and 10 per cent of industrial employment, as per the Annual Survey of Industries 2008-09. The state has taken many steps to encourage entrepreneurial ventures like setting up dedicated training and educational agencies for entrepreneurship.

Typically, a venture in its early stage requires specialised investment and management guidance. GVFL Limited (formerly Gujarat Venture Finance Limited) is a venture finance company set up with the sole purpose of providing venture capital to entrepreneurial initiatives in Gujarat. The company was set up in 1990 with assistance from the World Bank to invest in technology ventures as well as small and medium enterprises.

Within a span of 20 years, GVFL has set up six funds and invested in 74 companies. It has divested its stake in 57 companies so far, with three of the funds fully divested, one fund in

divestment mode and two funds in investment mode. The portfolio companies have typically been start-ups in the technology, pharmaceuticals, health and education verticals.

GVFL has now launched a venture capital fund, Golden Gujarat Growth Fund I, with a corpus of Rs 10 billion, to invest in the infrastructure and clean energy sectors. Dr Harish Pattnaik, executive director at GVFL and chief executive officer of the fund, says, "GVFL is one of the few venture capital firms in India to have a complete life-cycle experience, from investing to divesting across various sectors."

Gujarat Infrastructure provides a snapshot of the objectives, features and investment mandates of the fund...

Objectives

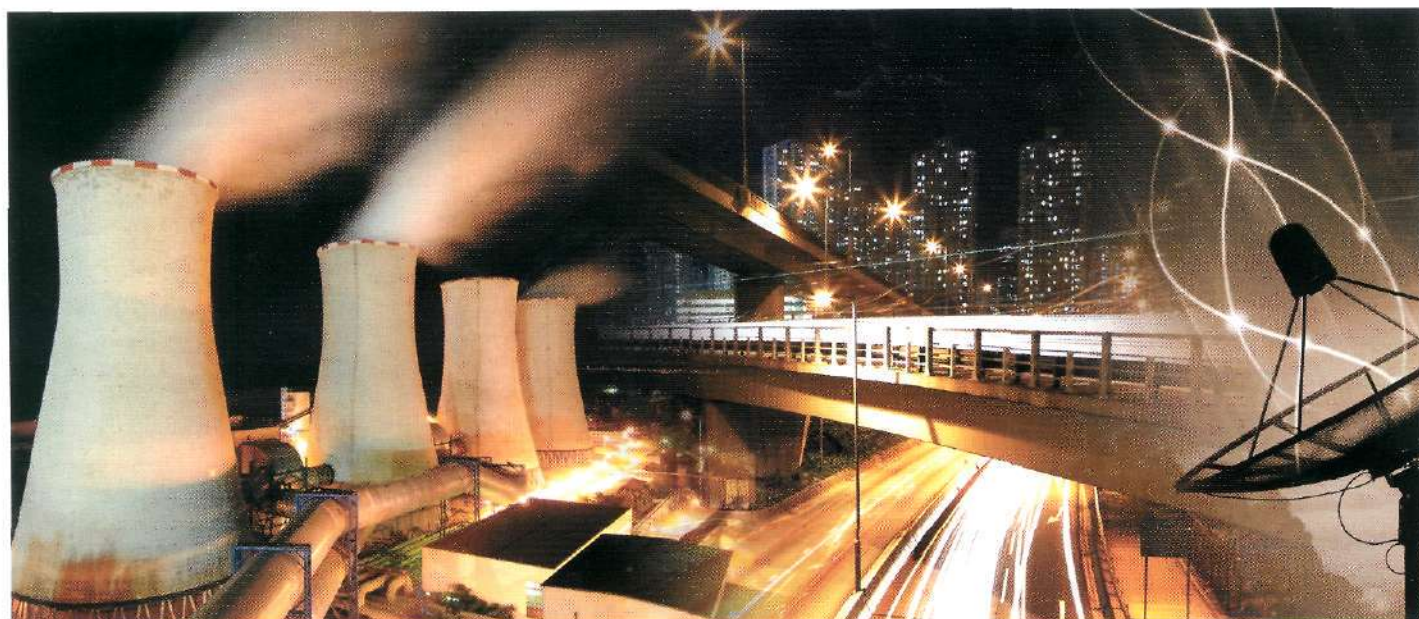
Gujarat has been one of the most progressive states in terms of infrastructure development in the country. It is also one of the few states to have a robust policy and institutional framework in place, and a fairly developed infra-

structure. Besides, the state is taking several initiatives to attract investment in various sectors. To this end, it has organised events like the Vibrant Gujarat Global Investors' Summit (VGGIS) and formulated a vision plan for infrastructure development till 2020.

Vision 2020 outlines the objective to improve infrastructure facilities in the state as the development of infrastructure leads to investments in manufacturing and service facilities, which boost employment and income.

VGGIS, a biennial event organised by the state government, has recorded investment commitments exceeding Rs 18.77 trillion through more than 9,000 proposals in various industries between 2003 and 2009. So far, about 15 per cent of the investment commitment has been implemented while 26.5 per cent is under implementation. About 8,000 MoUs were signed for proposed investments worth Rs 20.83 trillion at VGGIS 2011.

To channelise some of these investments into the infrastructure sector, the state gov-



ernment has proposed the creation of a venture capital fund for investment in equity capital. GVFL has been mandated as the investment vehicle to manage investments through the fund.

Features

The Golden Gujarat Growth Fund I has been registered with the Securities and Exchange Board of India as a closed-end fund with an investment horizon of seven years. The Gujarat government will contribute Rs 2 billion (20 per cent) to the fund corpus as seed capital.

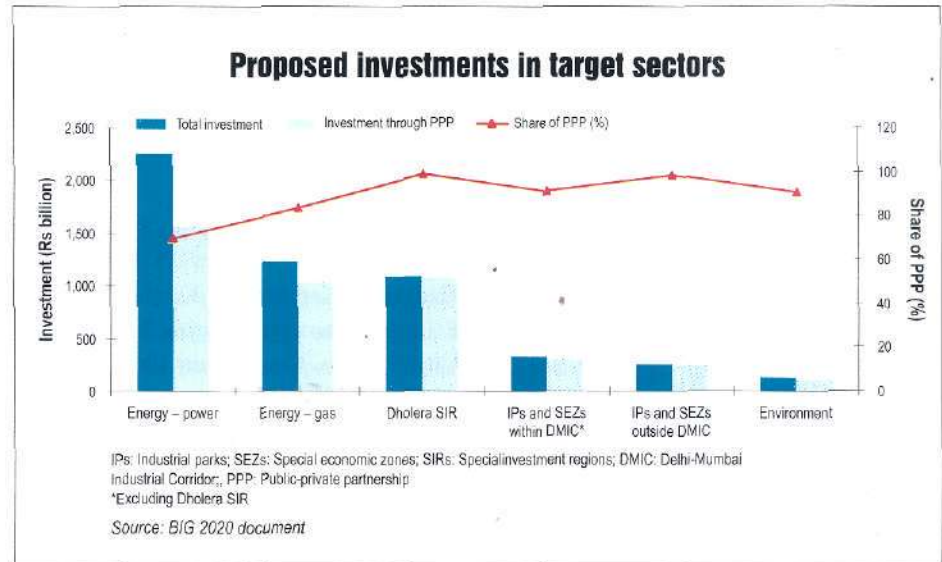
The remaining Rs 8 billion would be raised from sources like high-net-worth individuals (HNIs), banks, insurance companies and corporate bodies – both domestic and foreign. A large part of the commitment is expected from HNIs. The first close for the fund is expected by end-March 2011. GVFL has approached financial institutions like the Small Industries Development Bank of India, the Asian Development Bank, the Life Insurance Corporation of India, the General Insurance Company and the International Finance Corporation as well as private equity funds to raise about Rs 6 billion.

The fund aims to invest in unlisted entities through equity and quasi-equity instruments. The investments will have a horizon of three to four years with investment sizes between Rs 200 million and Rs 1.5 billion. Apart from providing equity capital, the fund manager will provide professional services in the areas of marketing, management, networking, finance, accounting, etc.

The targeted rate of return for the fund is more than 20 per cent. The fund would not make an investment if it expects a return of less than 10 per cent, which makes it the hurdle rate for the fund. Investments through the fund are expected to commence from May 2011 with a targeted portfolio of projects worth Rs 200 billion over the next two to four years.

Targeted sectors

The fund will invest in high-end small and medium enterprises and mid-corporate firms in the infrastructure, energy generation and



transmission, alternative energy and clean technology sectors. Projects set up in industrial zones like special investment regions (SIRs) and those associated with the Delhi-Mumbai Industrial Corridor (DMIC) will also be covered.

Moreover, Gujarat is emerging as the renewable energy hub of the country. Investments of Rs 650 billion are expected in the state's renewable energy sector by 2014-15. This would help in developing about 5,700 MW of renewable energy capacity through solar, wind and biomass energy. Incentives like higher tariffs, predetermined purchase obligations and grid connectivity are also in place to attract infrastructure companies to set up power generation projects based on renewable energy.

Investors are also focusing on alternative energy sources like tidal and geothermal. The potential for tidal energy in Gujarat is estimated to be 1,800 MWe. A private developer has also shown interest in setting up a 5 MW power plant based on geothermal energy in the state.

Moreover, the SIRs offer large investment opportunities. Gujarat plans to set up 13 SIRs over an area of more than 3,700 square km at investments of over Rs 3.7 trillion. The total funding requirement for infrastructure development in these SIRs is estimated to be Rs 1.53 trillion or 40 per cent of the total proposed investment. The SIRs will

also encourage the setting up of manufacturing and export-oriented units at various industrial facilities.

The DMIC is expected to boost manufacturing units along it. About 38 per cent of the project component lies in Gujarat and will cover 62 per cent of the state's area. The investment potential along the corridor is about Rs 4.2 trillion, of which one-third or Rs 1.4 trillion is expected to flow into Gujarat.

Conclusion

With large investments in the state's infrastructure sector waiting to be realised, small steps will go a long way towards channelising these investments in the right sectors. The launch of the Golden Gujarat Growth Fund I is one such step.

"The fund will provide the required growth capital to promising unlisted companies," says Dr Pattnaik. The availability of equity will help start-ups to raise debt from banks on more favourable conditions. This will further increase the inflow of funds into the state's infrastructure sector.

The fund is unique in the sense that it is the largest state-sponsored venture capital fund in the country. GVFL has a futuristic outlook for the fund with plans for Series II and Series III funds once the Series I fund corpus of Rs 10 billion is fully invested. ■

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