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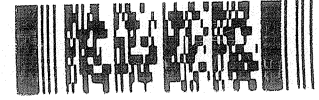
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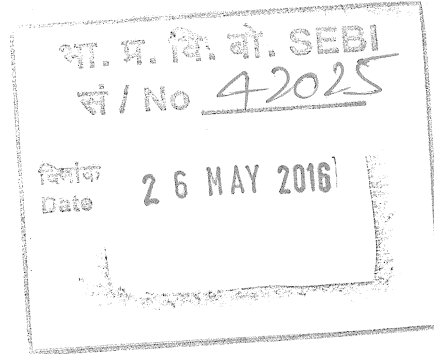
The Chief General Manager
Division of Funds-1
Investment Management Department
Securities and Exchange Board of India
SEBI Bhavan
Plot No.C4-A,'G' Block
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051

AM (AS)

DGM (AS) 30/5/16



SEBI/IW/P/20160527/0000042025



Dear Madam/Sir,

Sub: Request for Interpretative Letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 in connection with SEBI (Venture Capital Funds) Regulations, 1996

This is request for an interpretative letter under the SEBI (Informal Guidance) Scheme, 2003 ('the Scheme').

1. Background

1.1. Tata Capital Limited ('TCL') provides investment management services to below Venture Capital Funds ('VCFs') which are registered with the Securities and Exchange Board of India ('SEBI') under the SEBI (Venture Capital Funds) Regulations, 1996 ('SEBI VCF Regulations') [hereinafter referred as 'Funds'].

- (i) Tata Capital Growth Fund I (SEBI Registration no. IN/VCF/09-10/148) ✓
- (ii) Tata Capital Healthcare Fund I (SEBI Registration no. IN/VCF/09-10/157) ✓
- (iii) Tata Capital Innovations Fund (SEBI Registration no. IN/VCF/09-10/155) ✓
- (iv) Tata Capital Special Situations Fund – Trust (SEBI Registration no. IN/VCF/09-10/158)

1.2. The Funds primarily make investments into equity and equity-linked instruments of Indian companies operating in sectors such as information technology, insurance, pharma, healthcare, rural financial services, manufacturing, etc. The Funds are primarily focused on rapidly growing opportunities for private sector investments in India's economy and seek to target high quality investments in companies with strong fundamentals, attractive risk/return profiles and substantial value creation potential.

1.3. TCL, being the investment manager to above mentioned SEBI registered VCFs, seeks informal guidance on behalf of the Funds, under the Scheme based on the facts and query raised in the application.

2. Query

2.1 The Funds, during the course of their operations, come across situations where there are idle funds lying in their bank accounts ('temporary funds'). The temporary funds could arise on account of, *inter alia*, the following reasons:

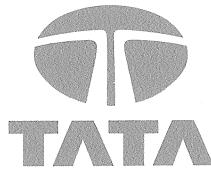
TATA CAPITAL LIMITED

Corporate Identity Number U65990MH1991PLC060670

Tower A 1101 Peninsula Business Park Ganpatrao Kadam Marg Lower Parel Mumbai 400 013 India

Tel 91 22 6606 9000 Web www.tatacapital.com

Registered Office One Forbes Dr V B Gandhi Marg Fort Mumbai 400 001 India Tel 91 22 6745 9000



- Capital calls received for investing in identified portfolio companies, pending investment in such portfolio companies;
 - Where the divestment proceeds in respect of a portfolio company are retained prior to distribution to Contributors or for the purpose of reinvestment;
 - Where an amount is apportioned as to be utilised by the VCFs for meeting their expenses.
- 2.2 Currently, the temporary funds are parked by the Funds in a current account or fixed deposits with banks. The Funds propose to also invest these temporary funds in liquid mutual funds/money market funds, usually for a shorter duration. Liquid mutual funds/money market funds invest primarily in money market instruments like certificate of deposits, treasury bills, commercial papers and term deposits. Liquid mutual funds/money market funds typically offer better returns than money lying in current account or fixed deposits with banks.

3. SEBI VCF Regulations ✓

Regulation 2(m):

"venture capital fund" means a fund established in the form of a trust or a company including a body corporate and registered under these regulation which—

- (i) has a dedicated pool of capital; ✓*
- (ii) raised in a manner specified in the regulations; and ✓*
- (iii) invests in accordance with the regulations. ✓*

Regulations 12:

All investment made or to be made by a venture capital fund shall be subject to the following conditions, namely:—

- (a) Venture capital fund shall disclose the investment strategy at the time of application for registration;*
- (b) Venture capital fund shall not invest more than 25% corpus of the fund in one venture capital undertaking;*
- (ba) venture capital fund may invest in securities of foreign companies subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and the Board from time to time.*
- (c) Shall not invest in the associated companies; and*
- (d) Venture capital fund shall make investment as enumerated below:*

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(i) At least 66.67% of the investible funds shall be invested in unlisted equity shares or equity linked instruments of venture capital undertaking.

(ii) Not more than 33.33% of the investible funds may be invested by way of:

(a) Subscription to initial public offer of a venture capital undertaking whose shares are proposed to be listed;

(b) Debt or debt instrument of a venture capital undertaking in which the venture capital fund has already made an investment by way of equity.

(c) Preferential allotment of equity shares of a listed company subject to lock in period of one year;

(d) The equity shares or equity linked instruments of a financially weak company or a sick industrial company whose shares are listed.

Explanation 1.—For the purpose of these regulations, a “financially weak company” means a company, which has at the end of the previous financial year accumulated losses, which has resulted in erosion of more than 50% but less than 100% of its net worth as at the beginning of the previous financial year;

(e) Special Purpose Vehicles which are created by a venture capital fund for the purpose of facilitating or promoting investment in accordance with these Regulations.

Explanation.—the investment conditions and restrictions stipulated in clause (d) of regulation 12 shall be achieved by the venture capital fund by the end of its life cycle;

(e) Venture capital fund shall disclose the duration of life cycle of the fund.

4. Request for Guidance

4.1 In light of the above facts and provisions, TCL on behalf of the Funds, requests you to issue an interpretive letter under the provision of Para 4 of the Scheme for the following understanding:

“Whether a VCF registered under the SEBI VCF Regulations can deploy temporary funds in the units of liquid mutual funds/money market funds?”

Our contention

4.2 In our view, the provisions of Regulation 12 of the SEBI VCF Regulations dealing with investment conditions should not be applicable in respect of investment of temporary funds in liquid mutual funds/money market funds and the same should apply only in case of investments in investee companies. Hence, Regulation 12(d) of the SEBI VCF Regulations which provides the percentage thresholds for various investment should not, in our view, be applicable at the time of investment of temporary funds.

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- 4.3 Liquid mutual funds/money market funds invest in money market instruments like certificate of deposits, treasury bills, commercial papers and term deposits. Investments in liquid mutual funds/money market funds can be easily liquidated and hence, these investments are virtually cash like.
- 4.4 We would like to add it has been clarified under Regulation 15(f) of the SEBI (Alternative Investment Fund) Regulations, 2012 ('SEBI AIF Regulations') that an Alternative Investment Fund can temporarily invest the un-invested portion of its investible funds in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial papers, Certificates of deposits, etc. till deployment of funds as per the investment objective.

5. **Fees**

As per the requirements prescribed under the Scheme, TCL has attached the demand draft of INR 25,000/-, for the fees for seeking the interpretive letter.

Further, in accordance with the provisions of Para 11 of the Scheme, we request you to give confidential treatment to the application for a period of 90 days from the date of SEBI's response.

We request you to contact Mr Mahesh Jaokar at mahesh.jaokar@tatacapital.com/+919029002795 if you have any questions or require any clarifications with respect to this application or require any further information/documents/details and we shall provide the same at the earliest.

Thanking you in advance.

Yours sincerely,

For Tata Capital Limited
Investment Manager to the Funds

Authorized Signatory

Name: Mahesh Jaokar

Designation: VP Finance

Encl: Demand Draft No 027905 dated May 16, 2016 of Rs. 25,000/- drawn in favor of "Securities and Exchange Board of India"

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