

# Aavishkaar India Micro Venture Capital Fund

## - A Case Study -

CFED SME Small Grants Program



May 31, 2007

Prepared for:



Prepared by:



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# Indian Context and Environment

Over the years, the MSME sector in India has continued to remain an important sector of the economy.

Many MSME units are growing so fast that for them the issues are funding, quality and labour.

There is growing worldwide appreciation of the fact that Small and Medium Enterprises play a catalytic role in the development process of most economies. This position gets reflected in the form of their increasing number and rising proportion in the overall product manufacturing, exports, manpower employment, technical innovations and promotion of entrepreneurial skills.

In the Indian context, primarily the concept of Small Scale Industry (SSI) has been in vogue and the small and medium enterprise definition is of more recent origin. An SSI is defined on the basis of historical value of investment in plant & machinery, which at present is Rs.10-50 million. However, Micro, Small and Medium Enterprises (MSME) have a higher limit of investment in plant and machinery above Rs.10 million and up to Rs.100 million for a Medium Enterprise. However, this definition is often confining and excludes companies that are in services or technology rather than manufacturing, with low investment in plant & machinery but have sales of over Rs. 50 million. Therefore, it is important to include non-manufacturing units in the MSME sector, which often show high profitability with limited capital investments.

Over the years, the MSME sector in India has continued to remain an important sector of the economy with its noteworthy contribution to the gross domestic product, industrial production, employment generation and exports. As per the Third All India Census of SSIs (2001-02), there were 10.52 million SSI units in the country, of which 1.37 were registered and 9.15 unregistered units. For the year ended March 2004, the said number increased to 11.52 million, providing employment to 27.40 million persons and contributing an output of over Rs.3,480 billion in FY2004;<sup>1</sup> evidence that the MSME sector is growing in India and provides significant employment opportunities and economic growth.

The MSME sector can be categorized into three types of units: There are those that are plugged into the supply chain of large companies and, hence live off them. Such firms constitute about 20 per cent of the registered units in India. Then, there is a bottom 20 per cent whose future is uncertain either because their traditional markets have vanished or they have not been able to respond to competition. And finally, the middle 60 per cent which comprises of units that does not feed into any major supply chain, but are riding on the back of a strong consumer demand. For example, manufacturers of toys, utensils, or packaged snacks (namkeen); the top 20 per cent is growing so fast that for them the issues are funding, quality and labour. Typically, these units belong to sectors such auto, pharma, engineering, power or apparel.<sup>2</sup>

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<sup>1</sup> [www.sidbi.org](http://www.sidbi.org)

<sup>2</sup> Business Today September 10, 2006

# Enabling Environment for MSME Sector

In order to create an enabling environment for MSME it is essential that regulations, financing and labour are favourable and readily available. Amongst the developing countries, India has been the first to display special consideration to MSME units where the basic focus has been to make economical use of capital and absorb the abundant labour supply in the country.

## **REGULATION**

The Tenth Five Year Plan for the Indian economy has set a target of 8 percent growth per annum in GDP and to bring down the poverty ratio to 11 percent over the next decade. The Plan has also noted that achieving and sustaining such ambitious growth targets would require adequate attention to small and medium enterprises which have great potential to offer wage employment. In order to pursue the growth with employment agenda, heavy reliance is placed on the SME sector. As a result of this goal, the Indian government introduced the MSME act in October 2006. This would indicate a positive environment for deregulation and promotion of investment in MSME units.

## **FINANCING**

However, slowing down progress is the fact that there is no published or syndicated information available on Indian MSMEs, unlike some of the other developed nations. Left with limited options for organized finance, MSME promoters often rely on their own sources of funding such as high cost credit card loans, non banking financial corporations or unorganized money lenders. Such funds come at a premium and affect the firm's efficiencies and competitiveness. And the MSMEs continue in the vicious cycle of small size and inadequate finance. The best MSMEs get credit at interest rates that are around 175-200 basis points higher than those of blue chip large corporations. Although there has been a growing interest from formal financial institutions to invest in MSMEs, the due diligence by these banks takes as long as 3-4 months, often putting MSMEs in severe cash crunches. Realizing this funding gap, the Indian government has mandated that commercial banks lend to MSMEs upto Rs. 50 million with limited collateral; however, no banks are willing to lend to MSME units due to the perception of high risk. Therefore, there is a significant funding gap for accurately priced financing in the Indian MSME sector.

Indian economy has set a target of 8 percent growth per annum in GDP and to bring down the poverty ratio to 11 percent over the next decade.

MSME promoters often rely on their own sources of funding such as high cost credit card loans, non banking financial corporations or unorganized money lenders.

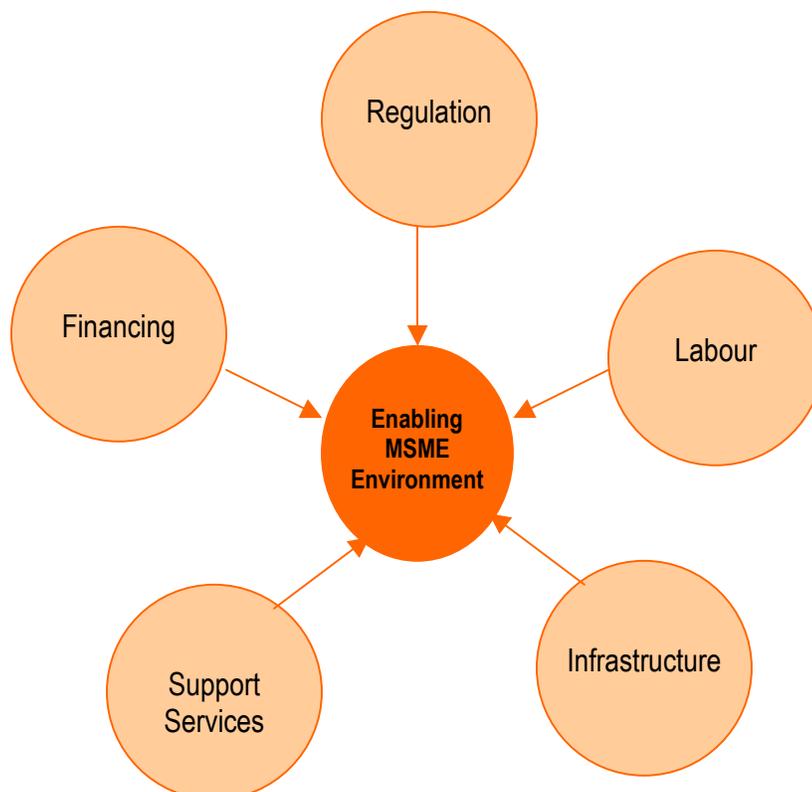
## LABOUR

Limited availability of financing can potentially stunt MSME growth, which costs the nation, since small enterprises drive this economy. In India, the small sector contributes nearly 40 per cent to the industrial output of the country and is the largest source of employment after agriculture. However, there are only government subsidized infrastructure and support services for MSMEs in India; often they start with only 1-2 people where the management is mainly family-run, with limited second-in-line management and little possibility of mentoring. As these organizations grow to SME sizes they are often faced with limited manpower and understanding of funding/operational requirements yet, there are no formal institutions or government schemes that support SMEs. Despite limited infrastructure and support services, the MSME sector continues to provide waged employment opportunities to the unskilled and semi skilled worker providing a strong platform for economic growth and poverty reduction. Therefore, there is a direct relationship between improving the MSME sector and providing improved economic opportunities for the underprivileged.

Listed below are 5 factors that are essential in creating an enabling environment for the MSME sector to improve. “Although there has been some progress in regulation, financing and labour, there is nothing in terms of supportive services and infrastructure that the MSME sector considers helpful,” says Vineet Rai, Founder and CEO of Avishkaar.

Despite limited infrastructure and support services, the Indian MSME sector continues to provide waged employment opportunities to the unskilled and semi skilled worker

**Figure 1: All 5 factors are essential in creating an enabling environment for the Indian MSME sector**



# The MSME Growth Curve \*

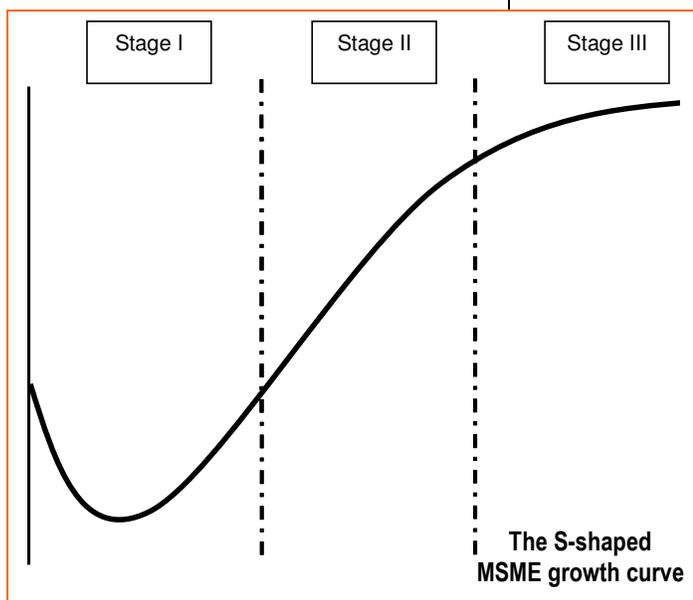
The MSME's financial woes appear to be the mismatch between the investment evaluation matrix of the financial sector and the position of the MSME on the classical growth curve.

Promoting MSMEs as a means to achieve economic growth for those at the lower end of the economic spectrum is often suggested as a strategy for sustained economic prosperity among the world's less developed regions. In reality, most micro and small enterprises develop businesses that have not only local relevance but also regional growth prospects. Furthermore, the multiplier impact of such businesses creates widespread income for local communities, boosts local production, and creates livelihood opportunities and more money in the local economy, spurring overall growth.

Nonetheless, many such opportunities remain unexploited due to lack of timely financing and mentoring support. Traditional financial institutions do not cater to smaller ventures. The absence of banking history, lack of collateral and requirements of very small capital make these start-up companies extremely unorthodox and, therefore, unattractive to the traditional institutions such as banks. The common perception held by most traditional equity investors is that the entrepreneurial start-up companies that are addressing local needs are risky, small and have long-term illiquidity associated with them resulting in limited or no upsides for a commercial investor to attract investments. Community owned enterprises, another interesting variant of small businesses, specifically in the natural resources, handicrafts and financial services sector, do not attract investment capital from investors due to their small size and complication of multiple holdings. This is despite being one of the most interesting ways of empowering communities through commercial and entrepreneurial intervention.

The key issue accentuating the MSME's financial woes appears to be the mismatch between the investment evaluation matrix of the financial sector and the position of the MSME on the classical growth curve. An MSME growth curve follows the pattern where, during the formative

years, the revenue trails costs and at some point overtakes it to make the MSME profitable thereby creating a smooth upward surge. In emerging economies, most MSMEs either are in the early stage of growth or are struggling with growth issues. Very few MSMEs in such economies are in the stable growth stage representing the lowest risk category. The MSMEs that break even, and are profitable, also do not rid themselves of financing woes as they struggle for liquidity and the need for appropriate financial instruments to negotiate the demands of the competitive external environment. The MSME financing institutions on the other hand are constantly looking for companies with strong records of accomplishment, profitable balance sheets, strong book assets and transparent and strong governance.



\* Based on Aavishkaar's internal documentation, financial reports, private placement memos and surveys.

The solutions may include a multi-pronged approach lead by providing equity financing as well as capacity building efforts to improve accountability and transparency.

Aavishkaar provides both the financial and operational expertise needed to improve the profit potential of micro and small enterprises.

The Stage I and Stage II MSME on the S-shaped growth curve, depicted in the above graph, has the highest demand for finance. Unfortunately, these stages also carry the highest risk perception within the MSME lending community. The MSME lending institutions prefer enterprises that are either reaching mature growth (latter half of stage II) or already in the stable Stage III.

This mismatch between the needs of the MSME seeking finance and lending institution's perception of credible MSME appears to be the reason for the apparent disconnect in MSME financing. The solutions may include a multi-pronged approach lead by migration of MSME financing from simple debt driven instruments to more evolved and complex regimes that work on a risk adjusted return basis, complemented by the creation of a strong infrastructure for MSME ratings and information tracking as also capacity building efforts to improve transparency and governance amongst MSMEs.

Therefore, it is evident that equity is one of the most sought after instruments by the MSME sector; however, it is scarcely available. The MSME sector could benefit a lot by the introduction of innovative financial instruments that mimic equity features or are equity instruments and encourage early stage participation with adequate risk mitigation provisions. Micro equity capital, provision of royalty based instruments linking returns to long-term fortunes of the company, guarantee supported long-term debts and option-based investing are some features that MSME lending institutions should consider to introduce in their portfolio of products.

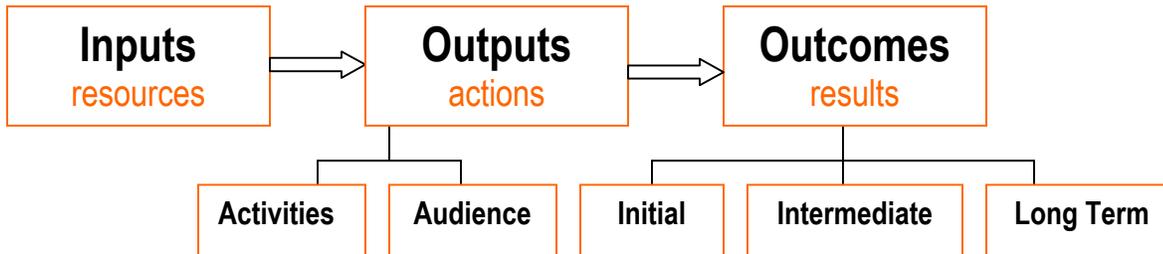
The equity capital needs of the micro and small enterprises falls in between the microfinance investment products (usually below US\$ 1,000) and established venture capital funds (typically above US\$ 1,000,000). While most of these enterprises eventually may need larger amount of money as they grow and scale up to become successful, Aavishkaar's belief is that at the start-up stage, their need does not exceed US\$ 250,000 range. Aavishkaar India Micro Venture Capital Fund ("Aavishkaar" or "the Fund") is based on achieving sustainable economic development by encouraging growth and profitability of these micro and small enterprises in rural and semi-urban India by providing both financial and mentoring support. As a micro social venture fund promoted by professionals with an understanding of start-up businesses, innovation and rural product markets, Aavishkaar provides both the financial, operational and marketing expertise needed to improve the profit potential of micro and small enterprises.

# Theory of Change \*

Based on the overview of the MSME sector, Aavishkaar has a powerful theory of change. However, in order to fully understand the theory's key assumptions, listing Aavishkaar's inputs, outputs and outcomes through the logic model is necessary. Below is a brief overview of the Aavishkaar logic model:

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## BASIC ELEMENTS OF LOGIC MODELS



**Inputs** are resources needed to support the effort.

**Outputs** are the actions of the fund that are seen as being instrumental in producing a community change. In addition to identifying the fund's activities, there needs to be clarification on the target audience.

**Outcomes** are conditions produced by the efforts, often synonymous with results. The framework will consider initial, intermediate and long term outcomes.

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### AAVISHKAAR LOGIC MODEL:

*What resources (inputs) are they using to make this program happen?*

Time: Strategic advice, business development, capacity building, networking, management support

Money: Equity financing

*What activities (outputs) are they carrying out?*

Activities include one-on-one capacity building, introducing to networks, expanding the distribution channels, providing strategic direction, conducting financial/operation review sessions and financing.

*Who makes up the audience (outputs) participating in these events?*

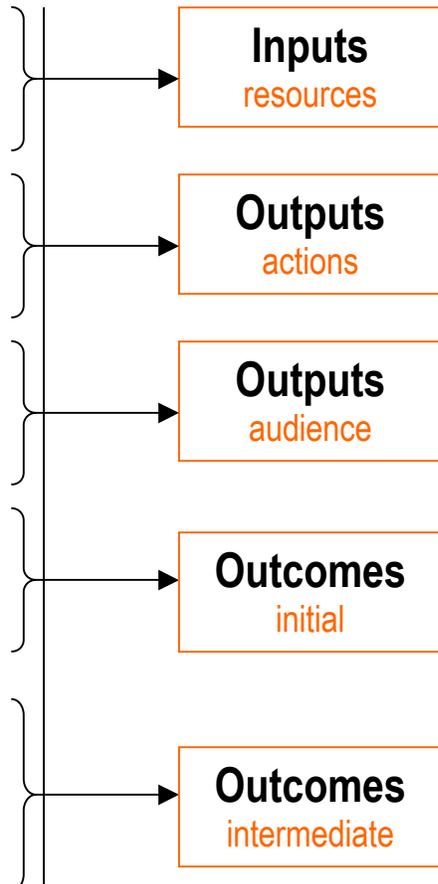
Audience includes micro and small enterprises that are socially relevant, commercially viable and environmentally friendly.

*What do they want the participants to learn (immediate outcomes)?*

Learn: optimum financial structure for growth, profitability and sustainability, business development and networking, cost benefit analysis, systems and process for financial and operational reporting

*What behaviours or actions (intermediate outcomes) are they looking for as a result of that learning?*

Behaviours/Actions: equity financing decreases the risk profile of the investee company and improves its ability to attract additional funding for organic growth; business development and networking results in sales



expansion and greater profit potential; cost benefit analysis when applied to the business ensures cost control and operational efficiency leading to increase profitability; creating formal reporting mechanism improves the investee companies accountability, transparency, efficiencies, sustainability and future planning needs.

*What ultimate benefits (long term outcomes) do they hope for as a result of these behaviours?*

Ultimate benefits: the sales and profit growth of micro and small enterprises improves the livelihood creations and economic opportunities of the poor by providing:

- A service that was otherwise unavailable or unaffordable such as healthcare, power etc
- A product or service that improves productivity and cost savings such as milk machines for dairy farmers
- A technology that improves job opportunities for the poor such as software for computer literacy

**Outcomes**  
intermediate

**Outcomes**  
long term

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## THEORY OF CHANGE: AAVISHKAAR

**If** micro and small medium enterprises lack adequate financing for profitability and sustainability **then** micro equity financing creates a strong financial base for future growth; **if** profitable and high growth micro and small enterprises are the economic engines of rural communities (and over 80% of India's population live in rural villages) **then** the poor benefit from these products and/or services through job creation, increased productivity and accessibility.

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### AAVISHKAAR'S MISSION AND KEY ASSUMPTIONS:

*Aavishkaar's mission is to encourage creation and spawning of socially relevant entrepreneurial solutions addressing local needs to help India achieve holistic sustainable economic development. To achieve this, Aavishkaar aims to support socially relevant, commercially viable and environmental friendly micro and small enterprises by providing them with early stage equity finance and management support.*

*Aavishkaar believes that the products and services created by its investment in socially relevant companies are the sole source of social impact. Therefore, the business model is focused on building the commercial viability of investee companies through financing and mentoring support based on a key assumption that the Aavishkaar model focuses on the profitability of these companies leading to social development. As a result, there is no formal screening process for establishing the socially and/or environmental aspects of each potential investment; it is informal and based on staff and management impressions. Furthermore, there are no identified indicators that are measured to show social impact of the investment. The program strategy is based on choosing companies whose products and services are drivers of development leading to long term outcomes listed in the logic model.*

# Program Strategy \*

Aavishkaar focuses on providing flexible financing and mentoring support to improve the commercial viability of investee companies.

The social benefit screen has no formal metrics for measurement; however, the financial aspect uses traditional venture capital evaluation metrics and models.

Based on the above stated theory of change, Aavishkaar provides risk capital and handholding support to socially relevant micro and small businesses. Aavishkaar has a unique investment strategy because they are able to offer a number of investment instruments which include common equity stocks, quasi-equity, preferred convertibles, preferred redeemable (if allowed under regulation), mezzanine loans, royalties and other venture capital instruments. Therefore, their ability to provide flexible financing options meets the inputs criteria in their theory of change: providing equity financing.

Furthermore, these investments often require technical and management assistance in addition to funding in order to improve the profit potential. Aavishkaar provides this assistance through a team of professionals that are familiar with their approach. If a company needs technical assistance or specific support that exceeds the scope of the investment team's support and guidance as an active investor, this may be provided by other partners. This support includes activities which expand sales, margins and profitability since these determine the success of the investment and hence, Aavishkaar's potential social impact on the community.

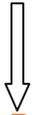
Aavishkaar has 5 main investment criteria listed in the box below. The social benefits screen (i.e. socially relevant, environmental friendly, entrepreneurial, mission driven, opportunities for creating social return) have no formal metric for measurement, however, the financial aspect (growth potential, cost efficiencies, commercial viability, etc) uses traditional venture capital evaluation metrics and models.

## MAIN INVESTMENT CRITERIA: AAVISHKAAR

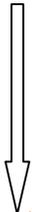
- The company must be capable of growing in scale and efficiency
- The company must be commercially viable, socially relevant and environmental friendly
- The management must be entrepreneurial and mission driven
- The company must have strong promoters, good background, credible governance
- There must be opportunities for creating social and commercial value by pooling resources with those of other investors/stakeholders

# INVESTMENT PROCESS

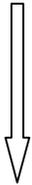
**Sourcing**



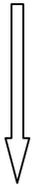
**Due Diligence**



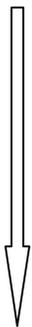
**Investment**



**Performance Review**



**Growth Management**



**Exit Options**

The need for an early stage investment goes much beyond the money. Aavishkaar works very closely with its investee companies. Realizing the importance of mentoring and support, Aavishkaar spends time understanding the key drivers of the business and assesses its social impact on its community. There is no formal evaluation process for assessing social benefits, however each investment criteria must meet the conditions listed in the box above.

Aavishkaar's investment due diligence on-the-other-hand uses formal processes and systems; carried out by a team comprising of a Senior Project Manager and a Junior Associate. The due diligence team goes deep into the business model of the investee company and builds on a thorough understanding of the sector and the business. Once the investment is completed, the Project Manager and the Associate work closely with the company to monitor its process and progress based on the financial projections.

The Company's performance review takes place with the Fund Review team comprising of the Chief Executive, the Project Manager and the Associate every month. The focus is more on performance, targets and strategy review in case of gaps. Every quarter, the CEO and CFO of the Investee Company are invited for a through review and planning exercise. The Investment Committee and Review Board of Aavishkaar participate in these reviews. The objective of the review is to discuss the strategic progress of the company, ensure that strategic clarity exists between the company and the fund and that the staff receives guidance from a very experienced team of people.

If the company is a start-up, the focus of discussion with Aavishkaar is on managing the costs, retaining human resources, evolving systems and processes and approaching the markets. The company that is scaling up receives advice on growth management issues, managing the bottom line and on strategic relationships while evolving the business. As an example, Aavishkaar helps not only expanding companies build networks but also participates and helps the companies to strike a good negotiation with large players.

An important aspect of Aavishkaar's model is assessing how a successful or unprofitable investment can be exited. Considering the fund is fairly new and the infancy of the social venture world there is limited experience in exiting. However, theoretically the various options include: initial public offerings, community/employee buy backs, acquisitions and on-sale to larger social venture funds. Aavishkaar has not exited any investments as of yet; however, possible options are often considered prior to making the investment since the commercial viability of Aavishkaar depends of this.

# EVALUATION PROCESS

Although, Aavishkaar's evaluation process involves assessing two potential bottom lines: financial returns and social returns; the social benefits screen is less formal than the financial growth potential. The evaluation process mainly focuses on the commercial viability of the entity after a 'feel-good' check has been made by the Fund Manager and Aavishkaar staff on the social relevance of the potential investee company. However, it is apparent that the investment criterion is used diligently for every investment opportunity. The lack of a formal social benefit screen is mainly because limited financial resources forced Aavishkaar to initially build systems and processes that assessed commercial potential rather than social relevance. Also, "the investor base was already convinced of the theory of change; this was the premise for creating the social venture fund in the first place; however, the commercial viability aspect was still in question," says Vineet Rai, Founder and CEO of Aavishkaar.

The formal process for project evaluation is divided into four parts:

## STAGE I

Like a screening phase, this includes a discussion of the business concept, specifically, as per how well it aligns with Aavishkaar's investment criteria; The Fund Manager, Vineet Rai, makes the final decision at this stage.

Key parameters evaluated include:

- ✓ Social benefits
- ✓ Technical feasibility
- ✓ Commercial viability
- ✓ Market sustainability
- ✓ Project size
- ✓ Size of investment sought
- ✓ Sector, geography and scale, and
- ✓ Entrepreneur's competence & management abilities

## STAGE II

This stage focuses on further assessment of the entrepreneur's competence and the company's social focus. Aavishkaar also assesses the potential social impact on the company's customer base during this stage. The Investment Committee makes the final decision for investment by majority vote.

Key parameters include:

- ✓ Ability of the entrepreneur including, *inter alia*, his/her commitment, integrity, and leadership skills in business
- ✓ Basic financial modeling, e.g. market analysis, performance/risk measures, strategies and projections

"Aavishkaar came with a clear social mandate, but once they invested its been mostly financial" – Craftsbridge

"Lots of potential investors said we were too small to invest in, we had to prove ourselves first, how could we with no money?" – Vaatslaaya

### STAGE III

At this stage, detailed financial, market, and technology due diligence is carried out. The final decision is made by way of majority vote from the Investment Committee.

Key parameters include:

- ✓ Elaborated financial / revenue model, i.e. capacity to meet IRR target/threshold
- ✓ Valuation negotiation, final figures, and projections
- ✓ Investment, market, and technology considerations; SWOT Analysis
- ✓ Potential of the business to increase in scale
- ✓ Operational planning and structure
- ✓ Exit strategy

### STAGE IV

As part of this stage, auditing and legal due diligence are carried out by an independent external auditor and law firm. This stage serves as a check on the authenticity of the facts presented by the company.

Key parameters include:

- ✓ Accounting due diligence
- ✓ Legal due diligence

Based on the accounting and legal due diligence, either the terms are renegotiated (if the legal and accounting due diligence point so) or the subscription agreement is signed and funds are disbursed.

“Sometimes I feel we do too much financial analysis, there is no need for so much detail” – Aavishkaar Senior Portfolio Manager

The timeline of the evaluation process has wide ranges from 45 days for Naveengram to one year for CK Technologies – Based on investee company interviews

# ORGANIZATIONAL STRUCTURE

“The investment committee is the ‘check’, if you will; the IC can use its power of ‘veto’ to ensure Aavishkaar’s objectives are met.”

– Investment Committee Member

“The advisory board brings together expertise – VC, development, business, finance – to advise management through the pre-investment, negotiation of shareholder’s agreement and post-investment processes.” –

Advisory Board Member

**INVESTMENT COMMITTEE:** The Investment Committee (IC) makes the final go/no-go investment decisions on behalf of the Fund. It ensures that management is executing not only the mission of the organization, but that its proposed investment opportunities reflect appropriate risk as expected by Aavishkaar’s investors. The Investment Committee also brings together expertise from areas such as venture capital, development, business, and finance – to advise management through the pre-investment (sourcing, due diligence), negotiation of shareholder’s agreement and the post-investment process (performance review, growth management, exit options).

The Investment Committee is brought into the investment decision process once a company reaches Stage II of the evaluation process. At Stage I, the management team carries out a review process looking at the three main objectives of social responsibility, environmental friendliness and commercial viability. Stage II introduces the IC to the investment and allows them to raise key questions related to general issues from meeting basic criteria to specific concerns (e.g. more detail on marketing strategy, better understanding of sales strategy, etc). The IC is also involved in Stage III, which includes responses to questions raised in Stage II as well as a more thorough evaluation of the company following additional due diligence; it also includes the valuation and proposed investment term sheet.

The investment committee is an important aspect of the Aavishkaar model, they control the amount of the risk that should be taken and advises the management on how to best improve the businesses for greater profitability. Also, the committee ensures that investments fit the overall mission and vision of Aavishkaar, which is investing in MSME units that help improve rural communities.

**ADVISORY BOARD:** The advisory board is an additional check point which advises on the investment decisions made through the investment committee. This group consists of eminent venture capitalists, bankers and enterprise development specialists. Their expertise and experiences in their professional careers is extremely valuable to improving the profit potential of Aavishkaar’s investments. Many MSMEs often do not have access to this type of advice; this is a value-add that Aavishkaar offers.

“Our structure and investment process has mimicked a traditional venture capital fund with an investment committee, advisory board and fund management company.” – Vineet Rai, CEO

**FUND MANAGEMENT COMPANY:** Aavishkaar Venture Management Services is the fund management company. The promoters of the company include Vineet Rai and his wife Swati Rai, P. Pradeep, Aavishkaar International and Wim Van Der Beek, the managing partner of Aavishkaar – Goodwell, the microfinance fund.

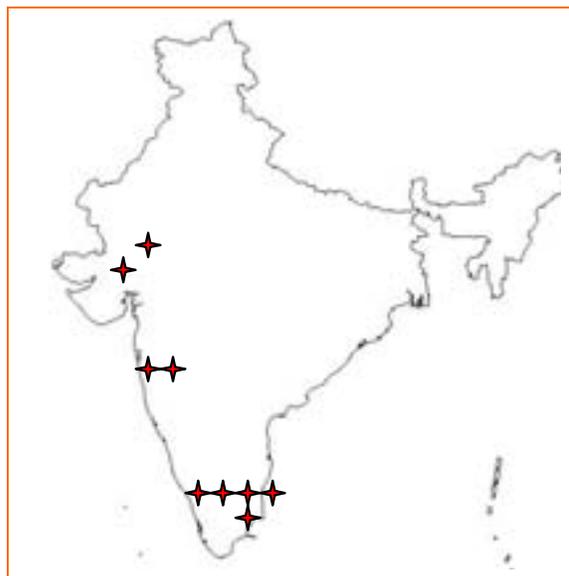
**AAVISHKAAR STAFF:** Currently there are 5 staff members at Aavishkaar, 1 Fund Manager, 2 portfolio managers and 3 managers that provide the technical assistance to investee companies.

# Program Implementation\*

Aavishkaar's program implementation is mainly based on the investment portfolio. Therefore, a detailed assessment of the current portfolio provides an overview of the program and its performance. As of October 2006, nine companies comprise the portfolio of which there are differences in location, sector, financing, financial performance, beneficiaries and effects on community.

## LOCATION

Although Aavishkaar is a Pan-india social venture fund, all of the investments are located in either Southern India (5 investments) or Western India (4 investments). Please refer to the India Map. Based on feedback from the Aavishkaar staff and investee companies, proximity to the office ensures a more intensive hands-on business development, financial and operational assistance resulting in better performing investments both in terms of social and financial returns. Although, there are attractive investments located in other parts of India, the cost of travel and delay in communication/feedback place constraints both on the cost-effectiveness of the Aavishkaar model but also the ability for its staff to build management capacity and leverage its networks. Therefore, a key success factor is proximity to portfolio companies, especially in the start-up years when the fund is monetarily and staff capacity constrained. There are significant cost efficiencies and synergies by clustering investee companies.



Key Success Factor: **Proximity of Aavishkaar staff to portfolio companies.**

## SECTOR

Positioned in the unique micro venture category, Aavishkaar is targeting investments in sectors such as Technology for Development, Handicrafts, Renewable Energy and fields such as Agro-business, Rural innovations, Health and Education. These areas were chosen due to their commercial viability and because they are typically community based companies with the potential for high rural impact. Below is an overview of each sector:

### TECHNOLOGY FOR DEVELOPMENT:

Technological advancements to meet the need of the people at the 'Base of the Pyramid' can play a key role in improving access to finance, services, internet and in creating jobs for that section of the population and help their integration into the mainstream by bridging the digital divide.

### Investee Companies by Sector: (Technology for Development)

Name	Year	Description
N-Syst	2005	Software for disabled
Vortex	2006	Rural ATMs
CK Technologies	2006	Translating software

\* Based on Aavishkaar's internal documentation, financial reports, private placement memos and surveys.

### HANDICRAFTS:

The international handicrafts market has a turnover of close to US\$ 100 Billion annually. India, despite its rich and diverse culture heritage, has just about 1.2% of the total market. The domestic handicrafts market (estimated by the Department of Handloom at US\$ 3 Billion) appears to be large. Aavishkaar believes that a foray into handicrafts makes both commercial and social sense. The focus in this area is to invest in companies that are well positioned to source handicraft products from the culturally rich states like Rajasthan, Madhya Pradesh, Gujarat and Maharashtra and to create a market for the artisans in urban India and internationally. The emphasis is to invest in companies that are suppliers to leading retail chains in India and abroad.

### RENEWABLE ENERGY & WASTE MANAGEMENT:

Realizing that one of India's major challenges is an overburdened infrastructure that excludes accessibility for the poor. Aavishkaar seeks companies engaged in the power generation business, using renewable sources like biomass. For example, a good candidate for such investments would be the grid connected, decentralised generating units in the range of 1 or 2 MW using locally available biomass. This would also be in strong alignment with the stated policy of the local Government to support such Independent Power Projects (IPPs) through better rates of power purchase.

### MISCELLANEOUS:

The type of companies could vary from agri/food processing to rural product companies to those engaged in providing healthcare. With proportional increases in direct costs to that of sales, operational efficiency would be the key driver of value.

### Investee Companies by Sector: (Handicrafts)

Name	Year	Description
Craftsbridge	2004	Handicrafts
Desert Artisans	TBD	Home based artisans
Rangusutra	TBD	Marketing support

### Investee Companies by Sector: (Renewable Energy/Waste)

Name	Year	Description
TIDE	2003	Renewable Energy

### Investee Companies by Sector: (Miscellaneous)

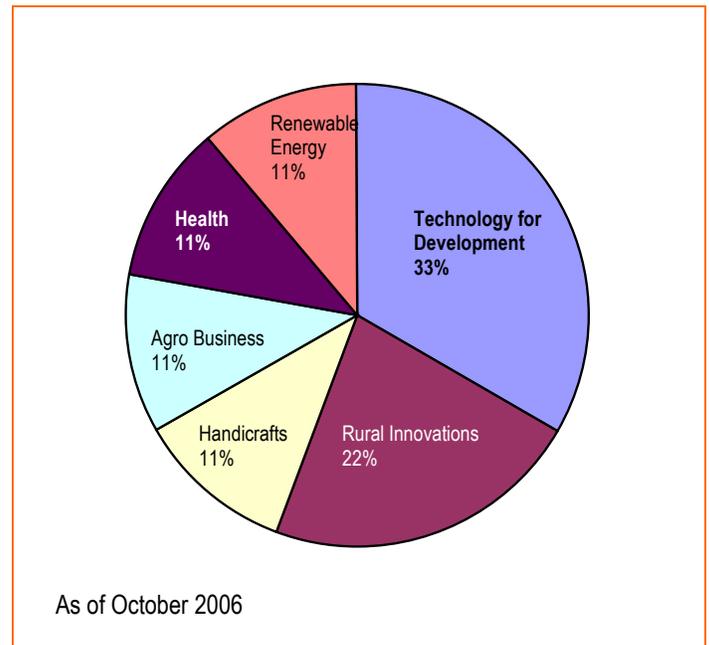
Name	Year	Description
Servals	2002	Rural innovations
SKEPL	2003	Rural innovations
Naveengram	2005	Agro distribution
Vaatsalya	2006	Healthcare

Aavishkaar's current portfolio is distributed over 6 sectors shown, the pie graph shows the amount of funds invested by sector, with technology for development at 33%, rural innovations at 22%, handicrafts, agro business, renewable energy and healthcare at 11% each.

Based on the current investment portfolio, over 55% of the investments are in technology for development or rural innovations. Although, the current portfolio has 11% invested in handicrafts, Aavishkaar plans to expand its investment in this sector realizing that the handicrafts sector has both commercial and social returns. Since the domestic handicrafts market is extremely fragmented, Aavishkaar can play a role in creating collectives that supply better quality and higher quantities to compete both in urban India and internationally.

The graph shows that Aavishkaar has a diverse sector-based portfolio, however, it is clear that the future will entail greater investment in those sectors that show evidence of greater financial and social impact. "There are significant synergies from expanding within an already existing sector base, rather than starting new investments in new sectors," says a Senior Portfolio Manager. Also, Aavishkaar ensures that there is a good match between the sector knowledge of Aavishkaar staff and the investee company so that the profit and social potential can be maximized since the staff will have a strong understanding of the key business drivers for that sector. Therefore, two key success factors are building sector expertise internally and investing more deeply within each sector.

## Overview of Portfolio by Sector:



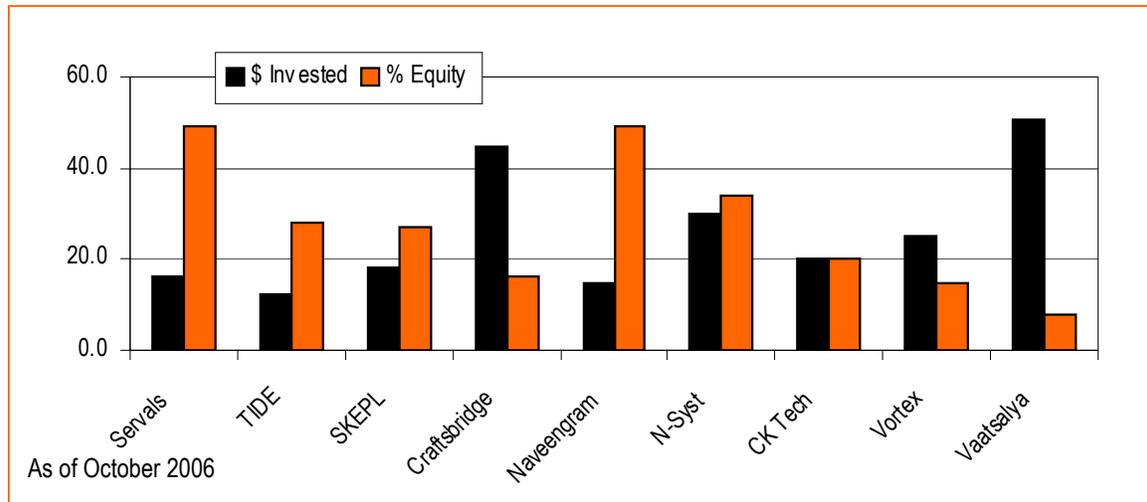
**Key Success Factor:** There needs to be a good match between the sector knowledge of the Aavishkaar staff and the investee company so that profit and social potential can be maximized.

## FINANCING

Aavishkaar made its first investment 5 years ago, and since then has made investments of US\$ 1.5 Million in 9 investee companies (as of October 2006). As the portfolio continues to expand, there is further evidence that the approach of using local financing vehicles to further boost commercial and entrepreneurial opportunities for the poor is a major distinguishing strategy developed by Aavishkaar in the course of its micro equity investing. Aavishkaar India Micro Venture Capital Fund intends to raise the fund size to US\$ 10 Million. Based on Aavishkaar's success, there is a growing interest within the international investment community to fund these efforts and

Aavishkaar’s 5 year track record of micro equity investing places them in the top tier for attracting new funds.

### Overview of Portfolio by \$ Invested and % Equity in Chronological Order:



Based on an overview of the current investments, Aavishkaar invests on average Rs. 26 lakhs for 27% equity stake, indicating a 1-to-1 correlation. However, upon further analysis, it is apparent that Aavishkaar has been shifting its investing strategy from small investments-for-large equity stakes to larger investments-for-smaller equity stake (negative correlation coefficient -0.65). Indicating that the initial portfolio’s risk profile has improved; this assumes that growth rates are similar for each investment. Please see the bar graph which shows the breakdown of equity stake and amount by each investment.

Assessing the current portfolio also shows that over 40% of the funds have only been invested in 2006; indicating that there is a steep ramp-up of investment after year-three of the fund. Based on interviews and feedback from the Aavishkaar staff, the reason for this shift is that internal Aavishkaar costs and operational efficiencies are maximized in high growth and low investment companies. A key success factor in meeting the fund’s criteria requires a balance of its commercial and social agenda.

This balance has been even more challenging since there is no formal process for evaluating the social agenda; this is due to cost constraints, because Aavishkaar operates on a management fee basis, similar to a pure venture capital fund. All operational costs of managing the evaluation process from sourcing and advising are paid for through this fee which is based on a percentage of the total fund amount.

**Key Success Factor:**  
Balance the commercial and social agenda without comprising the mission of the fund is essential.

“Aavishkaar’s management advice is part of the operating budget which is based on a management fee (% of fund amount) similar to a pure venture capital fund; the for-profit model does not allow for subsidizing this using grant funds.” – CEO, Vineet Rai

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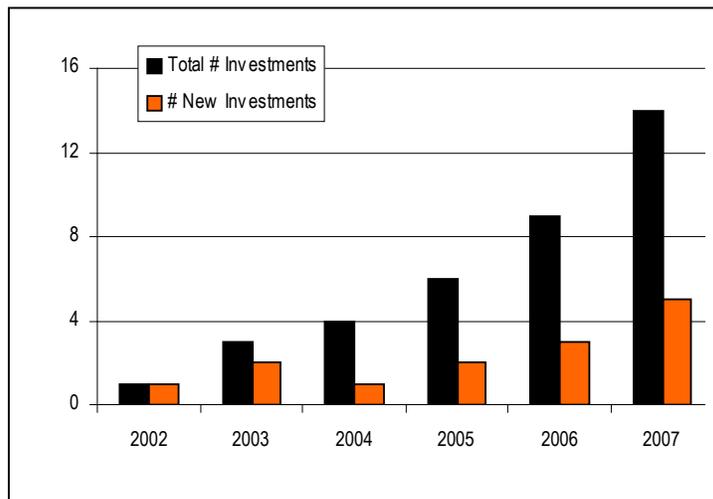
## FINANCIAL PERFORMANCE

Assessing the financial performance of the investments is essential in determining whether the management advice provided is producing the outcomes outlined in the logic model. However considering the first investment was only made at the end of 2002, with follow-on investments in 2003 there has not been enough time to see the potential impact of Aavishkaar's management advice. Also, the direct relationship is difficult to prove, however, it is evident that post-Aavishkaar's investment, companies typically take 2-3 years to show increased sales and profitability. That being said, there has been strong growth in sales and profitability of Servals, SKEPL and Craftsbridge partially due to Aavishkaar's networking, mentoring support and cost control.

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## PIPELINE DEVELOPMENT

The process of identifying small businesses or entrepreneurship opportunities that are both commercially sustainable and scalable and that will have a beneficial effect on the greater society is a complex and time-consuming task. "There is no magic way of finding good companies to invest in," says a senior manager at Aavishkaar. Notwithstanding the inherent challenges, Aavishkaar has developed a detailed strategy for project origination that ensures an ongoing and healthy pipeline by utilizing several networks and partnerships for sourcing potential investment opportunities. However, past investments have mainly been sourced through word-of-mouth and Aavishkaar's networks.



After years of operations and greater visibility, many potential investee companies are directly approaching Aavishkaar, resulting in a decrease in the time and money spent on scouting and pipeline development. In fact, the graph below shows a ramp up in the number of investments within the last two years of operation.

From 2002 to 2005 there were only 1-2 investments made per year, however, in 2007 there are 5 new investments expected. This growth in new investments shows that Aavishkaar has developed a strong pipeline, which is a key success factor for ensuring efficient fund management and commercial viability.

### Key Success Factor:

Ensure that the fund focuses on developing a strong pipeline that matches the investment criteria from the initial stages.

"As a first mover we now have enough recognition that potential investments actually approach us, keeping our pipeline development costs fairly low." – Vineet Rai, CEO

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## BENEFICIARIES

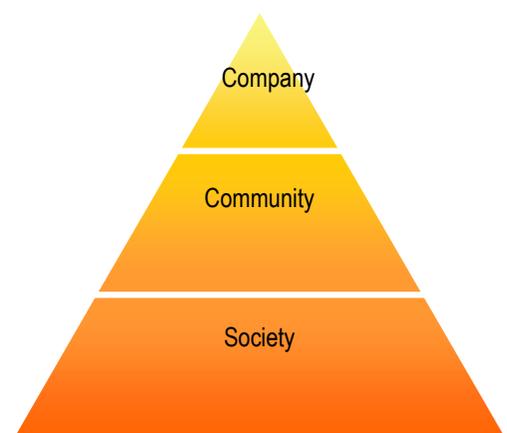
Aavishkaar has many levels of beneficiaries that are both direct and indirect beneficiaries. These individuals include the employees of the investee companies, the customers the investee companies target, the communities benefiting from the business and society at-large. Hence, it is difficult to clearly assess Aavishkaar's social impact without considering all these beneficiaries. Based on interviews and focus group discussions of the various people, it is apparent that most of Aavishkaar's investments have had a positive social impact in terms of livelihood creation, increased economic opportunities and improved access to financing, education and healthcare.

Livelihood creation has mainly been achieved through investments such as Craftsbridge which creates opportunities for artisans to sell their products, and NSyst/CK Technologies which provides software platforms that encourages disabled and local language speakers to be more computer literate, a proven skill that increases job placement potential. The increasing of economic opportunities (ability to make-more-money) has mainly been through SKEPL, which provides products/services improving the profitability of dairy farmers and Naveengram, which creates new distribution channels for agro-products. Also, Servals has provided employment opportunities to many rural women who sell their cost savings products. Others (TIDE, Vortex, Vaatsalya) improve accessibility where the poor now have access to renewable energy, health care and financial services.

Therefore, it is evident that all of Aavishkaar's investments have a direct beneficiary base of 200-300 people (based on total number of employees with an average of 20-30 per company directly working for the 9 portfolio companies); however, the indirect beneficiary base sometimes reaches in the thousands. The challenge is actually capturing the social impact on the community and assessing the direct relationship between Aavishkaar's investment and their social upliftment. Nonetheless, based on interviews of the indirect beneficiary base such as farmers, customers, community members, artisans etc there was an overwhelming acknowledgement that the investee company had improved some aspect of their lives in terms of accessibility, livelihood creation and economic expansion. In order to better assess the social impact of the Aavishkaar fund, two of their investee company's employees, customers and the community were surveyed in detail for more social impact evidence.

The challenge is actually capturing the social impact on the community and assessing the direct relationship between Aavishkaar's investment and their social upliftment

The impact triangle below is based on Aavishkaar's theory of change that assisting socially-based MSMEs eventually impacts the society-at-large.



## CASE STUDY I: Servals Automation Private Ltd



Over 80% of Servals employees are unskilled or semi-skilled; 45% of employees are women, most of whom had never worked previously – Based on Investee Company Staff Interviews

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### OVERVIEW OF BUSINESS

Servals Automation Private Limited (SAPL) is a rural technology company based in Chennai. Servals sells two products, an efficient kerosene burner and a rain gun. The kerosene burner reduces kerosene consumption by 30% and is safer and healthier than current burners on the market. The rain gun is a micro-irrigation device that provides for enormous savings in water and also improves yield for farmers. Both innovations were created by rural innovators and specifically tailored to the needs of the rural community.

(i) Rain gun (200+ sold): The Rain gun, also called an overhead sprinkler, is a micro-irrigation device that produces an artificial rain by spraying water around a 90 feet radius (with full 360° rotational capacity). The size of the drops and the quantity of water released are such that the rain gun provides optimum irrigation to large crops while conserving water normally wasted in traditional flood irrigation systems.

(ii) Kerosene stove burners (250,000+ sold): At present, customers save an estimated aggregate of US\$ 500,000 over the course of each year of use of these burners. Likewise, the government's fuel import burden will also be reduced by the same amount (assuming kerosene expenses of Rupees 100 per household per month, reduced by 20% conservatively).

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## OPERATION AND FINANCIAL INFORMATION

Servals has been struggling to break even in the initial years following Aavishkaar’s investment. However, since 2003 there has been significant growth in both sales and profitability. In fact, there has been an improvement in cost control contributing to the strong profit potential. Currently high brass prices have made conventional burners more expensive, therefore opening more avenues for Servals to market their product. Larger dealers are now actively seeking to buy larger proportion of these burners than previously. In recent months, Servals has created pipelines for 20,000 burners per month. Servals is looking into expanding their network to other countries such as South Africa, Sri Lanka and Ghana. An initial order has been received from South Africa. In addition to export potential, vast areas of India’s market remains untapped; Servals will use partnerships with organizations such as Rural Innovations Network to move into the northern states of India.

“Since Aavishkaar’s investment our sales have more than doubled and profit is breaking-even; their constant interactions have been helpful.” – Based on Investee Company interview

In order to meet the need of current product demand, Servals will need to augment production capacity. This has been a challenge in the past, but Servals has recently created a new rural production unit that could be expanded as well as scaled in other locations. Servals will focus on sustaining and capitalizing on current demand by scaling up to produce 50,000 burners per month. One of the major challenges is in managing a labour workforce in the 3 production units to avoid disruption in work schedule. Furthermore, Servals needs to continue to retain focus of superior quality rather than price neutrality, which had been an issue previously.

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## BENEFICIARIES

Staff feels good working with their own community on products that benefit all.

Rural farmers and low-income households in rural and urban areas are the main direct beneficiaries of Serval’s products. The products sold by Servals are created to help people in these areas, but Servals additionally attempts to employ low income day laborers living both in rural and urban areas, giving them access to stable jobs, better working conditions, and reliable and consistent work. After conducting in person interviews with 30 employees at Servals production units, it was found that all considered this new job as being a secure, positive working environment, with more flexible employers allowing time for sick leave or for parent/teacher meetings. Additionally, they felt good working with their own community on products that benefit all.

Employee Demographics:

Gender Breakdown	55% Male / 45% Female
Average Age	32 years old
Education Status	75% dropped out before 10 <sup>th</sup> Standard (Grade)
Prior Employment Status	30% never worked previously; 70% were semi skilled day labourers
Prior Income	US\$327 per year
Current Income	US\$545 per year (67% increase from prior job)
Household Income	65% have only one source of household income

Servals has worked with over 30 non profit community based organizations in selling and marketing their products which provided rural based women with income generation. – Based on Investee Company interview

The direct social impact potential is great in several areas. The products produced by Servals directly improve the lives of its beneficiaries by design. The kerosene burner decreases fuel consumption, resulting in less money spent on replacement burners. It is also safer in that when it topples over, it will not explode, like many other burners in the market currently. Furthermore, it does not emit smoke or fumes that are harmful for the user’s health.

The rain gun also is beneficial by design. It is designed to decrease the amount of water needed for farmers by ‘pointing’ the water in the area that is needed rather than saturating the entire area. When plants are given appropriate levels of water, the farmer’s yield will increase as well.

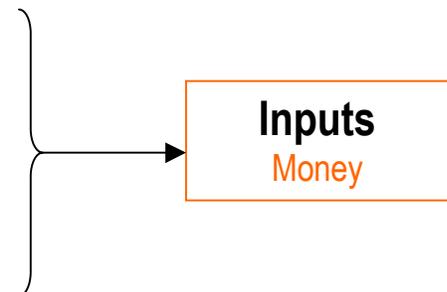
In addition to the product’s benefits, Serval’s aims to impact their beneficiary base by creating employment opportunities as well. Servals has worked with over 30 non profit community based organizations (CBO) in selling and marketing their products which provided rural based women with income generation opportunities. Specifically, Servals worked with women self help groups (SHGs) formed by these non profit CBOs providing marketing/sales training and wholesale products. The women were then provided products to re-sell to the community.

Most recently, Servals created a partnership with a rural non profit organization that has focused the last 10 years of its work with the Dalit (untouchables) community. Through the organizations work, the village has been transformed by upgrading roads, enabling community members’ access to electricity, sewage services and proper housing. It is in this community that Servals recently set-up a small scale rural production unit which is providing full time jobs for 20 men and women who previously were not working at all or inconsistently. By starting this production unit in collaboration with the NGO, Servals has improved employment opportunities, created consistent employment to 80% and the feeling of empowerment within the women has greatly increased.

“The village has been transformed by upgrading roads, enabling community members’ access to electricity, sewage services and proper housing.” - Based on Production Unit interview

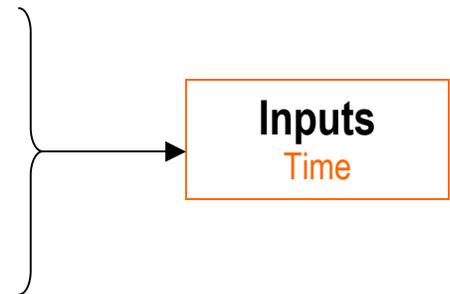
### AAVISHKAAR’S ROLE

Serval’s was Aavishkaar’s first investment. The initial investment was provided to strengthen its assembling, marketing and distribution channels and to promote their products. Mid-way through their investment horizon, Aavishkaar made an additional investment. As part of this investment, Aavishkaar took a 49% stake in the company



following the due diligence period, leaving the promoters with the remaining 51%.

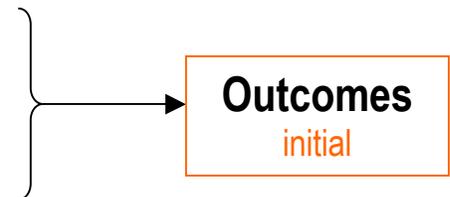
In addition to providing much needed funding, Aavishkaar's business development relationship with Servals has been quite intensive and hands on. Aavishkaar has held regular meetings with the CEO, conducted joint reviews of their performance with all stakeholders (investment committee), visits to production sites and fine-tuning of strategies are regularly done. Also, Aavishkaar has contributed to the strong sales growth by introducing Servals to their network of NGOs.



Based on various interviews the following outcomes were identified:

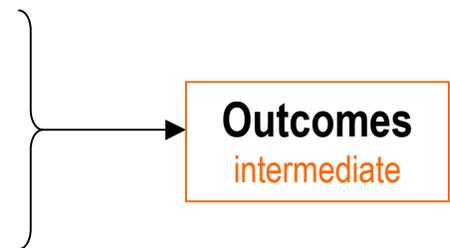
Learn:

- Financial planning
- Networking, business development and negotiating partnerships
- Cost control and operational efficiency



Behaviours/Actions:

- Increased sales growth and profitability
- Created financial and operational reports from newly implemented reporting systems
- Decreased risk profile with 49% Aavishkaar ownership
- Improved credibility with other entities



Ultimate benefits:

- Partnerships with NGOs have contributed to village infrastructure such as roads, sewage etc
- Waged employment opportunities for women and semi-skilled labour
- Household savings by the production of kerosene burners



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## CONCLUSION

Applying Aavishkaar's logic model to the outcomes drawn from interviews, surveys and focus groups suggests that investing in Servals has had a positive social impact on their employees, the communities where the production units are located, the women SHGs who re-sell the products and the customers who purchase their products.

## CASE STUDY II: Shri Kamdhenu Electronics Private



The men, who previously were the only ones to sell their milk, can now send their families to sell the milk and supplement their incomes with full-time day jobs. – Based on Dairy Farmer Interviews

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### OVERVIEW OF BUSINESS

Shree Kamdhenu Electronics Private Limited (SKEPL), a company based in the town of Vallabh Vidyanagar, Gujarat, India, develops products and systems that help bridge the technology gap in the dairy industry and make milk-production more transparent for the farmers involved. SKEPL was created in 1996 to act as a facilitator between milk producers (mostly farmers) and dairies, and in its initial years was very successful. But as the South Gujarat dairy market approached saturation, the company could not sustain its growth. SKEPL's expansion plan, launched in April 2003 with the help of a capital investment of nearly Rs. 18 lakhs (approx. \$40,000 USD) from Aavishkaar India Micro Venture Capital Fund (AIMVCF), was centered around the development of its two new engineering ventures, which would become the company's signature products. They were the Automatic Milk Collection System (AMCS) and the Milk Analyser, which together comprise the Akashganga ("Milky Way") process, an alternative system of milk collection that has huge potential benefits for the daily farmers of India.

SKEPL's headquarters are located just outside of Anand, the seat of the Anand district of eastern Gujarat and a town that is known as the "Milk Capital" of India. With the National Dairy

Development Board and Anand Agricultural University at its center, Anand district relies heavily on milk production to drive the rural economy.

Individual dairy farmers sell their milk to village-level cooperatives called Dairy Collection Societies (DCS). In some villages, these organizations are run by the local panchayat (village council), while in others they elect officers to organize the co-op. Each DCS sells its milk to the district-wide Dairy Union, and from there it goes to one of the big Dairy Federations. In most parts of the country, the Collection Societies and Unions have exclusive agreements to sell to only one Dairy Federation. For almost a half-century, the farmers of Anand have been selling their milk to Amul, one of the largest milk distributors in India.

The problem with this system was that when the farmers brought their milk to cooperative societies twice a day, they would often have to wait in line for as long as an hour while local officials took a sample of the milk and used old-time methods of testing fat content. For the farmers, it meant wasting two hours of each day, and they only got paid for their trouble about two weeks after handing in each batch of milk. Sometimes the milk would spoil while the farmers waited in line. The process was arduous and filled with tension and disputes, which were not often resolved by the DCS records, which were generally kept on paper registers.

In April 2003, SKEPL engineered two products, the Automatic Milk Collection System (AMCS) and the Milk Analyser, which make up what is collectively known as the Akashganga ("Milky Way") process. Using this computerized system, milk is collected and analyzed at the Collection Society quickly and accurately. The AMCS integrates the measurement of milk parameters using instruments that are networked with a PC through a complex interface.

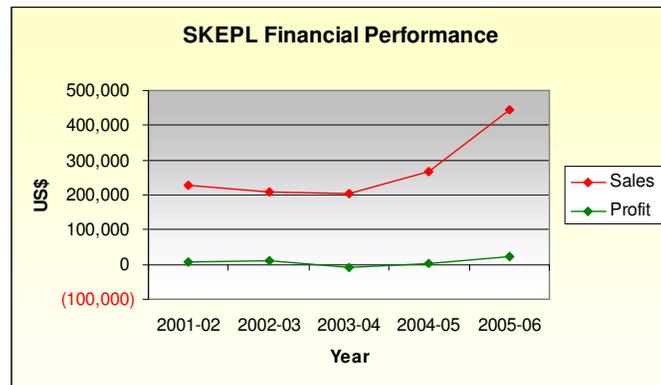
The system immediately provides data on parameters like fat, weight, and value of the milk in question. The electronic system keeps the milk collectors honest by bringing transparency to the system. Before, farmers could not be sure that they were being paid the full and proper amount for their product, and it was not uncommon for milk to be adulterated by the farmers or for the cooperative authorities to cheat the farmers by altering test results. The Milk Analyzer examines six milk parameters simultaneously, giving an accurate picture of the quality of the milk on a printed receipt.

The main value addition of SKEPL's technology has been to streamline the milk-collection system. With computer-generated prices, the farmers are ensured sufficient compensation. In addition, many farmers are now paid on the spot, rather than days or weeks later, which reduces the overall burden of the whole system. The whole process now takes about 15 minutes, and has allowed for any member of a farming family (including women and children, literate or illiterate) to bring milk to the cooperative and get home quickly, without argument or dispute. The men, who previously were the only ones to sell their milk, can send their families to sell the milk and supplement their incomes with full-time day jobs. Over one thousand of SKEPL's computerized systems have been sold and are now in use in villages across India.

## OPERATION AND FINANCIAL INFORMATION

SKEPL has shown significant sales growth over the past year as depicted in the graph below. As a result of increased sales and cost control has shown that SKEPL is now profitable. From a financial structure perspective, SKEPL was debt ridden and overstretched before the Aavishkaar investment; the equity investment has provided a solid financial base to grow the business further. Introduction of new products is in the pipeline. Some larger corporations such as Reliance have shown some interest in partnering with SKEPL. The main goal over the next year is to introduce new products into the market and expand outreach to other parts of India. However, operationally, SKEPL has been struggling with limited manpower, so a focus on building internal capacity is essential.

“We have grown our sales significantly over the past two years; we are quite busy managing our expanded supplier base.” –  
Based on Company Survey



## BENEFICIARIES

The average annual income of the 100 dairy farmers interviewed is less than US\$3 a day.

### Demographics (Dairy Farmer)

SKEPL has beneficiaries throughout the dairy sector. In particular, SKEPL's products are created with the intention to assist dairy farmers in rural and semi-urban India, dairy cooperative societies who buy milk from individual farmers and state level federations who process and distribute milk. At the end of the chain are dairy consumers throughout India. Through 100 in person interviews with rural dairy farmers a profile was generated on the type of people SKEPL's products aim to help.

- 80% of dairy farmers interviewed were males
- The average age of farmers interviewed was 39 years
- 39% of interviewees had never attended school; of those who did attend some school, 80% dropped out before 10<sup>th</sup> standard
- Of those interviewed, 82% stated their main source of income was agriculture/farming
- The average income of respondents was USD 1258 (less than 3 dollars per day)
- All areas sampled were poor rural areas, although most had electricity for at least some portion of the day

Eighteen of the 20 centres interviewed stated that they bought the machine due to the time savings of the machine versus the prior hand method.

Overall, the biggest impact seen from SKEPL's product is in increasing trust between dairy farmers and the dairy collection cooperatives.

In depth interviews and research was conducted with individual dairy farmers as well as the cooperative societies to learn more about the people SKEPL affects with their products and how these products impact their lives. The potential impact of SKEPL's products were seen in several areas, including purchase of new animals, less tension, and more trust in their dairy cooperatives.

Cooperatives stated that there was a 200% increase in the number of members following the installation of the machine. Many of the previous farmers who would give milk occasionally became members and exclusively gave milk to the cooperative. The members of cooperatives also began appealing to more landless members. Many of the societies have also become interested in new technology that can assist in all areas of milk production and collection due to the installation of the machine. Eighteen of the 20 centres interviewed stated that they bought the machine due to the timesavings of the machine versus the prior hand method. The following are some statistics on the impact that SKEPL has had on their beneficiary base:

- Specifically, 73% of dairy farmers on average increased the number of animals owned. Many of these people did not own any animals prior to the installation of SKEPL's computerized milk collection system, but felt that after the installation, there was much more transparency in the operations of the cooperative and therefore purchased cows.
- 42% less time waiting in line following installation of the machine. The average was 25 minutes, which went down to 9 minutes.
- There was an 88% increase in the amount of milk sold to the dairy collection centre following installation. This is due to the increase in animals owned by dairy farmers.
- Year end bonus's paid out to members of the cooperative increased from 3.4% to 5.2%

Overall, the biggest impact seen from SKEPL's product is in increasing trust between dairy farmers and the dairy collection cooperatives. Due to increased trust in the system, farmers were moved to be a part of the industry. The accurate, on the spot results of the AkashGanga machine also gave members more faith in other members who they felt previously were often dishonest in their milk selling.

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## AAVISHKAAR'S ROLE

SKEPL was the second project funded by Aavishkaar in April 2003 with a total investment of 18 lakhs in equity. Through this investment, Aavishkaar received a 26.62% stake in the company. Aavishkaar has been working closely with SKEPL in improving financial discipline and cost control.

**Inputs**  
Money

The team has been integral in developing the creation of an MIS system that has helped the SKEPL management team improve their internal processes and systems. Also, Aavishkaar has provided access to a network for business development. Aavishkaar also continually provides advice and networking support to SKEPL on an as needed basis, as well as working with SKEPL on negotiations with potential investors.

**Inputs**  
Time

Based on various interviews the following outcomes were identified:

Learn:

- Good business strategies
- Networking, business development and negotiating partnerships
- Building stronger management skills

**Outcomes**  
initial

Behaviours/Actions:

- Increased publicity
- Decreased risk profile with 26% Aavishkaar ownership
- Usefulness of product has improved credibility among dairy cooperatives
- Breakeven with profit potential within the next year

**Outcomes**  
intermediate

Ultimate benefits:

- Created a more efficient dairy sector
- Time savings results in other income generating options
- Greater asset accumulation as dairy farmers own their animals

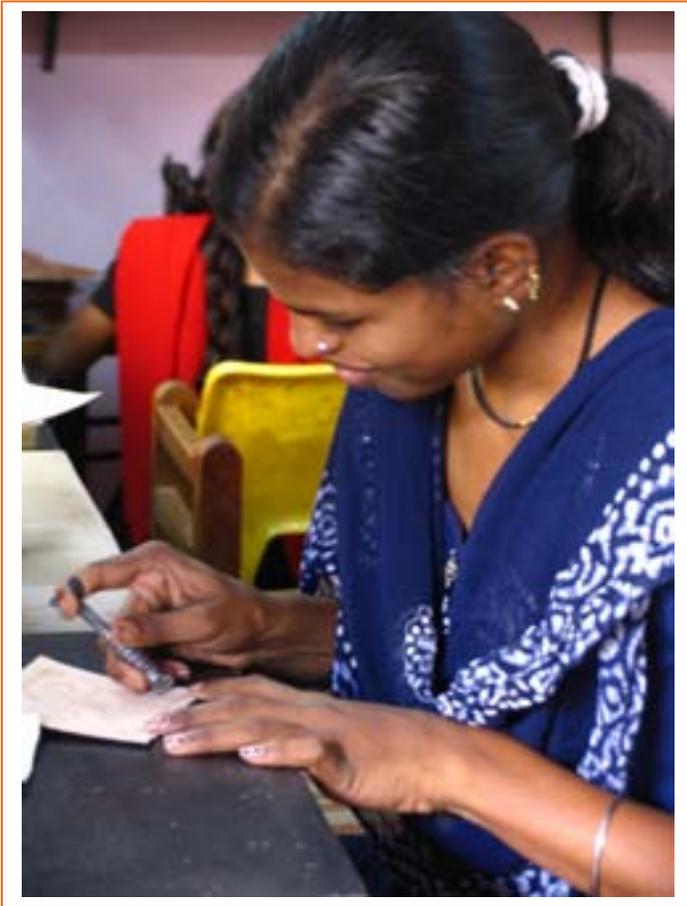
**Outcomes**  
Long term

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## CONCLUSION

Applying Aavishkaar's logic model to the outcomes drawn from interviews, surveys and focus groups suggests that investing in SKEPL has had a positive social impact on the dairy farmers, and their communities.

## OVERVIEW OF OTHER INVESTMENTS



Kulkraft, a supplier to Craftsbridge employs uneducated and illiterate women who are able to work from home while also earning a living. – Based on Supplier Survey

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### OVERVIEW OF BUSINESS

Craftsbridge (I) Pvt. Ltd. is a Pune based cross channel designs, manufacturing and marketing organization dedicated to the handicrafts industry of India. It is working with a mission to be a bridge between customers worldwide and crafts persons, designers, bulk buyers, researchers and others that form this community. CB wishes to leverage “industry best practices and web technology” in sourcing, quality, design and marketing to benefit customers and producers. Craftsbridge offers premium, contemporary designer Handicrafts products in various categories. It is also providing ‘made to order’ customized products and designer services for the corporate gift market. In addition, Craftsbridge sells a wide range of crafts and designer ware sourced directly from artisans, bulk suppliers and NGOs from different regions across India.

Craftsbridge’s main clients are corporates who buy their products for corporate gifts; however, Craftsbridge sources all of their crafts and materials from local artisans in specific trade areas. This translates to local artisans increasing their production (income) as well as often hiring day laborers who assist during busy seasons.

As Craftsbridge's customer base expands, their supplier base also expands. Currently Craftsbridge works with 18 artisan suppliers throughout India. These artisans can be "one-man" shops to production units employing up to 70 employees. Many of these artisan shops rely almost entirely on orders from Craftsbridge, but are also expanding their market base through assistance given by Craftsbridge. Craftsbridge works closely with their suppliers in creating innovative quality products that often spurs the creativity of the artisan to create new lines for his own business as well.

As per estimates, more than 6 million village people are associated with the handicrafts sector

Craftsbridge (I) Private Limited is operating in a sector that holds huge potential for rural India, but has failed to translate into reality. As per estimates, more than 6 million village people are associated with the handicrafts sector. They represent traditional skills that command a lot of respect in the market place, but have failed to benefit the artisan. Craftsbridge is a motivated initiative that adds value both at the artisan level as well at the market level. The company creates twin benefits by improving the quality of production at the artisan level by introducing training, quality considerations, sharing information on international color, designs and tastes and finally improving the returns to the artisan.

### AAVISHKAAR'S ROLE

Craftsbridge (I) Private Limited is a Pune based design, manufacturing, and marketing organization dedicated to the Indian Handicrafts industry. Its mission is to serve as a bridge between customers worldwide, and crafts persons, designers, bulk buyers, researchers and others comprising the sector in India. The company has made remarkable progress in the last 3 years over which time Aavishkaar has made a total capital commitment of close to \$70,000. Aavishkaar's stake in Craftsbridge remains at 15.69%.

Inputs  
Money

Aavishkaar worked with Craftsbridge initially to mainstream its product line and operations. Aavishkaar helped Craftsbridge focus their company on the Corporate Gifts Market. It is hoped that the company can continue to benefit rural artisans by creating opportunities to commercialize their skills in the global market. Aavishkaar provided intensive hands-on business development for Craftsbridge which included restructuring financial management, developing an MIS system, creating a marketing strategy, advising the new sales force on a compensation plan and providing export expansion advice. Craftsbridge has shown exceptional sales growth with an expanded client-base. Aavishkaar is dedicated to continue working with Craftsbridge on these issues as well as on operational & strategic guidance as needed. Re-aligning roles and responsibilities in sales and back end operations has been a focus of Aavishkaar's and work will continue on this end. Aavishkaar has recently recruited a Head of Sales to fill a crucial gap; monitoring will continue to ensure that this role is managed properly.

Inputs  
Time

## TIDE Technocrats Private Limited

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### OVERVIEW OF BUSINESS

TTPL provided end-to-end solutions for micro Hydel installations. Micro Hydel project expected to provide electrification in rural and far-flung remote areas while biomass processing creating avenues of employment and entrepreneurship for village poor as well as creating value from waste products. However, TTPL's new focus currently is on consulting with the Indian government on solid waste disposal as well as linking up Indian and European companies for carbon trading.

### AAVISHKAAR'S ROLE

Aavishkaar's initial investment was to help the company in their expansion efforts. After 1 year of due diligence, TTPL was handed their first installment. TTPL was struggling at the outset, as the initial promoters could not carry the full burden of managing operations. Aavishkaar not only managed to develop an exit option for these promoters but also managed to find new promoters as well as a new investor with strategic interest in the sector. In the process, Aavishkaar partially divested its stake, thereby making a partial exit from the company. Aavishkaar has assisted in sourcing customer contracts and access to a network for business development. However, current promoters feel that they need more business development assistance by Aavishkaar to create a more sustainable model going forth. Currently Aavishkaar spends approximately 5 hours per month on business development with TTPL.

## Net Systems Informatics Private Limited

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### OVERVIEW OF BUSINESS

Net Systems Informatics (N-Syst) provides testing and training services for Accessibility (making IT infrastructure accessible to disabled) and Technical Writing services for the information technology sector. The services being offered under the technical writing segment include developing textbooks, documenting technology, writing knowledge base articles and user manuals as well as e-learning documents. Under the banner "accessibility", N-Syst conducts trainings with IT companies creating awareness on the issue of disabled people's limited access to websites. They also conduct testing of applications and build web-based services for the disabled. N-Syst is one of the pioneering companies in this sector. The disabled population makes approximately 1% of all web hits per day. Today, less than 20% of websites worldwide, and less than 5% of Indian sites, are accessible. N-syst's intervention is targeted at creating a level playing field for the disabled.



### AAVISHKAAR'S ROLE

Aavishkaar has invested 20 lakh rupees into N-Syst as equity. An additional 10 lakh was given 1 year following the initial investment. This money was used to expand their accessibility portion of the business. One area that they are gaining recognition in is in gaming software and its user accessibility. Net Systems is exploring partnerships with Vision Australia and Repro India at this time. Major challenges facing Net Systems in the immediate future are in scaling up in line with market demand and in converting pipeline projects into sales. The main value addition from Aavishkaar has been general advice and networking. Aavishkaar has worked on advising the company on optimum capacity utilization, manpower retention practices & HR policies.

## **Naveen Gram Agrotechnologies Private Limited**

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### **OVERVIEW OF BUSINESS**

Naveen Gram Agrotechnologies Private Limited is a Rajasthan based organization that is dedicated to rural marketing. The company set up a marketing and distribution channel for rural products that otherwise did not have access to a larger market. The company has tied up with innovative rural technology product manufacturers. Thus the company addresses the constraints of awareness, availability and acceptability faced by small enterprises. The company offers its service of marketing the products of small enterprises that are in search of a larger market. The product portfolio of the company includes: power thresher, power tiller, drum seeder, insect trap, organic pesticide and the Venus burner (Servals' product).

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### **AAVISHKAAR'S ROLE**

Aavishkaar invested 15 lakh into Naveen Gram as seed money. This money was used to create a stock of products building up the inventory as well as offering credit to dealers. Aavishkaar holds a 41.19% stake in the company. Initially, the main value addition Aavishkaar brought to Naveen Gram was capital, although as time has progressed, Aavishkaar has helped build Naveen Gram's networks with other small business that need marketing and distribution. Overall, Aavishkaar's business development services have been in the form of advice and networking. Aavishkaar spends an average of 5 hours per month working with Naveen Gram on strategic direction, networking and developing strategic partnerships. Aavishkaar will continue to connect Naveen Gram to supplier bases from their existing portfolio companies as well as assist the company in prospecting new product lines and markets.

## **C K Technologies Private Limited**

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### **OVERVIEW OF BUSINESS**

CK Technologies is based in Chennai with a focus of bridging the digital divide in India. CK Technologies believes the way to do this is by improving PC penetration by creating multilingual software for regular computer applications. By creating software run in local languages, the computer market increases and is accessible to a wider Indian population, especially those living in semi-urban and rural areas. The company has developed a bilingual Office Suite called Shakti Office (SO) that attempts to break two barriers; accessibility by enabling users literate in one native language to access computers and affordability, by making SO available at 1/10th of the price of licensed Microsoft Office. Less than 5% of India speaks English, therefore there is a huge barrier for the majority of the population to learn computers. CK Technologies' software enables all people to learn computers in their native language.

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### **AAVISHKAAR'S ROLE**

An initial investment of 20 lakh was given to help CK Technologies expand their current operations, but focusing on marketing. Aavishkaar's main value addition thus far has been with strategic direction, providing networks for new customers, instituting new financial reporting systems and offering general business advice as needed. Currently Aavishkaar provides approximately 5 hours per month of dedicated business development assistance to CK Technologies. Aavishkaar is working with CK on these initiatives as well as by networking with private ICT initiatives (like Drishtee), MSME associations (TANSTIA) and district associations (CODISSIA) on their behalf.

## Vortex Engineering Private Limited

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### OVERVIEW OF BUSINESS

Vortex has developed a robust and low cost ATM called the Gramateller. The idea is to increase the outreach of banks and financial institutions in the rural and semi urban areas using the existing connectivity network of internet Access Kiosks. Apart from the basic built-in features of dispensing cash and accepting deposits, the Gramateller will also be capable of handling soiled and crumpled currency, other non-cash transactions, micro deposit, micro-credit etc. and will have a 4-6 hour battery backup keeping in mind its rural applicability. The Gramateller uses smart card based identification (with a PIN) and fingerprint based biometrics authentication, and the cost of the machine will be a fraction of the conventional ATMs.



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### AAVISHKAAR'S ROLE

As Vortex continues to test their rural ATM to prepare for rollout, they will also work towards developing momentum on the initial order from the Rural Employment Act, liaise with smaller banks and explore opportunities in post offices throughout the country. They currently are competing the process of switch integration with FSS and volume testing which will then lead to the integration of the stand alone ATM. Challenges will continue to arise in this process as well as in final production planning/layout design for volume manufacturing. Aavishkaar will assist in these challenges as necessary, but will also focus on networking with MFIs.

## Vaatsalya Healthcare Solutions Private Limited

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### OVERVIEW OF BUSINESS

Vaatsalya is a healthcare services company located in Southern India with a mission to provide affordable quality healthcare services to the rural and semi-urban population by operating small hospitals. Though 70% of the Indian population lives in the rural area only 15% of doctors practice in the rural areas and 20% of total hospital beds are located there. In addition to hospitals, Vaatsalya also conducts trainings for health care workers and offers consultancy services to the healthcare sector in an effort to improve efficiency and patient care in the sector. Future plans include creating preventive health care services throughout their network of hospitals.

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### AAVISHKAAR'S ROLE

Aavishkaar's investment was for expansion purposes. The initial investment was 25 lakh with an additional commitment of 50 lakh. At this point, the investment is less than 6 months old, but Aavishkaar provides approximately 10-20 hours per month of advisory services on an as needed basis. Aavishkaar's main add-

on has been in networking (leveraging existing networks to position Vaatsalya at a national scale), building confidence in promoters, offering strategic direction, management planning, strategic direction/business vision development, public relations, networking, building strategic partnerships, offering general advice/assistance, establishing reporting systems. Aavishkaar's role will continue to be with networking with investors/funds to enable infusion for the larger geographic expansion, working in close co-ordination on negotiating terms with an interested industrial group seeking to invest as well as coordinating financial tracking systems for each hospital.

## PENDING INVESTMENTS

Aavishkaar's investment committee has given approval for investment into Desert Artisans Handicrafts (DAH) as the 10<sup>th</sup> investment after Vaatsalya. However, around the same time, DAH split its business into 6 companies and Aavishkaar was invited to invest independently into those 6 companies. Out of this, 4 were chosen for investment. These 4 companies will form investments 10 to 13 for Aavishkaar. They are called DAH, DAH-Jaipur, DAH-Chanderi and DAH-Bhuj based on their area of location. To date, Aavishkaar has disbursed money only to the first DAH with the other 3 pending disbursement. Additionally, during the course of this case study, Aavishkaar has approved a 14<sup>th</sup> company, Rangсутra, who is also in the handicraft sector. Rangсутra's investment is currently pending disbursement as well. Given below is a general overview of each company.

### **Desert Artisans Handicrafts Private Limited**

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#### **OVERVIEW OF BUSINESS**

Desert Artisans Handicrafts Pvt. Ltd. (DAH) is a 15 year old profit-making and dividend-paying handicrafts outsourcing and production company based in New Delhi. At the core of this venture was the objective of creating an innovative model for a corporate intermediary that would collectivize rural artisans, deal directly with artisan groups and provide financial and operational support, all culminating with an assured market that pays fair prices for traditional Indian craftsmanship. DAH primarily sources products from artisan groups based in central and western districts of Rajasthan. Of late, the company has started tapping handicrafts skills of Gujarat, Madhya Pradesh, West Bengal and Bihar. The company's product portfolio includes hand block printed textiles, durries, handloom garments, embroidery and 'applique' garments and furniture.

### **Rangсутra Crafts India Private Limited**

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#### **OVERVIEW OF BUSINESS**

Rangсутra provides a marketing and support base to craftspeople, farmers and their organizations by effectively selling their products in an expanding yet increasingly competitive market. Rangсутra adds value to these producer organizations by way of design & product development, production planning and sales & marketing. At present, the company is working with over 1000 rural artisans and farmers in three states of India. The company strives to provide an assured market and fair remuneration to the producers and to ensure that they benefit from the rising consumerism trends both within and outside India. The uniqueness of Rangсутra is that craftspeople and artisans are not just shareholders in the company but also have Board representation through their organizations. This inculcates in them a sense of ownership and entrepreneurship and entitles them to profit sharing.

# Lessons Learned

“Aavishkaar started through a random thought process, where ownership and management was driven more by the heart than the mind.”

- Founder, Vineet Rai.

**THE NEED:** Aavishkaar was a pioneering effort at the time it started in 2001; a new concept that was trying to make investment in micro enterprise more attractive for traditional investors. The MSME sector in India has mainly been debt driven where equity was not available due to the higher investment risk. This lack of access to equity investing creates a weak base on which MSME grow their business models; financing is either at a high cost or from the owner’s personal savings. This leads to MSME units with high market risk and personal risk. Aavishkaar was created to provide equity financing options to the MSME sector, specifically the rural areas where greater social impact was feasible.

**THE EXPERIENCE:** In fact, when Aavishkaar first started there were four main pillars that each investment required: early stage, rural, socially-based and micro-equity. Adhering to all these four constraints led to significant challenges in not only finding potential investments but also managing them in a cost-effective manner. While reflecting on the experiences and challenges that Aavishkaar faced over the past 6 years, Vineet says, “We were too much left to the centre; without access to funds or enough staff, we were placing too many constraints on a new concept. Had we been able to raise a larger fund to hire more staff, we could have shown stronger growth in our investment portfolio.” One of Aavishkaar’s major challenges was adequate funds for a profitable business model; it started with only US\$200,000 instead of the required US\$2 million leading to an overburdened staff and under-funded investments. However, running operations with a small amount of capital created a more disciplined approach to investing with rigorous due diligence and strong investee accountability/transparency.

Below is a summary of the successes and challenges Aavishkaar has faced as an organization over the past 6 years:

## THE SUCCESSES:

Aavishkaar has proven that equity-based investments in socially-relevant MSMEs have a significant impact on livelihood creation and greater economic opportunities.

- Structuring Aavishkaar as for-profit model provided greater flexibility and sustainability rather than a non-government organization (NGO) or a public corporation; flexibility, since the management fee is unrestricted funds as opposed to grant funding; and, sustainability since it’s based on the investment fund.
- The initial constraints of small capital enabled the development of a disciplined business process leading to successful investments based on less than 4.5% of corpus.
- Strong due diligence, monitoring and hands-on business development ensured a cautious investment approach where only US\$118,000 was disbursed over 5 years.
- Despite a low cost structure and a difficult working environment, Aavishkaar experienced low turnover and

Despite a low cost structure and a difficult working environment, Aavishkaar experienced low turnover and high motivation among the staff.

high motivation among the staff; the need to prove that this investment model is profitable and helps rural community was an underlying motivation for the team and investors.

- Maintaining a close relationship with key investors to ensure their support through both good-and-bad times.
- Creating high visibility for Aavishkaar was essential in building awareness on improving the funding landscape for Aavishkaar-type funds and their investments.
- Since Aavishkaar is doing path breaking work, their strong ability to network with various people ranging from international non profits to venture capitalists has created a platform for learning and sharing of information.
- Positive macroeconomic environment has attracted more potential investors and greater investment into the MSME sector; Aavishkaar was the first social venture fund and hence the first choice partner for new entrants.

## THE CHALLENGES:

- Aavishkaar was a new concept functioning in a challenging environment, therefore, only a few investors were willing to take the risk of investing in the business leading to an under-funded, overstretched business model.
- Since Aavishkaar was a pioneering effort, a new skill set was required from staff; there were no individuals that had this experience prior to joining, therefore, on-the-job training was essential. This led to an overburdened staff.
- Aavishkaar is a founder-driven organization where limited visibility and upside exists for the other staff members; requiring an environment that ensures staff ownership and participation; this is difficult when staff have no carry or financial incentives.
- Structured as a traditional venture capital fund where an investment committee finalizes the investments means that there is an inherent challenge in managing their expectations with on-the-ground realities. Often the team has worked hard in identifying a potential investment opportunity that is rejected by the committee, which later greatly affects motivation levels.
- Although Aavishkaar fills a funding gap in the financing chain of MSMEs, there still exists an even larger gap between Aavishkaar and the commercial sector for equity financing further limiting exit options and profit potential.
- Aavishkaar's past experience has shown that investments with strong social agendas often have not focused on maximizing profitability due to the lack of business skills, networking and marketing. Therefore, Aavishkaar spends

As a pioneering effort, the organization was under-funded and overstretched often limiting the hands-on assistance necessary for accelerated growth.

The greatest challenge is balancing the social and commercial agenda.

more time (which costs money) on improving the commercial viability of strong socially based organizations; this places a constraint on Aavishkaar's ability to prioritize their social versus commercial agendas.

**THE LEARNINGS:** The success of Aavishkaar's business model is instituting processes and systems that improve an organizations ability to attract investment from the formal financial sector, mainly through better transparency and accountability. "Small entrepreneurs don't like reporting, they find this a huge burden and sometimes even offensive," says Vineet. Therefore, Aavishkaar plays an important role in providing hands-on management assistance where the founder and owner have limitations. Aavishkaar spends a lot of time identifying the organizational weaknesses and assessing whether these can be matched with Aavishkaar's capabilities. "Our success is based on ensuring that the entrepreneur is driven by the idea and culturally wanting to learn, they shouldn't find Aavishkaar as a threatening element; but should be aware of their limitations and understand how Aavishkaar will help them." This matching of expectations and capabilities is a key success factor.

However, despite the potential synergies, many aspects of the Aavishkaar investment process are in direct conflict with the nature of the MSME sector. For example, many find the model constrains the entrepreneurial spirit, with projected budgets and future planning. Culturally, Indians are patriarchal and find it disrespectful when younger people (despite their qualifications) question their authority. Furthermore, small entrepreneurs do not understand what is equity and how valuations are important for Aavishkaar's investments to be successful. Many equate equity with grant funding in this sector. "Overcoming all these challenges has been difficult and yet exhilarating."

"Our success is based on ensuring that the entrepreneur is driven by the idea and culturally wanting to learn, they shouldn't find Aavishkaar as a threatening element; but should be aware of their limitations and understand how Aavishkaar will help them."

**THE REPLICATION:** Replication of the Aavishkaar model is essential to ensure lasting social change through livelihood creation and greater economic opportunities. Key success factors for replication are:

- Raise enough funds to ensure that the management fee covers cost of operation including adequate staff and investment funds
- Create an financial incentive structure for staff from inception
- Hire more staff for business development purposes
- Mix the investment portfolio with areas of focus, size and types of investment to ensure diversity and balance
- Reduce the constraints on type of investment such as choosing two from the range of micro-equity, socially-relevant, early stage and rural
- Increase the average life of the investment to 10 years; impact sometimes takes longer than expected

- Be strategic about the possible exit options before investing since commercial viability of the social venture fund depends on being able to exit in order to realize profitability of the fund
- Understand what drives the entrepreneur and their willingness to learn matching areas of development with the funds capabilities
- Create a strong mentoring base that can be leveraged for investments
- Balance the-heart-with-head for each investment. Sometimes potential investments with a strong social agenda do not have the business skills for growth and profitability; therefore, the social venture fund would need to invest significant time to build these skills and turnaround the business for greater profitability. Realizing that the viability of the fund depends on the growth and profit potential of investee companies regardless of the social agenda; a careful balance is necessary.