

Tamil Nadu Manufacturing Business Incubation Infrastructure Development Project

1.0 Background

1.1 Business incubators (BIs) nurture the development of entrepreneurial companies, helping them survive and grow during the start-up period, when they are most vulnerable. These programs provide their client companies with business support services and resources tailored to young firms. The most common goals of incubation programs are creating jobs in a community, enhancing a community's entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies.

1.2 Incubators will provide co-working space, an office or other type of working environment, shared by entrepreneurs. Incubators charge monthly rental fees for desks and/or other types of office space and equipment. Sharing space and equipment helps people keep their costs low, and also allows them to work in an environment with others who have similar mindsets. Most co-working spaces share a common goal of creating environments that foster connections and creativity.

1.3 Entrepreneurship Development and Innovation Institute (EDII) has co-ordinated in applying for setting up of technology incubators in 45 colleges across the state supported by MSME and DST. These Technology Business incubators promote business incubation activities in technology based innovations and are largely focused on engineering colleges and other technology institutions. Private engineering colleges have managed to seize the opportunity and set up TBIs using Government of India assistance.

1.4 Government Engineering, Arts & science colleges, Polytechnics and ITIs are untouched by the entrepreneurship movement for a variety of reasons, including lack of delegation, lack of enabling policies and space constraints. **ITI and Polytechnic students are more likely to commence skill related businesses than perhaps engineering students. However, this has not been factored in while promoting entrepreneurship or incubator programs.**

1.5 An Innovation & Entrepreneurship Development Centre (IEDC) is being set up in EDII-TN campus and will serve as the Incubator Hub for the State. EDII-TN now proposes to support Business Incubation in Government Engineering, Arts & Science colleges & Polytechnics, Industrial Training Institutions in manufacturing technology related sectors for students and alumni as well as in the Private academic/research institutes through a PPP arrangement.

2.0 Objectives

- Create an entrepreneurial ecosystem in the manufacturing sector through a network of business incubators in Tamil Nadu
- Create a entrepreneurship node in higher education institutions for MSME/Start-up growth

3.0 Goal

Setup 10 incubators in key thrust manufacturing sectors across the State, in Government institutions and through private enterprises.

4.0 Target Population The program is aimed at entrepreneurs amongst faculty, final year students & alumni of colleges/polytechnics/ITIs or local youth with sound technical knowledge with intent to set up businesses in the manufacturing sector. Business Incubators created through PPP shall have any entrepreneur in manufacturing sector as its target group.

5.0 EDII as Start-up & Incubator Resource centre

5.1 EDII has prepared a Strategic Plan for Innovation and Entrepreneurship Development for Tamil Nadu for the period 2016-2021. Government also has proposed implementing a Start-up Action Plan for Tamil Nadu and EDI will have a major role in implementing this. Recognising that Incubation services, virtual or physical, are known to reduce the failure rates of new born enterprises, EDI, with funding from GOI and State Government programs, will support formation and building capacities of :

- Rural Business & Social Incubators to identify, document, support and harness innovations of grass-root innovators.
- Promote Business Incubators in other Institutions running non-professional courses i.e., arts & science colleges, ITIs, Polytechnics, etc., from State Government funds..
- Expand Tech BIs incubators: in specific verticals within Central Technical Institutions such as CLRI, IIIT-DM, CVRDE, CECRI, SERC, etc., and BIs in IIM Trichy, Central University in Thiruvavur, TN Maritime University and National Research centres such as NCRB, NPRC, CMFRI, etc., by motivating these institutions to setup TBIs. EDI will motivate leading medical colleges, TNAU, TNFU, TNVASU, etc., to setup specialised TBIs to carry out research and incubate technology innovations into profitable businesses with funding from NITI-AAYAOG (Atal Innovation Mission)/DST/DBT/DEITY etc.

5.2 Government of India Programs have focused on large TBIs with investment of Rs 10 crores and are being tapped by EDI to fund technology incubator. Further, the GOI programs do not target Arts and Science Colleges and Polytechnics/ITIs whose students are also likely entrepreneurs. The EDI BIDP will dovetail funds available from Government of India programs as below and draw TANII funds only for those components and for those institutions NOT funded by Government of India.

6.0 Eligible Institutions

6.1 The EDI Business Incubation Initiative focuses on low cost incubators aimed at manufacturing by leveraging the expertise, equipment and laboratories in Engineering and Science Colleges as well as polytechnics as the base resource. The other set of institutions could be industrial houses and industry associations which have access to equipment and machinery of their members.

6.2 There are two formats in which assistance would be granted:

Format A : Educational Institutions (100% Grant)

6.2.1 Government Engineering, Arts & Science colleges/Polytechnics/ITIs would be eligible to establish BIs preferably Autonomous Institutions and university departments which have the mandate to take decisions on their own and have sufficient experience in support in-campus entrepreneurship and innovation.

Format B : PPP (50% Grant)

6.2.2 Private Institutions (non- Government, aided educational / R&D institutes) or companies with strong R&D or entrepreneurial experience

6.3 Common conditions

6.3.1 BIs shall be setup as a Special Purpose Vehicle (SPV) as a “not for profit” section 8 company by the Science colleges/Polytechnics/ITIs concerned with a professional Board within these educational institutions.

6.3.2 The institution shall commit furnished space of atleast 5000 square feet over a period of 2 years for setting up the BI with ready high speed internet access for housing the incubator. There shall be a long-term lease agreement for atleast 30 years between the Business Incubator and the host institution.

6.3.3 Commitment to make available institutional labs, equipments, testing facilities and technical experts to incubatees at nominal cost, even during extended working hours.

6.3.4 The BI shall incubate atleast 25 businesses physically (onsite) at any given time and graduate atleast 5 businesses every year.

6.3.5 The BI shall enter into agreements with technology oriented industry in the thrust sector chosen with commitment to financially and technically support manufacturing R&D/material/product/process innovation and provide access to testing and design facilities.

6.3.6 Shall enter into a lead corporate partner or partners in some or many of the thrust manufacturing sectors.

6.3.7 Shall share equipments with other Institutions on user charge basis.

P.S.: Well established research institutes/academic organizations partnering with Government Arts & Science Colleges or Polytechnics, would be given preference over individual institutional applicants. The incubation center should be jointly established and in the total 5000 sq.ft atleast 1500 sq.ft should be in the Government colleges/polytechnics.

7.0 Selection process & Sanction

7.1 For Format A, open applications from Government colleges & Polytechnics will be invited and the TNBIIDP Program Management Committee will shortlist and finalise the selection of the institutions based on the competence of the management team, autonomy of the institution, infrastructure available, clarity of the project report and commitment put forth.

7.2 For Format B, two stage valuation mechanism would be adopted. Host institutions of repute applying will be evaluated based on the technical criteria in each of the vertical. Each of the applications fulfilling technical criteria will be shortlisted for each of the vertical focus areas. In stage-2, the capex and opex of proposals in the same sector will be compared based on the sectors. If there is more than one proposal for the same sector, the proposal with the lower cost will be given preference.

7.3 Proposals in format A and B will be technically evaluated based on the merit and the capability of the Host Institution in promoting technology based startups. The evaluation will be done by the Project Management Committee for TNBIIDP, constituted by EDII-TN consisting of experts in the domain of R&D, technology development & commercialization, venture finance, entrepreneurship, etc. EDII-TN will then take a final decision to support the BI based on the recommendation of the PMC.

7.4 The following broad parameters will be used for technical evaluation of the proposals –

- Preparedness of Host Institute (HI)/ BI in terms of infrastructure for the BI and strength of connections with local entrepreneurial & industrial ecosystem.
- Prior achievements in terms of startup activities, industrial R&D, patent commercialisation, prototyping and industrial networking.
- Management support and Team proposing the BI at the HI and capability of HI in promoting startups and innovations.
- Approach and Methodology to be adopted, innovative content and pipeline of potential incubatees.
- Industrial partner and strength in the thrust sector in which incubation is proposed.
- Assessment of realization potential of projected milestones, co-funding and sustainability of BI.

7.5 Step by Step process is as below:

- Online Application with a hard copy sent to EDII-TN in Annexe ... of this Guidelines
- Evaluation of applications by PMC at EDII-TN
- Communication of in-principle letter of selection by EDII-TN
- Submission of signed agreement with documents & Formation of SPV by HI

- e. Issue of Sanction orders and Release of funds for 6 months by EDII-TN
- f. Recruitment of CEO & Launch of Incubator by HI

8.0 Funding Support:

8.1 Format A: The applicant would be provided financial support in the form of Grant-in-aid for a maximum of 3 years. It is expected that the BI would become self-sustainable by the end of 3 years. Key aspects of funding BIs are as below:

- a) BIs would be provided a maximum grant-in-aid of Rs. 2.5 crore over a 3 year period which would largely cover operational expenditure and a small component of equipment. The ratio between capital and operational expenditure (other than those listed out under the negative heads) would be flexible and decided by the applicant. The BI shall take all steps to mobilise and cover the capital expenditure requirements from Government of India grants as far as possible.
- b) The grant-in-aid shall be disbursed in a phased manner based on milestones achieved as per the budget plan submitted by the applicant and approved by BI Program Management Office at EDI.

8.2 Format B: The applicant would be provided financial support in the form of Grant-in-aid for a maximum of 3 years. It is expected that the BI would become self-sustainable by the end of 3 years. BIs proposed by institutes (other than Government educational / R&D institutes), Industry Associations, companies and individuals or group of individuals:

- a) BI would be provided a maximum of 50% of the total project cost, subject to a maximum of 1.25 crores for other Institutions as grant over the 3 years period which would largely cover operational expenditure. The BI shall take all steps to cover the capital expenditure requirements from Government of India grants as far as possible.
- b) Rental value of the building as per fair market value for a period of 3 years will be considered as part of the institutions contribution to the BI.
- c) The grant-in-aid shall be disbursed in proportion to the funds brought in by the party, as mentioned in the budget plan and subsequently approved by the BI PMO @ EDI based on milestones achieved.
- d) Balance of not less than 50% funding for incubation facilities can be mobilised by the applicant in Format B from CSR contributions of industry or Government of India grants.

Note: The ratio between capital and operational expenditure would be flexible and decided by the applicant. The recommended composition would be 50% as program cost, 25% as the opex and 25% as capex. There shall be a contingency fund upto Rs. 10 lakhs which can be used as stop gap arrangement to keep up incubator operations without any gap including the salary of the incubator team.

8.3 A training, machinery and equipment grant of Rs.5 crore will be operated on need-based proposals to be screened and approved by the BI Programme Management Committee only for Format-A i.e. Government Institutions.

8.4 Training programs and exposure visits (including those for Incubator Managers & staff, College Faculty and Principals) would be carried out for all incubators.

8.5 Once the proposal for establishing a BI is agreed in-principle by EDII-TN, a letter of in-principle selection would be issued. Thereafter the process for the sanction and release of funds would be taken up after ensuring that following milestones are fulfilled by the Host Institution:-

- (i) Registration of BI as a section 8 company by the Host Institution.
- (ii) Creation of a separate interest bearing bank account under the name of the registered BI
- (iii) Earmarking minimum of 5000 sq. ft of furnished space for hosting the BI in one location. The actual space availability may be made with 3000 sqft initially and 2000 sqft by end of first year.

For fund release, a registered lease agreement by the HI for a 30 years in the name of the registered BI on a nominal rent of INR 100 may be submitted

(iv) Two copies of the Agreement between EDII-TN and HI in Annexure of this Guidelines

8.6 Funds will be released for 6 months at a time under this program. The first release will be on fulfilment of criteria in para 8.5 above and will cover 6 months requirement as per cash flow statement submitted with the application. Subsequent instalments will require submission of monthly reports and utilisation certificates for 5 months. The BI shall submit the request atleast 1 month ahead of the completion of 6 months.

9.0 Incubator focus areas & structure

9.1 Each BI will be required to meet the following conditions:

(a) The BI will chose atleast one area of specialisation below, though it will be free to incubate any other business as well to start with.

- Automobile & Sustainable Transportation Technologies
- Biotechnology
- Communication technology (publishing, printing, media, design etc)
- Medical devices & implants
- Nanotechnology
- Water & Environmental Technologies
- Smart cities Technologies
- Smart/Advanced manufacturing Technologies
- Life Sciences
- Renewable Energy
- If there is any other sector (not in industrial IoT, organic agro-processing, agribusiness, forestry, veterinary & horticulture) which is significant and the applicant has the resources to do it then they are welcome

(b) The BI will create an SPV as a section 8 company under Companies Act 2013.

(c) The BI would also put in place a dedicated full time Incubator Manager (IM) with desired domain and management expertise and one operation manager within six months from the date of release of funds. The BI Board will have full freedom to decide the composition, recruitment and compensation of the IM as well as the team of the BI. The compensation debitible to TNBIIDP funds shall not exceed Rs 1.25 lakhs per month. This can be escalated by a maximum of 10% per year based on outcome performance, by the SPV Board. The Institution can however choose to pay outstanding candidates additional sums from its revenue sources. The overall salary expenditure shall be limited to Rs 2.00 lakhs per year.

(d) The BI should develop appropriate formal linkages in the form of a cooperation agreement with large companies and/or industry associations and/or Research institutions to ensure its success. The BI will also foster industry research projects.

(e) The BI would evolve a transparent system for selection of incubatees. The incubatees would be admitted subject to fulfilling the admission criteria and the BI would enter into an appropriate agreement with the incubatees.

10.0 Business Incubator Services

10.1 The Business Incubator would be the central fulcrum of various activities related to entrepreneurship. The following are the outer framework of activities in the proposed Business Incubator to be set up at 10 different institutions:

| Type of Incubator Services | |
|-----------------------------------|--|
| Service Category | Service types |
| Information and Knowledge | Books and Information Bulletins, Subscription to Magazines, Frequent Interaction with experts |
| Training and Orientation | Courses on Entrepreneurship, Product Development, Pitching For Venture Capital, Development of a Business Plan, Valuation and Recruitment and Management of People |
| Mentors and Coaches | Experts who can guide and mentor Founders |
| Legal Assistance | Creating an initial Partner Agreement, Statutory Compliance, etc. |
| Infrastructure Assistance | Office space, Telecommunication facilities, Common office facilities |
| Technology Development Assistance | Equipment, Machinery, Lab, Computing Facility, Assistance from Professors and Research Scholars |
| Financial Assistance | Angel Funding, Grants, Subsidy services |
| Marketing Assistance | Connections to potential customers |

10.2 Apart from the above the incubator's will have their own networking with the industrial hub's in their region, tie up with industrial associations ,conduct workshops on entrepreneurship related areas, establish kiosk as a revenue model for their future substance.The greatest strength of every BI will be its ecosystem network.

10.3 There shall be a mentoring programmes (could be another successful incubator or a corporate or Alumni entrepreneur who is partner) for the BIs through discussions and workshops. The BIs have the freedom to innovate and localise their strategy according to their needs.

11.0 Business Incubator Systems and Processes

11.1 Operational systems and processes for an incubator are the set of policies of the organization that define how the TBI will be managed and operated. A detailed SOP would be evolved for running incubators.

12.0 BI Program Management Office @EDI:

12.1 A BI Program Management Committee, headed by Director EDI would approve, review, monitor and evaluate the BI activities in these colleges.

12.2 A BI expert panel will be constituted for each sector with sector experts from academia and industry to evaluate the project reports submitted during application evaluation, fund release request processing and to carry out site visits for evaluation of progress from time to time.

The PMO will also render the following services:

- Capacity building for institutions to run incubation & innovation centres
- Create a network of TN Incubators for sharing of best practices
- Organise Annual Regional & State TN Start-up Summit for sharing experiences of incubators and incubatees
- Visits, Monitoring, Evaluation & Documentation of Incubators supported

12.3 Once the Startup TN Mission is formed, these activities would be transferred to the Mission.

13.0 BI Governance:

13.1 Every BI will create an Special Purpose Vehicle, as a section 8 company , with the following as members : 3 highly successful local entrepreneurs as the Board members (turnover of above Rs 2 crores) preferably from alumni of the institution and with atleast one entrepreneur from the area of specialisation chosen by the BI, Head of the Institution, 3 senior research faculty members or scientists from R&D labs involved in R&D related to the thrust sector, Senior officer nominated

by Director-EDII-TN, a reputed Chartered Accountant, a well known business lawyer and two senior serving or retired bank officials or senior officials of Venture Capital funds as members.

13.2 The BI will be administered by the SPV Board and the Co-Chairman of the SPV Board shall be one of the outstanding entrepreneurs in the SPV Board. The Principal or Dean of the Institute shall also be the Co-Chairman of the SPV. The Board of the BI should meet at least once in every quarter to review progress of the BI and provide strategic guidance to the BI. The Board should ensure that the operations of BI are in line with the sanctioned proposal and activities are tailored to attain prescribed outcomes. The Board shall delegate sufficient powers, provide adequate autonomy and flexibility to the Chief Executive Officer (CEO) of the BI for making speedy & transparent decisions.

14.0 BI expert panel

14.1 It may not be possible to bring all the experts into the BI SPV. The key values that BIs offer to incubatees include expert advice, mentorship, technical advice, market knowledge, domain expertise and connections to potential partners and organizations and people who can help the start-up. Success of a BI will largely depend on having a very good panel of experts and mentors. Typical profiles of Expert Panelists or mentors include:

- Finance Professionals, Angel and VC funders for developing and evaluating business plans and financial models and financing startups
- Marketing experts for creating marketing plans and strategies
- Technology experts for reviewing technologies and overcoming challenges
- Domain experts who have worked in the industry for many years
- Alumni entrepreneurs and veteran entrepreneurs for coaching the startup founders
- Design experts for prototyping and product design
- IP and Legal experts for advising on IP and other statutory issues

15.0 Operating management team

15.1 This small operating management team will include the CEO of the BI and one support executive. The Manager must have experience in having worked or promoted one or more ventures and/or a senior industry professional. He or she should have a flair for both technical and financial domains and have good business sense. The most important trait of the Head, and perhaps the entire team, is a strong passion to promote start-up ventures and support them in all aspects. The Team must act like facilitators to help the start-up to get all of their needed resources and facilities without hassle or limitations.

The permanent support staff under the program shall be limited to one person with at least 3 years experience in entrepreneurship or manufacturing industry. The BI may hire experts, consultants or resource persons for programs. The institution may appoint at its cost any number of researchers or fellows or staff without any cost to the BI to support and assist the CEO.

A Committee shall be formed by the SPV for selection of the Incubator manager and shall include an SPV member who is a reputed entrepreneur, the Principal or Dean and EDI representative.

16.0 Financial Sustainability

16.1 It is expected that the BI become financially sustainable over a period of 3 years. The BI shall make this effort to frame paid programs from the first day of its existence. The BI would provide paid services as below:

- Space rental from incubatees
- Advisory & consultancy services for incubatees and MSMEs in the locality
- Training programs including bootcamps, hackathons, acceleration programs, etc.
- R&D, design, prototyping, product innovation and development services for entrepreneurs and local industry

However, taking into account TANII norms, we have prepared a proposal for funding for 3 years. An extension by one or two years may be required.

17.0 SOP for BI Services

17.1 A transparent process document on “How to avail incubating facilities” should be prepared for the benefit of potential applicants for incubation. This document should explain the process of submitting the application, necessary forms, attachments, proofs and business plan template. Also, the document must explain the selection process and steps involved. This document, to be made available on the website, should be like a marketing document selling the facilities of the BI so that applicants are encouraged to apply.

17.2 A policy document and SOP (Standard Operating Process) manual should be prepared by the BI for incubatees and managing staff. This manual will help avoid any potential misunderstanding between the Incubator and the tenant. It should list processes for availing various services, tariffs, booking processes for specific shared facilities, modes of payment, terms of payment, terms of services, service level agreements, escalation matrix and contact details of the management.

17.3 Ultimately, all ventures are commercial in nature. Intellectual properties and product ideas have economic value. Ownership of the ideas and the venture itself may be important for the promoters and incubator as well as the investors. A fair agreement detailing all the important issues like ownership of Intellectual property, product ideas, etc., must be spelt out. The agreement must also speak clearly about the liabilities and risks. If the incubator is investing or expects return for the services, it must be clear about the way it collects its dues or writes them off. Also, make sure that any liabilities that are incurred by the venture, promoter, investor or statutory body do not affect the incubator. Issues such as copyright, patent and plagiarism must also be dealt with in this document. Engagement of a legal expert is advised for handling these issues.

18.0 Expected Outputs and Outcomes from each incubator:

18.1 Expected outcomes of the Incubation process would be high growth exits and reduced failures. Selection of incubatees and support system should encourage such successful incubation. The expected outcomes are:

- 50 innovative businesses incubated over a period of 3 years of time.
- Minimum 50% of incubatees are manufacturing start-ups in the thrust field
- Workshops & training programs for MSMEs & startups for launch & acceleration
- Year-on-year graduation rate of atleast 5 of the physical incubatees
- Students and alumni motivated to start new businesses (in case of educational institution)
- MSMEs and start-ups in the locality look up to the BI as a resource institution.
- Strong industrial partnerships in the form of CSR grants and technical support
- Strong connectivity with seed funds, angels & VCs established.
- Financial and Organisational sustainability from year 3

19.0 Application process

19.1. Call for Applications & Submission of Proposal : A call for applications would be issued online in April 2017. Proposals (one hard copy + soft version in Adobe pdf format) shall be filed online in the prescribed proforma available at <http://www.ediitn.in/pages/view/application-format> along with the necessary enclosures including consent for Terms & Conditions. The proposal should be signed and forwarded by the Head of the Host Institute along with the enclosures listed in Annexures. The proposals shall also include special report on Entrepreneurship, Innovation and Startup Support Activities in the Host Institution in last 3 years and a commitment letter from the

HI with actual location and drawings of the space to be leased to the BI. A hard copy of the proposal in original shall be sent to:

The Joint Director (Incubation & Innovation),
Entrepreneurship Development & Innovation Institute of Tamil Nadu
(An autonomous society of the Government of Tamil Nadu)
Parthasarathy Koil Street, SIDCO Industrial Estate, Guindy,
Chennai-600032 TN INDIA
Web : www.editn.in, Email : adl.dir@editn.in, jd@editn.in
Tel : +91-44-2225-2081/82/83/84, Fax : +91-44-2225-2085

19.2 Enclosures to be submitted with the proposal by the institutions other than the Publicly Funded Institutions

- a. Registration Certificate of the Host Institute
- b. Memorandum of Association and Article of Association of the Host Institute
- c. Audited Statement of Accounts for the last three years
- d. Annual Reports for the last three years
- e. In case of incubators in non-academic institutions, if they have partnership with other academic institutions, R&D organizations or industries, a copy of MoU should be submitted along with the application.

20.0 Confidentiality

Information relating to the examination, clarification, evaluation, and recommendation for the selection of Applicants shall not be disclosed to any person who is not officially concerned with the process or is not a retained professional adviser advising the Authority in relation to matters arising out of, or concerning the Selection Process. The Authority may not divulge any such information unless it is directed to do so by any statutory entity that has the power under law to require its disclosure or is to enforce or assert any right or privilege of the statutory entity and/or the Authority.

21.0 Clarifications

22.1 To facilitate evaluation of Proposals, the Authority may, at its sole discretion, seek clarifications from any Applicant regarding its Proposal. Such clarification(s) shall be provided within the time specified by the Authority for this purpose. Any request for clarification(s) and all clarification(s) in response thereto shall be in writing.

22.2 If an Applicant does not provide clarifications sought within the specified time, its Proposal shall be liable to be rejected. In case the Proposal is not rejected, the Authority may proceed to evaluate the Proposal by construing the particulars requiring clarification to the best of its understanding, and the Applicant shall be barred from subsequently questioning such interpretation of the Authority.
