



TATVA INVESTMENT PROGRAMME



YES BANK LIMITED



INTRODUCTION

To deepen its impact on the sustainability space, YES BANK proposes to establish a Syndicate comprising YES BANK and upto two to three financial institutions towards a **socially and environmentally responsible equity investment programme (referred to as “Tatva”)**.

Tatva will invest equity in **early stage Small & Growth Enterprises profitably delivering positive people and planet impact**. YES BANK’s strategy to be an institution focused on Small & Medium Enterprises has resulted in considerable financial growth and a number of relationships in this market segment. These emerging enterprises tend to disproportionately benefit from India’s economic growth and are best placed to deliver returns across a large variety of stakeholders. Based on the interaction with these enterprises while providing other financial products and advisory services, it was found that a large number of India focused private equity funds prefer relatively larger investment sizes leading to a considerable equity gap in this segment.

Therefore, YES BANK has decided to sponsor an equity investment programme addressing the equity Capital Gap with respect to investments under USD 3 mn. To this end, the Bank is **committing USD 11 mn as the Anchor Investor to the Tatva programme thesis**. In addition to the sponsor commitment, the Bank has also established a **dedicated Investment Team** that is engaged in Tatva Programme development and documentation and is allocating other institutional resources towards this programme.

INVESTMENT THESIS & SECTOR FOCUS

The Tatva investment thesis evolved from YES BANK’s **extensive experience as a Lender and Advisor to sustainability-focused Small & Growth Enterprises (SGE)** that provide investable opportunities but face a demonstrable **Capital Gap** lacking available choices to fuel growth between start-up and expansion stages.

Tatva’s focus sectors are Renewable Energy, Energy Efficiency & Clean Technology; Waste Management, Water & Sanitation; Food & Agribusiness; Affordable Housing; Healthcare; Education & Livelihood Creation.

Indian SGEs have **limited access to capital** and the difficulty is compounded for SGEs in the sustainability space given the risk perceptions of innovative business models that have positive people or planet impact objectives. These enterprises typically face challenges due to the inadequate availability of allied infrastructure (such as logistics, market data and high quality distribution channels) in addition to the organizational difficulties faced by most growing enterprises. Most Indian private equity funds typically prefer to invest in larger more mature companies that can absorb USD 10 mn investments due to the following reasons:

- ✓ Lack of sourcing/ information networks with respect to smaller and early stage companies
- ✓ Requirement to provide significant operational support to help companies scale
- ✓ Relatively larger fund sizes resulting in a higher minimum investment size per deal
- ✓ Shorter holding periods with investment exit requirements within 4 to 5 years

Hence, there are considerable opportunities for focused capital intervention and proactive management support involving commercially attractive SGE businesses which are poised to exponentially benefit by either addressing under-served markets or enhancing the utilization of production factors in the sustainability sectors. There is an untapped and decoupled opportunity to participate in high growth sectors that have been excluded from mainstream economic activities and cycles.

Tatva combines the emerging trends in the sustainability space with its extensive experience with the SGEs to offer a solution that aims to support paradigm shifting sustainability-based business models that have the ability to scale rapidly and can contribute significantly to the country’s economic, social and environmental development while adequately rewarding capital providers in the industry.

Tatva is being designed for the following objectives:

- ✓ Capital appreciation through active participation in early-stage high-return investment opportunities
- ✓ High impact by supporting business models offering scalable solutions to social & environmental issues

PIPELINE BUSINESS DEVELOPMENT

The Team is utilizing a top-down analysis approach to shortlisted sectors/ subsectors, balanced by detailed bottom-up business model evaluation at the enterprise level. The Team has **identified a preliminary pipeline** which is being continually refined based on repeated interactions with companies and sector experts. As broad support for business development, the Team leverages the Bank’s network of 150 **branches** in over 122 cities and the **established relationship capital** to identify, approach and diligence new clients and businesses.

The Team also draws on two separate divisions in the Bank that are responsible for its considerable outreach in the small and medium enterprise sector:

- ✓ Business Banking, covering companies with turnover less than USD 20 mn turnover has over 2,400 relationships across 235 relationship managers
- ✓ Commercial Banking Group, covering companies with a USD 20 - 200 mn turnover, has over 450 corporate relationship across 145 relationship managers

The Investment Team greatly benefits from the origination capacity of these teams which also serve as a useful feedback mechanism and source of information on qualitative aspects of enterprises during deal evaluation.

OPERATIONAL FOCUS OF THE FUND

Given the early stage, the portfolio is expected to require **significant monitoring and risk management** till monetization. Part of the **investment process envisages providing enterprise development support** to the entrepreneur to identify and increase scope of operations, provide best practices and bring organizational efficiencies into operations. The full benefit of the investment will accrue only after successful proof of concept, capacity building and scaling up of operations. For meeting this objective, Tatva plans to establish an Operational Team which will work closely with the Investment Team from the deal evaluation stage and will actively provide support in the post investment stage.

EXIT AND MONETIZATION

With respect to monetization, there exist attractive exit opportunities through Strategic Sale, Buyback Agreements with Promoters and Secondary Sale to Financial Investors. The Tatva pipeline could essentially be seen as an origination structure for growth capital providers once the portfolio companies mature in their investment parameters. In some exceptional cases Initial Public Offerings may be envisaged.

FUND STRUCTURE

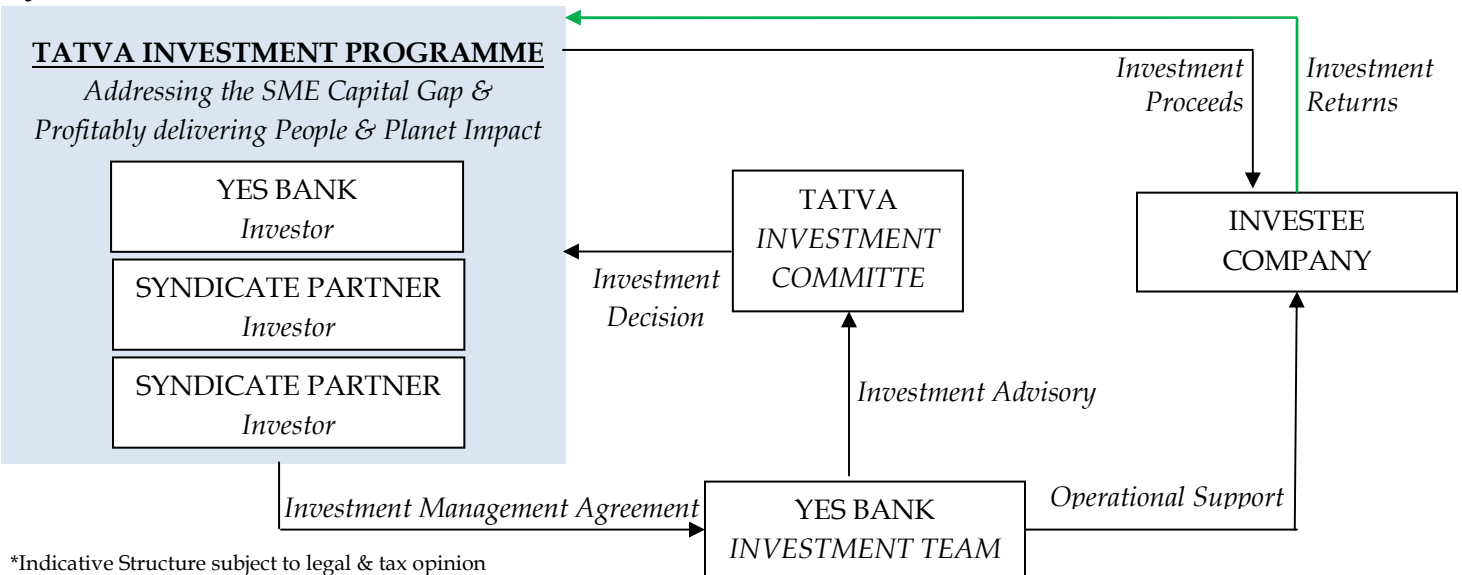
YES BANK as the Sponsor and Anchor Investor would lead the Syndicate by establishing the initial Syndicate framework and would be responsible for:

- ✓ Deal origination & sourcing by effectively leveraging the Bank's growing relationships & conducting top-down sector mapping
- ✓ Deal management by liaising between the Syndicate and potential Investees to ensure efficient deal negotiation and transaction execution
- ✓ Pro-actively managing the critical post investment oversight process by providing operational support services
- ✓ Undertaking the fiduciary responsibility for representing the Syndicate in its dealing with the investee

ADVANTAGES FOR THE SYNDICATE PARTNER

- ✓ Access to YES BANK's proprietary deal flow. Tatva will be able to leverage the Bank's extensive network in India, its reputation in 'Responsible Banking' and its brand equity with Indian promoters
- ✓ YES BANK has set up an investment team to identify, originate & evaluate the investment opportunity on behalf of the Syndicate
- ✓ Investment team and institutional support to provide post-investment management to help scale and exit investments profitably
- ✓ Pedigreed Institutional Sponsorship - Substantial proportion of capital committed by YES Bank
- ✓ Syndicate Partner to have investment discretion through consensus-based decisions & representation on the Investment Committee
- ✓ Syndicate Partners to pay a fee only on invested capital. Unlike conventional venture funds, Tatva is not modelled for an annual management fee based on committed capital. YES BANK, as the Syndicate Lead for Tatva proposes to charge an arranger fee of 2% of the transaction value at the time of each investment and an on-going management fees on invested capital. For comparison purposes, a mainstream venture fund would charge investors annual Management Fees between 2% to 2.5% during the commitment period on the total fund size irrespective of deployment.
- ✓ Healthy financial returns while maximizing positive social and environmental impact

Syndicate Structure*



INVESTMENT MANAGEMENT AND GOVERNING STRUCTURE

The Investment Committee (IC) is expected to comprise 5 members- representatives of YES BANK & Syndicate Partners respectively; independent members drawn from industry and academia; and an Investment Team Nominee. The IC shall have the authority necessary to approve or reject investments proposed by the Investment Team and will supervise the implementation of Tatva's investment strategy. All investment decisions will be made on the basis of consensus. Brief resumes of identified IC Members are provided below:

Mr. Somak Ghosh – President of Corporate Finance & Development Banking, YES BANK

- ✓ Co-founder of YES BANK & Investment Committee Member of the IGNIA Fund
- ✓ Leads the Development Banking practice comprising *inter-alia* Agri, Rural & Social Banking and Microfinance
- ✓ Part of Executive Management Team, member of Asset Liability Committee & Management Credit Committee
- ✓ Somak's earlier assignments include Rabo India, ICICI Bank, Ispat Steel and Reliance Industries

Mr. Michael Chu¹, Senior Lecturer, Harvard Business School and Co-founder & MD of IGNIA Fund

- ✓ Senior Lecturer in Initiative on Social Enterprises, the General Management Group of Harvard Business School
- ✓ Managing Director & co-founder of the IGNIA Fund, an investment firm based in Mexico, dedicated to investing in commercial enterprises serving low-income populations in Latin America
- ✓ Senior Advisor and founding partner of private equity firm Pegasus Capital with investments across major companies and real estate developments in Argentina
- ✓ Prior experience includes President and CEO of ACCION International a nonprofit corporation dedicated to microfinance; & as an executive and limited partner Kohlberg Kravis Roberts & Co

Mr. Vivek Mehra – Managing Director, Private Equity, YES BANK; Tatva Investment Team Head

- ✓ Responsible for, *inter-alia*, YES BANK's role as co-sponsor of the South Asia Clean Energy Fund with Global Environment Fund
- ✓ Leads team focused on advising offshore funds on investments in Indian markets.
- ✓ Prior operational experience as Founder & Managing Director of VA TECH Finance, a boutique investment advisory firm focusing on RE & water related projects in India
- ✓ Established & managed group treasury controlling financing, risk management, insurance, forex, acquisitions & divestitures for the Voest Alpine Group in South & SE Asia
- ✓ Over 17 years of experience in investment banking and corporate business development including facilitating exit opportunities through secondary and trade sales.

Vivek is supported by an Investment Team comprising three members with investing and operational experience and continues to seek two top caliber candidates with operational experience in the Small & Growth Enterprise space, to complement the existing Investment Team.

¹ Nominated as an Independent member of the IC

INDICATIVE KEY TERMS

Programme Size	Targeted at a minimum USD 35 mn; corpus will depend on the number of Syndicate Partners, with a greenshoe option of another USD 15 mn capping the first Tatva programme at USD 50 mn
YES BANK Role	Lead Arranger/Manager and anchor investor
YES BANK Commitment	USD 11 mn (USD equivalent of INR 500 mn)
Stage of Investment	Seed/Early-stage
Instrument	Equity, debentures, convertibles, and equity-related investments
Deal Size	~USD 500,000 to USD 3 mn
Target Return	25% to 30% IRR
Portfolio Size	~10 to 12 investments
Investment Period	3 year Investment Period; 7 year Holding Period
Exit Options	Trade sale/Secondary sale/Promoter buy-back/IPO
Arranger Fees	2.0% of transaction value at the time of each investment
Post-investment Fees	2.0% of invested capital until divestiture
Carried Interest	To be structured in consultation with Syndicate Partners

INSTITUTIONAL SUPPORT - SEED CAPITAL ASSISTANCE FACILITY (SCAF)

Tatva was selected for funding under SCAF to institutionalize the Operational Team as an integral part of the enterprise development support to be offered to SGEs.

SCAF is a regional technical assistance programme run by Asia Development Bank (ADB) and United Nations Environment Programme (UNEP) designed to support the creation of a seed capital investment strategy focused on the clean energy sector within the broader investment offerings of venture capital funds across Asia.

INDICATIVE OFFER

Target size of Tatva Investment Programme: USD 45 mn

Of which, YES BANK's sponsor commitment: USD 11 mn

YES BANK is seeking minimum commitment of USD 10 mn per Syndicate Partner

FOR FURTHER INFORMATION PLEASE CONTACT:

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