Karnataka Cluster Development Scheme (KCDS)

Background

1. MSME sector is a vibrant and vital sector of the State economy in terms of employment generation and share of production. There are nearly 5.84 lakh registered MSMEs in Karnataka as on 31.05.2017 providing employment to over 38 lakh persons with a total investment of around 40,952 crore. The state recognizes role of manufacturing sector in its contribution to GDP and employment generation.

2. Micro and small enterprises in rural areas as clusters which are considered as rural industries and artisans sector under the Khadi and Village Industries actors need Technology upgradation and also some common facilities/activities for enhancing the quality and competitiveness.

3. Karnataka state has a rich raw material resources of Agriculture and Horticulture crops. There is concentration of Agro processing industries in Bellary, Koppal, Tumkur and Dakshina Kannada Dist. The fruits and vegetables provide huge potential for processing and value added products by setting up of MSMEs, which in turn the formation of Clusters will ensure quality products for Domestic consumption and Exports.

4. The Government of Karnataka (GoK) taking the above inputs has adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness, technology improvement, adoption of best manufacturing practices, marketing of products, employment generation, technology benchmarking (international/national), market potential assessment, skill upgradation etc. as well as capacity building of Micro and Small Enterprises (MSEs) as these considered as potential drivers of enterprise development and innovation.

5. Hence a new scheme called Karnataka Cluster Development Programme (KCDP) is proposed to provide the interventions proposed in the scheme to bring out general attitudinal changes necessary to initiate improvement in the existing style of working of the MSEs in the quality & competitiveness adopting modern manufacturing/processing technology.
Karnataka Cluster Development Programme (KCDP) Scheme details

I. **Scope of the Scheme**

A cluster is a group of enterprises located within an identifiable and as far as practicable, contiguous area and producing same/similar products/services. The essential characteristics of enterprises in a cluster are (a) Similarity or complementarily in the methods of production, quality control and testing, energy consumption, pollution control, etc (b) Similar level of technology and marketing strategies/practices (c) Channels for communication among the members of the cluster (d) Common challenges and opportunities.

II. **Objectives of the Scheme:**

(i) To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital, etc.
(ii) To build capacity of MSEs for common supportive action through formation of self help groups, consortia, upgradation of associations, etc.
(iii) To create/upgrade infrastructural facilities in the new/existing industrial areas/clusters of MSEs.
(iv) To set up common facility centres (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc).

III. **Eligibility Criteria**

a. There should be a minimum of 20 MSE units in the cluster serving as members of the Special Purpose Vehicle (SPV). There is no ceiling on the maximum number of members. In special cases, where considerations of investments, technology or small size of the cluster warrant lesser number of units, a minimum of 10 MSE units may be considered for the SPV with the prior approval of the State level committee.

b. It is necessary to form an SPV prior to setting up of and running the proposed CFC. An SPV is a clear legal entity (Cooperative Society, Registered Society, Trust or a Company) with evidence of prior experience of positive collaboration among its members. The SPV should have a character of
inclusiveness wherein provision for enrolling new members to enable prospective entrepreneurs in the cluster to utilise the facility should be provided. In addition to the contributing members of the SPV, the organizers should obtain written commitments from ‘users’ of the proposed facilities so that its benefits can be further enlarged. Bylaws of SPV should have provisions for Managing Director, KCTU and Joint Director, DIC of the concerned Dist as members of the SPV.

IV. Admissible Activities

A. Industrial Clusters
B. Handicrafts Clusters
C. Micro – Enterprises Clusters (Manufacturing Services)

The proposals for setting up Clusters in the above mentioned categories including activities under KVIC, Rural & Cottage industries and Agro and Food processing.

The SPVs proposing setting up of Clusters will take action as below:

1. Detailed Project Report (DPR)

a. The cluster SPV has to prepare a DPR to map all the business processes of the cluster units viz. manufacturing processes, technology, marketing, quality control, testing, purchase, outsourcing, etc to find out its strengths, weaknesses, threats and opportunities (SWOT), problems and impediments, suggestions and a well drawn action plan for enhancing competitiveness of the units of the cluster and to position the cluster on a self sustaining trajectory of growth. The DPR should focus on enhanced competitiveness, technology improvement, adoption of best manufacturing practices, marketing of products, employment generation, etc. There has to be direct linkages between the problems highlighted in the report and the measures suggested for improvement.

b. The DPR should include financial analysis like internal rate of return, break-even point, debt-service coverage ratio, sensitivity analysis, etc., using basic templates such as projected profit & loss account, projected balance sheet etc. The indicative format for preparation of DPR is given at Annex 1.

c. DPR should be appraised by a Bank and any Agency like CEDOK/TECSOK/SIDBI recognized by State/Central Government.
Activities Considered to be Financial Assistance under the scheme:

**Hard Interventions (setting up of CFCs)**: Hard Interventions under the programme will consist of creation of tangible “assets” as Common Facility Centers (CFCs) like Common Production/Processing Centre (for balancing/correcting/improving production line that cannot be undertaken by individual units), Design Centres, Testing Facilities, Training Centre, Effluent Treatment Plant, Marketing Display/Selling Centre, Common Logistics Centre, Common Raw Material Bank/Sales Depot, etc.

V. **Project Cost**

Common Facility Centers to be setup with investment upto Rs 10.00 crores.

The GoK grant will be restricted to 50 % of the Cost of Project of maximum Rs 5.00 crore. The cost of project includes cost of Land (subject to max. of 25% of Project Cost), building, pre-operative expenses, preliminary expenses, machinery & equipment, miscellaneous fixed assets, support infrastructure such as water supply, electricity and margin money for working capital.

The entire cost of land and building for CFC shall be met by SPV. Investment in land and building will be considered as SPV contribution (margin) for the project. CFC can be set up in leased premises. However, the lease should be legally tenable and for a fairly long duration (Min 15 years).

In case of Project proposal exceeding Rs 10.00 crores, the Project steering Committee is empowered to consider them as special cases depending on merits but the Government contribution will be limited to the Project cost of Rs. 10.00 crores, max 50% will be funded.

**Means of finance**:

<table>
<thead>
<tr>
<th>GoK Share</th>
<th>SPV Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 % of Project Cost or max of Rs. 5.00 Crores</td>
<td>50 % of Project Cost</td>
</tr>
</tbody>
</table>
*Note:* Large Mother manufacturing Industries, other major buyers of the cluster MSE products, Anchor industries are eligible to contribute up to 49 percent for SPV/ SPV may borrow loan from financial institution or Bank.

VI. **Project Approvals:** The proposals under the scheme will be considered for approval by the Project Steering Committee of the KCDP. A committee is to be constituted by the State Government as below:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Secretary to Government , (MSME and Mines) Industries &amp; Commerce Dept</td>
<td>Chairman</td>
</tr>
<tr>
<td>2</td>
<td>Commissioner for Micro, Small and Medium Enterprises</td>
<td>Member</td>
</tr>
<tr>
<td>3</td>
<td>Additional Director (MSME), Industries &amp; Commerce Dept</td>
<td>Member</td>
</tr>
<tr>
<td>4</td>
<td>Joint Director, Concerned District Industries Centre (DIC)</td>
<td>Member</td>
</tr>
<tr>
<td>5</td>
<td>Small Scale Industries Development Bank of India (SIDBI) or his nominee</td>
<td>Member</td>
</tr>
<tr>
<td>6</td>
<td>President, Karnataka Small Scale Industries Associations (KASSIA), Bangalore or his</td>
<td>Member</td>
</tr>
<tr>
<td></td>
<td>authorized nominee</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Managing Director, KCTU (Implementing Agency)</td>
<td>Member Secretary/ Convener</td>
</tr>
</tbody>
</table>

Hard interventions (CFC) and infrastructure development projects will be approved in two stages: In-principle approval and final approval.

a. **In-principle approval:** All CFC proposals is to be submitted to KCTU through Joint Director, District Industries Centre Concerned. KCTU will scrutiny the proposal received and will place before the Project Steering Committee for approval. In-principle approval shall be valid for a period of 6 months, and before that it is expected that the project would be ready for final approval. In case, final proposal is not received in 6 months, it will automatically lapse, unless it is specifically extended by the steering committee.

b. **Final Approval:** The projects which have been accorded in-principle approval, shall be accorded final approval on fulfillment of following conditions:

   a. Appraised Detailed Project Report (DPR)
   b. Formation of SPV
   c. Land procured and registered in the name of SPV
d. Registered Lease Deed of the Building  
e. Submission of appraised Detailed Project Report (DPR)  
f. Details of the share holding of the SPV in nationalized bank.  
g. Project Specific account in a bank  
h. Debt approval letter from the Bank / Financial Institution

VII. Implementing Agencies

<table>
<thead>
<tr>
<th>Activity</th>
<th>Implementing Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting up of CFC</td>
<td>Karnataka Council for Technological Upgradation (KCTU), Bangalore</td>
</tr>
</tbody>
</table>

VIII. Project Implementation

a. The CFC should be operationalised **within two years** from the date of final approval, unless extended with the approval of Steering Committee.

b. The CFC may be utilized by the SPV members and as also others in the cluster.

c. Escalation in the cost of project above the sanctioned amount, due to any reason, will be borne by the SPV. The State Government shall not accept any financial liability arising out of operation of any CFC.

d. User charges for services of CFC shall be close to prevailing market prices, as decided by the Governing Council/Managing Committee of the SPV. The SPV members may be given reasonable preference in user charges.

e. Funds will be released in three installments in the ratio of 50:40:10 (after final approval) depending upon the implementation plan, requirements of funds.

f. Agreement among the KCTU, and the SPV shall be signed for CFC projects as per annexure 2.
Additional Director (MSME)

("Draft guidelines approved by Commissioner for Industrial Development & Director of Industries & Commerce Dept")
Annex 1

Format of Detailed Proposal for CFC

1. The basic details/documentation
   i. Name and location of the cluster
   ii. Nature of activity and products
   iii. Number and size (also in terms of installed capacity) of units
   iv. Scale of investment (also in terms of net fixed and important current assets)
   v. Value of output in the last 5 years (different enterprise segment-wise), including export output, if any
   vi. Projected performance of the cluster after proposed intervention (in terms of production, export/domestic sales and direct/indirect employment, etc.)
   vii. Diagnostic study/comparative advantage benchmark survey (main findings)
   viii. Information on nature of critical gaps identified (such as poor storage facility, poor testing and quality control facilities-item-wise cost estimates)
   ix. Implementation schedule; structuring of the SPV, such as copy of certificate of incorporation, articles of association and letter of agreement with stakeholders
   x. Revenue generation mechanism for sustainability of assets (service/user charges to be levied, any other-to be specified)
   xi. Project highlights: Total cost of project, contribution from cluster enterprises/stakeholders, average contribution by individual enterprises, grant in aid under MSE-CDP, term loans, repayment schedule and estimated debt service coverage ratio (DSCR), annual estimated income, expenditure, gross and net profit at expected/optimal levels of operations, break even (BE)/internal rate of return (IRR) calculations, payback period, etc.
   xii. In-principle sanction of loan from a bank/KSFC, if applicable
   xiii. Previous track record of co-operative initiatives pursued by SPV members need to be highlighted with support documentation
   xiv. CFC may be utilised by SPV members as also others in a cluster. However, evidence should be furnished with regard to SPV member ability to utilise at least 60 per cent of installed capacity.

2. Elements of DPR
   2.1 Plant and machinery
      (a) List of Plant and Machinery

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars of plant and machinery</th>
<th>No.</th>
<th>Power requirement (HP/KW)</th>
<th>F.O.R. Price (Rs)</th>
<th>Name of proposed suppliers</th>
<th>Delivery Schedule (monthwise)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note: Add central sales tax, packing and forwarding charges (2%), transit insurance (1%), and freight (2%) to costs or actuals.

(b) Capacity of plant and machinery on single shift basis
(c) Production pattern

2.2 Annual requirement of raw materials and consumables at 100% capacity utilization

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars of raw material</th>
<th>Specifications/ indigenous/ imported</th>
<th>Quantity required at full capacity</th>
<th>Unit price (Rs.)</th>
<th>Total value (Rs.)</th>
</tr>
</thead>
</table>

2.3 Utilities and services at full capacity utilization

(a) Power for industrial purpose

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars of the machinery</th>
<th>KW</th>
<th>No. of working hrs. per month</th>
<th>KW/month</th>
<th>Rs./KWH</th>
<th>Total</th>
</tr>
</thead>
</table>

(b) Power requirement for commercial/ domestic purpose
(c) Water
(d) Gas/Oil/ Other utilities

2.4 Site Development and civil construction

<table>
<thead>
<tr>
<th></th>
<th>Particulars</th>
<th>Quantity/ nos</th>
<th>Rate</th>
<th>Cost</th>
</tr>
</thead>
</table>
i | Cost of land | | | |
|ii | Development cost of land | | | |
|iii | Cost of compound wall | | | |
|iv | Cost of fabricated gates & grills | | | |
|v | Cost of shed | | | |
|vi | Cost of laboratory | | | |
|vii | Other RCC construction | | | |
|ix | Water tank/ Overhead water tank | | | |

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
</table>
2.5 Organizational set up and man power requirement

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category/ Designation</th>
<th>No. of persons</th>
<th>Salary per month (Rs)</th>
<th>Total salary (PM)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Add 25% towards fringe benefits and 5% annual increment

2.6 Project cost

<table>
<thead>
<tr>
<th>Particulars of cost</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Land &amp; site development</td>
<td></td>
</tr>
<tr>
<td>(ii) Building</td>
<td></td>
</tr>
<tr>
<td>(iii) Plant and machinery (cost of plant and machinery, 10% installation, electrification and commissioning)</td>
<td></td>
</tr>
<tr>
<td>(iv) Misc. fixed assets (fixture, furniture, fire fighting equipment, first aid equipment, back up power supply, etc.)</td>
<td></td>
</tr>
<tr>
<td>(v) Preliminary expenses (diagnostic study, DPR, legal &amp; administrative expenses, telephone, stationery, etc.)</td>
<td></td>
</tr>
<tr>
<td>(vi) Pre-operative expenses (establishment, travel, interest on borrowings, committed charges during construction period, startup expenses, etc.)</td>
<td></td>
</tr>
<tr>
<td>(vii) Provision for contingencies (2% building and 5% on plant and machinery)</td>
<td></td>
</tr>
<tr>
<td>(viii) Margin money for working capital</td>
<td></td>
</tr>
</tbody>
</table>

| Total | |

2.7 Means of finance

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Agency</th>
<th>Amount (Rs. lakh)</th>
<th>% of the project cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>SPV Contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>GoK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Bank/KSFC Borrowings</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.8 Working capital and margin money (actual capacity utilisation year wise)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>No. of months</th>
<th>Margin</th>
<th>as per capacity utilisation</th>
<th>1st year</th>
<th>2nd Year</th>
<th>3rd year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Raw material and consumables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Utilities</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Working expenses (salary of manpower)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Works in process (cost of raw material, utility and salary on actuals)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Stock of finished goods (cost of raw material, utility, salary, factory overheads on actuals)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Bills receivables (Sales value)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.9 Cost of production (Projection for 10 years of operation in tabular form)

(i) Raw materials and consumables
(ii) Utilities
(iii) Wages and salary
(iv) Repairs and maintenance
(v) Insurance
(vi) Administrative and factory overheads
(vii) Selling expenses

2.10 Estimation of profitability (projections for 10 years of operation in tabular form)

(i) Installed capacity
(ii) Number of working days (single shift basis)
(iii) Capacity utilization
(iv) Production (in single unit)
(v) Sales realisation
(vi) Cost of production
(vii) Gross profit [(v)-(vi)]
(viii) Financial expenses
(a) Interest on bank borrowing
(ix) Depreciation on written down value method (as per separate schedule to be attached for different categories of fixed assets)
(x) Preparatory expenses not written off
(xi) Operating profit [(vii) – {(viii) + (ix) + (x)}]
(xii) Tax vide separate schedule
(xiii) Profit after tax [(xi) – (xii)]
(xiv) Available surplus [(xiii) + (ix)]

2.11 Cash flow statement (projections for 10 years in tabular form)

(A) Sources of fund:
(a) Gross profit less depreciation
(b) Term loan
(c) Subsidy/Grant
(d) Promoter’s contribution
(e) Increase in bank borrowings
(f) Depreciation

(B) Disposal of funds:
(a) Preliminary & pre-operative expenses
(b) Capital expenditure
(c) Increase in working capital
(d) Interest on term loan
(e) Interest on bank borrowings
(f) Decrease in term loan
(g) Taxes

(C) Opening balance of cash in hand or at bank [sum total of {(A)-(B)}]

(D) Net surplus/Deficit

(E) Closing balance of cash in hand or at bank

2.12 Debt Service coverage ratios (Projections for 10 years)

\[ DSCR = \frac{Net \ Profit + Interest (TL) + Depreciation}{Installment (TL) + Interest (TL)} \]
2.13 Balance sheet & P/L account (projection for 10 years)

2.14 **Break Even Point** = \( \frac{Fixed\ Cost}{Contribution\ (Sales - Variable\ Cost)} \)

3 **Commercial Viability**: Following financial appraisal tools will be employed for assessing commercial viability of the project:

I. **Return on Capital Employed (ROCE)**: The total return generated by the project over its entire projected life will be averaged to find out the average yearly return. The simple acceptance rule for the investment is that the return (incorporating benefit of grant-in-aid assistance) is sufficiently larger than the interest on capital employed. Return in excess of 25% is desirable.

II. **Debt Service Coverage Ratio**: Acceptance rule will be cumulative DSCR of 3:1 during repayment period.

III. **Break-Even (BE) Analysis**: Break-even point should be below 60 per cent of the installed capacity.

IV. **Sensitivity Analysis**: Sensitivity analysis will be pursued for all the major financial parameters/indicators in terms of a 5-10 per cent drop in user charges or fall in capacity utilisation by 10-20 per cent.

V. **Net Present Value (NPV)**: Net Present Value of the project needs to be positive and the Internal Rate of return (IRR) should be above 10 per cent. The rate of discount to be adopted for estimation of NPV will be 10 per cent. The project life may be considered to be a maximum of 10 years. The life of the project to be considered for this purpose needs to be supported by recommendation of a technical expert/institution.
Annex 2

Format for Agreement among Special Purpose Vehicle (SPV) and Karnataka Council for Technological Upgradation (KCTU) under KCDS

This agreement is made at .......... on this the ..........th day of ........ 20.... between (1) KCTU represented by Managing Director (hereinafter referred to as the ‘GoK) and (2) ................. Special Purpose Vehicle (SPV) having its registered office at........ represented by its Managing Director/Chief Executive Officer (hereinafter referred to as the ‘SPV’).

WHEREAS the GoK has introduced a scheme named as “Karnataka Cluster Development Scheme (KCDS)” with the objective of supporting and strengthening of micro and small enterprises (including small scale service and business entities) and their collectives in the State;

AND WHEREAS the SPV has been created and constituted as a partnership firm/trust/society/co-operative society/company, inter alia, to create, establish, run and maintain a Common Facility Centre at ......................(the CFC) for the use and benefit of its members and of other units engaged or coming up in the same industry, trade or vocation in the .................................of .........................................(the Cluster);

AND WHEREAS the SPV has submitted a project for approval to Commerce and Industries Department, GoK under the KCDP scheme;

AND WHEREAS the GoK has approved the project submitted by the SPV subject to the conditions mentioned in the sanction letter no............... dated ............. (or to be issued) which shall be deemed to be a part of this Agreement and the GoK has also agreed to contribute towards the cost of establishment of the CFC;

AND WHEREAS for binding the Parties to their respective obligations and to ensure long term use of the CFC by the enterprises in the Cluster, the Parties are desirous to enter into an agreement;

NOW THIS AGREEMENT WITNESSETH AS FOLLOWS:-

1. The SPV shall set up the CFC at.............. on a piece of land to be provided by it free of all encumbrances and charges.
2. The SPV shall contribute to the cost of establishment of the CFC from its resources to the extent and in the form as laid down in the Sanction Letter.
3. The GoK shall, on satisfactory proof of the contribution by the SPV, make their respective contributions towards the cost of establishment of the CFC, at such time, in such manner and to such extent as laid down in the Sanction Letter.

4. The establishment of the CFC, including civil works, if any, shall be completed by the SPV within one year of the receipt of the Sanction Letter, or such extended time as the GoK may, on its satisfaction as to the reasons of delay, grant.

5. The SPV shall be exclusively responsible for the day-to-day running of the CFC. The aim of running the CFC shall be to provide common services to the enterprises in the Cluster at affordable cost as well as to generate enough income to meet all its running expenditure, depreciation and provision for replacement/expansion of capital assets. However, any shortfall or excess of income over expenses shall be kept or borne by the SPV only.

6. The disbursement of funds by the GoK will be made only after the upfront contribution to be made by the SPV, or the beneficiaries.

7. Further, the SPV will ensure that necessary infrastructure like provisioning of land and building including water and power supply for CFC before they approach GoK for release of grants.

8. Pending utilization of GoK grant, the funds will be parked in a separate dedicated account created for this purpose. Interest accrued, if any, on unutilized fund shall be adjusted against future disbursement under the scheme.

9. KCTU/DIC will reserve the right to carry out physical verification of the assets acquired with the funds or initiate any other enquiry as it may deem fit to satisfy the competent authority with regard to the proper utilization of the funds released.

10. The SPV shall furnish utilization certificates for amounts released as grant-in-aid duly verified by the statutory auditors.

11. The KCTU/DIC will act as a facilitator to supervise and evaluate the progress of the project separately. The KCTU will also inform the GoK about the status of the establishment or running of CFC and shall also report to the GoK for any discrepancies in its management or otherwise.

12. All plant, machinery, fixtures or equipment procured for the purpose of the CFC out of or with the support of the GoK grant shall be the exclusive property of the GoK, though in the custody and use of the SPV.

13. The SPV shall, at its own cost, insure and keep insured all the plant, machinery, fixtures and equipment of the CFC for a minimum period of 10 years. In case of loss of or damage to such plant, machinery, fixtures and equipment, etc., the insurance money shall be payable to the GoK.

14. The SPV shall observe all the conditions and stipulations of the Sanction Letter.

15. The management of the SPV and the operation of the CFC shall be in accordance with the GoK Guidelines dated ........, which shall be deemed to be a part of this Agreement.

16. The SPV shall keep all monies not immediately required in interest bearing deposits with any Scheduled Bank in India.
17. In the event of any liquidation or bankruptcy proceedings or any threatened distress action against the SPV or any of its assets all plant, machinery, fixtures and equipment procured for the purpose of the CFC out of or with the support of the GoK grant shall be outside such proceedings and the GoK may assume the control and management of the SPV and appoint any of its officer or officer of the GoK or any semi-government or nongovernment body to run the CFC.

18. The SPV represents and warrants:

A. That it has been duly constituted under the law as applicable and has full authority to enter into this Agreement.
B. That this agreement is binding upon it in all its provisions.
C. That it shall work on mutual co-operation basis on sound managerial and business principles and no managerial changes shall be made which may adversely affect the smooth functioning of the CFC.
D. That it shall keep all the plant, machinery, fixtures and equipment in good working order and shall undertake all preventive and remedial maintenance and upkeep and maintain insurance.
E. That the plant, machinery, fixtures and equipment procured out of or with support of the GoK grant, is the property of GoK and the SPV shall not sell, hypothecate, mortgage, charge or create any encumbrances against the said plant, machinery, fixtures and equipment or any part of it in favour of any person, for any reason or transaction.
F. That the SPV shall follow the directions of the GoK, as may be issued from time to time for better management of the SPV or the better running of the CFC.
G. That the SPV acknowledges that the KCDP provides for only one time grant towards capital cost of establishing the CFC and no subsidy/grant/assistance is envisaged for the recurring expenses or for replacement, renovation or expansion of the capital assets.
H. In the event it is found that the SPV has not utilized the amount of grant, or any part of it, for the setting up of the CFC or has subsequently sold or otherwise disposed of any of the assets of the CFC acquired out of the grant, the GoK, without prejudice to any other rights, shall be entitled to recover the amount of loss as arrears of land revenue from the SPV and / or persons connected with its management jointly and severally.

19. In case of any disputes or differences arising from, in relation to or in connection with this Agreement and not otherwise provided for in the succeeding clause, shall be settled by Courts in Bangalore shall have exclusive jurisdiction in all the matters.
20. In case of violation of the stipulated conditions or non observance of the Sanction Letter or the GoK Guidelines by the SPV which is not replied within 15 days of issue of notice by the GoK, the GoK in consultation with the IA, may, for such time as it may think proper, assume the management of the SPV or delegate the same to the IA, or a semi-government or non-government body, to assure proper functioning of the CFC. The decision of GoK in this regard will be final. In such event the SPV shall have no claims for any investment made in the CFC or its management.

21. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remaining provisions, which shall remain in full force.

22. No amendment to this agreement shall be valid unless expressed in writing and duly signed by all the Parties.

23. This agreement does not constitute any partnership of the GoK with the SPV and the GoK shall not be responsible for any act, omission, negligence, etc. of the SPV or its employees, agents or contractors or any injury suffered or claim made by any person in respect of the working of the CFC.

1. Government of Karnataka, Represented by Shri........
2. Special Purpose Vehicle Represented by Shri.......