TENDER DOCUMENT
FOR
APPOINTMENT
OF
MERCHANT BANKER
FOR ISSUING PRIVATE PLACEMENT TAXABLE UNSECURED REDEEMABLE BONDS OF Rs 100 CRORE
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1. ABOUT KSFC

The Karnataka State Financial Corporation is established under SFCs Act 1951 by the Government of Karnataka in 1959 and is a public financial institution under Section 4(A) of the Companies Act 1956. KSFC is engaged in providing finance to MSME segment in the State of Karnataka and functions as a state level developmental institution. Since inception, KSFC has assisted over 1,64,000 units as on 31.03.2010, the aggregate sanctions being more than Rs. 9100 crores.

The Corporation has been availing refinance from SIDBI for its lending activities, besides accessing the market through Private Placement Bonds.

2. KSFC’s PROPOSED BORROWING PROGRAMME:

The KSFC intends to mobilise Rs 100 crore through private placement of bonds for augmenting the resources for its operations.

The bonds would be un-secured, redeemable, non-convertible, taxable and in the nature of debentures. The Government of Karnataka unconditionally and irrevocably guarantees the bonds.

3. DETAILS OF THE INSTRUMENT

<table>
<thead>
<tr>
<th>Issue size</th>
<th>Rs100 crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face value of each bond</td>
<td>Rs.10 lakh</td>
</tr>
<tr>
<td>Tenor of the instrument</td>
<td>11 years</td>
</tr>
<tr>
<td>Call option</td>
<td>At par, at the end of 8th Year</td>
</tr>
<tr>
<td>Redemption</td>
<td>At par, at the end of 11th year</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>CRISIL &amp; CARE have been appointed as rating agencies. The instrument carries provisional rating of “AA- (SO) Stable” from CRISIL and similar rating is expected from CARE.</td>
</tr>
<tr>
<td>Guarantee</td>
<td>Government of Karnataka unconditionally and irrevocably guarantees payment of interest and repayment of principal</td>
</tr>
<tr>
<td>Listing</td>
<td>Proposed on National Stock Exchange.</td>
</tr>
</tbody>
</table>
4. SCOPE OF WORK:
For mobilising the funds, KSFC desires to appoint the merchant banker/s as arrangers. The scope of work of the Merchant Banker comprises the following:

i. To advise on timing of the bond issue, viz., date of opening of issue and closure of issue depending upon the prevailing market conditions.

ii. To identify the investors, make presentation to them on behalf of the KSFC, interact with them, supply them necessary documents, reply the investors’ queries, furnish information as authorised by KSFC, make arrangement for meeting the investors etc.

iii. To collect the applications from the investors with necessary documents and deposit the application money with the collecting Banker/s under intimation to KSFC.

iv. To liaise with Stock Exchange for listing the bonds.

v. To liaise with the NSDL and CDSL for issuing the bonds in demat form.

vi. To liaise with Collecting Bankers, keep a watch on the collection of funds and report the collection figures to KSFC.

vii. To suggest mid course corrective action/draw up strategies, if necessary, in consultation with KSFC to make the issue a success.

viii. To finalise subscription list with all necessary documents to enable KSFC in allotment of bonds.

5. CRITERIA FOR PRE-QUALIFICATION AND FINANCIAL BIDS

i. Mere issue of bid documents does not qualify a Merchant Banker for appointment. The bids, which do not satisfy the eligibility criteria mentioned hereunder are liable to be rejected.

ii. The Merchant Banker shall hold valid SEBI registration certificate as Category I Merchant Banker and registration shall be valid during the bond mobilisation period. In case the registration has already expired or is due for expiry any time before the closure of the issue, the Merchant banker has to produce the proof of application submitted to SEBI for renewal of the registration, to the satisfaction of the KSFC. The merchant banker is required to furnish copy(ies) of the certificate(s) issued by SEBI, duly certified by a practicing Chartered Accountant.

iii. The Merchant Banker should have participated in the mobilisation of at least Rs 500 crore in the last two years, ending on 30.09.2010 in the bond issue/s of State Level Undertakings/State level Financial Institutions [SLUs / SFIs] either as sole arranger or collectively with other arrangers.
iv. In support of the participation in the mobilisation of at least Rs 500 crores as required under item No [iii] above, the merchant banker is required to furnish a certificate from a practicing Chartered Accountant as per Annexure – I, supported by the letters issued to the Merchant banker by the issuers.

v. The Merchant Banker shall enclose a Demand Draft/Banker’s Cheque for **Rs 5.00 lakh** [Rupees Five lakh only] drawn on any scheduled commercial bank in favour of “Karnataka State Financial Corporation” payable at Bangalore towards **EMD along with the pre-qualification bid**. The EMD will not carry interest. The KSFC will not open the financial bids of the Merchant Bankers who fail to furnish the required EMD.

vi. Non fulfillment of any of the pre-qualification criteria amounts to disqualification for participating in the financial bid. The EMD of those Merchant Bankers who fail to qualify in the pre-qualification bid will be returned.

vii. The EMD of the selected Merchant Banker/s will be retained till completion of funds mobilisation. The EMD shall be forfeited if the selected Merchant Banker/s is/are not in a position to mobilise the required funds in the stipulated time at the agreed coupon rate.

viii. The KSFC may disqualify the Merchant Banker/s at any stage, if it comes to the notice of KSFC at a later date that any information(s)/certificate(s) furnished/produced by the Merchant Banker/s were factually incorrect/false.

ix. The KSFC will open the pre-qualification bids first. The financial bids of the qualified Merchant Bankers will be opened thereafter.

x. Evaluation of the financial bids will be based on the IRR, computed on the basis of coupon rate, arranger’s fees and other expenses, if any, quoted by the merchant banker and other evaluation criteria as decided by the in house Evaluation Committee constituted by the KSFC.

xi. **The coupon and fee shall be valid for at least 30 days from the date of submission of the bids and further, if appointed as arranger, until the closure date/extended closure date of the issue.**

xii. **The arrangers shall mobilise the entire quantum of the issue within 8 days from the date of opening of issue on firm commitment basis. The Merchant Banker/s shall be eligible for fees only if the entire issue amount of Rs 100 crore is mobilised.**

xiii. The KSFC reserves the right to reject all or any of the offers of the merchant bankers without assigning any reason. Moreover, the KSFC is not bound to accept the lowest bid for fee or coupon, or both, if, in the sole opinion of the KSFC, such an action is warranted to maximize mobilisation of funds at the optimum cost to KSFC and in a minimum period of time, keeping in view the requirement of funds.
xiv. The KSFC, at its sole discretion, can reject the bids for freak coupon rate, if in the opinion of the Tender Evaluation Committee, the coupon quoted is freak. The Tender Evaluation Committee considers the coupon rate as freak based on the prevailing G-Sec rate, the interest rates in the market for a similar rated paper of respective tenors and any other conditions prevailing then. The decision of the Tender Evaluation Committee on deciding the freak interest rate shall be final.

xv. The pre-qualification bid and financial bid documents shall be submitted in the format given in Annexure II and Annexure III respectively and they shall be signed by the authorised signatory of the Merchant banker. Copy of the authorisation letter from the competent authority of the Merchant banker shall be enclosed.

xvi. Conditional bids will be rejected forthright.

xvii. In matters of dispute, the decision of the Managing Director of KSFC shall be final and binding on both the parties.

6. PROCEDURE:

i. The in bid documents will be received at the Head Office of the KSFC at the address mentioned below.

ii. The bids, in the prescribed format shall be submitted in two separate sealed covers super-scribed ‘pre-qualification bid’ and ‘financial bid’ thereupon, as the case may be, to Mr Vasantkumar, Deputy General Manager (Controller),

KARNATAKA STATE FINANCIAL CORPORATION

Head Office, KSFC Bhavana

No.1/1, Thimmaiah Road, BANGALORE 560 052

Ph: 080 –22261476/22250134

iii. The name, address and telephone No/s of the merchant banker shall be printed on the cover.

iv. The Cover I shall contain the pre-qualification bid. The Chartered Accountant’s Certificate in support of mobilisation/subscription of bonds by the merchant bankers [as per Annexure – I ] shall be enclosed to the pre-qualification bid.

v. The Demand Draft/Bankers Cheque towards EMD shall be enclosed to pre-qualification bid

vi. The Cover II should contain the financial bid.

vii. The bids will not be accepted after the stipulated last date and time.
viii. For evaluation of the financial bid, the IRR for each merchant banker will be worked out considering the coupon rate, fees and other expenses, if any. The selection of the merchant banker/s will be based on the IRR for the entire repayment period of the bond and other evaluation criteria as decided by the in house Evaluation Committee constituted by the KSFC. The KSFC reserves the right to appoint the sole arranger or consortium of arrangers for the mobilisation of the funds.

ix. Once the application is submitted to the KSFC, no further/additional information/correspondence will be entertained and KSFC is not bound to call for any clarification.

x. Each page of the document has to be signed by the authorised official of the merchant banker.

xi. The KSFC reserves the right to accept or reject any application without assigning any reason therefor.

xii. The KSFC reserves the right to negotiate other terms and conditions with the selected Merchant Banker/s and decide on the following:

   (a) Fine tuning the coupon.
   (b) Timing of bond issue.
   (c) Any other terms and conditions.

xiii. The Bids will be opened in the presence of the representatives of the Merchant Banker present at the time of opening of the bids as per schedule of events indicated in para [7].

7. SCHEDULE OF EVENTS

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1</td>
<td>Start date for issue of bid documents</td>
</tr>
<tr>
<td>2</td>
<td>Last date/time for submission of filled-in bid documents</td>
</tr>
<tr>
<td>3</td>
<td>Date/time for opening of Cover – I Pre-qualification bid in the presence of</td>
</tr>
<tr>
<td></td>
<td>representatives of the Merchant Bankers present</td>
</tr>
<tr>
<td>4</td>
<td>Date/time for opening of Cover – II Financial bid in the presence of representatives</td>
</tr>
<tr>
<td></td>
<td>of the Merchant Bankers present</td>
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<tr>
<td>5</td>
<td>Place of opening</td>
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</table>
* Any change in the date and time of opening of the bid documents will be communicated to the bidders

ANNEXURE – I

Ref:----------
To:
The Managing Director,
Karnataka State Financial Corporation,
KSFC Bhavan, Head Office,
No.1/1, Thimmaiah Road,
BANGALORE – 560 052.

C E R T I F I C A T E

This is to certify that based on the documents, evidences, mandates produced to us for verification, ..............................................(name of the Merchant Banker) participated in the mobilsation of a sum of Rs.........crores (Rs in words......................................................) in bond issue of State Level Undertakings (SLUs)/ State Level Financial Institutions (SFIs) in the last two years ending on 30.09.2010 and the details are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>In the last two years ending on 30.09.2010</th>
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</table>

Total

For [Name of the Chartered Accountants firms]

Place: Name of the Chartered Accountant
Date: [Membership No. ]
[Seal]

Note: Please enclose the letters issued by the issuers and provide the details of mobilisation in the following format (Amount in Rs crore)

<table>
<thead>
<tr>
<th>SI No</th>
<th>Name and address of the issuer</th>
<th>Date of opening the issue</th>
<th>Total issue size</th>
<th>Total amount mobilised in the issue</th>
<th>Amount mobilised/ subscribed by the arranger</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

Total
ANNEXURE - II

FORMAT FOR PREQUALIFICATION BID
[on the Letter Head of the Merchant Banker]

1. Name and address of the Arranger:

2. SEBI Registration Particulars:
   i. SEBI Registration No.
   ii. Date of Registration (Original) (dd/mm/yy)
   iii. Currency of the present Certificate: From (dd/mm/yy) To (dd/mm/yy)
   iv. Copy of the Merchant Banking licence duly certified by a practicing Chartered Accountant is enclosed: Yes No

3. Net worth of the Merchant banker (in Rs. crores) as per the audited financial statement as on 31.03.2009 and certified by a practicing Chartered Accountant.

4. The amount subscribed on firm commitment basis in SLUs/SFIs bond issues in the last two years ending on 30.09.2010 Rs.------ crores (to be certified by a practicing Chartered Accountant).

5. Name, address & Telephone/Fax/e-mail of the Contact person(s) (HQ):

6. Name, address & Telephone/Fax/e-mail of the Contact Person(s)(Bangalore)

7. Copy of the Chartered Accountant’s Certificate [annexure-I] enclosed: Yes No

8. Demand draft/banker’s cheque - No: Date:
   (Towards EMD)

   (Authorised Signatory, Name and Designation)
   Signature with Seal

[Copy of the authorisation letter from the competent authority of the Merchant banker shall be enclosed.]
ANNEXURE - III

FORMAT FOR FINANCIAL BID
[on the Letter Head of the Merchant Banker]

A) COUPON: The entire quantum of issue, aggregating to Rs 100 crore shall be mobilised within 8 days from the date of opening the issue. The Merchant Banker shall submit a firm commitment letter (to be enclosed to the financial bid) to this effect, in the format given below.

<table>
<thead>
<tr>
<th>On firm commitment basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coupon in percentage, payable half yearly</td>
</tr>
</tbody>
</table>

Please note that the quotation of the coupon should be specific and any bids with range/band shall be rejected.

B) FEE PAYABLE

<table>
<thead>
<tr>
<th>Particulars</th>
<th>As percentage of issue size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arranger’s fee</td>
<td></td>
</tr>
</tbody>
</table>

The coupon and fee shall be valid for at least 30 days from the date of submission of the bids and further, if appointed as arranger, until the closure date/extended closure date of the issue.

Date

(Authorised Signatory, Name and Designation)

Signature with Seal

[Copy of the authorisation letter from the competent authority of the Merchant banker shall be enclosed]

To, The Managing Director Karnataka State Financial Corporation KSFC Bhavana, No.1/1, Thimmaiah Road, BANGALORE 560 052

Sub : Issue of KSFC Private Placement Bonds aggregating to Rs. 100 crores

Dear Sir,

With reference to the captioned subject, we give firm commitment to mobilize/subscribe the entire quantum of the issue, aggregating to Rs 100 crore within 8 days from the date of opening of issue, either from the market or by ourselves, on the terms and conditions mentioned in our bid document dated ________, 2011.

Thanking You,

Yours faithfully,

(Authorised Signatory, Name and Designation)

Signature with Seal

[Copy of the authorisation letter from the competent authority of the Merchant banker shall be enclosed]