

FOUNDER MASTERCLASS

Compliance & Ownership Architecture Across the Startup Lifecycle

How ownership, compliance and governance must evolve as you raise institutional capital

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Every gap an investor finds in diligence costs you — as a lower price, a delayed closing, or personal liability

1

A lower price

Unreconciled cap tables, unpaid statutory dues or contingent liabilities get deducted from the valuation or held back in escrow.

2

A delayed closing

You must fix it before the money lands: re-file allotments, regularise ESOPs, assign IP. Every fix pushes your closing date out.

3

Personal liability

What can't be fixed moves onto you personally through representations, warranties and indemnities in the SHA.

The rule of thumb: the same fix costs a fraction before the term sheet, and a multiple after it — in money, time and negotiating leverage.

Score yourself honestly: how many of these ten can you answer “yes” to today?

- 1 Our cap table reconciles to ROC filings and to share certificates / demat records
- 2 Every co-founder has signed a founders' agreement that includes vesting
- 3 All IP — code, designs, patents — is owned by the company, not a founder
- 4 Every employee and contractor has signed an IP assignment and confidentiality clause
- 5 Every allotment has its approvals, valuation report and PAS-3 on file
- 6 ESOPs exist only under a shareholder-approved scheme, with written grant letters
- 7 Any foreign investment was reported to RBI on time (FC-GPR)
- 8 Our Articles of Association reflect the rights in our latest SHA
- 9 Statutory registers and board minutes are up to date and signed
- 10 Top customer contracts have capped liability and clear IP ownership

Count your “yes” answers. 8–10: ready to raise • 5–7: fix before you pitch • 0–4: fix before you spend on growth

The Ownership Architecture Ladder: four layers that must mature at every stage

	Formation	Angel / Seed	Series A	Growth / Pre-IPO
Entity & statutory	Pvt Ltd, DPIIT recognition, registers, annual filings	Clean private placements, valuation reports on every round	Demat shares, FEMA filings, Articles aligned to SHA	Group structure, holding-company decisions, audit readiness
Ownership & cap table	Founder split with vesting	First ESOP scheme, convertible notes or CCPS	Pool refresh, CCPS terms, anti-dilution	Secondaries, ESOP liquidity, buybacks
Contracts & IP	Founder IP assignment, NDAs	Employee & contractor IP, customer MSAs	Patent strategy, data-processing terms	IP portfolio, licensing, M&A-grade contracts
Governance	Founders decide — but minute it	Advisors, regular investor updates	Investor nominee, reserved matters, monthly MIS	Independent directors, committees, internal audit

Four startup profiles — the same rules apply, but the pressure points differ

Industrial AI, vision & robotics

Robotics, machine vision, industrial XR and safety hardware

- IP created on customer plant floors during pilots
- Patents and hardware designs held outside the company; product liability

Enterprise AI & data platforms

Agentic AI, enterprise data, document AI and marketing AI

- Data-processing terms under the DPDP Act; ownership of models and training data
- Products built inside a parent company; foreign holding structures

Digital trust & security

Fraud detection and crowdsourced security

- IP and confidentiality from researchers who aren't employees
- CERT-In and DPDP duties when serving BFSI and government clients

Climate & circularity

Biochar and carbon removal, climate risk, recycling traceability

- Which entity owns plants, data and carbon credits
- Regulated perimeters: insurance, defence FDI caps, EPR rules

01

Foundations

Founders, IP and the basic filings — what must be in place before the first institutional cheque

A founders' agreement is the cheapest insurance you will ever buy — sign it before you need it



Roles & decision rights

Who owns which function, and how a tie between founders is broken



Vesting

Typically 4 years with a 1-year cliff, done as reverse vesting on shares already issued



Good / bad leaver

What a departing founder keeps, and at what price the rest is bought back



IP assignment

Everything built before and after incorporation belongs to the company



Commitment & non-compete

Full-time obligation; no parallel ventures without the others' consent

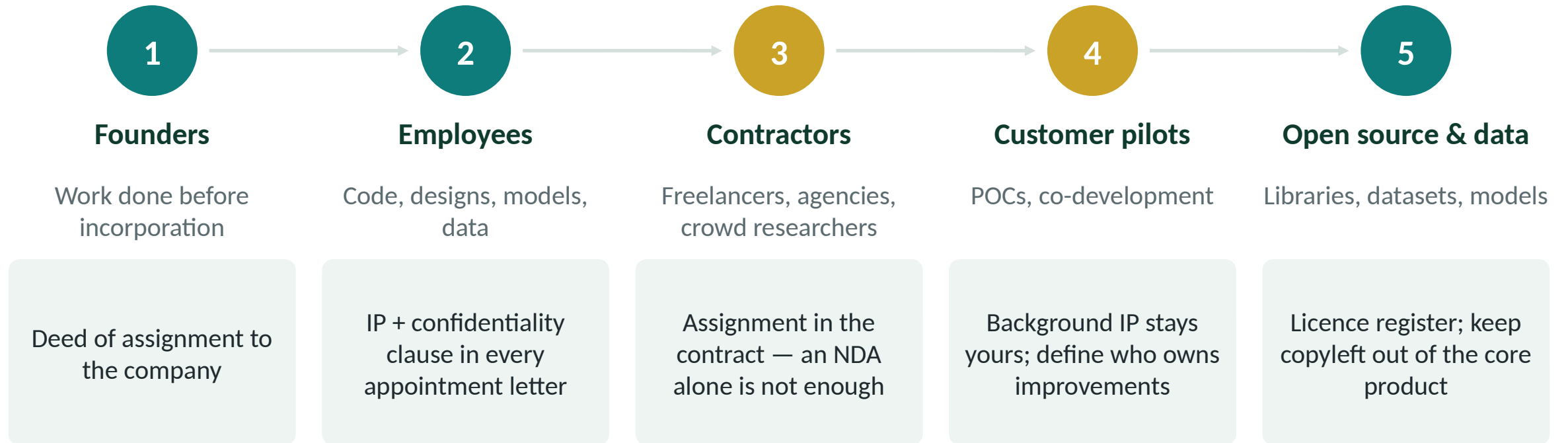


Deadlock & exit

Escalation, mediation and buy-sell mechanics if the partners split

Why now: investors will impose founder vesting at Seed or Series A anyway — agreeing it among yourselves first lets you set fair terms.

If the IP isn't owned by the company, the investor isn't buying what you're pitching



Patents filed in a founder's personal name? Assign them to the company and record the assignment with the Patent Office before diligence starts.

Compliance grows with every round — three levels to keep on top of, not one checklist

Always on Every year

- Annual filings: AOC-4, MGT-7/7A; DIR-3 KYC
- Board meetings: 4 a year (small companies: 2)
- Statutory registers and signed minutes
- GST, TDS, PF / ESI returns
- Pay MSME vendors within 45 days

Every fundraise Each allotment

- Board + shareholder special resolution; MGT-14 within 30 days
- Registered valuer's report
- PAS-4 offer letter; money into a separate bank account
- Allot within 60 days; PAS-3 within 15 days
- Shares issued in demat (non-small companies)

Foreign money When non-residents invest

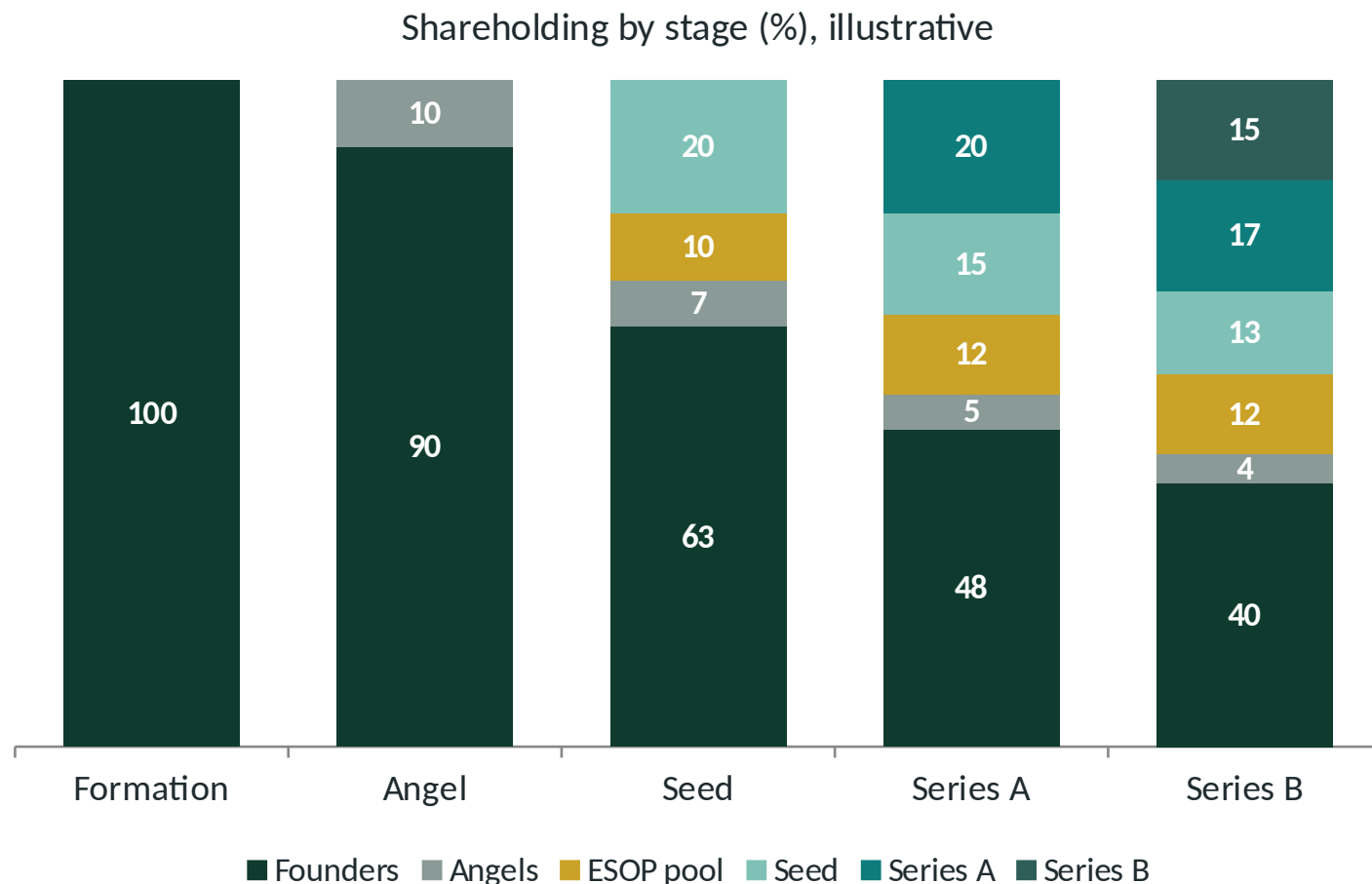
- Issue price at or above fair value (FEMA)
- FC-GPR within 30 days of allotment
- Annual FLA return by 15 July
- Check sector caps (e.g. defence: 74% automatic)
- Downstream-investment rules if you invest onward

02

Cap table & ESOPs

Dilution is a plan, not a surprise

A typical path leaves founders near 40% by Series B — plan the path, don't discover it



Illustrative assumptions

- Angel: 10%
- Seed: 20% + 10% pool
- Series A: 20%; pool topped up to 12%
- Series B: 15%; pool held at 12%

Three levers you control

- Raise to milestones, not to a valuation headline
- Size the pool to an 18-month hiring plan
- Negotiate who bears each pool top-up

The pool is carved out of the pre-money — a ₹40 Cr headline can be worth ₹35 Cr to existing holders

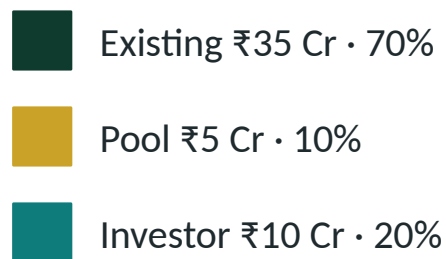
₹40 Cr

Headline pre-money valuation

₹35 Cr

Effective pre-money to founders and existing investors

Post-money ₹50 Cr • ₹10 Cr raised



The new pool's ₹5 Cr comes entirely out of the ₹40 Cr pre-money — the investor's 20% is untouched.

What to negotiate

- Size the pool to a named hiring plan, not a round number
- Count unallocated options already in the pool
- Ask for part of the pool to sit in the post-money, shared with the new investor
- Agree upfront how the next top-up is shared

Indian ESOPs follow clear legal rules — put the scheme in place before you promise anyone options

The rules

- ✓ Scheme approved by special resolution of shareholders (s.62(1)(b), Rule 12)
- ✓ At least 1 year between grant and vesting
- ✓ Promoters and directors holding >10% are excluded — except DPIIT startups, for 10 years from incorporation
- ✓ Independent directors can't receive options
- ✓ Tax: perquisite on exercise, capital gains on sale — eligible startups can defer the employee's perquisite tax



Gaps we see in diligence

- “X% equity” promised in offer letters
- Grants made by the board with no shareholder-approved scheme
- No grant letters, vesting schedules or ESOP register
- Advisors given equity informally, on a handshake
- Undefined treatment on exit: acceleration, cash-out, buyback
- Indian staff holding options in a foreign parent without FEMA checks

Run your own next round: what will the founders hold after it?

Founder stake after the round $\approx$
Current stake $\times$ (1 – new investor % – pool top-up %)

Worked example

Founders today: 72%

Next round: 20% to the new investor

Pool top-up asked for: 5%

$72\% \times (1 - 0.20 - 0.05) = 54\%$

1

Write down your founders' combined stake today

2

Estimate your next round: $\text{raise} \div \text{post-money} = \text{new investor \%}$

3

Add the pool top-up an investor will likely ask for (3–5%)

4

Check the result — are founders still above 50%?

03

Investor rights & governance

What you sign in the SHA decides who gets paid, who decides and who can leave

Every SHA clause answers one of four questions — the next four slides take them one at a time

ECONOMICS Who gets paid first?	CONTROL Who decides?	LIQUIDITY Who can exit, and how?	OBLIGATIONS What do founders owe?
• Liquidation preference — norm: 1x non-participating • Anti-dilution — norm: broad-based weighted average • Pre-emptive rights on new issues • Instrument: CCPS converting to equity	• Board seats and nominee directors • Reserved matters needing investor consent • Information rights: MIS, budget, audit • Quorum that needs the investor present	• ROFR / ROFO on share transfers • Tag-along and drag-along • Exit window: IPO, sale or buyback by years 5–7 • Lock-in on founders' own shares	• Reverse vesting and leaver terms • Non-compete and full-time commitment • Representations and warranties • Indemnity — capped, and at company level

India-specific: SHA rights bind the company only once they're written into the Articles — amend the AoA at every round.

Who gets paid first? The clauses that decide how exit money is shared

Clause	What it means	Green — market standard	Amber — negotiate	Red — push back
Liquidation preference	On a sale or shutdown, investors get their money back before anyone else	1x, non-participating: money back or their share, whichever is higher	Participating, but capped at 2–3x of the investment	2x or more, or participation with no cap
Anti-dilution	If a later round is priced lower, the investor's entry price is adjusted down	Broad-based weighted average, with ESOP carve-outs	Narrow-based weighted average	Full ratchet: reset to the new, lower price
Pre-emptive rights	Right to invest in future rounds to keep the same percentage	Pro-rata right; lapses if not used in time	Super pro-rata for a lead investor	Right to block new investors from coming in
Preference dividend	A fixed return on preference shares, paid before ordinary shareholders	Nominal and non-cumulative (e.g. 0.001%)	Cumulative, but payable only on exit	Cumulative and payable in cash each year

Who decides? The clauses that set how much say investors have in running the company

Clause	What it means	Green — market standard	Amber — negotiate	Red — push back
Board composition	Who sits on the board, and who appoints them	Founders keep a majority; one investor nominee	Equal founder and investor seats, plus an agreed independent	Investors control the board at Seed or Series A
Reserved matters	Decisions that need the investor's consent before you act	Fundamental items: share capital, Articles, M&A, new business lines	Annual budget approval; borrowing above a set limit	Day-to-day items: individual hires, routine contracts
Information rights	What you must report to investors, and by when	Monthly MIS, quarterly accounts, annual audit and budget	Very tight deadlines (e.g. 10 days after month-end)	Unrestricted access to your systems at any time
Quorum	Who must be present for a board or shareholder meeting to be valid	Investor needed, but an adjourned meeting can go ahead without them	Investor needed only for reserved matters	No meeting is ever valid without the investor

Who can sell, and how? The clauses that decide when and how everyone exits

Clause	What it means	Green — market standard	Amber — negotiate	Red — push back
ROFR / ROFO	Investors' right to buy shares before they go to an outsider (refusal) or to make the first offer	ROFO, or ROFR only on founder share sales	ROFR with short timelines (15–30 days)	ROFR for one investor on the sale of the whole company
Tag-along	If founders sell, investors can sell alongside on the same terms	Applies when control of the company changes	Applies to any founder sale above a small threshold	Applies to every founder transfer, blocking any liquidity
Drag-along	A majority can make everyone sell on the same terms	Needs founders and investor majority; minimum price	Investor-led drag after 6–7 years, with a price floor	Investor-led drag after 3–5 years, at any price
Exit deadline	What happens if there's no IPO or sale by an agreed date	Company uses best efforts to find an exit	Company buys back at fair value, as the law allows	Founders must personally buy out the investors

What do founders owe? The promises you make personally when you sign

Clause	What it means	Green — market standard	Amber — negotiate	Red — push back
Founder vesting	Founder shares are earned over time; unvested shares can be bought back if you leave	3–4 years, with credit for time already served	A fresh 4-year schedule from this round	Re-vesting at every round; any exit treated as bad leaver
Lock-in	Limits on founders selling their own shares	Until exit or 3–4 years; small secondary sales allowed	Full lock-in until exit	Investor consent for any transfer, even family or estate planning
Non-compete	Limits on competing or starting other ventures	During your tenure and 12 months after leaving	24 months after you leave	Broad, worldwide, open-ended restrictions
Warranties & indemnity	Promises about the company — and who pays if they turn out untrue	Given by the company; capped at the investment; time-limited	Founders warrant only title and capacity	Founders personally liable, with no cap

Corporate investors bring distribution and credibility — understand what you give up, not just what you get



What strategic capital brings

- Anchor-customer validation
- Faster pilots and vendor onboarding
- Sector depth and distribution
- Patient, less exit-driven capital

What to watch

Right of first refusal on a sale of the company

Exclusivity — no selling to competitors

Exclusion of competitor investors

Board seat and information rights

Commercial terms inside the SHA

What to negotiate

→ ROFO, or a short time-boxed match; no say over the process

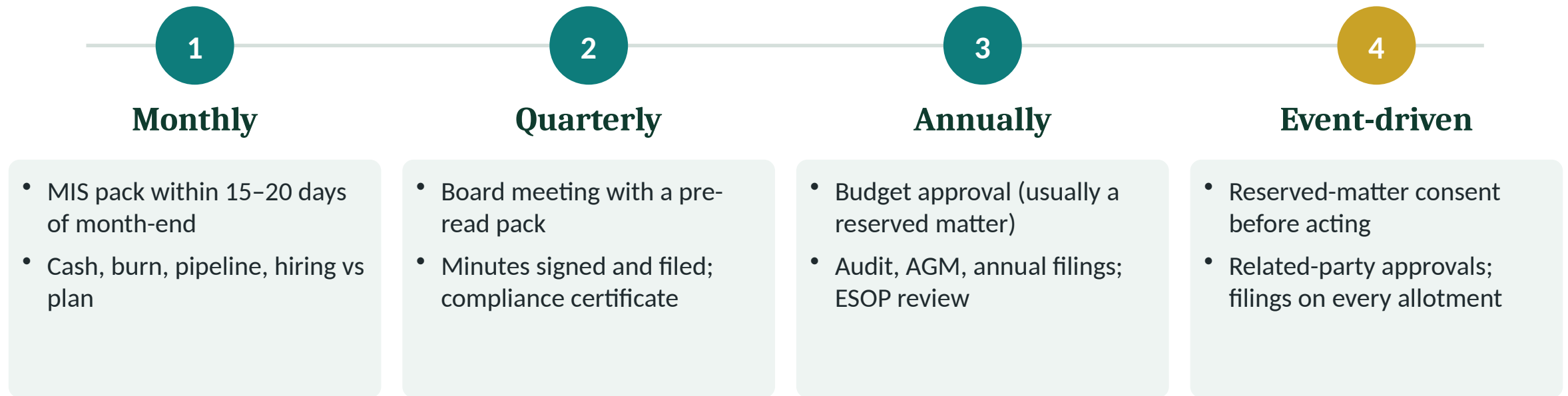
→ Limit by product, geography and time; tie to volume commitments

→ A short named list only, not a whole sector

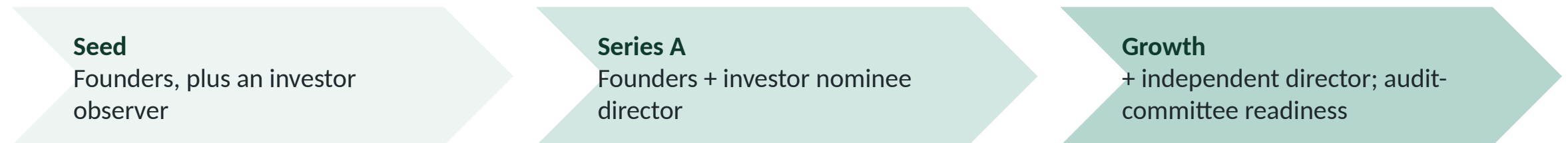
→ Information firewall from the corporate's commercial teams

→ Keep the customer contract separate from the investment

After institutional money, governance becomes a monthly operating rhythm, not an annual event



How the board evolves



04

Diligence readiness

What gets found, and what to have ready before you start

Twelve gaps we find most often — weeks to fix before a raise, painful to fix during one

Secretarial	Ownership & IP	Tax, FEMA & contracts
1 PAS-3 or MGT-14 missing or filed late	5 ESOPs promised without a scheme	9 FC-GPR filed late, or not at all
2 No valuation report for an allotment	6 Shares not in demat; certificates not issued	10 GST, TDS or PF defaults
3 Registers and minutes not maintained	7 IP held by founders or a prior employer	11 Related-party deals without approval
4 Articles don't reflect the latest SHA	8 Contractors with no IP assignment	12 Customer contracts with uncapped liability or IP given away

Your sector adds its own diligence questions — prepare these answers for your data room

Industrial AI, vision & robotics

Who owns improvements built on a customer's production line? Is product liability insured and contractually capped? Are all patents in the company's name?

Enterprise AI & data platforms

Are you a data fiduciary or a processor under the DPDP Act — and do contracts say so? Who owns models trained on client data? Does the product sit in the right legal entity?

Digital trust & security

Do crowd researchers assign their findings and IP to you? Can you meet CERT-In's 6-hour incident-reporting rule? What do government contracts allow you to disclose?

Climate & circularity

Which entity owns the plants, the data and the carbon credits? Do offtake contracts survive a change of control? Whose regulatory perimeter are you inside — insurance, EPR, defence?

Before you approach institutional investors, have this data room ready



Corporate

- Incorporation certificate, current MoA & AoA
- All ROC filings
- Registers and minutes
- Group structure chart



Ownership

- Cap table reconciled to filings
- Founders' agreement
- Past SSAs and SHAs
- ESOP scheme, grants, register
- Valuation reports



IP

- Assignment deeds: founders, staff, contractors
- Patent and trademark filings
- Open-source licence register



Commercial

- Top customer and vendor contracts
- Pilot / POC agreements
- Data-processing terms



Compliance & finance

- Audited financials
- GST, TDS, PF returns
- FEMA filings
- Licences and approvals

NEXT 30 DAYS

Three things to do before your next investor conversation

1

Run the 10-point self-check

with your company secretary — and close every “no”

2

Paper every promise

founder vesting, ESOP grants, advisor equity, IP assignments

3

Build the data-room skeleton

now — and update it every month, not every round

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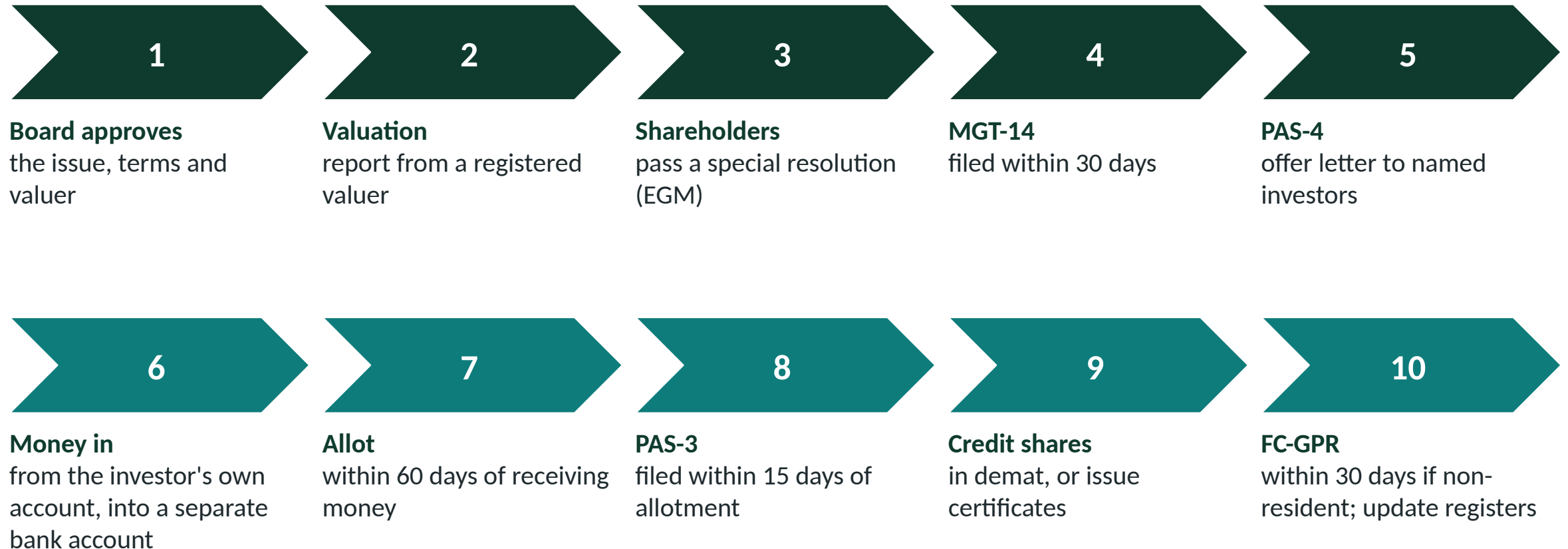
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A

Appendix — reference

For your team and company secretary after the session

Raising equity in a private company: the ten-step allotment sequence



The instruments you'll meet, and what each one commits you to

Instrument	What it is	Typically used for	Watch-outs
Equity shares	Ordinary ownership with votes	Founders, ESOP pool, some angels	The price sets the bar for later rounds
CCPS	Preference shares that must convert to equity	Standard for VC rounds	Conversion ratio carries the anti-dilution
CCDs	Debentures that must convert to equity	Bridges, some foreign rounds	Debt until conversion; FEMA pricing applies
Convertible notes	Note that converts at the next round (DPIIT startups; ₹25 lakh+ per investor)	Angel and bridge rounds	Valuation cap and discount; 10-year conversion window
iSAFE	Agreement for future shares, usually issued as CCPS	Early angel rounds	Still needs full Companies Act allotment process

Term-sheet vocabulary in one line each

Liquidation preference

Investor's right to get money back before others on a sale or wind-up

Participating

Investor gets the preference and also shares in what's left

Broad-based weighted average

Partial price reset in a down round — the market norm

Full ratchet

Full reset to the down-round price — founder-unfriendly

Pre-emptive right

Right to buy into new issues to keep one's percentage

ROFR

Right to match an offer before shares are sold to a third party

ROFO

Right to make the first offer before the seller goes to market

Tag-along

Minority can sell on the same terms when a majority sells

Drag-along

Majority can force everyone to sell on the same terms

Reserved matters

Decisions that need the investor's consent

Reverse vesting

Founder shares the company can buy back if the founder leaves early

Good / bad leaver

Sets what a departing founder keeps, and at what price

Eight sets of rules that shape diligence for growth-stage startups — at a glance

Area	In one line	Most relevant to
Data protection (DPDP)	Consent, security and breach reporting for personal data — most duties from ~May 2027	Enterprise AI, data and security platforms
Cyber security (CERT-In)	Report specified incidents within 6 hours; keep logs for 180 days in India	Security, fraud and data platforms
Foreign investment (FEMA)	Who can invest, in which sector, at what price — and what must be reported	Anyone with foreign or defence exposure
Insurance (IRDAI)	Only licensed insurers carry risk; selling insurance needs a licence	Parametric and climate-risk products
Carbon credits	Credits belong to the registered project owner, after verification	Biochar, carbon removal, efficiency
Environment & EPR	Plant consents; recycling targets for plastics, batteries, e-waste, vehicles	Plants, recyclers, traceability platforms
Bank customers (RBI)	Banks pass audit, data and exit obligations down to their vendors	Software sold to banks and NBFCs
Product safety (BIS)	Compulsory certification for a growing list of products	Safety gear, robotics, machinery

Data and cyber rules: what changes when you handle other people's data

Data protection — DPDP Act 2023 & Rules 2025

What it is

India's personal-data law. The Rules were notified in November 2025 and come in by phases; most obligations apply from around May 2027.

What it asks of you

Give a clear notice and take consent before using personal data; keep it secure; report breaches to the Data Protection Board and to the people affected; delete data once its purpose is served. Penalties go up to ₹250 Cr for security failures.

What investors will check

For each client, are you the 'data fiduciary' or the 'processor' — and do the contracts say so? Is there a data map and a breach-response plan?

Most relevant to: *enterprise AI and data platforms, trust and security, anyone handling customer or employee data*

Cyber security — CERT-In Directions (2022)

What it is

Binding directions issued under the IT Act to service providers, data centres and companies operating in India.

What it asks of you

Report specified cyber incidents to CERT-In within 6 hours; keep system logs for a rolling 180 days within India; synchronise system clocks; name a point of contact.

What investors will check

An incident-response process, log retention, and any past incidents and how they were reported. Government clients often also require audits by CERT-In-empanelled auditors.

Most relevant to: *security, fraud-detection and data platforms; anyone serving government or BFSI clients*

Who can invest and who can sell: foreign investment and insurance rules

Foreign investment — FEMA & FDI policy

What it is

The rules on who may invest in an Indian company, in which sectors, at what price, and what must be reported.

What it asks of you

Most tech sectors allow 100% foreign investment automatically; defence allows 74%. Investors from countries sharing a land border with India — even indirectly — need government approval. Price shares at or above fair value; report within 30 days.

What investors will check

FC-GPR filings, pricing reports, the ultimate owners behind every foreign investor, and sector caps before they commit.

Most relevant to: *any startup with foreign investors — and especially defence-facing businesses*

Insurance — IRDAI

What it is

Only IRDAI-licensed insurers can carry insurance risk, and selling insurance needs an intermediary licence.

What it asks of you

A parametric product (a payout triggered by data, such as rainfall) must be issued by a licensed insurer. A tech company can design the triggers and supply the data; to sell it, it needs a licence such as corporate agent, or a licensed partner. IRDAI's sandbox can be used for pilots.

What investors will check

Who carries the risk, who holds which licence, how you are paid (fees or commission), and whether you have the rights to the data you use.

Most relevant to: *climate-risk and parametric products*

Climate businesses: who owns the credits, and are the plants properly licensed?

Carbon credits — CCTS & voluntary markets

What it is

India's Carbon Credit Trading Scheme (2023) has a compliance market for designated industries and an offset market for registered projects. International voluntary registries also issue credits, e.g. for biochar.

What it asks of you

Register the project under an approved method, have it independently verified, and receive credits in the name of the registered project owner.

What investors will check

Which entity actually owns the credits — not the farmer, the feedstock supplier or a plant company by accident? Offtake contracts, verification status, and how credit income is accounted for.

Most relevant to: *biochar, carbon-removal and efficiency projects*

Environmental approvals & EPR

What it is

Plants need Consent to Establish and Consent to Operate from the State Pollution Control Board. Extended Producer Responsibility (EPR) rules set recycling targets for plastics, batteries, e-waste and — since April 2025 — end-of-life vehicles.

What it asks of you

Valid consents before you build and before you run. Producers prove they met their targets through EPR certificates on CPCB portals.

What investors will check

Consents held in the right entity's name and in date; how EPR certificates are created, verified and traded; whether the data trail behind them holds up.

Most relevant to: *processing plants and recyclers; traceability and compliance platforms*

Selling to banks and shipping hardware: rules your customers will pass on to you

Bank customers — RBI outsourcing rules

What it is

RBI's directions on outsourcing of IT services (2023) apply to banks and NBFCs, which pass them on to their vendors through contracts.

What it asks of you

Give the bank and RBI audit and inspection rights; meet data-security, confidentiality and data-location requirements; support business continuity and an orderly exit; don't sub-contract without consent.

What investors will check

What liability, audit and exit obligations your bank contracts commit you to, and your security certifications (such as ISO 27001). Overseas banks add their own rules, such as GDPR.

Most relevant to: *software sold to banks and NBFCs*

Product safety — BIS & product liability

What it is

BIS Quality Control Orders make certification compulsory for a growing list of products; product-liability law also applies to what you sell.

What it asks of you

If your product category is covered, get a BIS licence before you make, import or sell it, with test reports and marking. Customer contracts should set out warranties and cap your liability.

What investors will check

Whether your product needs certification, any incident or recall history, product-liability insurance, and liability caps in customer contracts.

Most relevant to: *safety equipment, robotics and machinery, inspection hardware*

Decide where the parent company sits once, early — reversing it later is expensive

Indian parent

- Simplest compliance; one set of laws
- ESOPs and a future listing in India
- Increasingly the default as Indian IPO markets deepen

Foreign parent (a “flip”)

- Access to some foreign investors and customers
- Costs: FEMA/ODI, transfer pricing, two sets of compliance
- Indian staff hold options in a foreign company
- Moving back (reverse flip) can trigger tax for shareholders; a fast-track merger route exists since 2024

Already flipped? Keep inter-company agreements, transfer pricing and FEMA filings clean every year — they are the first things diligence checks.