Venture Capital: India

Market and purpose

General role and purpose

How would you describe the role of venture capital in the financing markets in your jurisdiction?

Venture capital is an important avenue for promoting economic growth by providing upcoming and new ventures access to formal sources of capital. In India, it provides risk capital, governance and scaling support to early- and growth-stage companies that typically lack access to traditional bank debt. Venture capital also gives founders the ability to seek guidance and support from industry experts in terms of operations and scaling up.

The venture capital market has been instrumental in fuelling India's startup ecosystem, which now ranks among the largest globally. This capital (which is usually the first formal source of funding for entrepreneurs) has enabled founders to collect funding from both domestic and foreign sources, which they utilise to scale their ventures and achieve significant market valuations, contributing to the creation of over 100 unicorns in India over the last few years. Venture capital has also promoted innovation in various sectors by supporting business ideas with new technologies and disruptive business models.

Market conditions

How would you describe the current market conditions for venture capital in your jurisdiction?

As a major technology hub with a thriving startup ecosystem, India has a significant need for venture capital to fuel innovation and growth. The venture capital market in India is fastpaced, with potential opportunities often outweighing the available ventures. While investors have become more cautious, placing greater emphasis on strong business models and clear monetisation paths, the robust digital infrastructure and large domestic market continue to drive strong investment activity. Furthermore, with the Indian public listed market booming and most startups aiming to list on stock exchanges, venture capital funds have been able to secure excellent returns on their investments upon their exit from startups at the listing stage. The market continues to attract steady interest in sectors such as software, financial technology, artificial intelligence, climate/clean energy, electric mobility, health technology, retail and consumer experiences.

Parties and deal structures

Issuers – typical profile

How would you describe the types of companies, and their different stages of development, that typically receive venture capital investment in your jurisdiction?

Venture capital investments in India are primarily directed towards young, fast-growing companies focused on innovative business models and technologies that aim to fill a gap in the market. Investments have primarily been in technology -driven businesses, including software and software-as-a-service providers, financial technology payment platforms, consumer internet and e-commerce brands, artificial intelligence and data companies, climate and cleanenergy solutions, electric mobility, health technology and, increasingly, deep-tech sectors such as semiconductors, robotics and space technology.

Companies receiving venture capital investments in India generally undergo the following stages of development: (1) the pre-seed and seed stage, for converting an idea into a workable business and to conduct early customer trials; (2) the early growth stage, for launching the product and acquiring customers, establishing product-market fit and hiring key talent ; (3) the growth stage, for deployment of capital to undertake market and capacity expansions and to build sustainable revenue streams; and (4) the exit stage, for realising returns through initial public offering and strategic sales, among others.

Issuers – domicile and company structures

Are there any preferred or required legal domicile or company structures for issuers in venture capital transactions?

Indian law does not mandate a single required structure for issuers, but the most common structure adopted by startups seeking venture capital investments is a private limited company incorporated under the Companies Act 2013. The private limited company structure is preferred since it accommodates founder and employee share options, enables straightforward capitalisation tables and facilitates the issuance of standard venture capital securities such as Compulsorily Convertible Preference Shares (CCPS) and Compulsorily Convertible Debentures (CCDs). Furthermore, the Companies Act 2013 provides a clear governance framework for private limited companies, including requirements for board meetings, statutory filings, valuations and shareholders' approval for specified matters, which adds a layer of regulatory safeguards for the investment.

The structuring of venture capital investments from foreign investors must comply with the Foreign Exchange Management Act 1999 (FEMA) and the applicable foreign direct investment (FDI) policy, including sectoral caps, entry routes (automatic or government approval), pricing guidelines and other compliance requirements for foreign investors, which is critical to assess at the time of structuring of the issuer entity. For example, businesses that are subject to sectoral conditionalities stipulated under FDI policy cannot be structured as a limited liability partnership (LLP), since FDI is not permitted for LLPs operating in areas with sector-specific performance conditions. LLPs and sole proprietorships are also less suitable for structuring equity financing, employee stock options and exit options (including potential future public listings and buy-back), and are therefore generally not used for venture capital investments.

Investors – typical profile

How would you describe the types of investors that make venture capital investments, including by stage of company development, in your jurisdiction?

Venture capital investors comprise both domestic and international participants. Domestic capital is typically sourced from Indian venture capital funds, family offices, corporate venture capital arms of large companies, state backed investment vehicles aimed at promoting innovation and entrepreneurship, and high-net-worth individuals. Indian companies also receive funding from foreign venture capital and private equity funds, while various venture capital funds also receive capital commitments from offshore investors. For the purpose of Indian foreign exchange regulations, such venture capital funds are treated as domestic funds as long as the sponsor and manager of the funds are Indian.

In India, initial-stage startups typically attract investment from individuals and small groups, including friends and family, angel investors and angel networks, as well as incubators and accelerators that provide mentorship and seed capital. These investors fund companies at the idea, prototype or early customer stages (the pre-seed and seed stages). Once a startup demonstrates market traction, specialist seed funds and micro-venture capitalists will then invest, followed by mainstream venture capital funds

for the seed stage, Series A and B rounds, and any subsequent rounds. This stage often marks the entry of large companies' corporate venture capital arms, which invest for strategic alignment.

As the business scales (in the Series C round and beyond), the investor base broadens to include larger venture capital funds, growth equity firms and private equity funds.

Investors – structures

How are venture capital investors usually structured and does their structure affect their investment approach or terms?

In India, venture capital investments are made through both domestic and foreign channels, each governed by distinct regulatory frameworks. On the domestic front, the primary vehicles are Alternative Investment Funds (AIFs). AIFs are regulated by Securities and Exchange Board of India (SEBI), and funds in such vehicles are raised from domestic institutions, family offices, high -net-worth individuals and foreign investors. AIFs as investment vehicles may also operate through structures established in the International Financial Services Centre (IFSC) at Gujarat International Finance Tec-City (GIFT City) under the oversight of the International Financial Services Centres Authority (IFSCA).

AIFs established in mainland India are typically close-ended, have a minimum investor contribution requirement (commonly 1 crore rupee) and are governed by the SEBI (Alternative Investment Funds) Regulations 2012, which prescribe specific conditions regarding investment concentration, leverage and minimum investment thresholds. AIFs domiciled in GIFT City are governed by a parallel regime under the IFSCA, since funds and venture capital investment from such AIFs are treated as foreign investment.

Foreign venture capital investment is typically routed through FDI, which is subject to sectoral caps, entry routes (automatic or government approval) and cross-border restrictions under the FEMA and related rules. The choice of structure (domestic or offshore vehicle) directly affects the applicable pricing norms, sectoral eligibility, repatriation rights and compliance obligations, thereby shaping the investment approach, permissible terms and operational flexibility for both investors and portfolio companies.

In practice, the private trust structure is predominant and the AIF must be managed by a manager rather than being self-managed.

Seed financings

What structures and types of investments are typically used for seed-stage investments in your jurisdiction?

Seed-stage investments in India are primarily made through CCPS. These instruments provide a straightforward path to equity ownership and are favoured for their simplicity in early (pre-seed) funding rounds. CCPS are also popular since they offer liquidation preferences, anti-dilution protection and other standard protective provisions while still being treated as equity-like "capital instruments" under India's FDI regulations, making them suitable for both domestic and foreign investors. CCPS are structured in such a way that the holders are entitled to voting rights similar to equity shareholders while having priority in terms of payment and exit. It is also common for venture capital funds to invest through a combination of CCPS and a nominal number of equity shares, which enables them to secure rights as an equity shareholder of the investee company.

While less common for seed rounds, another instrument is the convertible note. Its use is restricted to companies recognised as startups by the Department for Promotion of Industry and Internal Trade. Under the Companies (Acceptance of Deposits) Rules 2014, convertible notes require a minimum investment of 25,00,000 lakh rupees per investor and must be converted to equity or repaid within 10 years. Though Compulsorily Convertible Debentures are also treated as capital instruments under FDI rules, they are not commonly preferred by venture capital investors at the seed stage. For any foreign investment involving convertible instruments, pricing regulations require that a conversion price or formula is fixed upfront to ensure that the eventual equity price is not below fair value at the time of issuance. Issuance of these instruments is governed by the Companies Act 2013 and its associated rules, which require shareholder approval and adherence to specific procedural, disclosure and valuation norms.

Early-stage and later investments

What structures and types of investments are typically used for early-stage and later investments, following seed-stage investments, in your jurisdiction?

The most common instrument for venture capital investments in the Series A, Series B and later-stage growth rounds is CCPS. Each funding round typically corresponds to a new class of CCPS (eg, Series A CCPS, Series B CCPS), which allows the rights and preferences of investors to be customised at each stage. For example, investors in later rounds (such as Series B) often negotiate superior liquidation preferences, board representation, veto rights, anti-dilution protection and other rights compared to investors in earlier rounds (such as Series A), reflecting the company's evolving valuation and risk profile. While CCDs are also used, they are less common in venture capital transactions.

Process

Term sheets

Do parties normally use term sheets? If so, what is normally covered in such term sheets?

Parties in Indian venture capital transactions almost always use a non-binding term sheet to establish key commercial understandings before drafting definitive agreements. Typically, only provisions such as confidentiality, exclusivity, governing law, dispute resolution, costs and term/termination are legally binding.

A typical term sheet for venture capital transactions covers the investment structure and amount, instrument type, valuation (including any caps or floors), the scope and timeline of due diligence, and key investor rights. These key investor rights often include board representation, information and reporting rights, anti-dilution protection (usually broad-based weighted average), pre-emptive rights, liquidation preference, exit timeline and options, and transfer restrictions (including founder lock-in and vesting of founder shares).

Documentation

What are the standard documents for a venture capital transaction, and who prepares them? Are there popular forms for such documentation in your jurisdiction?

The standard documentation includes a term sheet, a securities subscription agreement (for the issuance of new shares) and a shareholders' agreement (governing investor rights and corporate governance). If the investment round involves a secondary transaction, a share purchase agreement is also used. The

investor's counsel typically prepares the initial drafts, while the company's counsel negotiates the terms and manages the disclosure schedules. There are no standard official forms in India; most transactions rely on customised law-firm precedents. In subsequent funding rounds, it is typical for parties to use the transaction documents from the previous round with limited mark-up and negotiation. Investments involving offshore companies that have raised foreign capital in their offshore holding or operating entities follow the prevailing market-standard documents. In the United States, there are widely recognised standard forms for early-stage venture capital investments, such as the simple agreement for future equity and model subscription and funding documents (such as the investors' rights agreement, voting agreement, right of first refusal and co-sale agreement, etc) that are based on templates prescribed by the National Venture Capital Association. These templates are frequently used as starting points for negotiations and have contributed to greater standardisation and efficiency in US venture capital financings. While India does not have official standard forms, practitioners may refer to these US precedents for guidance or adaptation, especially in cross-border or internationally structured deals, where the holding company is based in US.

Key steps and timing

What is the normal process and timing of venture capital investments in your jurisdiction?

The typical process begins with execution of the term sheet, followed by due diligence. Usually, negotiation regarding definitive transaction documents is conducted in parallel with due diligence. The execution of the transaction documents is typically dependent on the completion of due diligence, and the analysis of findings of the diligence to ascertain if there are any critical issues or pre-signing conditions that need to be addressed at the execution stage. The timing can vary significantly, taking anywhere from one to four months on average. Seed or early-stage financing rounds are often consummated more quickly since the business is fairly new and the scope of diligence is limited. In contrast, subsequent funding rounds can sometimes take longer, although due diligence conducted earlier and transaction documents agreed during the previous rounds can help expedite the process. Subsequent rounds typically only require top-up due diligence focused on the period since the last investment, and the terms from previous rounds are often followed with limited changes. In regulated sectors, closing may take longer if it is dependent on third-party or regulatory approvals.

Closing conditions

What closing conditions are common in venture capital transactions?

Closing in Indian venture capital transactions is contingent on the satisfaction of a defined set of conditions precedent. These commonly include the rectification of issues identified during legal, financial and tax due diligence (such as formalising intellectual property ownership, updating statutory books and records, completing statutory filings, ensuring appropriate title to shares, obtaining necessary contractual consents, etc); the completion of all corporate authorisations for the share issuance (including board and special shareholder resolutions); securing a valuation; and securing all necessary regulatory and contractual approvals. Depending on the investor's jurisdiction and the target's sector, these approvals may include prior government approval for investors from land-bordering countries, competition clearance where applicable thresholds are met and approval of the relevant regulator in sectors where foreign investment falls under the government approval route.

Multiple closings

Are venture capital transactions ever divided into multiple closings? If so, how and why?

It is common – and often preferred – for venture capital transactions to be divided into multiple closings. Multiple closings are more common in funding rounds that have multiple participating investors, as the timelines for their internal approvals and the internal process for confirming fulfilment of the conditions precedent usually vary. Multiple closings allow the company to receive and use committed funds from investors who are in a position to close earlier than other investors participating in the funding round. At times, multiple closings are also undertaken wherein funding is structured in tranches and linked to achievement of specified milestones, including revenue targets, regulatory approvals, etc.

Due diligence

Legal due diligence

What legal due diligence is typically undertaken for venture capital transactions, and what specialists are typically involved?

Legal due diligence in Indian venture capital transactions involves a structured review to verify a company's legal standing, asset ownership and regulatory compliance. Counsel typically examines corporate records (such as incorporation documents, share capital history, and board and shareholder resolutions), key commercial contracts, intellectual property ownership and licensing, employment matters, litigation and contingent liabilities, required permits and licences, and data protection practices. Where relevant, the review also covers real estate, insurance, related-party transactions, and compliance with anti-bribery and foreign investment laws. This process is generally led by legal teams and is often carried out in conjunction with financial and tax diligence conducted by accountants, as well as targeted technical reviews by specialist consultants.

Critical due diligence areas

What are normally critical areas of due diligence focus or red flags in venture capital transactions?

Critical due diligence red flags in venture capital transactions typically involve issues of governance, ownership, compliance, financial irregularities and risk. A key area of focus is incomplete or defective corporate records for past share issuances. Ambiguities regarding the company's ownership of core intellectual property and assets, non-compliance with foreign exchange laws and business -specific laws, existence of disputes involving material financial and regulatory implications, foreign investment violations, and onerous terms in agreements that are critical to the functioning of the business are also considered high risk. From a financial due diligence perspective, a review of financial transactions is typically undertaken to see if there are any personal dealings of the founders with the company, contingent liabilities or other material liabilities (such as undisclosed debt, significant contractual obligations requiring third-party consent or related-party arrangements that are not at arm’s length). Significant pending disputes, tax demands or indications of fraud are closely assessed and may lead to price adjustments, indemnities or termination of the deal.

Other due diligence

What other types of due diligence are commonly undertaken in venture capital transactions?

In addition to legal due diligence, investors typically undertake financial and tax due diligence, which are conducted by financial advisers. Investors may also carry out technical diligence in respect of immovable assets (if any) that are core to the business, which is usually conducted by technical advisers. In the current scheme, certain investors may also choose to conduct diligence on Environmental, Social,

and Governance (ESG) compliance to ascertain compliance with their internal ESG requirements, as typically mandated by limited partners.

Economic terms

Valuation and pricing

How is the company valuation and investors' purchase price usually determined in venture capital transactions?

In Indian venture capital transactions, valuation is initially negotiated based on business traction, future projections and market benchmarks, but it must adhere to legal and regulatory requirements. The Companies Act 2013 requires that any issuance of shares via private or preferential allotment must be supported by a valuation report from a "registered valuer", and the issue price cannot be below this valuation. For foreign investments, India's foreign exchange regulations require that the price be no less than the "fair value", which is determined in accordance with internationally accepted pricing methodologies. For convertible instruments, a conversion formula must be specified upfront and the price determined under that formula must not be below the fair value as determined at the time of issue.

Option pool

What do investors typically require for option pools or equity incentive arrangements in connection with venture capital transactions?

Investors typically agree to the creation of a pre-approved legally compliant option pool that is sized according to the company's hiring plan and compensation structure. Standard terms include eligibility criteria, vesting schedules and well -documented provisions for leaver (including bad leavers) and change-of-control scenarios. The Employee Stock Ownership Plan (ESOP) for founders and key managerial personnel typically involves clawback provisions that vary depending on the scenario in which the founder/key managerial personnel separate from the company. The structure and terms of the option pools or equity incentive plan are typically negotiated to balance the company's need to hire and retain talent while ensuring that the investor's shareholding is not diluted and the beneficiaries of the option plan do not have any additional leverage in bad leaver scenarios.

From a legal standpoint, the primary equity incentive mechanism for private companies in India is the ESOP. The establishment and administration of ESOPs are governed by the Companies Act 2013 and the Companies (Share Capital and Debentures) Rules 2014, which set out detailed requirements for eligibility, vesting, exercise and disclosure. Promoters and directors holding more than 10% of the company's equity are generally ineligible to participate, although an exception exists for startups recognised by the Department for Promotion of Industry and Internal Trade.

Dividends, distributions and redemptions

What are the normal provisions governing dividends, distributions, redemptions or other profit distributions in venture capital transactions? Are there any legal limits thereon in your jurisdiction?

Profit distributions in Indian venture-backed companies are governed by both the investment agreements and the Companies Act 2013. Under section 123 of the Companies Act 2013, dividends can only be declared and paid out of current or accumulated profits after accounting for depreciation, and not out of capital. While preference shareholders are entitled to receive any agreed dividend ahead of ordinary shareholders, most venture capital instruments are compulsorily convertible rather than

redeemable. This is also prevalent in transactions involving foreign investors, since subscription to redeemable instruments is restricted for foreign investors under the foreign direct investment regime. Consequently, investor liquidity is typically achieved through secondary sales or share buy-backs, not redemptions. If redeemable preference shares are used, they must be redeemed out of distributable profits or the proceeds of a fresh issue of shares.

Company sales and liquidations

How are venture capital investments treated in portfolio company sales or liquidations?

In the event of a sale or liquidation of a portfolio company, the treatment of venture capital investments is determined by the shareholders' agreement and the company's articles of association. On a company sale, investors holding preference shares typically have a liquidation preference, allowing them to receive their investment amount back (often with a preferred return) before any proceeds are distributed to ordinary shareholders. Investors also negotiate exit rights such as drag-along and tag-along clauses in the shareholders' agreement, which become applicable in the event of a sale or liquidation. In a formal winding-up, statutory requirements dictate that creditors are paid before shareholders; any remaining surplus is then distributed according to the contractually agreed liquidation preference.

Anti-dilution protection

What anti-dilution protections are typically built into the terms of venture capital securities?

Venture capital investment terms typically include anti-dilution provisions that adjust the investor's conversion price downward if the company subsequently issues shares at a lower valuation (a down round) or entitle the investor to receive additional securities. This protection is usually structured as a broad-based weighted-average adjustment. Investors also secure pre-emptive rights that allow them to maintain their pro-rata shareholding by participating in future financing rounds. These rights commonly include negotiated exclusions that do not trigger anti-dilution adjustments, such as shares issued under an employee option pool, conversion of existing convertible securities and bonus issues.

Future investments

What pre-emptive or pro rata investment rights do venture capital investors usually receive?

Venture capital investors typically enjoy pre-emptive (pro rata) rights that give them the opportunity to invest in future funding rounds, thereby ensuring that they retain and maintain their ownership percentage and preventing dilution of their economic and voting interests. The right is an option – not an obligation – to invest, and is essential in ensuring that the economic position of the investor is not compromised as the company raises further capital. These rights are usually used for new issues of equity or equity-linked securities, subject to customary exclusions such as employee option grants.

Insider sales

What rights do venture capital investors normally have over insider sales of securities of portfolio companies?

Venture investors typically secure controls over the sale of shares by insiders (such as founders, employees and early shareholders) to ensure alignment and to manage the company's shareholder base. Core protections include transfer restrictions and consent rights over significant insider sales; a right of first refusal or first offer, allowing the investor to purchase shares before they are offered to a third

party; and tag-along rights, allowing the investor to sell a proportional number of its shares alongside the insider and on the same terms. Investors also commonly require founder lock-in periods, notice for proposed transfers and compliance with applicable laws. Furthermore, the transaction documents typically have strict restrictions in relation to sales to competitors.

Control rights

Voting rights

What voting rights, including veto or consent rights, do venture capital investors normally have as shareholders of their portfolio companies? Do they typically have special voting or consent rights as shareholders?

Venture capital investors typically hold ordinary voting rights pro rata to their shareholding on a fully diluted basis (often linked to a percentage threshold) and will negotiate protective provisions that give them special consent or veto rights over fundamental actions, both from the perspective of governance and protection of their investment/economic interest. In practice, these reserved matters are written into the shareholders' agreement and are mirrored in the articles of association (so that they are enforceable), and often require approval by an investor majority and/or the affirmative vote of the investor nominee director. Common consent items include issuing new shares or senior securities; changes to share capital, articles or rights; mergers, sales of the company, winding-up or liquidation; large borrowings or liens; related-party transactions; approval of the annual budget and business plan; and appointment or removal of key executives or auditors. Investors usually also secure board representation and information and inspection rights, with day-to-day management left to the executive team. Under Indian company law, class voting applies to any variation of rights, with preference shareholders voting on matters affecting their rights. However, most venture outcomes are driven by the contractually agreed protective provisions, which generally last while the investor holds a specified minimum stake.

Board rights

What rights to representation on the board of directors or at meetings of the board of directors of portfolio companies do venture capital investors typically receive?

Venture capital investors typically secure the right to nominate at least one director to the portfolio company's board (along with the ability to remove and replace that nominee), as well as a non-voting board observer if a second seat is not warranted by their stake. They usually require timely notice of meetings, access to board papers and quorum conditions that ensure their nominee is present for key decisions. This right is typically linked to a fall -away threshold, ceasing to be available if the investor shareholding falls below the agreed threshold.

Board protections

What fiduciary duties and liability protections normally apply to investor directors in your jurisdiction? Do directors typically have special voting or consent rights?

Investor -nominated directors in India are subject to the same fiduciary duties as any other director under the Companies Act 2013. They must act in good faith in the best interests of the company as a whole (not just the interests of the nominating investor); exercise due and reasonable care, skill and diligence; use independent judgment; avoid conflicts of interest; and not derive undue personal benefit. Liability arises where a director is an officer in default or where a breach occurs with the director's knowledge and consent. Non-executive/nominee directors who are not promoters or key managerial

personnel are typically liable only where involvement or lack of diligence can be shown through board processes (including principles reflected in sections 149(12) and 2(60) of the Companies Act 2013). In this regard, it is common for parties to negotiate clauses that expressly exclude investor -nominated directors from being considered or treated as officers in default. Investor-nominated directors are also typically covered by directors' and officers' insurance for protection against potential liabilities, as well as contractual indemnity in relation to any penal action against them.

Financial reports

What rights to financial reporting or company access do venture capital investors normally receive?

Standard covenants include delivery of audited annual financial statements, quarterly (or often monthly) management accounts and key performance indicators, annual budgets and business plans for approval or review, and prompt notices of any material events. Investors also receive access to board packs and minutes; the right to meet management on reasonable notice; and inspection rights over books, statutory registers, the cap table and key contracts, with the ability to commission an independent review in certain circumstances.

Public offerings and listings

Securities law requirements

What are the securities law requirements in your jurisdiction for venture capital investors to sell their securities in the public markets?

Venture capital investors typically sell in India's public markets in two phases. At initial public offering (IPO), they may sell a portion of their stake through an offer for sale in the prospectus, following the Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) Regulations 2018 regarding eligibility, disclosures and lock-in norms. After listing, under the Depositories Act 1996 and the SEBI (Depositories and Participants) Regulations 2018, the remaining shares must be held in dematerialised form and any exchange sale must be settled through the depository system . The listed company must also ensure ongoing compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011.

Once shares are freely tradable, public-market conduct rules apply. Significant stake changes must be disclosed under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011, and all trading must comply with the SEBI (Prohibition of Insider Trading) Regulations 2015 regarding unpublished price-sensitive information, trading windows and approvals.

Where the seller is a non-resident, the pricing, payment and reporting of cross-border transfers are governed by the Foreign Exchange Management (Non-Debt Instruments) Rules 2019, in addition to the above SEBI frameworks.

Registration and listing rights

What registration rights, listing rights or other rights do venture capital investors normally receive?

In Indian venture capital financings, investors usually negotiate clear exit and listing-related rights. Typical provisions include an obligation on the company and founders to support and pursue a qualified IPO within an agreed time frame or upon meeting defined milestones (a best efforts IPO covenant); the

right for investors to participate as selling shareholders in the IPO through an offer for sale (OFS), often with priority over other selling shareholders; tag-along rights to join any founder in a sale of shares; and customary marketstandoff/lock-up terms with negotiated carve-outs. Investors also secure cooperation undertakings for listing support, including delivery of audited financials, prospectus disclosures, comfort letters and diligence access, the right to receive advance notice of any listing process, and the right to appoint their own counsel or advisers for the OFS.

Other resale rights

What other resale rights in the public markets do venture capital investors usually receive?

It is more common for venture capital investors to seek exit via the IPO or other negotiated exit routes, such as strategic sale to third parties or exercising drag -along and share buyback rights, rather than seeking resale rights post -IPO.

However, in certain instances venture capital investors may negotiate practical public-market resale rights and cooperation undertakings to enable orderly exits after listing. Common terms include the ability to participate in future offer-for-sale windows (not just the IPO) with agreed priority over other selling shareholders; company cooperation for post-lock-in sell-downs, including timely financials, auditor and counsel comfort, and the confirmations and disclosures needed for block/bulk trades; reasonable waivers from internal transfer restrictions (rights of first refusal/lock-ups) once the regulatory lock-in ends; coordination rights to run brokered block trades or exchange-mechanism OFS on agreed timelines; and orderly market provisions that balance liquidity with price stability (for example, staged sell-downs and notice to the company). Investors may also secure carve-outs to any market standoff so that they can conduct limited sell-downs, as well as informationbarrier and notice mechanisms under insidertrading compliance, to facilitate trading when they are not in possession of unpublished price-sensitive information.

Company sales (M&A)

Standard sale structures

What are the standard structures or methods for venture capital portfolio companies to be sold in your jurisdiction?

Typically, two standard structures are used: (1) an acquisition involving transfer of shares by an identified buyer; and (2) sale of the company's business pursuant to a business transfer agreement, with the sale proceeds being distributed to the shareholders. These methods do not require approval from a regulatory tribunal, making them relatively quick mechanisms that preserve operational continuity and allow for direct negotiation of terms between the buyer and seller.

A merger or amalgamation consolidates the portfolio company with an acquirer under sections 230–232 of the Companies Act 2013. The traditional court-driven process can be lengthy, often taking six to nine months or more. However, a fast-track merger process is available for certain transactions, such as mergers between small companies or between a holding company and its whollyowned subsidiary, which can be completed more quickly through administrative approvals.

A slump or asset sale involves transferring an entire undertaking as a going concern, as provided under section 180(1)(a) of the Companies Act 2013. This structure, which requires a special resolution (75% shareholder approval), is often used when an acquirer wishes to avoid inheriting legacy liabilities. The

transaction can be executed through a business transfer agreement or a court-approved scheme of arrangement.

Under section 66 of the Companies Act 2013, share capital reduction can also be implemented through a court-approved scheme of arrangement.

Role of investors

What is the role of venture capital investors in a portfolio company sale? Do they have rights to force or block a company sale?

Venture capital investors play a significant role in a portfolio company sale, exercising influence through board representation and contractually negotiated governance rights documented in the shareholders' agreement and articles of association. By holding board seats and exercising information rights, investors actively participate in transaction structuring, valuation negotiations and the allocation of post-closing risk.

Drag-along rights enable a specified majority of investors to force the remaining minority shareholders to sell their shares in an approved third-party sale transaction. These rights, which must be expressly included in the shareholders' agreement and articles of association to be enforceable, are usually triggered in a default scenario or upon the lapse of the exit timeline, and are designed to ensure that a buyer can acquire 100% of the company. The exercising of these rights can be challenged by minority shareholders before the National Company Law Tribunal (NCLT) on the grounds of oppression or mismanagement.

Venture capital investors can block proposed sales through several mechanisms. Contractual veto rights over reserved matters (such as the sale of the company and change in control of the company) provide a direct blocking power. Investors may also exercise a board-level veto through their nominee director, and transfer of shareholding may be subject to the prior consent of investors, which can be withheld. Furthermore, where investors hold a sufficient stake, they can block special resolutions required for certain transaction structures, including any structure involving a scheme of arrangement for a merger and amalgamation. Shareholders holding 10% or more may also petition the NCLT to block a sale that they believe is oppressive or mismanaged.

Post-closing protections

What post-closing matters or protections do venture capital investors typically obtain, for example to address ongoing company sale indemnities or director tail liabilities?

To protect against post-closing liabilities, venture capital investors typically negotiate indemnification provisions in the definitive agreements. Enforceable under the Indian Contract Act 1872, these provisions cover breaches of representations, warranties or covenants. Liability is commonly capped, with defined survival periods for claims. Exercise of indemnity rights is supported by information and inspection rights that provide investors with sufficient visibility to protect their interests.

Directors and officers' tail insurance is typically procured to cover liabilities arising from pre-closing actions. Venture capital investors usually require the acquirer to obtain or extend such coverage for a specified period (typically six years), in compliance with applicable insurance regulations. This protects investor-nominated directors from personal liability for post-closing claims.

Post-closing restrictive covenants, such as non-compete and non-solicitation agreements, are secured from founders or key personnel. While section 27 of the Indian Contract Act 1872 generally voids agreements in restraint of trade, exceptions for reasonable restrictions in connection with the sale of a business's goodwill are enforceable. Additionally, earn-out structures may be used to link part of the purchase price to post-closing performance milestones, mitigating valuation risk in uncertain market conditions.

Legal and regulatory considerations

Disputes

What types of disputes typically arise in venture capital transactions and how are disputes commonly handled? What provisions normally govern disputes, including choice of governing law, choice of forum and alternative dispute resolution mechanisms?

Disputes in venture capital transactions in India typically arise from alleged breaches of contract, disagreements over valuation, conflicts regarding control and governance, founder misbehaviour/misdeeds, and differing interpretations of exit rights such as drag-along or tag-along provisions. Other common sources of conflict include post-closing indemnity claims, disputes over purchase price adjustments and issues related to intellectual property ownership. Such matters are governed by the shareholders' agreement and the relevant provisions of the Companies Act 2013.

Disputes are commonly addressed through negotiation or mediation in the first instance. If an amicable resolution is not reached, arbitration is the preferred mechanism due to its confidentiality, speed and enforceability. Where arbitration is not contractually mandated, disputes are adjudicated by the commercial courts under the Commercial Courts Act 2015. For complex or cross-border disputes, parties usually opt for institutional arbitration – often through Singapore International Arbitration Centre (SIAC) – to avoid potential delays in domestic courts.

The dispute resolution framework is typically specified in the investment agreements. Contracts almost invariably specify Indian law as the governing law, given that the investor company is based in India and governed by statutes such as the Indian Contract Act 1872 and the Companies Act 2013. The choice of forum (which is often influenced by the location of the investor's or company’s registered office) typically grants exclusive jurisdiction to the courts that parties mutually agree upon, and may include any major metro city such as Mumbai, Delhi or Bengaluru. Parties often select institutional arbitration bodies like the SIAC or the International Chamber of Commerce, particularly where foreign investors are involved.

Regulatory consents and filings

What regulatory consents, notifications and filings are required for all investors in venture capital transactions in your jurisdiction? Are there ownership restrictions?

Venture capital investments in unlisted Indian companies are executed as private placements under the Companies Act 2013, and require board and shareholder approvals, a private placement offer letter, and a return of allotment filing. Where any non-resident investors are investing, the Foreign Exchange Management (Non-Debt Instruments) Rules 2019 apply. Depending on the sector or deal size/rights, additional consents may be required (for example, in the insurance/telecoms sector), and a pre-closing Competition Commission of India notification can be triggered where control is acquired or thresholds (including the deal-value test and asset-turnover tests) are met.

Furthermore, investment by any entity from a country that shares a land border with India, or where the beneficial owner of the investment is situated in or is a citizen of such a country, can only be made after obtaining prior approval from the Government of India as per Press Note 3 of 2020. Beyond these restrictions, India's foreign direct investment (FDI) policy imposes sector-specific caps and route conditions. For example, up to 100% FDI is permitted in the defence sector, with 74% or less falling under the automatic route and more than 74% requiring government approval (with approvals often granted where the investment affords access to modern technology). In private-sector banking FDI is capped at 74%, with the automatic route available up to 49% and government approval required between 49% and 74%. Print media covering news and current affairs is capped at 26% under the government approval route, while multi-brand retail trading permits up to 51% under the government approval route.

Foreign investment

What foreign investment restrictions and other domestic regulatory issues arise for venture capital investors based outside your jurisdiction?

Foreign investment into unlisted Indian companies is primarily governed by the Foreign Exchange Management Act 1999 and the Foreign Exchange Management (Non-Debt Instruments) Rules 2019, together with periodic Reserve Bank of India (RBI)/Department for Promotion of Industry and Internal Trade press notes and circulars. Investments must comply with the sectoral FDI policy (including caps and routes) and pricing guidelines, and must report through the RBI Foreign Investment Reporting and Management System portal. Where convertible instruments are used, the price or a conversion formula must be set upfront, and the conversion price under that formula must not be below the fair value determined at the time of issue using an internationally accepted methodology. Certain sectors (such as insurance, financial services, defence and telecoms) remain subject to approval routes or specific conditions.

Foreign investment from jurisdictions sharing land borders with India continues to require prior government approval under Press Note 3 of 2020, including for subsequent downstream or beneficial transfers. Cross-border secondary transfers commonly utilise RBI-permitted deferred consideration and escrow structures, subject to quantitative and temporal caps. Post-investment, any downstream investments by foreign-owned or controlled Indian entities must comply with downstream investment rules, including board approvals, pricing and reporting. Investors also need to consider Indian tax implications, including withholding capital gains for non-residents, the applicability of tax treaties and indirect transfer rules.

Update and trends

Key developments

What are the most noteworthy current trends and recent developments in venture capital transactions in your jurisdiction? What developments are expected in the coming year?

India has firmly established itself as a premier global investment hub for venture capital. The country's startup ecosystem raised billions of US dollars in 2025, with investors becoming notably more selective while maintaining substantial capital deployment. Notably, early-stage funding proved resilient, seeing a significant increase as investors focused on founders demonstrating stronger product-market fit, revenue visibility and unit economics. India now ranks among Asia-Pacific's largest venture capital destinations and accounts for a sizeable percentage of global venture capital deal volume and value. The ecosystem is home to more than 100 unicorns, between four and 11 of which were created in 2025

alone, cementing its status on the global innovation map. Collectively, the total capital raised by Indian startups over the past decade has been enormous, with a large number of domestic funds and angels actively participating in 2025.

In this regard, the following are recent trends and developments in the venture capital sector:

- Securities and Exchange Board of India (SEBI) angel fund overhaul: effective 8 September 2025, SEBI has restructured its angel fund rules. The framework now requires all participants to be accredited investors, removes the need for separate schemes per investment, reduces third-party exit lock-ins to six months and sets the per-investee investment range at 1 million to 250 million rupees. The requirement to file term sheets with SEBI has been eliminated;

- insurance sector liberalisation: the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act 2025 and the Indian Insurance Companies (Foreign Investment) Amendment Rules 2025 were notified, revising foreign investment norms for Indian insurance companies;

- Supreme Court ruling in the Tiger Global case: in January 2026, the Supreme Court delivered its judgment in the Tiger Global–Flipkart share sale case, holding that capital gains arising from the sale of shares in Flipkart Singapore by Mauritius-based Tiger Global entities were taxable in India. The Court found that the investment structure lacked genuine commercial substance and was designed primarily to obtain treaty benefits under the India–Mauritius Double Taxation Avoidance Agreement. Applying the General Anti-Avoidance Rule, the Court upheld the Authority for Advance Rulings' decision to deny treaty benefits, clarifying that such arrangements constitute impermissible tax avoidance and are subject to Indian tax;

- abolition of angel tax: effective 1 April 2025, the government abolished the angel tax for all classes of investors, as announced in the Union Budget 2024–2025;

- fast-track merger reforms: the Ministry of Corporate Affairs expanded the eligibility of fast -track mergers to a broader class of companies and allowed foreign parent entities to merge (commonly referred to as "reverse flip") into their Indian whollyowned subsidiaries through the fast -track route; and

- unified foreign investor registration through the Single Window Automatic and Generalised Access for Trusted Foreign Investor (SWAGAT-FI) framework: effective 1 June 2026, SEBI's SWAGAT-FI portal unifies registration for foreign portfolio investors and foreign venture capital investors. It offers eligible foreign funds a single, streamlined registration for accessing both listed and unlisted Indian securities and grants a 10-year validity for low-risk funds, which is expected to significantly reduce onboarding timelines for foreign limited partners.