



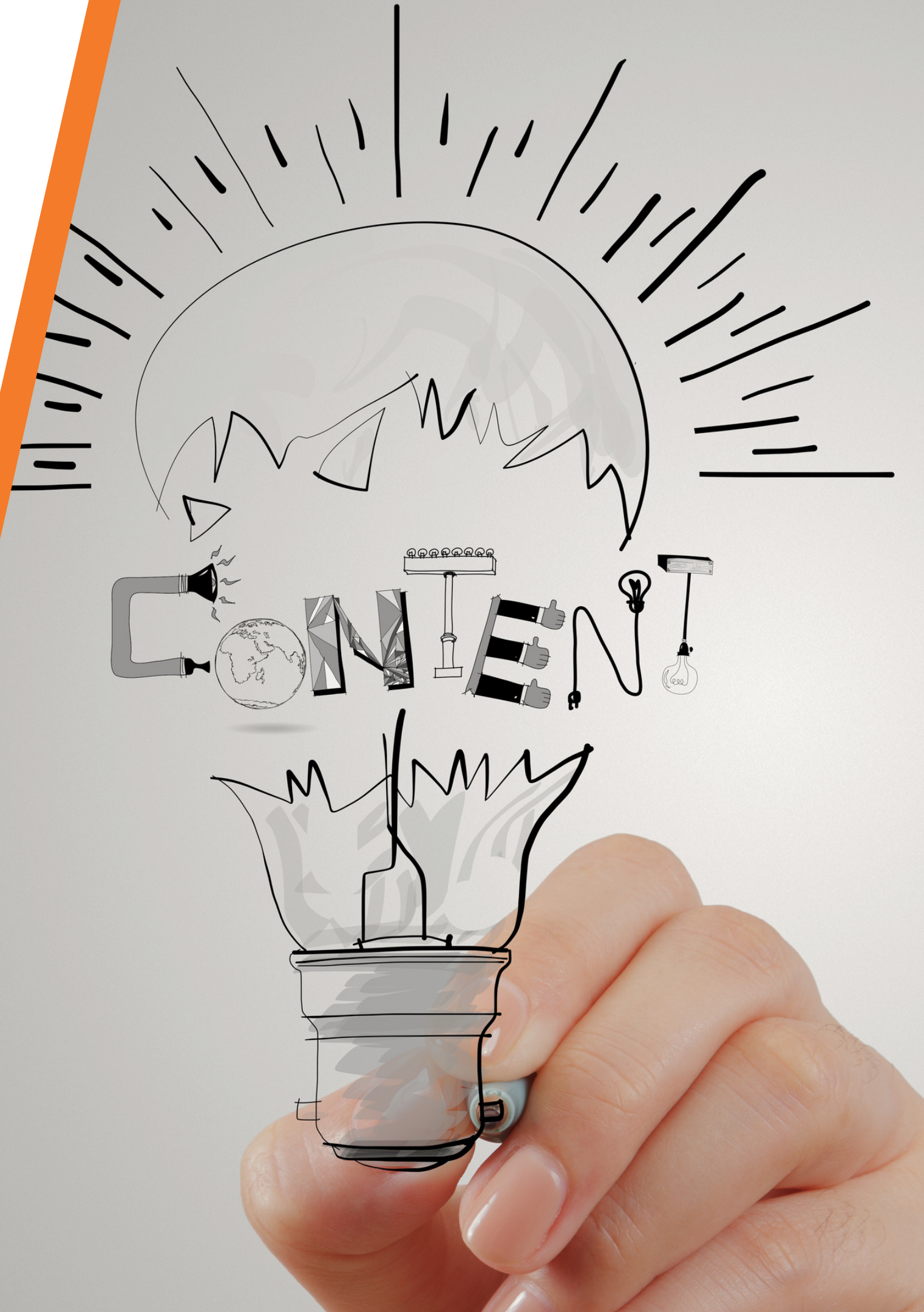
# FUNDRAISING COMPLIANCES



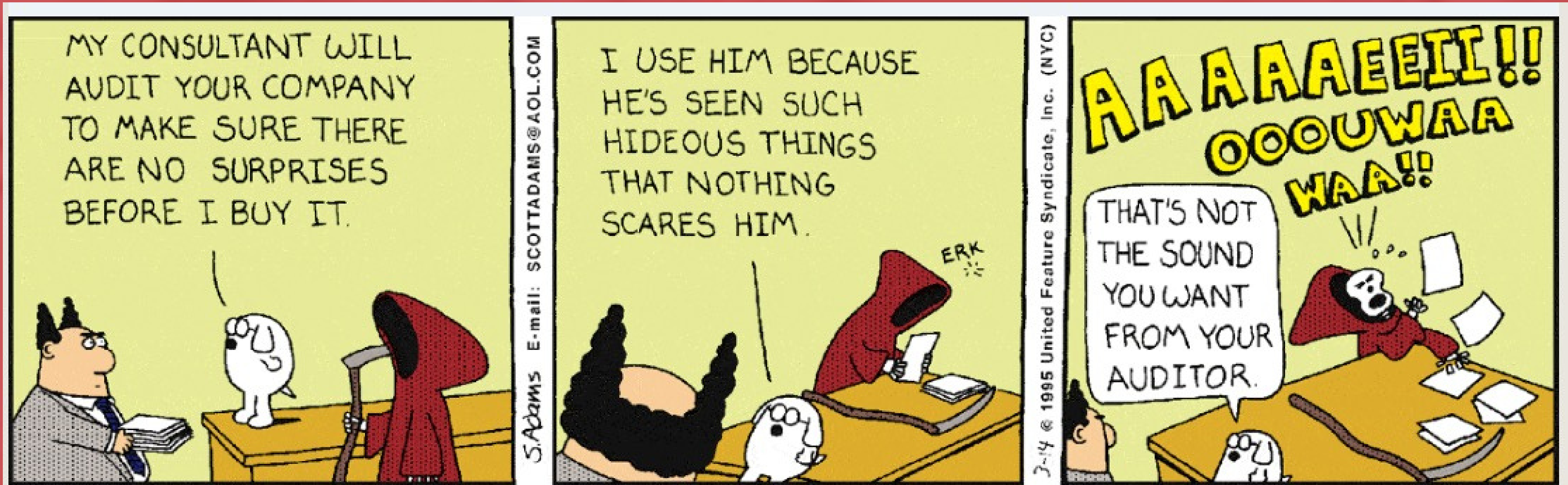


# AGENDA

- Pre Funding
- During Fundraise
- Post Fundraise







# PRE FUNDING REQUIREMENTS

# CONTEXT

It takes anywhere between 3-4 months from a firm commitment from the investor to money transfer to company

Several pitches, negotiation discussions, arguments and finally one gets a term sheet. But it doesn't stop there. On average, it takes 45-60 days post that to get money in the bank account.

Steps post that:-

- Legal and financial due diligence to determine gaps.
- Drafting and negotiating definitive transaction documents
- Completion of gaps identified in due diligence.
- Filing of compliance documents with the ministry.

Post that money can finally be wired. But even after that, until shares are allocated, multiple compliance documents must be filed. Money can only be used for operations after everything is completed.

You should keep at least 6 month runway at all points of time

# INCORPORATING YOUR COMPANY

- Filing INC-33 & 34 for filing MOA & AOA to MCA.
- The first of these meetings must take place within 30 days of the company's establishment. There should be **four meetings** every financial year that should take place no more than 120 days (3 months) between each other.
- Within 30 days of incorporation you need to appoint the auditor
- ADT-1 has to be filed for appointment of auditors within 15 days from date of appointment of auditors.
- Based on the applicability registration under the EPF, ESI and GST acts have to be obtained
- Startup India registration can to be obtained to avail various benefits.
- The founders have to enter into an agreement.
- Employee agreements should be in place.
- Have agreements with key vendors and clients whenever you start working with them
- If a tech company using an outsourcing company for tech, have a proper agreement in place
- Rental agreement have to obtained in case of rental premises which is important for GST registration =





# COMPLIANCE FRAMEWORK IN INDIA

Income Tax Act, 1961

CGST Act, 2017

Companies Act, 2013

Shops & Establishment Act-  
State specific

The Employees State Insurance  
Act, 1948

Payment of Wages, 1936/  
Minimum Wages act, 1948

Trade Union Act, 1926

Shops & Establishment Act-  
State specific

Maternity Benefit Act, 1961

Contract Labour (Regulation &  
Abolition) Act, 1970

FEMA Compliances

Employee Provident Fund  
Scheme, 1952

The Sexual Harassment of  
Women at workplace Act, 2013

The Industrial Disputes Act, 2017

RBI Compliances

# COMPLIANCES UNDER RESPECTIVE ACTS



Income Tax Act, 1961	CGST Act, 2017	Professional Tax	PF	ESI	Companies Act, 2013
Income Tax Return	Monthly/Quarterly GSTR-1 & GSTR-3B	Monthly PT Payments	Monthly PF Payments	Monthly ESI Payments	Annual compliances - AOC-4 and MGT-7
Quarterly TDS Returns	Annual GSTR-9/9C	Monthly PT returns	Monthly PF returns	Monthly ESI returns	ADT-1 Auditor Appointment
Monthly TDS Payments	GST Audit if turnover exceeds Rs.5cr	Annual PT returns	Annual PF returns	Annual ESI returns	DPT-3 for Loans and Deposits
Transfer Pricing	E-Invoicing if turnover exceeds Rs.5Cr				DIR-12 for Directors appointment and resignation



# TDS COMPLIANCES



Section	Applicability of the section	Threshold Limit	TDS Rate
194C	Contractors payment	If the payment exceeds Rs. 1,00,000 in a financial year and if it exceeds Rs.30,000 per bill/invoice Note : TDS is not applicable on payments made to transporters who owns less than 10 vehicles at any point of time.	1% incase of Individual/HUF and 2% incase of other than individuals such as Companies, LLPs and Partnership firms
194I	Rent	If the payment exceeds Rs.2,40,000/- in a financial year	2% for Plant and Machinery & 10% for land and building
194J	Fees for Professional or technical Services/ Royalty/Non-compete Fees/ Directors Remuneration	If the payment exceeds Rs. 30,000 in a financial year for all the services other than Directors remuneration.	10%
194H	Commission or brokerage fees	If the payment exceeds Rs.30,000/- in a financial year	5%

# TYPICAL MISSES WE ALWAYS IDENTIFY



1. Founders agreement
2. Agreement for loan from directors
3. Loans from other than directors which will be treated as deposits u/s 73 of the Companies Act,2013.
4. Customer and Vendor contracts
5. New/Renewal of rental agreement
6. Compliances under Shops & Establishment act, Professional tax act, EPF and ESI
7. Sales register and Payroll register
8. Secretarial documents such as registers of shareholders, members etc, minutes of meetings
9. MIS System and Inventory Control System including Fixed Asset register
10. Leave Policy including the Maternity Benefit, Employee Policy and POSH policy
11. Trademark for Name and logo
12. RBI Compliances in case of investments from non-resident investors, holding assets and liabilities outside India and non-resident shareholders.
13. Formal Business plan
14. Internal SOPs on payments to vendors, office expenses and other processes.





# PREPARING FOR FUNDRAISING

Ensure that all the documents related to the registrations are in place.

Ensure that all the compliances are in place and filed within the due date.

Due Diligence preparedness such as data room preparation which includes collation of information.

Ensure all the compliances such as paperwork, secretariat and statutory compliances related to the earlier fundraise are in place.

Ensure that financial projections including the utilization of the fundraise to be done.

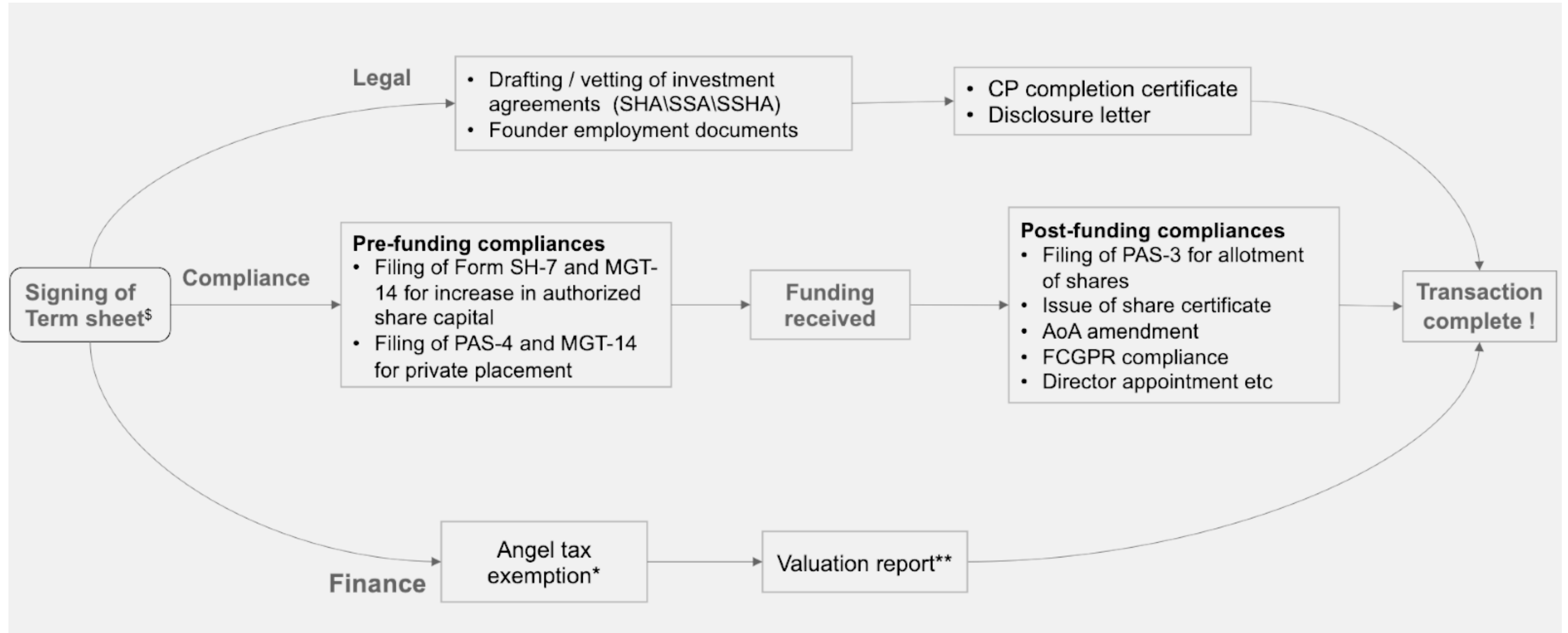
Ensure that there is a Formal business plan in place.

Prepare on the data room collation 6 months prior to fund raise journey





# TYPICAL FUNDING CYCLE



# TYPICAL SECRETARIAL COMPLIANCE



Purpose of filing	Form	Timing (when to file)	Documents required to be filed
Increase in authorized share capital	Form SH-7	Within 30 days of alteration/increase	<ul style="list-style-type: none"> <li>• Special resolution of EGM</li> <li>• Amended MoA</li> </ul>
Offer letter for Private placement/Rights issue	<b>MGT-14</b> Additionally form <b>PAS 4</b> is to be kept on records	Within 30 days of passing the resolution	<ul style="list-style-type: none"> <li>• Special resolution of EGM</li> <li>• Valuation report</li> <li>• Shorter Consent (if any)</li> </ul>
Allotment of securities by Company	<b>PAS 3 *</b>	Within 30 days of allotment	<ul style="list-style-type: none"> <li>• List of allottees</li> <li>• Valuation report from RV</li> <li>• Board resolution passed</li> <li>• PAS 5</li> </ul>
Amendment of AOA	<b>MGT- 14</b>	Within 30 days of passing the resolution	<ul style="list-style-type: none"> <li>• Restated AoA</li> <li>• Special resolution of EGM</li> </ul>
RBI Reporting  Entity Master and Business User Registrations on FIRMS Portal	<b>Form FC GPR</b>	Within 30 days of allotment	<ul style="list-style-type: none"> <li>• FIRC from bank</li> <li>• KYC from bank</li> <li>• Valuation report from CA/Merchant banker</li> <li>• CS certificate for shareholding</li> <li>• Board Resolution for allotment</li> <li>• MoA</li> <li>• FCGPR declaration</li> </ul>



# INVESTMENT INSTRUMENTS



Terms	Equity Shares (ES)	CCPS	CCDs	Convertible Notes (CNs)
<b>Meaning</b>	<ul style="list-style-type: none"> <li>- company ownership</li> <li>- common stock of company</li> </ul>	<ul style="list-style-type: none"> <li>- shares issued with specific rights to the investors under SHA</li> <li>- preference in liquidation over ES</li> </ul>	<ul style="list-style-type: none"> <li>- convertible into equity based on predetermined conditions</li> <li>- preference in liquidation over shareholders</li> </ul>	<ul style="list-style-type: none"> <li>- debt instrument - typically convertible to equity</li> </ul>
<b>When used?</b>	<ul style="list-style-type: none"> <li>- initial investment by promoters/founders</li> <li>- friends and family investment</li> </ul>	<ul style="list-style-type: none"> <li>- investors and angel network</li> <li>- priced round</li> </ul>	<ul style="list-style-type: none"> <li>- generally used for angel rounds</li> <li>- no determined valuation, convertible to future round of funding</li> <li>- bridge rounds</li> </ul>	<ul style="list-style-type: none"> <li>- Angel investors / VC round</li> </ul>
<b>Terms</b>	Has rights as given under the Companies Act, 2013 or defined in SHA	<ul style="list-style-type: none"> <li>- generally convertible at 1:1</li> <li>- rights as per the SHA</li> </ul>	<ul style="list-style-type: none"> <li>- coupon rates</li> <li>- terms of conversion to ES</li> <li>- floor/cap valuation for conversion</li> </ul>	minimum investment amount of INR 25,00,000 for each investor. Notes have a coupon rate and milestone for conversion is within 5 years.
<b>Taxability</b>	<ul style="list-style-type: none"> <li>- capital gains tax on sale of ES in hands of founders</li> <li>- unlisted ES - sold after holding for 24 months or more - taxable at ~23%</li> </ul>	<ul style="list-style-type: none"> <li>- capital gains on sale of CCPS / converted ES</li> <li>- period of holding for converted ES from date of CCPS investment</li> <li>- unlisted ES / preference shares - sold after holding for 24 months or more - taxable at ~23%</li> </ul>	<ul style="list-style-type: none"> <li>- for investors - interest on CCDs should be taxed as other income</li> <li>- capital gains on sale of CCDs / ES (after conversion)</li> <li>- period of holding for converted ES - from date of CCD investment</li> </ul>	<ul style="list-style-type: none"> <li>- for investors - interest on CNs should be taxed as other income</li> <li>- capital gains on sale of CNs / ES (after conversion)</li> <li>- period of holding for converted ES - from date of CNs investment</li> </ul>



**POST FUNDRAISE**

# THINGS YOU NEED TO DO POST FUNDING

CS - condition subsequent items should be monitored

Key issues from the due diligence

Continue maintaining the Data Room

Any milestones from the agreement for the grant/investment to be monitored

Create a financial and Operational MIS for your company. Keep it simple and succinct

Ensure you implement a system of communicating to all important stakeholders regularly



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# KNOW YOUR MENTOR



## Education

CGMA from CIMA

Fellow Certified Management Accountant from the ICWAI

Qualified Company Secretary from the ICSI

EGMP from IIM-Bangalore

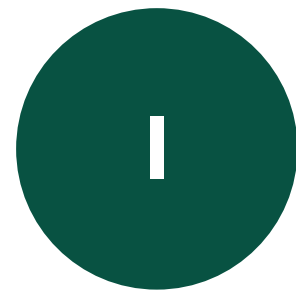
## Experience

Founder and CEO at Spice Route Finance

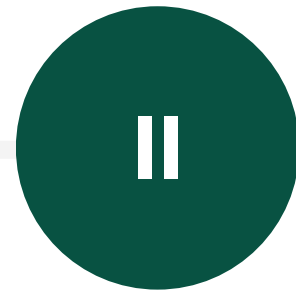
VP of finance at E4E, a US based IT/ITeS multinational

Head of finance at MAS Holdings, one of the world's largest garment manufacturers.

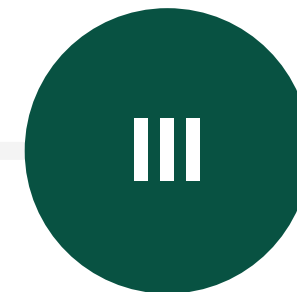
# WHAT DOES SPICE ROUTE FINANCE OFFER?



**CFO Services**



**Strategic  
Advisory**



**Financial  
Leadership**

# OUR PRACTICE AREAS

