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September 18, 2020

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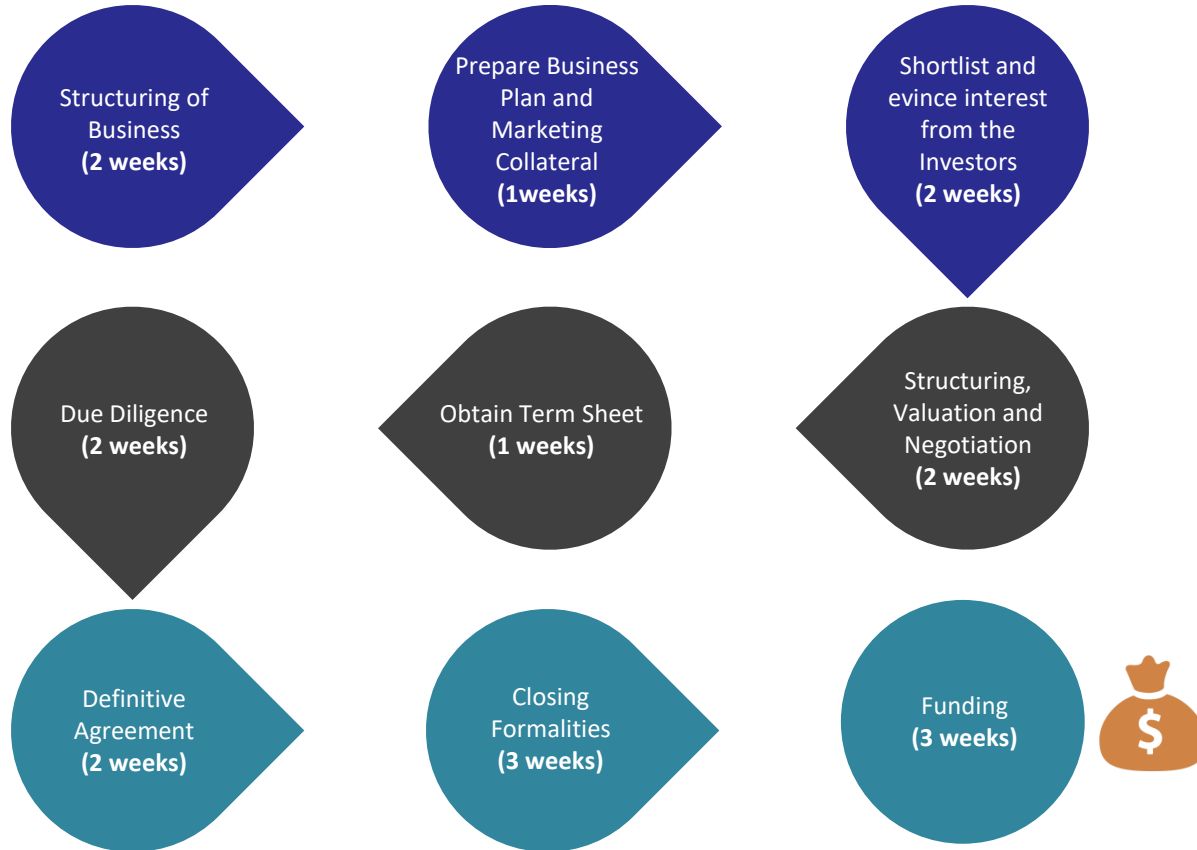
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EARLY SEED FUNDING

THE ART OF RAISING MONEY
& LEGAL REQUIREMENTS..



Investment process and estimated Time Period

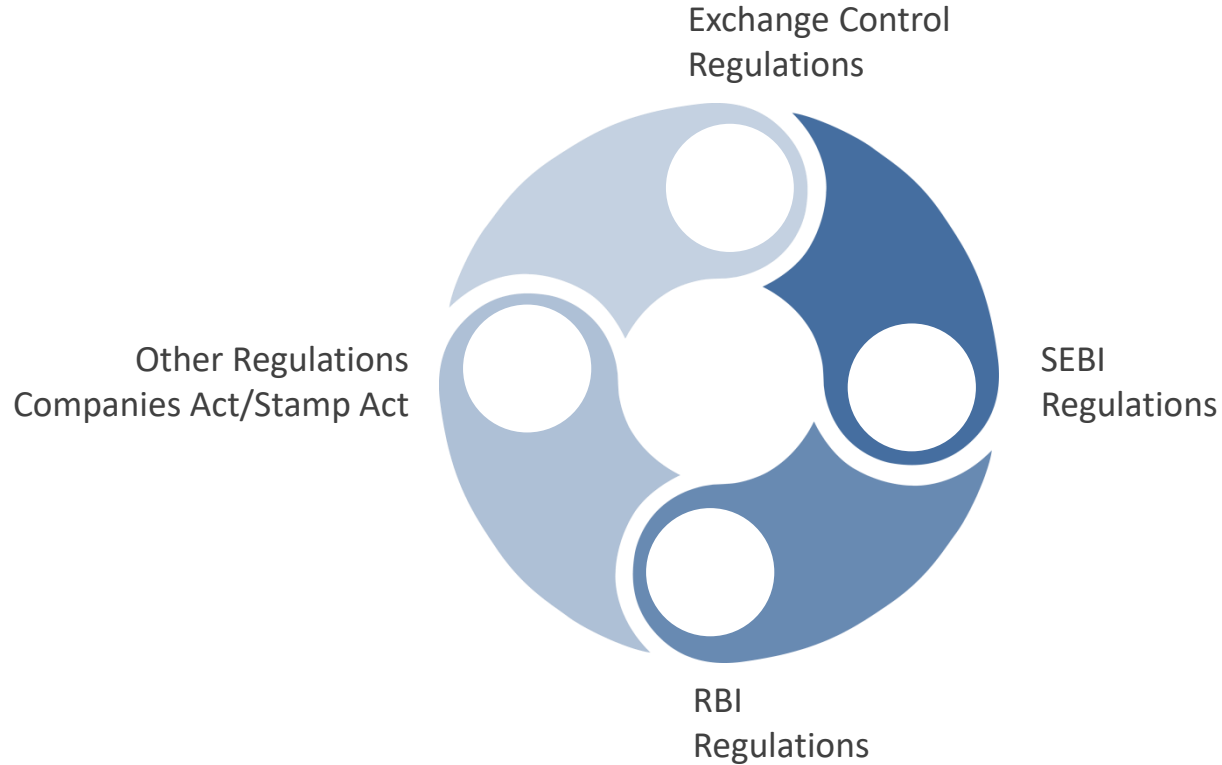


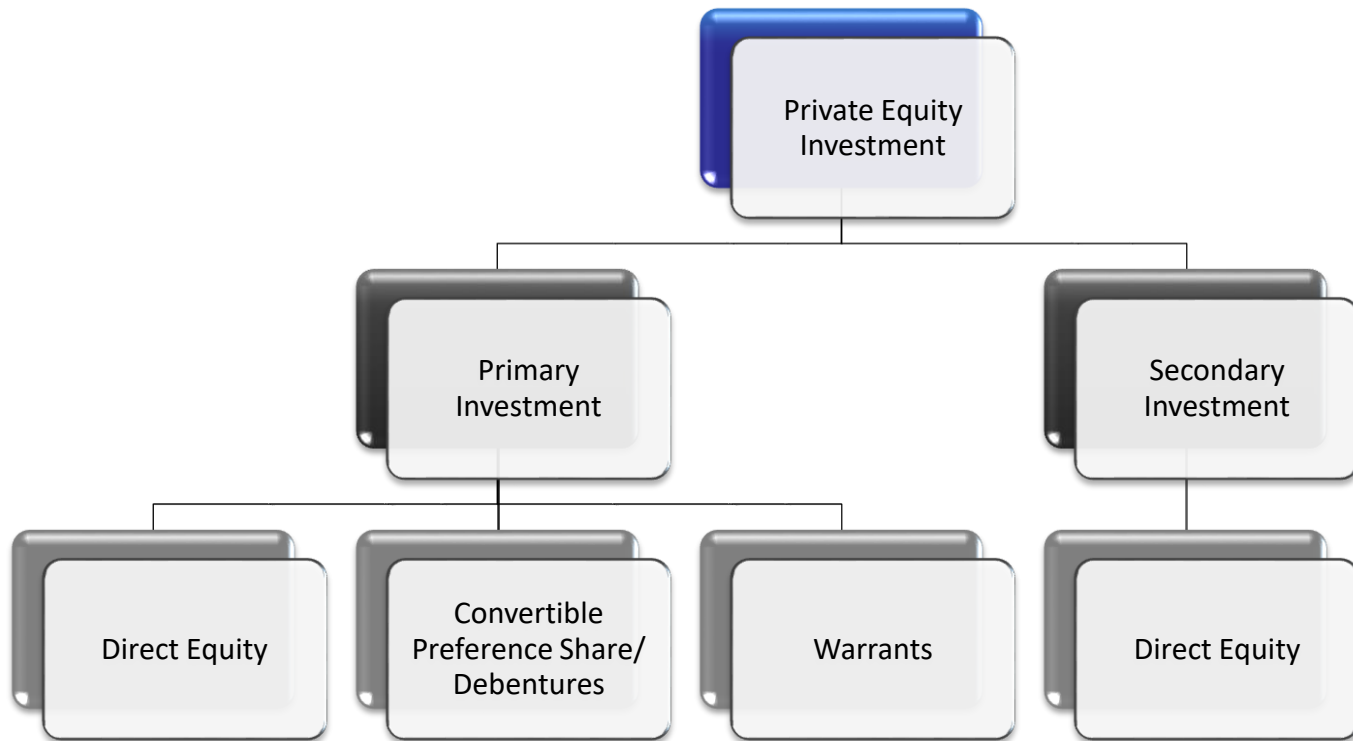
Things to consider..

- Identify your requirements for funds.
- Know your investor.
- How much equity to give?



Regulatory Framework





Valuation of Instruments

Companies Act, 2013:

- Under Companies Act, price is determined based on valuation by a Registered Valuer (RV).
- Where convertible securities are issued, the resultant equity share price is determined:
 - either upfront at the time of issue of convertible securities or
 - Atleast 30 days prior to the date of entitlement to apply for shares, on the basis of valuation not earlier than 60 days of such entitlement.

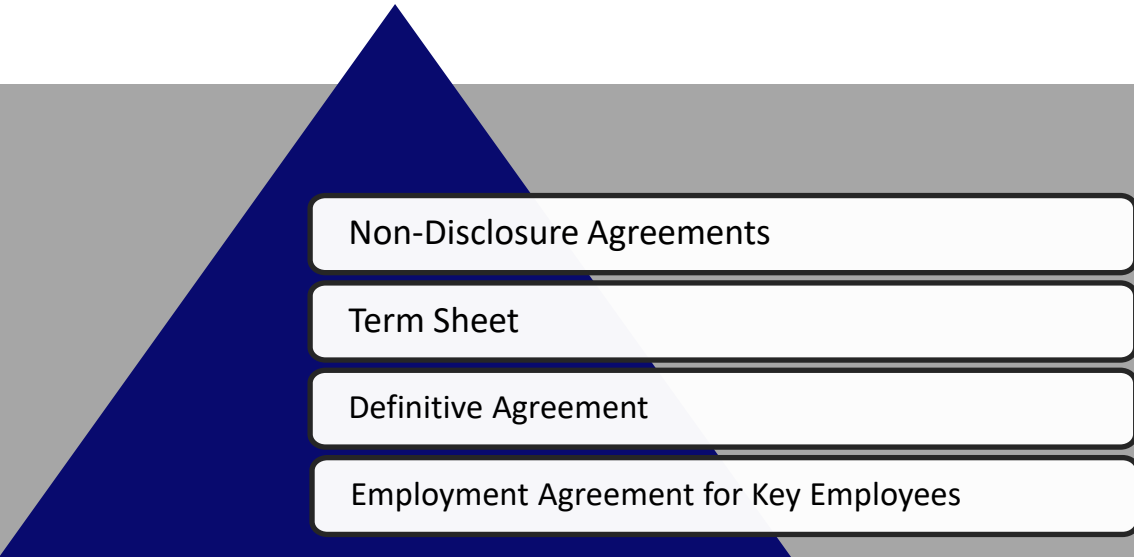
Foreign Exchange Management Act, 2013:

- The valuation of instruments is done as per internationally accepted pricing methodology duly certified by a Chartered Accountant or a SEBI registered Merchant Banker.

Income Tax Act, 1961:

- The price shall not be more than the fair market value determined by a SEBI registered Merchant Banker.
- If shares are issued at a price in excess of the fair market value, it is taxable as per section 56(viib) under the head Income from Other Sources.
- Section 56(viib) is exempted to a registered Startup i.e., if the issue price is in excess of the fair market value, the amount so raised will not be taxable.

Definitive Agreements



Non-Disclosure Agreements

Term Sheet

Definitive Agreement

Employment Agreement for Key Employees

Confidentiality/ Non-Disclosure Agreement

- Covers technical, financial, legal as well as other information disclosed to the other party.
- Duration of confidentiality obligations

Term Sheet

- Background of the Company, Investors and Proposed Transaction
- Cost of Project, Business Plan, Current Share Holding Pattern
- Valuation of the Company and the shareholding required
- Condition Precedent
- Principal Covenants
- Anticipated level of management participation by the investor
- Utilization of Fund & Fresh issue of Capital
 - Anti Dilution Rights
 - No Pledging Investor's Share
 - Tag Along & Drag Along Rights
 - Right of First Refusal
 - Liquidity Preference
- Proposed exit routes for investors

Due Diligence



Financial



Legal



Business

Shareholder's and Share Subscription Agreement

A Shareholders' Agreement is a contract between the company's initial shareholders that goes beyond the matters addressed in the company's Articles and sets out their agreement on other issues that have the potential of leading to conflicts down the road. Some matters that are often addressed in Shareholders' Agreements include:

- Term, structure, Issue & Subscription
- Management and Quorum Rights at Board meetings as well as Shareholder's meeting
- Business plan and utilization of funds
- Information rights
- Representation and warranties
- Deadlocks and its mechanisms
- Transfer of shares and its restrictions
- Call options
- Right of first refusal
- Drag along/tag along
- Non-compete and confidential
- Dispute resolution mechanism
- Exit Mechanism

Employment Agreement for Key Employees

This agreement is recommended to govern the relation between the entity and the employees who are important and involved in core operation of the entity. Some of the clauses which are included in this agreement are as follows:

- Duties and Responsibilities
- Compensation, benefits and reimbursement policy
- Termination and its effects
- Dispute Resolution Mechanism

Legal Contracts

Importance of Legal Contracts

- To provide a record of what was agreed
- To create “rights” of each party that are enforceable in law

Contracts with vendors / consultants

This agreement governs the relationship of the entity with its vendors from whom the entity takes certain services. Some examples of such agreements are:

- Service Agreements
- Advertisement Agreements
- Marketing Agreements
- Supply Agreements
- Some of the important clauses of such agreements are as follows:-
 - Obligation and rights of the parties
 - Commercial terms
 - Indemnification
 - Confidentiality and non-disclosure
 - Intellectual Property Rights
 - Exclusivity, Non-compete and non- solicitation
 - Termination and Dispute Resolution

Employment Contracts

This agreement outlines terms and conditions of employment of the concerned employee and his key performance areas. Some of the clauses included in this agreement are:

- Obligations of the employee
- Commercial terms – remuneration and bonus
- Confidentiality and non-disclosure
- Non-compete and Exclusivity
- Non-solicitation
- Intellectual Property Rights
- Termination
- Dispute resolution mechanism

ESOPs

Employees Stock Option Plans are designed to give stock in the entity. It is an incentive to retain or recruit top performers in the entity. These may be converted into shares upon fulfilment of certain conditions. ESOPs may be granted in the foreign companies to employees of the Indian subsidiaries subject to the guidelines of FEMA. Some of the clauses included in ESOP are as follows:

- Manner of acceptance of options granted
- The number of shares and its exercise price
- The vesting schedule and start date
- The procedures the employee must follow in order to exercise the options
- Effect of resignation or termination of such employees on the stock

Thank You!

Q&A

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