

## DUE DILIGENCE NOTE: Balancing perspectives to keep the mission intact

### I. Introduction

This note is intended to be a guide for social entrepreneurs and impact investors around nurturing an atmosphere of mutual trust and understanding during the due diligence phase when raising investments. This is one of the most crucial aspects of an enterprise's journey and growth, as the terms at which one has brought in investors to his/her venture will surely shape the enterprises' future. Investors bring significant experience and technical expertise into an organization apart from funds. Hence, being able to identify and bring on board aligned investors should be a process taken with care so that at the end of the day the social mission of the enterprise intact irrespective of changing actors.

This document has attempted to bring in a practitioner's perspective building on SELCO and its incubatees' investment experience but with an emphasis on these three aspects:

- Perspectives built on experience and observations around setting a healthy atmosphere during discussions that promotes trust and transparency.
- A generic checklist of items that is commonly required for any investor-led due diligence also forms a part of this document.
- Suggestions for mission protective clauses in term sheets. In doing so, a few crucial questions that were asked to entrepreneurs and investors alike include: *What are the clauses that most affect future enterprise operations in term sheet? Clauses that are most discussed during term sheet negotiations? Which are the clauses in the term sheet included by investors and/or enterprises to keep the social mission intact? By asking such questions, some of the sticky term sheet clauses were isolated for further study and clarity. The term sheet clauses discussed in this document is not exhaustive, but were viewed as critical to ensure that the mission of the organization remains intact irrespective of changing investors or ownership.*

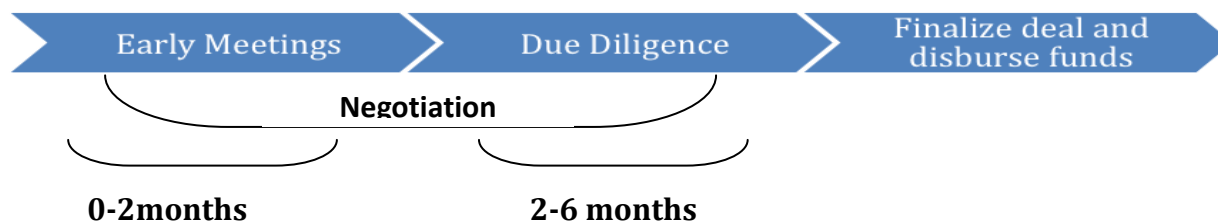
These aspects were chosen based on preliminary findings that these aspects were not to be fully explored. By no means do we have all the answers nor are we attempting to repackage existing work. We encourage you to use this as one of the guiding resources but also browse complementary sources. Some of them have been included at the end which resonated with our own experience.

### II. The Negotiation Process

The negotiation process covers early familiarization among potential partners before the due diligence process. The latter is more well understood to constitute a series of fact-finding and business risk assessment activities carried out by the investor directly or a front-end organization who represents the investors interests. This is agreed to be necessary in order to reduce the information asymmetry gap and give the investor a clearer understanding of the business idea or plan that underpins the proposal. It has both qualitative and quantitative dimensions typically covering financial, operational, legal and external environmental factors that affect and potentially influences the field in which the enterprise operates.

Typically, the negotiation process begins from the submission of investment memo/proposal from the entrepreneur's side. The entire investment process may take between 6-18 months and the due diligence activity may itself comprise of 6-8 months of investment fact-finding by the investor, before a term sheet is exchanged with

the entrepreneur. The entire investment process is adapted from routine commercial business processes as given that a social enterprise follows the principles of business to achieve its social mission.



Timeline: From negotiation to due diligence to deal finalization. SELCO experience

While it is widely acknowledged that there are different types of investors and lenders<sup>1</sup> looking for widely differing types and quantum of returns, for the purpose of this document the scope is limited to an impact investor who in addition to moderate financial returns gives equal if not more weight to social returns i.e. impact that benefits underserved societies.

### Importance of the Negotiation Process

- **Business idea vs business plan:** a plan sets in place concrete steps towards your goals but more importantly is the core idea around which the entire organization has been set up. It is important to find investors who share your passion for the business idea using the business plan as a reference tool. Enterprises in developing countries suffer from a weak support system which further stagnates growth. There are forces coming together to build this ecosystem but in the interim entrepreneurs need to be honest about these challenges and find investors who are not only willing to invest despite these challenges but also be patient with you to build that supportive system.
- **Two sides of a coin:** The negotiation process is not just about the investor determining if you are a suitable candidate but also your opportunity to gauge whether you share a mutual vision and commitment to its fulfillment through ups and downs.
- **Constructive feedback:** benefits entrepreneur in getting together documentation and putting in place an information map or even processes at the prospect of a 3<sup>rd</sup> party review.

There are two key underlying strategies that have been deemed to be successful in setting appropriate tones for the discussion and laying a solid foundation for future discussions:

#### *Team Composition*

At different points in the negotiation process one will encounter questions related to philosophy, finance, future plans, and legalities and so on of the organization. Typically one person may not be able to answer on all these fronts. Rather, depending on skill set it is important to bring in appropriate representatives at different points in the due diligence process. For instance, at the onset when describing the philosophy, mission and future vision of the organization the founder is seen as a motivational puller. Subsequently questions around financial and operational sustainability are better handled by the COO and CFO or just the COO. However gut reactions, cross questioning maybe a strength of the COO and thus she/he might be useful to have in the first conversation. It also brings in a sense of confidence of the management at the helm of the organization and ability of the organization to sustain in the absence of the Founder's inputs. If paired with an investor representative who is similarly brought in with experience on the field, finance, operations it will significantly reduce the time needed to understand each other.

#### *Partnerships over hierarchies*

Very often the party with the funding is perceived to have the upper hand. The atmosphere can become hierarchical with investors leading the conversation and demanding information. Successful investments are typically rooted in

<sup>1</sup> A guidebook on preparing technology transfer projects for financing. UNFCCC (2006). Due Diligence Note, last updated Aug 2015

an understanding from both parties that this is a partnership with shared social missions. The enterprise is the vehicle to reach that goal and the funding is a crucial support to fuel it. One without the other is useless. The ultimate social mission is compromised or may never exist. Thus, both parties need to see themselves as being an equal partner in the discussions. Maintaining high levels of trust and transparency is vital to the process.

### III. Other softer considerations include-

#### *For Entrepreneurs:*

Closing an investment is a huge milestone for many entrepreneurs because besides the resources to grow the enterprise it also brings together a group of external people who are committing to pushing forward your vision. Thus while it is perceived that the person who has the funds is entitled to do a complete investigation of a potential investee by the same token, the entrepreneur, also, is entitled to the reverse. A few thoughts-

- Investment philosophy-is it a match? Impact investors, particularly venture capitalists, have a short term outlook and seek investments with fast gains. Dig into ideas of scale vs innovations vs proven model to evaluate mutual agreements. Ask upfront questions particularly around failure, dealing with pressing issues and other challenges. This should be done in the early phase of discussion, 0-2months.
- Check with references of other investees/peers particularly around performance, ticket size, success rate, investments in similar segments (geography/sector/segment).
- Be attentive to the atmosphere around the negotiation process: Was the investor a good listener, were they responsive? Were they prepared about your organization for the meetings?
- Engage 3<sup>rd</sup> party investment advisors preferably peers or likeminded investors or incubators to assist in shaping your decision particularly around the long term-future of the company and the role of this investor.
- Finally, listen to your gut. Prioritize trust over valuation or monies. It will cost you.
- Investment process can be a long one so be prepared to invest significant time sometimes, even at the cost of running your business. Thus if the deal falls through one is better prepared for the time allocation spent on the deal.
- Patience. If the due diligence takes time it is for a good reason. Each Investor will have some requirement that is different from others mainly due to the structure of their funds. Be patient if you think the Investor is otherwise transparent and open in their need for such information. Figure out the way to speed up the processes. Self-check if you will invest money in your company if roles were reversed?
- Ask yourself if you are investment ready. In other words ensure you have completed all the statutory requirements in the company from the day it was formed. Also be sure to refer checklist and be prepared to save additional time.
- Be clear in your thinking when you wish to raise money. Do not change your position during negotiations unless there are compelling reasons beyond your control.
- Seek high quality professional help early in the deal. By and large this is not an area of expertise for the investee. Be prepared for the financial implications.

#### *For Investors*

For investors, a lot of the due diligence process is to reduce uncertainty. This is not a bad thing and makes sense if one is putting money on the table. However, very often due to haze of uncertainty - of the business, local conditions around stability in a short horizon, investors, tend to look sideways, to their peers, or to similar investments in developed countries to determine where and how to put their funds. The result are similar investments in similar enterprises. Thus investors need to come to the negotiation table with tools that will help take on the unfamiliar but with calculated risk.

- Build a connect with investee: Bring to the table folks who can identify with entrepreneurs or who are capable of building a connect with them. It will help in solidifying trust early on in the process and also assist

the investors in shaping their decisions. Most often investment firms are staffed with people who are not entrepreneurs or lived outside the investee area of operations thus making it difficult to establish a connect

- State clearly the non-negotiable points upfront. E.g. place on the Board, minimum holding of promoters in the company post investment, exit period.
- Explain the requirements' of your fund very early during the negotiations in as much details as possible
- Building capacity of front line organizations that represent the "faceless" investors who are most often in Europe or North America. They set the tone for discussions and trust early on so they should accurately represent expectations of other senior decision making representatives.
- Usually the potential Investee will have to deal with multiple people in the Investor's organization before signing the deal. It is important that one person from Investor's organization does the front ending with the Investee as much as possible. In case of handing over the deal to another department or another person (in cases where a person may exit Investor's organization) ensure that the pitch of the deal does not vary significantly with the other team/successor.
- Different vantage points: As mentioned earlier to reduce uncertainty it would help to have staffs that bring in perspective from different vantage points to help shape a decision and build an understanding of the unfamiliar. For instance having an entrepreneur on the advisory board.
- Be timely in response to decline the capacity to fund any organization especially in the early weeks of discussion. Do not keep the deal hanging even if your intentions may be good.
- Being clear about reasons for decline without ambiguous or harsh "no" is a good way to in a small way, help the organization improve or retool approaches if needed.
- Building in efficiency: Request for existing documents and only if necessary specific documents or perhaps a follow up call.
- A contribution vs funding. Moving beyond the role of one who gives funds and offering constructive advice to building the organization, a partnership, with the organization is important.
- Awareness of cultural communication and expectations: contexts outside The United States especially around ways of rejection.

#### IV. Term Sheets

Term sheet discussions follow the due diligence activity of the investors and once the business facts have been verified. The term sheet is non-binding and is perhaps the most crucial and thoroughly negotiated document during the investment process. The clauses in the term sheet will form a part of the shareholders agreement. It is important to realize that the clauses agreed upon during this stage will determine the course of engagement between the investor and the entrepreneur and ultimately guides the growth of the enterprise.

Since the scope of this document is to speak about the clauses and negotiation in the impact investment domain, mission protection is prioritized here more than singularly speaking from the investor or entrepreneur's perspective. The key considerations during the term sheet discussion that has to be kept in mind includes-

- *Investment Philosophy:* Entrepreneurs and investors alike must understand, match and reconcile their philosophy for the organization and investment before arriving at a decision
- *Partnership Approach:* Investors can have hands-on engagement as partners of the enterprise right from the negotiation phase, rather than the traditional hierarchical approach of remaining solely as funders
- *Ownership:* Shareholding should be structured in the best interest of protecting the company's mission. This can tilt from the entrepreneur to investor's side depending on the context
- *Clauses Vs Trust:* Term clauses have an expiration term and protection trigger. Entrepreneurs and investors alike must balance and appreciate the level of trust that forms part of successful investment partnerships

- *Time costs:* As the entire process may take a little over a year, entrepreneurs must account for the duration of the fund raising activity and potential delays while quoting investment requirements

Refer below Appendix 1. Suggested Mission protective clauses in the term sheet.

## V. Checklist

Typically in preparation for the fundraising cycle, a list of documents is generally solicited. This list has been put together drawing from experience and a few other resources. It is differentiated into documents required to understand the business plan and documents to further understand inner organization workings. It can be found in Appendix 2. (attached excel file)

### Resources:

1. ANDE Legal Working Group: Entrepreneur Introduction to term sheets [<http://tinyurl.com/nxbmkcm>]
2. UNFCCC Preparing Technology Transfer Projects for Financing [[http://unfccc.int/resource/docs/publications/pract\\_guide\\_06\\_en.pdf](http://unfccc.int/resource/docs/publications/pract_guide_06_en.pdf)]
3. Schwab Foundation Social Investor Manual [<http://www.weforum.org/pdf/schwabfound/SocialInvestmentManual2011.pdf>]
4. Toniic E-Guide Early Stage Global Impact Investing [<http://www.toniic.com/toniic-e-guide-fall2013/>]

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## Appendix 1. Term Sheet suggestions on mission protective language

Clause	Simplified Meaning	Suggested	Suggested term – Simplified
<p>Anti Dilution Protection.</p> <p>In the event that the Company issues additional securities in the future at a purchase price less than the previous round of fund raising, then this anti dilution clause provides protection to the investors in early rounds</p>	<p>If the next round of investment happens at a lesser valuation/price, then the investor either gets free shares or if the shares are not converted then there is adjustment in the conversion price.</p>	<p>If the price per security or share is lower than the prevailing investor price, then the bearers of investor shares shall have broad based weighted average anti-dilution rights. Such rights shall be exercised by way of an automatic adjustment to the investor conversion price, without the need for any further action of parties. The adjusted investor conversion price(ACP) is calculated as follows: <math>ACP = (\text{Old Conversion Price} * (\text{Existing No of Shares} + [\text{Consideration to be received} / \text{Old Conversion Price}])) / (\text{Existing No of Shares} + \text{Number of New shares to be issued})</math></p>	<p>If the earlier 1000 convertible shares were entitled to be converted @ say 320 Rs and the next issues of say 3400 shares are priced at say 290 Rs, then the adjusted conversion price will be calculated as follows:</p> <p>Old Conversion Price = 320 Existing No of Shares = 1000 Consideration to be received = <math>3400 * 290 = 986000</math> New shares to be issued = 3400 Adjusted conversion price = <math>(320 * (1000 + [986000 / 320]) / (1000 + 3400)) = 296.82</math> Rs. Thus the conversion will happen @ 296 Rs and not @ Rs. 320</p>
<p>Right of first refusal.</p> <p>Right of first refusal with existing investors, in case the existing equity shareholder proposes to transfer their shares in the company to a third party.</p>	<p>If the existing investor decides to sell their stake in the company then the other existing shareholders should have the first right to buy the shares and only in the event if they are not willing to buy the shares, then the investor willing to sell his stake should look for a new buyer (other than the existing shareholder)</p>	<p>Right of first refusal with all existing investors, in case the existing equity shareholder proposes to transfer their shares in the company to a third party on pro rata basis.</p>	<p>If an existing investor who has a 25% stake in the company wishes to sell say 10000 Equity shares, then the other investors have the right to buy those Equity shares in proportion to their percentage of current holding of shares</p>
<p>Lock-in of Founder's &amp; Investor's shares.</p> <p>The shareholders cannot in any way sell / transfer their respective shareholdings before the end of certain period from the date of Investments by Investors.</p>	<p>The purpose of this clause is to ensure that the founders remain invested and are sufficiently interested in managing the operations efficiently and effectively and the investors remain invested for sufficiently a long time</p>	<p>The invested shares are locked in for a period of 5 years, subject to a schedule of unlocking provided as provided below.</p> <p>1 Year – 15% 2 Years – 35% 3 Years – 55% 4 Years – 75% 5 Years – 100%</p>	
<p>Tag-along / take-me-along rights</p> <p>Subject to the lock-in provisions herein contained and to the extent the rights of first refusal are not exercised, in the event a Promoter proposes to transfer any Common Stock, the Investors would have a right to sell its shares on the same terms to the same party..</p>	<p>If the promoter or the majority shareholder sells his stake, the other investors/ minority shareholders have the right (not compulsory) to join the deal and sell their stake at the same terms and conditions.</p>	<p>The Tag Along Right shall be a pro-rata right and available to both the Founders/ Investors and other minority shareholders.</p>	<p>If an existing investor who has a 25% stake in the company has found a buyer to buy say 10000 Equity shares, then the other investors have the right to sell to the proposed buyer 7500 Equity shares (the balance 75%) in proportion to their percentage of current holding of shares</p>
<p>Drag-along rights.</p> <p>Holders of Preferred Stock and the Founders and all future holders of greater than certain percentage of Common Stock (assuming conversion of Preferred Stock and whether then held or subject to the exercise of options) shall be required to enter into an agreement with the Investors that provides that</p>	<p>Where one of the investors find a buyer, but the buyer wants to acquire the whole company or else is not interested in buying only the investor's share of the company, then this clause gives the right to the investor interested in selling his stake to drag along other investors and compel them to sell their stake as well to the interested buyer. This</p>	<p>No drag along rights.</p> <p>If a Shareholder (the "Offering Shareholder"), desires to sell any of the Equity Shares (the "Offered Shares") to any third party then the Offering Shareholder shall first offer (the "Offer") to sell the Equity Shares by sending a notice of the Offer (the "Notice") to the other Shareholders (the "Non-Offering Shareholders") with a copy to the</p>	<p>If an existing investor wishes to sell his stake in the company, he has to first offer to sell his shares to the existing investors. In the event if the existing investors are not interested to buy them within a stipulated time, then the Board can identify a buyer to buy the shares offered for sale on the same terms and conditions within a stipulated time. If the Board fails to</p>

<p>such stockholders will vote their shares in favor of a Deemed Liquidation Event or transaction in which 50% or more of the voting power of the Company is transferred and which is approved by the Board of Directors and the holders of certain percentage of the outstanding shares of Preferred Stock, on an as-converted basis</p>	<p>clause prevents a minority investor from blocking such sale.</p>	<p>Company, irrevocably offering to sell the Equity Shares to the Non-Offering Shareholders for cash. Within 15 (fifteen) days of the receipt of the Notice by the Offering Shareholder (the "Offer Period"), each Non-Offering Shareholder may at its option send a notice ("Transfer Acceptance Notice") in writing to the Offering Shareholder and the Company accepting the Offer in respect of all (and not less than all) of such Non-Offering Shareholder's pro rata portion of the Offered Shares (which pro rata portion shall be a percentage of the Offered Shares equal to the ratio of the Equity Shares then held by such Non-Offering Shareholder divided by the aggregate Equity Shares then held by all Non-Offering Shareholders. If all Non-Offering Shareholders issue a Transfer Acceptance Notice, then all such Non-Offering Shareholders shall be entitled and bound to purchase the Offered Shares in proportion to their pro rata portion thereof. If any but less than all of the Non-Offering Shareholders issues a Transfer Acceptance Notice during the Offer Period, then within (2) two days after the end of the Offer Period the Offering Shareholder shall send a supplemental notice to each such Non-Offering Shareholder that issued a Transfer Acceptance Notice and the Company, irrevocably offering to sell to such Non-Offering Shareholders their respective pro rata portion of the Offered Shares in respect of which the other Non-Offering Shareholders did not accept the offer to purchase Offered Shares within the Offer Period. Within (10) ten days of receipt of such supplemental notice to the accepting Non-Offering Shareholders, such Non-Offering Shareholders shall communicate amongst themselves regarding the remaining available Offered Shares and whether each desires to purchase its pro rata portion of the same, and each such Non-Offering Shareholder so desiring to purchase remaining available Offered Shares shall, within such (10) ten day-period, at its option send a supplemental Transfer Acceptance Notice in writing to the Offering Shareholder and the Company accepting the Offer in respect of all (and not less than all) of such Non-Offering Shareholder's pro rata portion of the remaining Offered Shares (which pro rata</p>	<p>find a buyer or does not exercise its right to identify a buyer within a stipulated time, then the existing shareholder can sell his stake to a new buyer on the same terms and conditions set out originally while communicating his intention to sell his stake in the company. This clause also provides protection to the existing shareholders against selling the stake to a competitor.</p>
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		<p>portion shall be a percentage of the remaining Offered Shares equal to the ratio of the Equity Shares then held by such Non-Offering Shareholder divided by the aggregate Equity Shares then held by all Non-Offering Shareholders electing to purchase a portion of such remaining Offered Shares). Any Non-Offering Shareholder issuing Transfer Acceptance Notice(s) as above shall pay the Offer Price in proportion to the Offered Shares proposed to be purchased by it, and accept a transfer of, all the Offered Shares or their respective entitlement thereof, as the case may be, and the Offering Shareholder shall be bound, on payment of the Offer Price to transfer all the Offer Shares or their respective entitlement thereof as the case may be, to the respective Non-Offering Shareholders. Such payment and transfer shall be completed within (15) fifteen days after the date of the last Transfer Acceptance Notice. If none of the Non-Offering Shareholders issues a Transfer Acceptance Notice and accepts the offer of the Offered Shares contained in the Notice within the Offer Period, or if, at the expiration of all relevant periods for delivery of Transfer Acceptance Notices, the Non-Offering Shareholders have issued Transfer Acceptance Notices and accepted the Offer to buy the Offered Shares in respect of less than all the Offered Shares, then, at the conclusion of such periods, the Board shall have thirty (30) days in which it may identify a third party purchaser (the "Board Identified Buyer") of its choosing to purchase all (but not less than all) of the remaining Offered Shares at the Offer Price and on the other terms and conditions set forth in the Notice. The Board shall exercise this right by delivering a written notice to the Offering Shareholder setting forth the name of the Board Identified Buyer and other relevant information. If the Board elects not to exercise the foregoing right, then the Offering Shareholder shall have the right to sell the Offered Shares not accepted by the Non-Offering Shareholders to the Proposed Buyer within 30 (thirty) days after the expiry of the Offer Period at the Offer Price and on such terms and conditions which are not more favourable than the terms in the Notice. If the sale and purchase of the Offered Shares to the Proposed Buyer (and/or Board Identified</p>	
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		<p>Buyer, as the case may be) is not completed within the 120 (one hundred and twenty) days period following the expiration of the relevant periods described above, then the Offering Shareholder shall be subject to the provision of this Section as if no such offer was made.</p> <p>Notwithstanding anything in this agreement, the existing investors shall not Transfer their respective Investor Shares to a competitor of the company, except with the prior written approval of the Shareholders, determined based on their shareholding in the Company.</p>	
<p>Non-compete</p> <p>Each Founder and key employee will enter into a non-competition and non-solicitation agreement valid for a certain period of time in a form reasonably acceptable to the other existing Investors.</p>	<p>This clause prevents the founders and other key employees from creating a competing entity by leaving the organization or poaching its employees for a certain period of time</p>	<p>The promoters agrees that he shall not for a period of at least five years from the date of this agreement own, develop, manage, establish, engage in, operate or cause to be operated or consult in a business that competes with the business of the company. This also includes directly or indirectly, engage in the marketing or distribution of any services provided by the company or carry on the competitive business or solicit for the competitive business, and customer or target customer or key personnel or supplier of the company or otherwise use its knowledge or influence over any customer or target customer or key personnel or supplier to the detriment of the company. This, as an individual, employee, consultant, independent contractor, partner, shareholder, member or in association with any person except on behalf of the company.</p>	<p>This clause prohibits the promoters from starting a competing business upto 5 years from the date of the agreement.</p>
<p>Counsel and Expenses</p> <p>[Investor/Company] counsel to draft Closing documents. Company to pay all legal and administrative costs of the financing [at Closing], including reasonable fees (not to exceed \$[____]) and expenses of Investor counsel[, unless the transaction is not completed because the Investors withdraw their commitment without cause].</p> <p>Company Counsel: [ ]</p> <p>Investor Counsel: [ ]</p>	<p>This clause specifies who will be bearing the legal counsel costs of the investor and the Company.</p>	<p>Except as agreed to the contrary by the Parties in writing, each Party shall pay its own costs and expenses. All costs and expenses in relation to and for the consummation of the transaction including the expenses relating to issue of the Equity Shares, stamp duty on this Agreement and other charges payable in respect of the issue and transfer of the Equity Shares, as the case may be, and the execution of this Agreement shall be paid by the Company. The initial draft share holder agreement will be drafted by the company.</p>	<p>Each of them will pay the costs incurred by them. The initial draft agreement will be prepared by the Company and post execution all the other charges will be borne by the Company.</p>

## Appendix 2: Document checklist for fundraising

Part 1: Checklist Business Plan List									
Area	Parameter	Documentation	Equity	Debt	Grant				
Organizational Information	Company Name	Copy of the organization's memorandum, articles of association, incorporation or registration certificate	Yes	Yes	Yes				
	Sector								
	Legal Form								
	Date of incorporation								
	Start of operations								
	Location (HQ)								
	Area of operations								
	Is the income of the organization taxable under the Indian Income Tax Act or it exempted?	PAN, Tax audits, break up of sales tax and any other applicable taxes							
	Is the organization required to pay VAT?	VAT/TIN detail							
	Stage of development								
About company (mission, focus area, impact, targeted turnover, overview of need and role of organization to address it)	Mission, impact and sustainability policies and guidelines including nature and scale of expected impact								
Founder/Entrepreneur's commitment	Personal funds committed by founders and principal investors								
Finance	Financial Information	Audited financial statements since inception,	Yes	Yes	Yes				
	Shareholding patterns	Schedule of security /shareholders, type/number of stocks held, date of issuance, consideration paid, percentage of ownership.	Yes	Generally No	Generally No				
	Revenue (total and break up)	Three year operating budget and financial projections	Yes	Yes	Few ask for it				
	Sales	Income and cash flow statements (2 yrs)	Yes	Yes	No				
	Operational size (no. of branches, area of operations etc.)		Yes	Yes	No				
	Institutional Profile								
Team	Management	Organization chart	Yes	Yes	No				
		Profile of Key Personnel and their roles & responsibilities	Yes	Yes	Yes				
Social Impact	Schedule of social, economic and environmental impact objectives with program mission, impact policies and guidelines	Impact reports: reporting metrics, reporting intervals and related documentation	Yes	Yes	Yes				
Business Model	Business Model	Business plan including allied studies and consulting reports, Marketing strategy	Yes	Yes	Yes (Justifying the project proposal)				
	Value proposition/competitive edge								
	Break up by key aspects of business (distribution, end user finance, marketing, sales & payment cycles, after sales service, IT, internal process management, procurement)								
	Competitors-Market share, Marketing strategy, Pricing strategy & supporting market studies								
	Key Partners (technical, mentorship, grassroots, investors, customers)								
	Product portfolio (existing, new, innovations)								
	Risk Analysis/SWOT & Mitigation measures								
	Challenges								
	Impact								
	Milestones (comparisons across last 3 years)								
	Future Development Strategy (Growth Plan)								
	Current financials (actual and projections)					Accounts receivables / payables	Yes	Yes	No
	Investment requirement particularly the form of investment sought								

## Part 2: Checklist for Due Diligence Preparation

Area	Parameter	Documentation	Equity	Debt	Grant
Organisational Documents	Internal constitutional documents	Bylaws, operating agreements, partnership agreements	Yes	Yes	Yes
			Yes	Yes	No
	Meeting minutes various internal boards	Board of directors, Advisory board, committees and shareholders	Yes	Yes	Yes
	Jurisdiction & Tax exemption	Schedule of Jurisdiction, tax exemption certificates and any other good standing certificates			
Finance	Financial Information	Audited financial statements since inception (unaudited if unavailable)	Yes	Yes	Yes
	Securities	Copy of security certificates issued, guarantees, warrants, options and debt arrangements and financial commitments			
	Shareholding patterns	Schedule of security /shareholders, type/number of stocks held, date of issuance, consideration paid, percentage of ownership. Capitalisation tables, voting rights, SHA's, any contracts relating to company's securities	Yes	Generally No	Generally No
	Product/ Service	Product and service pricing plan policies and guidelines / Revenue, gross margins	Yes	Yes	Few ask for it
	Budget	3 year budget and financial projections	Yes	Yes	Yes
	Miscellaneous	Extraordinary income, explanation of any write offs, bad debt experiences, outstanding liabilities	Yes	Yes	No
	Accountants Report	Report on the financial performance and strength of the company	Yes	Yes	No
Team	Organization set up: Total strength-full time/part time/consultants	Employment & consulting agreements of key team members	Yes	Yes	Yes
	Agreements				
	Governance	Compensation statement and NDA's for employees, management, directors, advisors with agreements	Yes	Yes	No
Tax Information	Tax Audit Reports	Details of audited tax reports			
	Other tax payments	Evidence of sales tax, excise and applicable taxes			
Contracts & Agreements	Licensing arrangements	Licensing agreements (inbound/outbound)	Yes	Yes	No
	Suppliers & Vendors	Schedule and agreements of major suppliers, vendors and customers	Yes	Yes	No
	Property	Schedule of all real properties owned (including titles/mortgages); Leases & Sub leases; Patents, trademarks and trade secrets	Yes	Yes	No
	Governmental Regulations	Copies of permits, licenses and reports to governmental agencies			
	What sort of security like Bank Guarantee/Legal Undertaking, you can provide ensuring that the MA funds released to you in tranches against the Award agreement shall not be misused and/or diverted from the purpose for which these shall be released to you?	Schedule of all bank guarantees, debt arrangements and indemnification offers to directors or security holders of the company	Yes	Yes	No
Bank Account details	Please provide Bank Account(s) details of your organization (FCRA account details, if available)				
	Would you be keeping a separate and independent bank account for receiving the MA funds and spends there from?				
	Would you be keeping and maintaining separate books of accounts for receipts and spends of award money/MA funds?				

Bank Account details (contd.)	Would there accrue any interest on the deposits in such separate bank account?				
Accounting details	Which accounting system do you follow? Do you maintain manual account books or computerized?	Description of accounting method / practices followed including changes in the last three years	Yes	Yes	Yes
	How often do you prepare your profitability statement (quarterly, half-yearly, yearly)?				
	To control the budgetary expenses, how often do you compare actual expenses with the budgeted costs	Accountants report on company's financials and conditions	Yes	Yes	Yes
	How often do you make entries into the financial system?				
	Daily				
	Weekly				
	Monthly				
	On Accountant's discretion				
	How often do you prepare cash/bank reconciliation statement?				
	Daily				
	Weekly				
	Monthly				
	On Accountant's Decision				
	For how long do you retain the accounting record including vouchers, invoices, account books etc?				
Please provide balance sheet of your organization for the preceding 3 years.	Balance Sheets	Yes	Yes	Yes	
Internal Audit Process	Does the Organization have a codified laid down financial policy for managing the funds for releasing the payments, signing of the cheques, controlling and managing the finance of the Organization etc.?	Financial Policy	Yes	Yes	Yes
	Does the Organization have a purchase/procurement policy?	Purchase Policy	Yes	Yes	Yes
		Purchase agreements	Yes	Yes	No
	Does the Organization have a travel policy?	Travel Policy	Yes	No	Yes
	Do you have an internal audit system in place for periodic audit of the accounts of the organization?				
	Please provide details of the External Auditors along with their contact details.				
Miscellaneous	Documentation	In-progress research and documentation policies			
	Publicity material	Press releases, articles, newsletters and investor relations	Yes	Yes	Yes