

IVCA Draft Model Term Sheet (CCDs)

TERM SHEET

This Term Sheet summarizes the principal terms with respect to the proposed investment by [] in []. The completion of the transaction contemplated by this Term Sheet will be subject to, among other things, completion of due diligence, execution of binding agreements and completion of conditions to Closing. This Term Sheet is not legally binding, except for the provisions on Confidentiality, Exclusivity, Expenses and Dispute Resolution. This Term Sheet does not constitute an offer to purchase any securities of the Company or create any obligation on the Investor to consummate the transaction contemplated by this Term Sheet.

Sl. No	Key term	Particulars												
1	Company	[]												
2	Founder(s)	[]												
3	Investor	[]												
4	Investment details	<p>The Investor intends to make an aggregate investment of INR [] (Investment Amount) for a []% stake in the Company on a fully diluted basis (including an ESOP pool of []%). The Company will issue [] Compulsorily Convertible Debentures (Investor CCDs) to the Investor. [The Company shall in addition to the Investor CCDs also issue [] equity shares to the Investor.]</p> <p>The Investor CCDs shall carry a coupon of []% per annum [payable quarterly].</p>												
5	Shareholding Pattern	<p>The broad shareholding pattern of the Company as on the Closing Date (on a fully diluted basis) will be:</p> <table border="1"> <thead> <tr> <th>Shareholder</th> <th>Percentage holding</th> </tr> </thead> <tbody> <tr> <td>Founders</td> <td>[]%</td> </tr> <tr> <td>Other shareholders</td> <td>[]%</td> </tr> <tr> <td>ESOP Pool</td> <td>[]%</td> </tr> <tr> <td>Investor</td> <td>[]%</td> </tr> <tr> <td>Total</td> <td>100.00%</td> </tr> </tbody> </table>	Shareholder	Percentage holding	Founders	[]%	Other shareholders	[]%	ESOP Pool	[]%	Investor	[]%	Total	100.00%
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Total	100.00%													
6	Use of Proceeds	As per the business plan to be agreed with the Investor.												
7	Definitive Agreements	Parties will enter into binding agreements within [] days from the date of signing of this Term Sheet, unless mutually extended in writing. The binding agreements will include a [Subscription Agreement and a Shareholders’ Agreement]/[Investment Agreement].												
8	Conditions Precedent to Closing	The Definitive Agreements will specify conditions precedent that will need to be completed to the satisfaction of the Investor, prior to closing of the transaction contemplated by this Term Sheet (Closing).												
9	Board and Observer Rights	<p>On and from the Closing, the Board of Directors of the Company (Board) will comprise of [] directors. The Investor will have the right to nominate [] director(s), the Founder will have the right to nominate [] director(s), and an independent director will be appointed with the consent of the Investor. [The initial Investor nominee will be [] and the initial Founder nominee will be []].</p> <p>[In addition,] the Investor will have the right to nominate a non-</p>												

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		voting observer on the Board or any committee constituted by the Board.
10	Reserved Matters	In addition to any voting requirement under law, the matters specified in Annexure I to this Term Sheet will require the express consent of the Investor.
11	Exit	Founders and the Company will facilitate an exit for the Investor by way of a Qualified IPO, third party sale or in any other manner, as provided below.
12	Qualified IPO	Within [5] years from the Closing, the Company and Founders will facilitate an IPO, which will (i) provide the Investor a minimum [__%IRR] on the Investment Amount] /a minimum of [__x] of the price per Investor CCD (subject to stock splits, dividends, consolidations and the like)]; (ii) gross proceeds from the IPO of INR [__]; and (iii) listing of the Company's securities on the NSE, BSE or any other internationally recognized stock exchange acceptable to the Investor.
13	Third Party Sale	If the Company has not completed a QIPO within [5] years from Closing, then at any time thereafter, on the written request of the Investor, the Company and Founders will cause the sale of the Investor's stake [at a price and on terms acceptable to the Investor]/[at a minimum [__%IRR] on the Investment Amount]/at a minimum of [__x] of the price per Investor CCD (subject to stock splits, dividends, consolidations, etc.) and other terms acceptable to the Investor]. Such sale will be completed within 120 days of the request from the Investor.
14	Buy-Back	If the Company has not completed a QIPO within [5] years from Closing, then at any time thereafter the Investor will have the right to require the Company to buy-back all or part of the Investor CCDs held by it [at a minimum [__%IRR] on the Investment Amount]/at a minimum of [__x] of the price per Investor CCD (subject to stock splits, dividends, consolidations, etc.)]
15	Put Option	If the Company has not completed a QIPO within [5] years from Closing, then at any time thereafter, the Investor will have a 'put' option on the Founders for all the Investor CCDs held by it. The Founders will be required to purchase the Investor CCDs [at a [__%IRR] on the Investment Amount]/ at [__x] of the price per Investor CCD (subject to stock splits, dividends, consolidations, etc.)]
16	Drag Along	If the Company has not completed a QIPO within [5] years from Closing, then at any time thereafter, the Investor will have the right to 'drag along' all the other security holders of the Company to facilitate an exit for the Investor.
17	Liquidation Preference	Upon the occurrence of a 'Liquidity Event', the Investor will be entitled to receive, from the proceeds of such event, in preference to holders of preference shares, equity shares or other securities convertible into equity shares, an amount equal to [100%] of the amounts invested by it plus any declared but unpaid dividends.

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		<p>Following full payment of the liquidation preference amount above to the Investor, any remaining proceeds from such event will be distributed pro rata amongst the holders of Investor CCDs, equity shares and preference shares of the Company (on an as-converted basis).</p> <p>'Liquidity Event' will include (i) a dissolution or winding up of the Company; or (ii) sale, transfer, consolidation, merger or any other transaction, which results in a change of control and/or a disposal of all or substantially all of the assets of the Company (including IPR).</p>
18	Conversion	Investor CCDs (together with accrued but unpaid interest/coupon) may be converted at any time, at the option of the Investor into equity shares of the Company. Standard automatic conversion provisions will apply on the occurrence of a QIPO or on the expiry of [___] years.
19	Anti-dilution	Conversion ratio for Investor CCDs will be adjusted on a [full ratchet]/[broad-based weighted-average basis] in the event of an issuance of equity shares or securities convertible into equity shares below the price per Investor CCD, subject to customary exceptions.
20	Pre-emptive Right	In any future issuance of equity or equity-linked securities, the Investor will have right to participate on a pro rata basis, subject to customary exceptions.
21	[Founder Stock Vesting]	[All shares held by the Founders will vest over [4] years from Closing with a minimum one-year 'cliff'. Appropriate escrow mechanisms will be put in place to give effect to the agreed vesting terms for Founders.]
22	Employee Stock Option Plan	The Company will grant ESOPs in accordance with the ESOP plan adopted by the Board.
23	Founder lock-in	Founder(s) will not be entitled to transfer their shares without the prior approval of the Investor.
24	Employment Agreements	Founders and key management will enter into employment agreements with appropriate non-compete, non-solicit and IP assignment provisions.
25	Non-compete and Non-Solicit	Founders will also provide customary non-compete and non-solicit undertakings in the Definitive Agreements.
26	Investor's right to transfer	The Investor will have the right to freely transfer its securities.
27	Right of First Refusal	The Investor will have the right of first refusal to purchase all or any securities proposed to be sold by any Founders or other shareholders at the same price and terms as offered to a proposed purchaser.
28	Tag Along	The Investor will have the right to sell up to all its securities if a Founder/other shareholder proposes to sell all or a portion of their shares. Such right will be exercisable on the same terms and price offered by the proposed purchaser to the Founder/other shareholder.

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29	Events of Default	The Definitive Agreements will set out customary events of default and consequences. The events of default will include breach of any provisions of the Definitive Agreements by the Founders or the Company.
30	[Registration Rights]	[The Investor will have standard demand registration rights and piggyback rights in relation to its securities.]
31	Representations, Warranties & Covenants	Standard representations, warranties, covenants from the Company and Founders to the Investor.
32	Indemnification	Standard indemnities from the Company and Founders to the Investor.
33	Voting Rights	The Equity Shares held by the Investor will carry special voting rights, equal to [the Investor's shareholding percentage on an as if converted basis].
34	Directors Indemnification	The Company's charter documents to provide for the indemnification of officers and directors to the fullest extent permitted by law.
35	D&O Insurance	The Company will obtain appropriate D&O insurance for members of its Board of Directors.
36	Information and Inspection	The Company will deliver to the Investor the information and documents referred to in <i>Annexure II</i> . The Investor will also be entitled to inspection and audit rights subject to providing reasonable notice.
37	MFN/No Superior Rights	Other than as expressly agreed otherwise in writing, the rights of the Investor will not be less favorable than any other security holder of the Company.
38	Expenses	All costs and expenses in connection with the transaction contemplated herein (including consultancy/advisory fees, stamp duty or other statutory charges) will be borne by the Company.
40	Exclusivity	For a period of [__] days from the date hereof, the Company and the Founders agree that they will not, directly or indirectly, discuss, or continue to discuss, negotiate or enter into any agreement with any third party for the purpose of raising capital.
41	Confidentiality	Except as otherwise agreed with the other parties, each party agrees not to disclose the provisions this term sheet or its existence to anyone other than its employees, officers, directors and advisors.
42	Dispute Resolution	The laws of India will govern this term sheet and the Definitive Agreements executed pursuant to it. All disputes between parties in relation to this term sheet will be subject to arbitration by a sole arbitrator/ panel of three arbitrators under the ___ rules of the [__]. The venue of the arbitration will be [__].

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Sl. No	Key term	Particulars
		<p>Subject to the arbitration provision above, all disputes between parties in relation to this term sheet will be subject to the exclusive jurisdiction of courts in [__].</p> <p>The Definitive Agreements will set out a dispute resolution mechanism for any dispute arising out of the Definitive Agreements.</p>

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SIGNATURE PAGE TO THE TERM SHEET DATED [] BETWEEN [], [] AND []

[COMPANY]

[Name]
Authorised Signatory

[FOUNDERS]

[Name]

[Name]

[INVESTOR]

[Name]
Authorised Signatory

ANNEXURE I

RESERVED MATTERS

- (i) Altering rights of any class of securities of the Company;
- (ii) Merger, demerger, comprise or any arrangement with creditors, sale or transfer of any assets or business and any restructuring;
- (iii) Any Liquidity Event;
- (iv) Any public issue or public listing of the Company's securities;
- (v) Any amendment of the charter documents of the Company;
- (vi) Any modifications to the capital structure including issue of any new shares, conversion of any loan into equity, creation of warrants or other convertible securities, buybacks, reduction of share capital;
- (vii) Creation of any subsidiary;
- (viii) Declaring dividends, payment of any 'deemed dividend', approving any other distribution to the shareholders;
- (ix) Creation or modification of any employee stock option pool or other equity incentive plan and approval of any option or incentive grants;
- (x) Acquisition of any securities or voting power in any other entity;
- (xi) Adoption or modification of the annual business plan;
- (xii) Any related party transactions and approval of any payments under related party transactions;
- (xiii) Adoption of financial statements;
- (xiv) Entering into any new line of business or modifying or terminating any existing line of business;
- (xv) Any acquisition, purchase, sale, transfer, licensing, sub-licensing, franchising or assignment of brands or other intellectual property rights;
- (xvi) Changing the board composition or creation/modification of any committee of the Board and their terms of reference;
- (xvii) Transfer of shares by Founders and other equity shareholders;
- (xviii) Raising or incurring any indebtedness (including any contingent liability) above a cumulative limit of INR [] at any time;
- (xix) Repayment or prepayment of any creditors (other than sundry creditors);
- (xx) Entering into any JV, strategic alliance, technical collaboration, profit sharing arrangement or other similar arrangement with any third party;
- (xxi) Acquisitions of any assets in excess of INR [] on a cumulative basis, in any financial year (unless already approved by the Investor in the annual business plan);
- (xxii) Disposal of any assets in excess of INR [] on a cumulative basis, in any financial year;
- (xxiii) Appointment or change of the statutory or internal auditors of the Company;
- (xxiv) Changes to accounting or tax policies or practices (other than those required by law);
- (xxv) Any decision relating to the appointment or termination of identified key management employees (including CXO level employees and designated business heads) or a change in terms of their employment (including compensation);
- (xxvi) Commencement or defense of any material litigation (including any litigation involving an amount in excess of []);
- (xxvii) All the above with respect to each subsidiary of the Company; and
- (xxviii) Any other matter specified in the Definitive Agreements.

ANNEXURE II

**INFORMATION/DOCUMENTS TO BE PROVIDED BY THE COMPANY AND
FOUNDERS**

- (i) Audited annual financial statements within [] days after the end of each financial year audited by an auditor acceptable to the Investor;
- (ii) Unaudited quarterly financial statements within [] days of the end of each quarter end;
- (iii) MIS for every calendar month in a form acceptable to the Investor within [] days of the following month;
- (iv) Annual business plan for a financial year in a form acceptable to Investor, at least [] days prior to the commencement of such financial year;
- (v) An annual compliance certificate (in a form acceptable to Investor) signed by an officer of the Company acceptable to the Investor; and
- (vi) Any other information/documents reasonably requested by the Investor.