**This Template does not amount to a legal advice. All Transactions are sui generic, and require careful analysis depending upon the nature of business, amount of investment, source of investment and type of entity.**

**AGREEMENT ON TERMS OF INVESTMENT**

This pre-seed term sheet dated [•] (“**Term Sheet**”) summarizes the principal terms of a proposed investment. “**Confidentiality**” and “**Governing Law**” shall be binding on the Company (as defined below) and the Promoters (as defined below). The detailed terms of the investment will be set forth in the Definitive Agreements (as defined in this term sheet).

|  |  |
| --- | --- |
| **Company**  | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Private Limited (the "**Company**") |
| **Promoters and Existing Shareholders** | The Shareholding Pattern is more fully described in **Annexure A.** |
| **Investor** | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (hereinafter called the“**Investor”**) |
| **Investor Shareholding** | Up to **XX**% of Fully Diluted Share Capital, amounting to **XXXX** Compulsorily Convertible Non-Cumulative Preference Shares (“**CCPS**”). |
| **Investment Amount**  | Subscription by way of renunciation of Rights issued to Existing Shareholders for subscription of **\_\_ CCPS** worth **INR XXXXX** for consideration in cash at a pre-money valuation of INR **XXXXX Each Share.**  |
| **Definitive Agreements** | The investment Amount shall be infused pursuant to a share subscription agreement that will contain, among other things, appropriate representations and warranties of the Company, the Promoters, customary closing conditions and rights of the parties thereto (hereinafter, the “**Definitive Agreements**”). |
| **Valuation/Purchase Price/Issue Price** | INR **XXXXX** per Investor Share.  |
| **Investor Shares** | **XXXXX** Number of CCPS, against cash purchase.  |
| **Cash Investment Tranches** | Subject to Representation and Warranties contained in the Share Subscription Agreement, The investment will be made in 2 (Two) tranches starting **DATE**, more specifically outlined in **Annexure B.** |
| **Investment Duration** | Subject to the conditions and warranties, more specifically defined under the Definitive Agreements, the investor agrees to infuse the entire investment amount as prescribed in this term sheet on or after **DATE**. Where at the option of the investor the Investment Amount is sought to be increased, on or before **DATE**, the conditions contained in this Term Sheet, and the Definitive Agreements shall be applicable for such further CCPS purchase, in respect of the Increased Investment Amount.  |
| **Terms of Conversion of CCPS** | The CCPS shall be compulsorily convertible into equity shares at the conversion rate more fully described in **Annexure C.** |
| **Lock-in** | The Investor Shares shall be locked in for a period of 5 years from the Closing Date. |
| **Liquidation Preference** | More fully described in the terms of CCPS contained in **Annexure C**.  |
| **Transferability of Shares** | Transfer of any shares in the Company to any third-party shall be subject to right of first offer, to other shareholders in the Company. Where the Investor fails to exercise their Right within 15 days of intimation, the same will amount to a deemed consent of the Investor for issuance of new securities to Third Party. In respect of the Shares of the company, Inter-se transfer of Shares between shareholders, alone, shall not require the Consent from the Investor, nor shall entitle the holder of the shares to right of first offer. |
| **Tag Along Right** | The Investors shall have a pro-rata tag along right in case of sale of shares by the Promoters (inter-se transfer of Shares between shareholders shall be exempt.) |
| **Drag Along Right** | The Promoter shall have a drag along right in case of sale of shares by the promoters to any third party (inter-se transfer of Shares between shareholders shall be exempt.) |
| **Issuance of New Securities** | The Investors shall have the right to participate in any future fund raise at no less beneficial than the offer, as may be made by the company to the Third Party. Where the Investor fails to exercise their Right within 15 days of intimation, the same will amount to a deemed consent of the Investor for issuance of new securities to Third Party. |
| **Exit Rights** | The Company shall provide an exit to the Investor on a best effort basis within 10 (Ten) years from the Closing Date (to be defined in the Definitive Agreements) through (i) purchase of the Investor Shares by the Company or (ii) third party sale; at a price, which is higher of either the Purchase Price or Fair Market Value of the shares, as on the date of exit. |
| **Information Rights** | The Investors shall have the all information rights as available under the Companies Act, 2013. |
| **Confidentiality** | The investment, the terms and conditions contained in this Term Sheet, and any additional data shared during the tenure of this agreement shall be considered confidential information and would not be disclosed by any party hereto to any third party (other than its advisors and affiliates). |
| **Governing Law** | This Term Sheet shall be governed by and construed in accordance with the laws of India, under the jurisdiction of the State of Karnataka. |
| **Term and Termination** | The terms in this term sheet shall be valid for 30 days from the date of this Term Sheet (“**Term**”), unless mutually extended by the parties.If the offer is not accepted and signed by the parties within the Term, the Term Sheet will stand null and void.The signed Term Sheet is valid for 9 months and will terminate upon completion of the activities contemplated herein and the execution of the Definitive Agreements to the satisfaction of all parties. |

**ANNEXURE A**

**FULLY-DILUTED SHAREHOLDING STRUCTURE OF THE COMPANY ON THE DATE OF EXECUTION OF THE TERM SHEET**

|  |  |  |
| --- | --- | --- |
| **Shareholder** | **No. of Equity Shares** | **Shareholding (%)** |
|  |  |  |
|  |  |  |
| **Total** |  | **100%** |

**FIRST CLOSING SHAREHOLDING STRUCTURE**

|  |  |  |
| --- | --- | --- |
| **Shareholder** | **No. of Equity Shares** | **Shareholding (%)** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Total** |  | **100%** |

**SECOND CLOSING SHAREHOLDING STRUCTURE**

|  |  |  |
| --- | --- | --- |
| **Shareholder** | **No. of Equity Shares** | **Shareholding (%)** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Total** |  | **100%** |

The above structure is subject to change based on deviation in terms outlined in this term sheet.

**ANNEXURE B**

**KEY MILESTONES AND TIMELINES**

1. **Total Investment Tranche and Description of Offer, Investment Amount and Investor Shares:**

|  |  |  |
| --- | --- | --- |
| **Details of Investor**  | **Investment Amount** | **Investor Shares** |
|  |  |  |

1. **INVESTMENT TRANCHES FOR CASH INVESTMENT TRANCHES:**
	1. Initial Investment tranche of INR [•]( shall be made on or after **DATE** subject to the execution of the Share Subscription Agreement.

|  |  |  |
| --- | --- | --- |
| **Details of Investor**  | **First Investment Tranche Amount** | **First Tranche Shares** |
|  |  |  |

* 1. Second Investment tranche of INR [•]( shall be made on or before **DATE**, subject to the execution of the Share Subscription Agreement.

|  |  |  |
| --- | --- | --- |
| **Details of Investor**  | **Second Investment Tranche Amount** | **Second Tranche Shares** |
|  |  |  |

**ANNEXURE C**

**RIGHTS OF CCPS**

The rights attached to the COMPULSORILY CONVERTIBLE NON-CUMULATIVE PREFERENCE SHARES (“CCPS”) are as follows and shall be *mutatis mutandis* reproduced in the Articles as well as on the back of the share certificates issued for the CCPS.

|  |  |  |
| --- | --- | --- |
|  | **Nature of such shares** | COMPULSORILY CONVERTIBLE NON-CUMULATIVE PREFERENCE SHARES (“**CCPS**”)  |
|  | **Dividend** | 1. **Preference Dividend:** Subject to Applicable Law, the CCPS shall be entitled to receive *pro-rata* in any dividends paid on the Equity Shares on an “as if converted” basis, which shall be the preference dividend.
2. **Non-Cumulative Right:** The right to receive the Preference Dividend shall be non-cumulative.
3. **Due Date and Declaration of Preference Dividend:** The Preference Dividend shall become due and payable to the holder of CCPS from the date of Shareholders’ meeting of the Company in which the Preference Dividend has been declared.
4. **Payment of Preference Dividend in case of Conversion:** If the Conversion Date falls within a period in respect of which a dividend is to be paid, each Equity Share issued to the holder of a CCPS on conversion shall confer on the holder the right to receive the dividend, as if the conversion has not taken place.
 |
|  | **Liquidation Preference** | * 1. **Proceeds Payable to holder of CCPS:** Subject to the provisions of this paragraph, upon the occurrence of a Liquidation Event, each holder of CCPS will be entitled to receive from the proceeds of the Liquidation Event (in preference to the holders of Equity Shares) the higher of (a) or (b) specified below:
1. the Investment Amount invested by such holder of CCPS; or
2. the pro-rata amount that the holder of the CCPS would have received as per her/his/its percentage holding in the Company at the time of the Liquidation Event had the proceeds of the liquidation event been distribution to all shareholders in the Company
	1. **Joint and Several Responsibility of the Founders and the Company:** The Founders and the Company jointly and severally agree and undertake that they will honour the liquidation preference of the holder of CCPS contained in this paragraph in distributing the assets and/or proceeds in any manner legally permissible including re-distribution of assets or proceeds that may be received by the Founders on the occurrence of a Liquidation Event, to the holder of CCPS.
	2. **Drag-Along Rights:** The Founders shall have the right but not the obligation to require all the other Shareholders of the Company to undertake a sale of all or a part of their shareholding of the Company, where the offer received from the third party to purchase the Securities at a price per Security that provides the Investor with a 30% (Thirty percent) internal rate of return on the Investment Amount.
 |
|  | **Voting Rights** | 1. **Right to Vote:** Subject to applicable law, each holder of a CCPS, unless the shares are converted, shall have such rights to attend and vote at general meetings of the Company as may be called from time to time prescribed by the Act and other Applicable Laws and regulations.
2. **Reserved Matters:** The holder of a CCPS shall have the right to receive notice of all meetings, and shall have the Right to Vote on the Reserved Matters, contained in **Schedule I**.
 |
|  | **Term, tenure and mode of redemption of CCPS**  | The CCPS are not redeemable but are fully and compulsorily convertible into Equity Shares of the Company.  |
|  | **Terms of conversion of CCPS** | 1. **Exercise of Option for Conversion:** The company or the holder of CCPS by notice in writing to all shareholders, may upon completion of 1 years but not later than 5 (five) years, from the date of allotment of the CCPS (the “**Conversion Date**”), convert each CCPS into such number of equity shares of Rs. 10/-each (being the Face Value of the equity shares) at a conversion rate as against the Investment Amount which shall be:
2. (a) where, as on the date of conversion, the valuation price per share is more than INR 25658.94/- (Rupees Twenty-Five Thousand Six Hundred Fifty—Eight and Ninety-Four Paise), the Fair Market Value determined as on the date of the conversion discounted at the rate of 20 percent; or
3. (b) where, as on the date of conversion, the valuation price per share is less than or equal to INR 25658.94/- (Rupees Twenty-Five Thousand Six Hundred Fifty—Eight and Ninety-Four Paise) the Fair Market Value determined as on the date of the conversion (“**Conversion Rate**”)
4. **Compulsory Conversion:** Further, at the end of the 4th (fourth) year, the CCPS which are not so converted shall stand automatically converted into Equity Shares.
5. **Duty to maintain sufficient Authorised Capital:** The Company shall, from the date of allotment of the CCPS till the Conversion Date, maintain sufficient authorised but unissued share capital in the Company to be able to issue Equity Shares to the holder of CCPS in accordance with this Schedule, assuming that the CCPS shall convert to 1 (one) Equity Share.
6. **Date of Issue of Equity Shares:** Equity Shares issued and allotted upon conversion of the CCPS will be deemed to be issued and registered as of the Conversion Date, and each holder of the CCPS will, with effect from the Conversion Date, be deemed and treated by the Company for all purposes as the holder on record of the relevant number of Equity Shares issued upon conversion.
7. **Duty to make changes in statutory registers:** As soon as practicable after and, in any event, not later than 7 (seven) days a­fter the Conversion Date, the Company will register the holder of the relevant CCPS as the holder of the relevant number of Equity Shares to be issued on conversion in the Company's share register and will deliver or cause to be delivered a certificate or certificates for the relevant Equity Shares to the holder of the CCPS, together with any other securities, property or cash required to be delivered upon conversion and such other documents (if any) as may be required by Applicable Law to effect the issue thereof.
8. **Nature of Equity Shares:** Equity Shares issued upon conversion of the CCPS shall be fully-paid and free of all liens, charges and Encumbrances and will in all respects rank *pari passu* with the Equity Shares already issued as on the relevant Conversion Date and shall be freely transferable subject only to restrictions in the Articles.
9. **Computation and Calculation:** If under any applicable law, the issue of Equity Shares in accordance with this paragraph would give rise to an obligation on the Company to issue a fraction of an Equity Share to the holder of CCPS, the number of Equity Shares to be issued to that holder of Shares shall be rounded up to the closest whole number of Equity Shares.
 |
|  | **Definitions** | * + 1. “**Act**” means the Companies Act, 2013;
		2. “**Applicable Law**” means any statute, law, regulation, ordinance, rule, judgment, notification, order, decree, bye-law, permits, licenses, approvals, consents, authorisations, government approvals, directives, guidelines, requirements or other governmental restrictions, or any similar form of decision of, or determination by, or any interpretation, policy or administration, having the force of law of any of the foregoing, by any authority having jurisdiction over the matter in question, whether in effect as on date or in future;
		3. “**Articles**” means the articles of association of the Company as modified from time to time;
		4. “**Assets**” means all assets, properties, rights and interests of every kind, nature, specie or description whatsoever including Intellectual Property, whether movable or immovable, tangible or intangible, owned, leased and/or used by the Company and its future subsidiaries;
		5. “**Company**” shall mean **XXXX**;
		6. “**Equity Shares**” or “**Shares**” shall mean equity shares of the Company having face value of INR 10 (Rupees Ten only) each;
		7. “**Financial Year**” means the financial year of the Company, which begins on April 1st of a calendar year and ends on March 31st of the next calendar year;
		8. “**Founders**” shall mean and refer to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_;
1. “**Investment Amount**” shall mean the total amount, inclusive of share premium amount, invested by the holder of the CCPS, in order to subscribe to the CCPS of the Company.
	* 1. “**Liquidation Event**” means, in relation to the Company, (i) entering into any consolidation, merger, amalgamation, demerger; and/or (ii) any arrangement with the Shareholders or creditors of the Company; and/or (iii) any sale of all or 50% or more of the Assets; and/or (iv) a sale of outstanding Shares of the Company or entering into any transaction or a series of transactions in which the Company’s Shareholders prior to such transaction(s) do not retain more than 50% of the voting power of the Company or 50% of the outstanding Shares of the Company after such transaction; and/or (v) Winding Up of the Company; or (vi) any similar transaction or any combination thereof.
		2. “**Person**” means any natural person, limited or unlimited liability company, corporation, partnership (whether limited or unlimited), proprietorship, Hindu undivided family, trust, union, association, government or any agency or political subdivision thereof or any other entity that may be treated as a person under Applicable Law;
		3. “**Securities**” means any and all classes and series of Equity Shares, options, warrants, convertible securities of all kinds, including the preference shares, debentures or any other arrangement relating to the Company’s share capital;
		4. “**Shareholders**” mean the holders of Securities in the Company other than holders of any options (that have been granted);
		5. “**CCPS**” means compulsorily convertible non-cumulative preference shares of the Company having a face value of INR 10/- (Rupees Ten only) each;
		6. “**Winding Up**” means voluntary or involuntary liquidation, dissolution or winding up of the Company or its future subsidiaries as defined in the Act, or undertaking any act or omission which has the effect of liquidation/bankruptcy of the Company or its future subsidiaries; or passing a resolution for voluntary winding up or dissolution; or a receiver or liquidator being appointed in respect of any property/Asset of the Company or its future subsidiaries; or a petition for winding up or liquidation of the Company or its future subsidiaries is admitted by a competent court.
 |

**SCHEDULE I**

RESERVED MATTERS

1. Restatement, amendment, modification or waiver of the Memorandum and/or Articles, or the charter documents of any Subsidiary of the Company.
2. Increase, decrease or otherwise alter or modify the authorized share capital of the Company (or any class or series thereof), including the Equity Shares and Preference Shares, other than by conversion of the Preference Shares in accordance with the terms hereof.
3. Issue or undertake to issue any Shares or other Equity Securities, other than Equity Securities issued pursuant to the ESOP or upon conversion of the Preference Shares or shares of any of its Subsidiaries.
4. Consummate or engage in a transaction that is a Liquidation Event, or any other merger, consolidation, business combination with, reorganization, or acquisition of, any other Person or similar transaction or entering into any joint venture, partnership or similar arrangement by the Company or any of its Subsidiaries.
5. Commencement of a voluntary winding up by the Company or any of its Subsidiaries, or the decision to make an assignment for the benefit of the Company’s or any of its Subsidiary’s creditors, or filing for bankruptcy, sick company or similar protection from creditors.
6. Purchase or redeem or pay or declare any dividend, or make any distribution on, any Shares, other than (i) dividends or distributions on Preference Shares as expressly authorized herein, and repurchases of Shares from former employees, officers, directors, consultants or other Persons who performed services for the Company in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof.
7. Enter into or modify any transaction or agreement with (i) any Promoter, member of Key Management or director of the Company (other than the Investor Nominee Director) (each, a “**Connected Person**”), or any Relative of any Connected Person, (ii) any Person in which a Connected Person or Relative of such Connected Person is an officer, director or partner, or (iii) any Person owned or Controlled by any Connected Person or Relative of such Connected Person or in which such Connected Person or its Relative has a material economic interest.
8. Any decision regarding the listing of the Equity Shares in IPO or public sale of Shares, including the timing, structure, pricing and other details in relation to such IPO.
9. Approval or amendment of any ESOP or any other employee incentive or benefit plan, or xincrease the number of Equity Shares reserved for issuance under any such ESOP or plan.
10. Subscribe or otherwise acquire, or dispose of, any shares in the capital of any other Person.
11. Increase or decrease in the authorized number of directors constituting the Board.

**FOR INVESTOR FOR COMPANY**

**NAME: NAME:**

Date: Date:

Place: Bengaluru Place: Bengaluru

**FOR PROMOTER**

**NAME:**

Date:

Place: Bengaluru

**NAME:**

Date:

Place: Bengaluru