

5 THINGS TO REMEMBER BEFORE HAVING AN INVESTOR IN YOUR COMPANY



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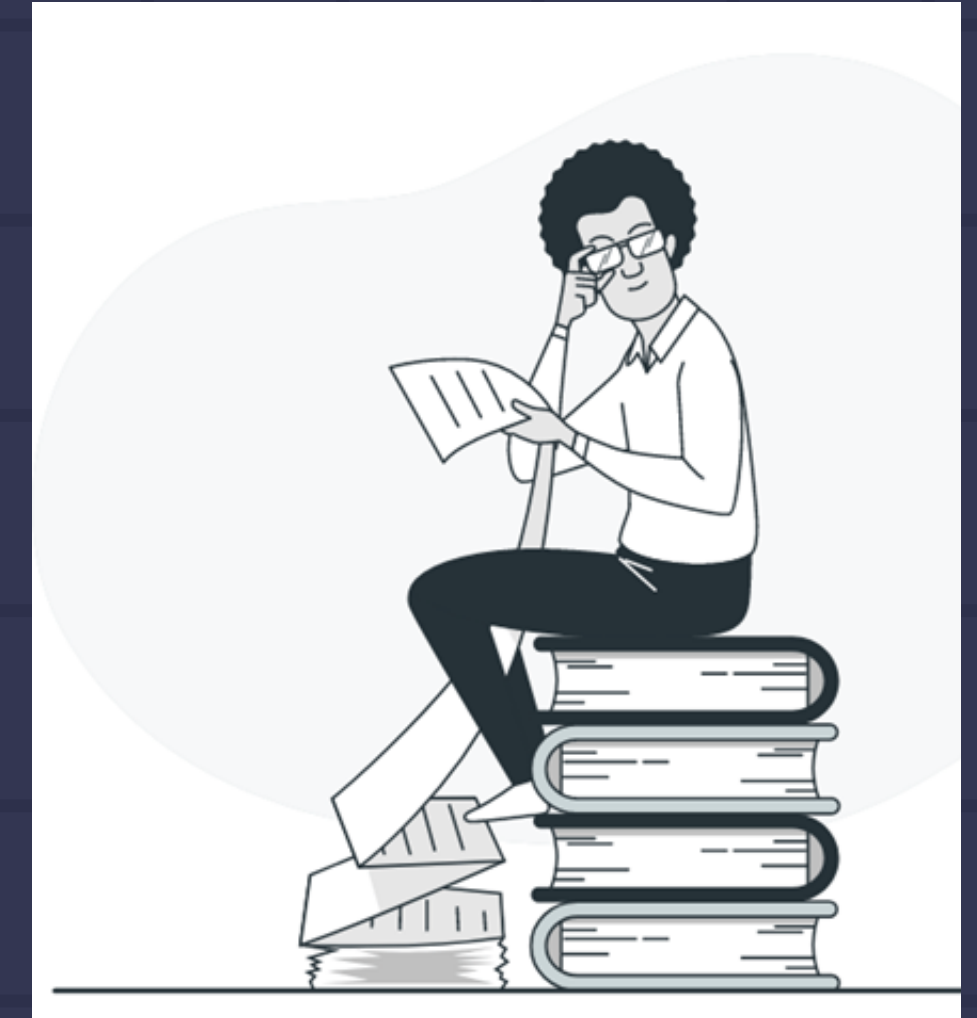
1. NEED ANALYSIS

- Before initiating the discussions with any Investor, it is imperative that the Promoters of the Company analyze the need for infusing funds in the Company or introducing investor to the Company.
- The investment is generally sought for the following requirements among others:
 1. Requirement of working capital
 2. Scaling up/marketing activities
 3. Partial/Full exit to Promoters/early investors/angels
 4. Expertise of the Strategic Investor/collaborations
- This is important to identify the specific requirement and articulate the pitch decks and proposal from Company/Promoters perspective for Investor.

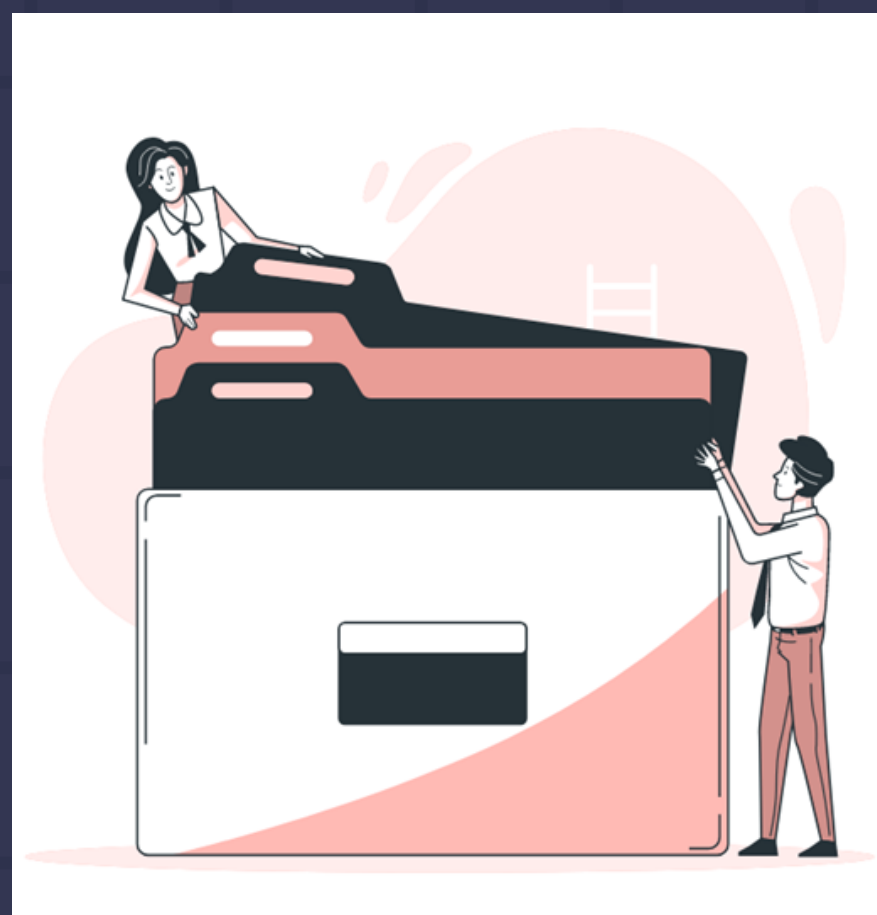


2. INTERNAL UPKEEP/ COMPLIANCE CHECK

- Once the need for investment in the Company is identified, generally the Promoters initiate endeavors to approach the right investors and advisors.
- However, it is advisable that during this period the Promoters should simultaneously focus on streamlining of internal compliance and collating the data for due diligence by investors.
- A mock due diligence can be conducted by Promoters which helps in identifying non-compliances early and mitigating such non-compliances before initiation of actual due diligence.
- This also avoids unnecessary delays while the actual due diligence is carried out by the Investors. A detailed overview on importance of this can be read at [this link](#)



3. BACKGROUND CHECK ON THE INVESTOR



- It is customary in the investment transactions that the Investor conducts due diligence/background check of the Investee Company and Promoters. However, it is also important that the same is done towards Investors as well.
- The idea is to enquire in caution rather than carrying out a formal due diligence.
- The following can be a few examples of the issues that can be verified w.r.t. an investor:
 1. Source of funds
 2. History of Investor w.r.t. litigation by and against investor
 3. Other investments done by the Investor
 4. Other businesses of Investor and directorship in other entities etc
- This helps in identifying risks (if any) in having the investment by the particular investor in the Company and identifying appropriate representations and warranties in the definitive agreements.

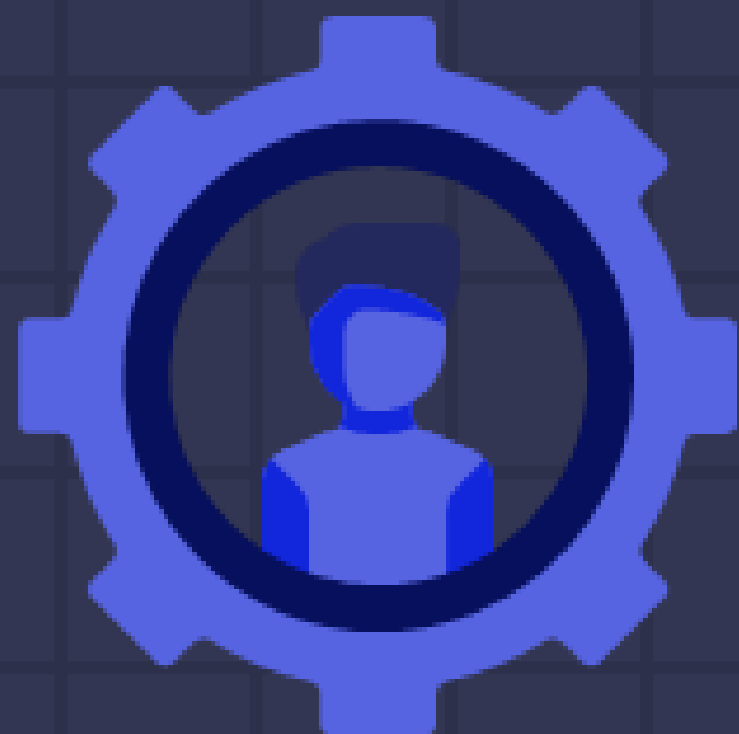


4. CLEAR COMMUNICATION WITH INVESTOR

- As the need analysis is done by Promoters for the Company and themselves, it is imperative that the same is communicated to the Investor. Likewise, it is important to identify Investor's expectations out of the investment.
- Apart from this, in case of any critical issues w.r.t. Promoters/Company faced either in past or currently are to be clearly communicated to the Investor such as:
 1. Any past/current litigation
 2. Any notices received by the Company/Directors
 3. Non-Compliances
 4. Employee Issues
 5. Any old promoters who left the Company
 6. ESOP or any stock issue commitments to early employees
 7. Any outstanding towards Promoters e.g. their salaries, incentives, royalty etc.



5. IDENTIFICATION OF SHOW-STOPPERS



- Once the LOI (letter of intent)/term sheet is finalized which is generally succeeded by due diligence, the negotiation on actual definitive agreements initiate. While a broad level understanding of the transaction is already identified in term sheet, the rights and obligations proposed in the definitive agreements may deviate if not attended carefully.
- This may lead to intense and prolonged negotiations between the parties. It is important in such cases that the Promoters identify and analyze their final proposition on the show-stopper issues.
- This helps in identifying the breaking point in the negotiations. More on Negotiations can be read on [this link](#)



CONCLUSION :

An informed decision with a mindful judgment is as important as the actual investment for ensuring growth of the Company

The points stated herein are identified broadly considering investments transactions in general and subject to additional pre-cautionary steps considering case to case basis.

Further, the suggestions stated herein are only identified in the interest of Investee Company and Promoters. They do not replace the formalities and compliances that are customary to actual transactions.



For any feedback or response on this article, the authors can be reached on Ayushi.Kalelkar@ynzgroup.co.in and charusheela.vispute@ynzgroup.co.in



Author: Ayushi Kalelkar

Ayushi is experienced in corporate legal and heads the investment and deal advisory at YNZ Legal. She is also a member of Bar Council of Maharashtra & Goa. By qualification she is a Master in Commerce and Bachelor of Law from Mumbai University.



Co- author: Charusheela Vispute

Charusheela is heading Estate planning and trademark, having specialisation in property and testamentary matters. By qualification she is Bachelor of Arts and Bachelor of Law from Mumbai University.

