Start-Up Governance Playbook

A corporate governance guide for India's start-up ecosystem developed with insights from founders, investors, and industry experts.

Contents

Note to reader

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Foreword by Deloitte

India is now the world's third-largest start-up hub and the ecosystem continues to mature at a rapid pace. The number of start-ups has more than quadrupled in the last 10 years. A new generation of ambitious, dynamic founders are creating new categories and building innovative products for India and the world.

While founders tend to focus primarily on finding product market fit and winning their first customers in the very early days of their start-up journey, it quickly becomes imperative to zero in on another fundamental aspect of company building; corporate governance. To win the trust and confidence of your first hires, customers and investors, it's critical to set standards for transparency and accountability, and embed integrity and values into your company's culture early on. The scope of governance continues to evolve as the size and complexity of the business grows.

At the minimum, companies need to follow governance standards prescribed by the law, such as annual audits, board meetings, and secretarial compliance. However, the most successful start-up goes beyond the minimum. They don't see governance as merely a legal requirement; instead, they view governance as a value driver as well as an 'insurance plan' that can help them weather the many storms they'll face across market cycles. Raising funds in a slow market, maintaining the support of shareholders in low-performance cycles, attracting and retaining talent in times of crisis all become much easier when stakeholders are assured that everyone in the company is equipped to make the right decisions.

The IVCA has prepared this governance playbook in partnership with Deloitte India to serve as a resource for start-up founders, management teams, investor and board members of start-ups across different stages. We hope this helps serve as a starting point in your journey to craft your corporate governance strategy and policies.

Debasish Mishra
Chief Growth Officer
Deloitte South Asia

Foreword by IVCA

I am delighted to present the Start-up Governance Playbook, a step forward to create awareness and educate Indian entrepreneurs on the best corporate governance practices. With India leapfrogging to attain the status of the third-largest start-up ecosystem globally, it is imperative that as we grow, we examine fundamental principles and strategies for establishing and operating successful and efficiently managed companies.

Our internal data places the average age of Indian start-up founders to be 28. The potential for innovation and value creation is immense, but so are the challenges and risks. Entrepreneurs face multiple complexities in their journey from idea to scale. To navigate these challenges and achieve long-term success, start-ups need effective corporate governance practices that align the interests and expectations of all the parties involved, foster a culture of trust and transparency, enable informed decision-making, and ensure accountability and compliance.

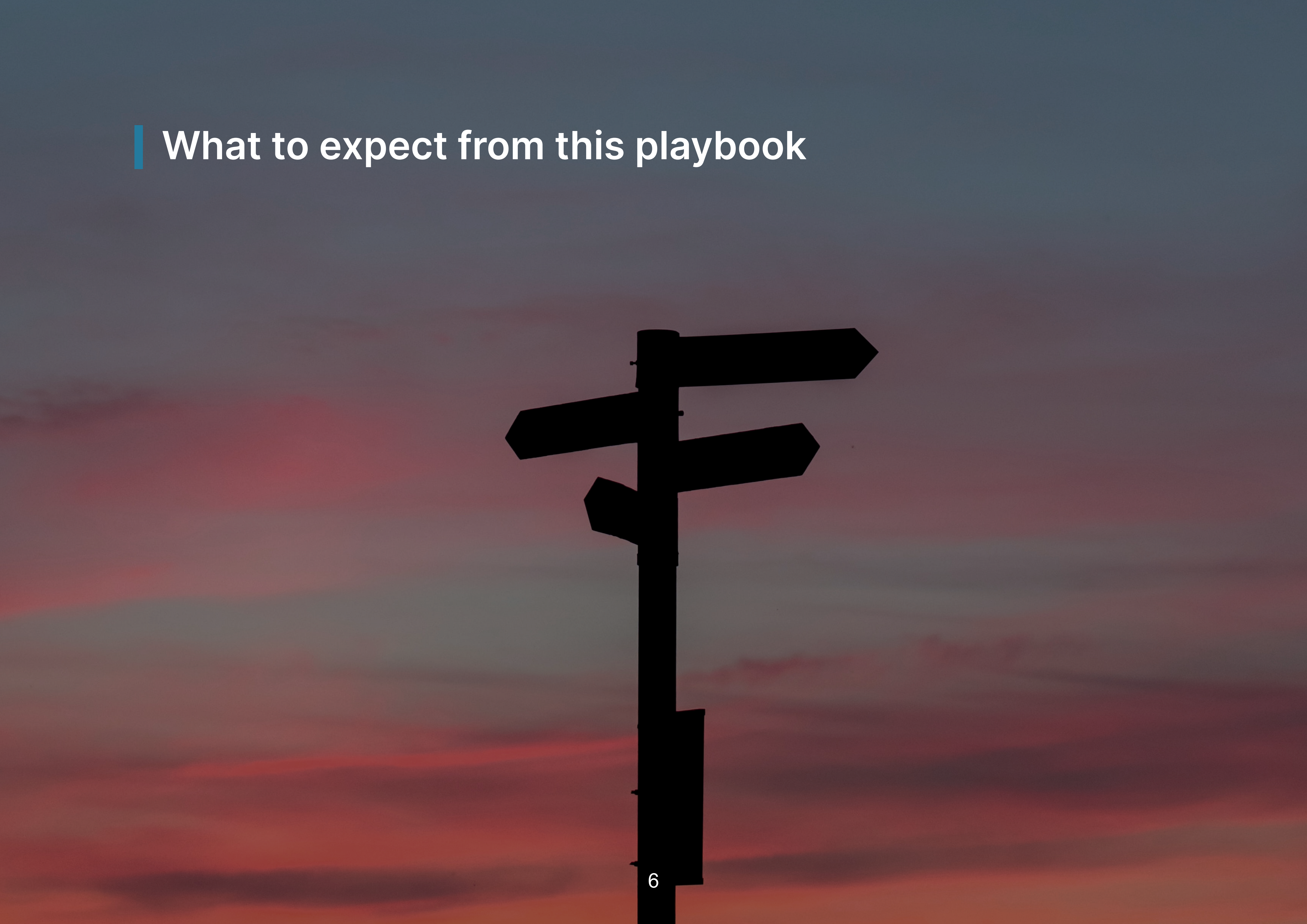
Governance is not a one-size-fits-all concept; it evolves with the stage and maturity of the start-up, the nature and composition of the board, and the external environment. Thereby, it becomes imperative that start-ups adhere to compliances, corporate governance, and a framework of protocols irrespective of the scale.

This playbook made in collaboration with Deloitte aims to provide a practical framework and best practices for designing and implementing governance systems that suit the needs and goals of different types of start-ups. I would also like to thank all the contributors who have generously shared their knowledge and wisdom for this playbook. I hope this playbook will serve as a useful resource for all the stakeholders in the Indian start-up ecosystem who aspire to create and support world-class companies.

Through this playbook, we intend to create a space for founders to self assess themselves and know that they are not alone in this journey. With the right intent, business ethics and efficient decision making of an aligned board, Indian start-ups will definitely cross the chasm and create immense value to all stakeholders - investors, customers, government, employees, et al including themselves.

Rajat Tandon
President, IVCA

What to expect from this playbook



What to expect from this playbook

The IVCA sought inputs from multiple stakeholders, including multiple founders, investors, experts and academic/research institutions to develop a unique model of governance for start-ups that is easy to implement and scale throughout their journey. Using extensive knowledge of practitioners and ecosystem partners, we established a holistic framework and then mapped out different governance building blocks that are the minimum table stakes for start-ups during each of the key growth stages.

Governance recommendations tailored to a start-up's growth stage, and the corresponding building blocks provided in this document need to be tailored further by start-ups in consultation with their board and their investors, keeping in mind several factors. These factors include the nature of regulations in the sector of operation, the business model adopted, the size of the employee base, and more. It is important to keep in mind that each start-up is unique and their requirements may vary, hence, this model should be used as a reference point and not replace a detailed analysis of what your company needs to comply with laws and regulations.

This document offers:

- Broad guidance on the governance journey of a start-up from the earliest stage to pre-IPO
- Insightful and relevant inputs from those who have undertaken the same journey
- A starter kit with an elementary introduction of governance building blocks
- A reference guide to help you gauge where your company stands and relevant governance recommendations

This document is not:

- A prescriptive dossier or a compendium of compliance requirements for start-ups
- A study/research paper on governance for start-ups
- A country specific guide for start-ups
- A guide for IPO readiness

Top of mind questions for the stakeholders

01

Does corporate governance matter for start-ups?

02

Is corporate governance a cost of doing business or does it create value?

03

Can one corporate governance approach fit all sizes/stages of start-ups?

04

Should investors or the founders or the board be responsible for corporate governance?

05

Are there good benchmarks for start-ups?

Understanding corporate governance

Corporate governance starts with beliefs and behaviours which serve as a compass and provide a clear sense of direction to the company.

It evolves into a set of processes and practices by which a company is managed and controlled. It encompasses all aspects of how decisions are made and executed within the company, from ownership structure and equity distribution to decision-making processes and compliance with legal and regulatory requirements.

The goal of governance is to provide a framework for effective management, alignment of incentives among stakeholders, and transparency and accountability in decision making. It is essential for start-up founders to establish clear governance practices early on, to ensure the long-term success and stability of the company.

While a start-up's vision and mission are often referred to as the company's 'North Star', governance can be seen as the compass that keeps your entire organisation oriented in the right direction.

Understanding corporate governance

01
Shared responsibility among founder, investors and the board

02
Building a culture of empowerment and trust

03
Creating long- term value for all stakeholders

04
Accountability and transparency

05
Aligning actions and intent

Above principles of corporate governance manifest into three essential building blocks for creating a strong foundation

Founder mindset

- Integrity
- Culture
- Financial discipline
- Transparency

Investor mindset

- Long term horizon
- Value over valuation
- High bar for governance
- Enabling environment

Board essentials

- Structure and independence
- Candor and courage
- Competence and experience
- Alignment of values

Understanding corporate governance

Governance is a shared responsibility of the founders, investors, and the board. Alignment between these stakeholders ensures that companies are well-governed and leads to benefits which contribute to long-term success and sustainability. Key benefits include:

Improved financial performance:

Effective governance helps companies make sound strategic decisions and allocate resources more effectively, leading to better economic outcomes for all stakeholders.

Accountability and ownership:

Well-governed companies have defined delegation of power which brings accountability and ownership to the individuals for their actions and decisions. This leads to transparency, trust and credibility which are important for the long-term success of the company.

Attracting and retaining investors:

By demonstrating a commitment to transparency, accountability and ethical behaviour, well-governed companies can attract and retain investors and improve their access to capital.

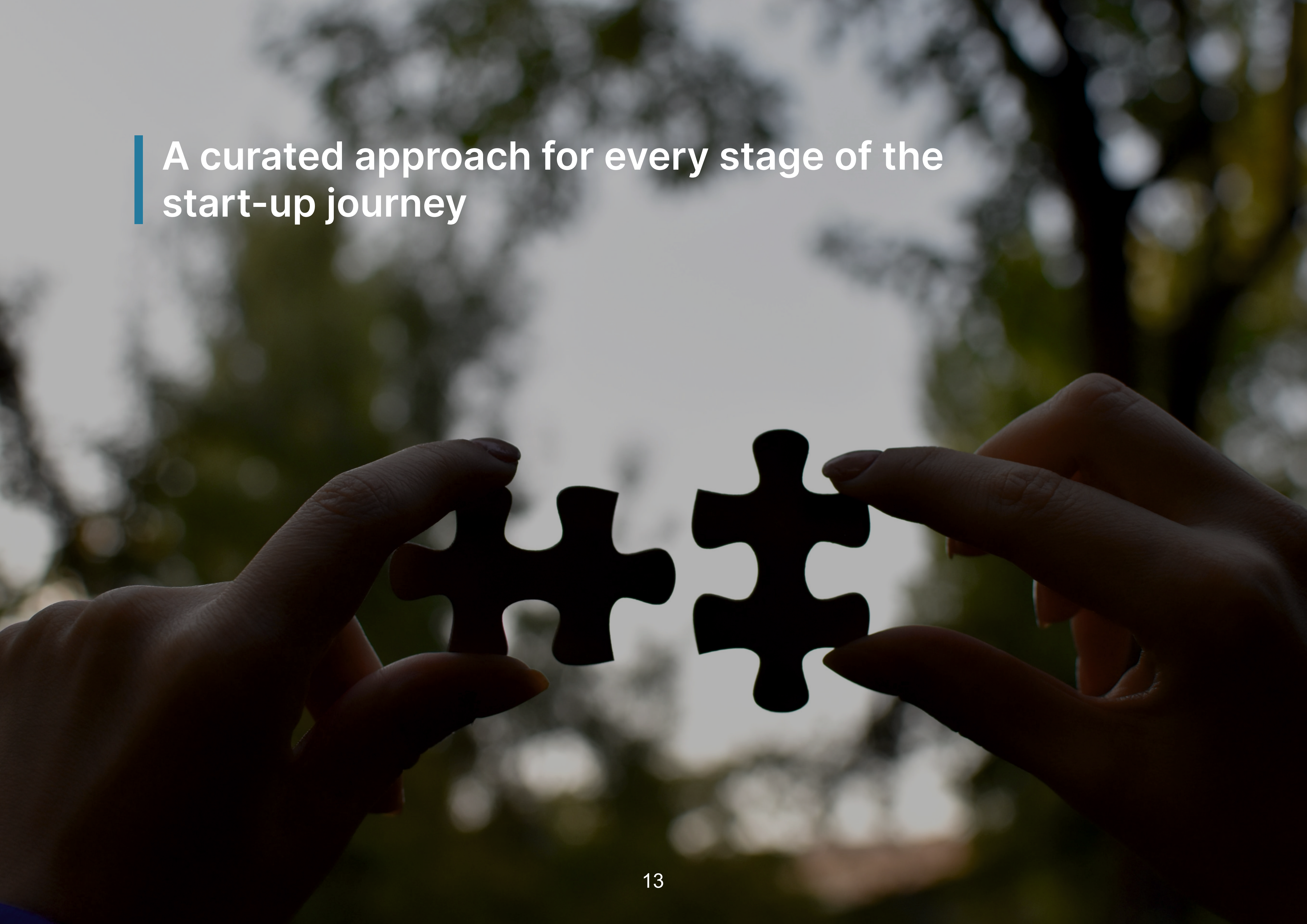
Enhancing reputation and brand value:

Companies with strong corporate governance structures are seen as trustworthy and ethical, which enhances their reputation and brand value. This can lead to increased customer loyalty, stronger partnerships, and a better ability to attract and retain top talent.

Proactive risk management:

By implementing risk management policies and procedures, companies identify and manage risks before they become significant problems, which reduce the likelihood of financial losses, regulatory penalties, and reputational damage.

A curated approach for every stage of the start-up journey



The spectrum of companies within India's start-up ecosystem is large and varied, and each company is unique in terms of its size and complexity. When it comes to corporate governance practices, there's no one-size-fits-all approach that's applicable to all the companies.

To make this playbook practical and objective, we have put together a multi-stage approach and mapped the minimum governance practices required at each stage. You will easily be able to benchmark your company by stage and identify the practices applicable to your company. While you can go wider at an earlier stage, the recommendations mentioned here are basic table stakes for each of the stages of the start-up's journey.

Start-up stages

The nature and extent of sector regulations within which the start-up operates will influence the governance requirements across all stages

1. Early stage

- Early PMF
- Founder-driven
- Capital raised: under 50 Cr
- Valuation: under 250 Cr

2. Evolving

- Post PMF
- Building key CXO roles
- Capital raised: 50 to 200 Cr
- Valuation: 250 to 650 Cr

3. Growth

- Product line expansion
- All key functions lead by CXOs
- Capital raised: Over 200 Cr
- Valuation: Over 650 Cr

4. Mature/pre-IPO

- Multiple product segments
- Defined roles with formal structure
- Valuation driven by listed companies
- Accretive unit economics

Governance recommendations tailored to start-up's growth stage

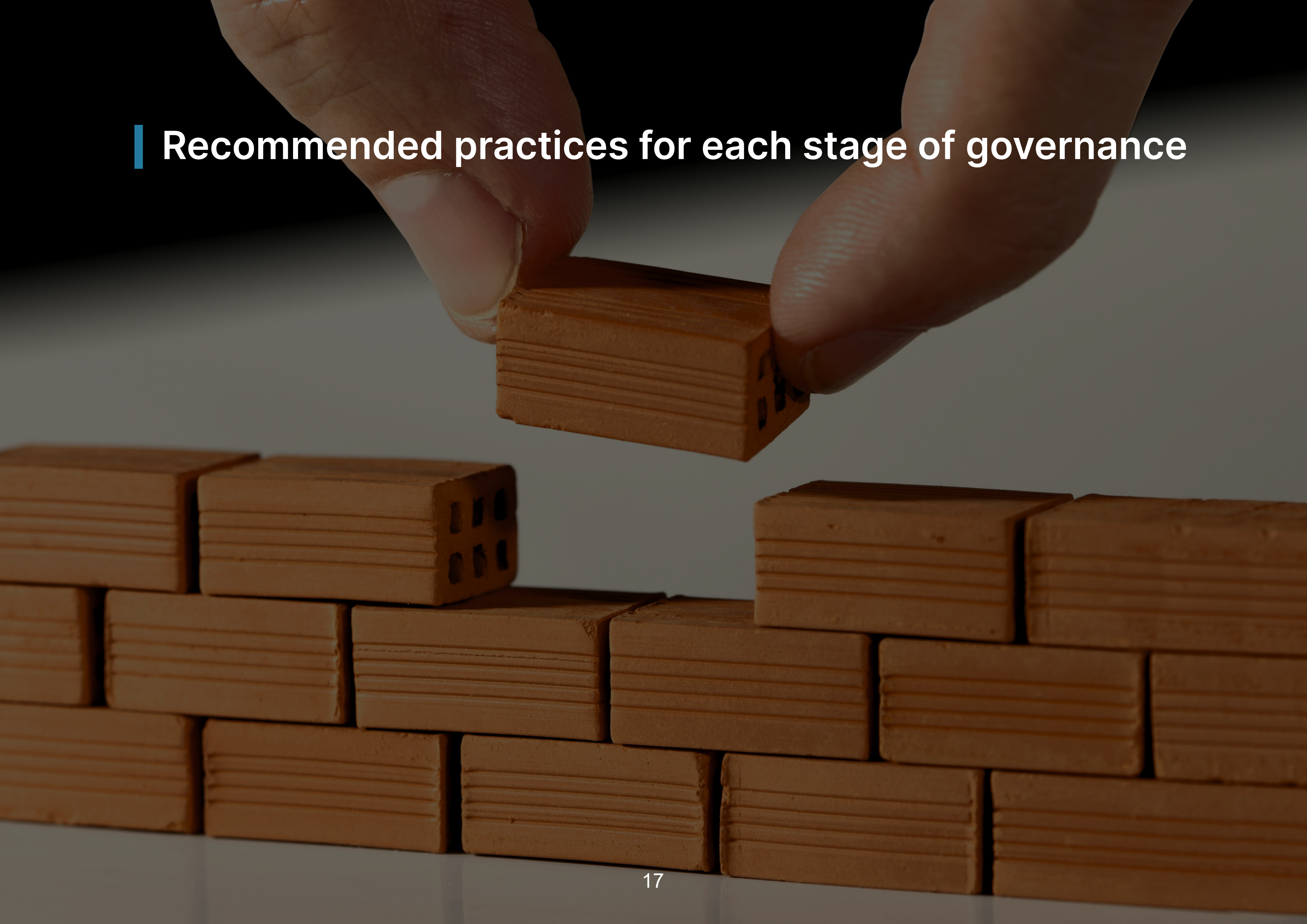
Implementation by Management and Oversight by the Board

Early	Evolving		Growing		Mature	
Introduce board	Board role expanding		Board + introduce sub-groups		Board + introduce audit Committee, NRC and other sub-groups	
			Business and finance MIS			
Compliance monitoring	Whistleblower	Business and finance MIS	Risk,crisis & fraud management	Delegation & segregation	Business and finance MIS	Culture development
Finance & external audit	External audit oversight	Secretarial & other compliance	Secretarial & other compliance	Related-party transactions	Related-party transactions	Succession plan, compensation
Establishing the board	Expansion of the board role	Related-party transactions	External & internal audit	Ethics, CoC, whistleblower	Ethics, CoC, whistleblower	Fraud management
			Fully functioning board	Org structure & leadership	Delegation & segregation	Corporate social responsibility
				Talent & compensation	External & internal Audit	Risk & crisis management
					Secretarial, regulatory compliances	Shareholders rights
					Fully functioning board	Disclosure management

Decision making

Centralised and founder-led — Decentralised and board-led

Recommended practices for each stage of governance



Recommended governance practices for early-stage start-ups

Establishing the board

- Board should be constituted and the composition should meet the requirement of applicable law
- The board should conduct periodical meetings with adequate quorum, proper notice and agenda in compliance with applicable law
- The board meeting should be minuted and decisions and resolutions passed should be documented in compliance with applicable laws
- Board should ensure compliance with prevailing regulations

Finance and external audit

- Have someone oversee the finance function
- Company should adopt accounting policies and consistently apply them
- Company should appoint a competent audit firm and complete audit on time
- Track key performance parameters, related-party transactions and cash on a monthly basis; disclose to key shareholders

Compliance monitoring

- The company should be aware of compliance requirements
- Statutory and regulatory compliances should be met to keep the operations and company running

Recommended governance practices for evolving start-ups

Expansion of the board role

- Expand the board role to add experts from time to time as needed, including investor nominees
- Conduct four meetings in a year i.e. one in a quarter with a predefined agenda
- The board meeting should be minuted and decisions & resolutions passed should be documented in compliance with applicable law
- The board should oversee compliance, governance and financial reporting matters
- The delegation of responsibilities should be approved by the board
- Delegation of powers involving matters subjected to investor rights should follow the due process of investor approval

External audit oversight

- Full-time HOF/Finance controller should oversee the finance and accounts functions, supported by competent teams
- Accounting policies should be followed consistently and changes should keep pace with evolving business requirements
- The company should appoint tier-1 audit firm and complete audit on time
- There should be annual interaction of statutory auditors with the board including major investor nominees

Whistleblower

- A whistleblower programme should be implemented
- Employees and vendors should be made aware at the time of onboarding and through periodic awareness sessions
- A sub-group should be made responsible for monitoring and running the whistleblower programme
- The board should be provided with a summary of complaints received and the actions taken

Recommended governance practices for evolving start-ups

Business and finance MIS

- Key business metrics should form a part of the MIS
- Reporting packs should include the detailed cash burn and runway, working capital analysis, P&L and most importantly, the balance sheet
- Work towards building an accounting system as the single source of truth for all reporting requirements including MIS

Secretarial and other compliances

- Appoint someone to oversee the secretarial function
- Implement appropriate processes to avoid non-compliances, example - POSH, tax registration and compliance etc.
- Knowledge about growing compliance requirements, both local and international (as required), should be proactively obtained with external help if needed
- The board should be provided with periodic reporting on the compliance status

Related-party transactions

- Related-party transactions should be tracked at both organisation and shareholding structure
- The board should review the related-party transactions and disclosure should be made as per statutory requirements

Recommended governance practices for growth-stage start-ups

Fully functioning board

- Expand the board role to add non-executive members with different skill sets to the board, or as advisors to the board
- Conduct at least four meetings in a year i.e. one in a quarter with predefined agenda
- The company secretary should be responsible for the recording and timely circulation of meeting minutes to support decision making
- Constitute the finance sub-group (quasi audit committee) with financial experts to oversee compliance, governance and financial reporting matters
- Oversee strategy formulation, planning and monitoring on an annual basis
- Monitor the applicability and implementation of evolving regulations based on scale of business
- Start monitoring the brand value, shape the social media policy and manage the interest of all stakeholders
- The board should consider nominating sub-groups with competent experts to advise on matters including compensation, risk and strategy

External and internal audit

- Full time CFO should be appointed to oversee finance and accounting function, supported by in-house finance team
- Accounting policies should be followed consistently and any changes should be approved by the finance sub-group appointed by the board
- The company should appoint a tier-1 internal and statutory audit firm with expertise in relevant industry and complete audit on time
- The finance sub-group (including investor nominee) should have regular ongoing engagement with internal and statutory auditor
- The internal audit plan should be developed and approved by the finance sub-group

Recommended governance practices for growth-stage start-ups

Secretarial and other compliance

- An in-house secretarial function under a competent and experienced leader should be formed
- Take charge of all secretarial and key regulatory compliance requirements
- Invest in building systems and processes to maintain compliance
- Knowledge about growing compliance requirements, both local and international (as required), should be proactively obtained with external help if needed
- Internal/external help should be sought on complex legal matters
- A secretarial audit should be performed by competent professional third-parties and gaps should be remediated
- Management should provide a compliance certificate to the board/audit committee
- The finance sub-group to have oversight on compliance-related matters

Risk, crisis and fraud management

- The board should consider constituting a separate risk sub-group to oversee risk management, even if not required by law
- The risk dashboard should be made available for monitoring by key executive management, and shared with board periodically
- The board should take active role in identifying crisis scenarios and direct the management in developing contingency plans
- The board should expand its oversight on organisational preparedness for events that threaten business continuity
- A public relations specialist should be identified to manage the brand
- Develop an anti-fraud programme covering key areas of finance, procurement and sales, and implement across the company
- Internal audit should be tasked with providing assurance on the effectiveness of the process and identifying exceptions
- A statutory auditor should carry out critical evaluation of fraud controls and raise red flags, if any, to the board

Recommended governance practices for growth-stage start-ups

Business and finance MIS

- Key business metrics should form a part of the MIS
- Reporting packs should include the detailed cash burn and runway, working capital analysis, P&L, balance sheet and reconciliation with accounting records
- MIS should be based on a single source of truth i.e. the financial books of the company, and should not be derived from parallel sources
- The CFO office should prepare annual forecasting and track actual against the forecast on a monthly basis. The same should be reported to the board on a quarterly basis with action plans for any deviations
- The CFO should provide certifications on the accuracy and consistency of the financials

Delegation & segregation

- Delegation of powers should be defined and approved by the board. These should include a delegation from the board to C-Suite and below
- The delegation of powers involving matters subjected to investor rights should follow the due process of investor approval
- Internal and statutory auditors should review both these areas and report their findings to the finance sub-group

Related-party transactions

- Related-party transactions should be tracked at both company and shareholding structure
- There should be a process in place to proactively identify related parties
- The finance sub-group should also approve the related-party transactions and the disclosure should be made as per statutory requirements
- The board should actively understand the implications of related parties and act as the guardian of interest for all shareholders

Recommended governance practices for growth-stage start-ups

Ethics, code of conduct and whistleblower

- Code of ethics and conduct should be adopted. A whistleblower programme should be in place
- Employees and vendors should be made aware at time of onboarding and through periodic awareness sessions
- A whistleblower programme should be strengthened to manage the scale, anonymity and communication with complainant and the company
- Senior executives should demonstrate compliance with the ethics and code of conduct through their behaviour
- A finance sub-group should provide effective oversight over the programme

Organisation structure and leadership development

- Board should consider constituting a strategy sub-group to oversee organisational development
- Matured HR functions capable of supporting the company should be in place
- A programme should be implemented to train and develop employees to meet the business needs

Talent and compensation

- The company value statement should be defined and an open house discussion should be conducted periodically by the senior management
- Key tenets of the organizational culture should be communicated and reinforced through various channels to increase employee engagement
- The strategy sub-group should review company culture score periodically
- The compensation sub-group should be responsible for evaluating and recommending senior leadership compensation structures
- The compensation sub-group should be responsible for establishing and monitoring HR KPI, and updates should be shared with the board periodically

Recommended governance practices for mature-stage start-ups

Fully functioning board

- Expand the board role to add professional independent directors
- Benchmark the board composition with public listing norms if the company is preparing for listing
- Conduct regular board meetings at scheduled intervals with a predefined agenda
- The company secretary should be supported by the in-house team to review and maintain compliance with prevailing requirements
- Mandatory committees should be formed. It is recommended to form an audit committee with an independent audit chair and Nomination and Remuneration Committee (NRC), even if not mandated by law
- Develop framework to regularly review recommendations from the committee and delegate responsibilities for effective implementation
- The board meeting agendas should have updates on strategy execution
- The board should be supported by a compliance officer to maintain compliance with regulations
- Formulate strategies for brand management, monitor the risk of value erosion and opportunity of value creation
- Assess preparedness in alignment with disclosure requirements of listed companies
- A clear roadmap should be drawn for IPO readiness (if needed) from the financial reporting perspective

Secretarial and regulatory compliance

- An in-house secretarial function under a competent and experienced leader should be formed
- All secretarial and key regulatory requirements should be taken charge of
- High level of confidence should be achieved on compliance matters through a strong internal process supported by automated systems
- Third-party audits should be conducted for secretarial and other regulatory compliances
- Training programmes should be designed and conducted for all new joinees, as well as refresher courses to be built for high awareness and culture of compliance
- The audit committee to have oversight on compliance related matters
- An annual self-declaration should be obtained from all the relevant senior executives
- The board agenda must include mandatory matters as required by governing laws

Recommended governance practices for mature-stage start-ups

External and internal audit

- A full-time CFO with relevant experience should be appointed, supported by finance leaders
- Accounting policies including group accounting policies should be applied consistently and changes should be approved by the audit committee
- The audit committee should be chaired by an independent board member
- The company should prepare quarterly accounts and get them approved by audit committee
- The company should appoint a tier-1 audit firm with experience in relevant industry. The audit firm may share market benchmarks to help the company adopt best practices
- Internal audit should be conducted by a tier-1 independent firm and should have comprehensive coverage, including quality of reported earnings, for an enhanced assurance
- An audit should be carried out while keeping a listed entity benchmark
- A robust framework should be implemented i.e. ICAI guidelines/COSO, including detailed documentation on risk control metrics
- The CFO should provide certification to the board on effectiveness of the control and any material exceptions should be remediated in a time-bound manner under the audit committee's supervision

Delegation and segregation

- Delegation and segregation should be percolated at function level and aligned with job descriptions
- Delegation of powers involving matters subjected to investor rights should follow the due process of investor approval
- The Delegation of Authority policy should be mirrored in automated systems to ensure there are no gaps between manual and system transactions
- Delegation of powers between the parent and subsidiary should be defined where applicable
- Segregation of duties should be implemented as a key financial control
- Internal and statutory auditors should review the delegation matrix and report their findings to the audit committee

Recommended governance practices for mature-stage start-ups

Ethics, code of conduct and whistleblower

- Effective code of ethics, code of conduct, and independent whistleblower programmes should be in place
- Whistleblower policy should be available on the website
- Employees and vendors should be made aware at the time of onboarding and through periodic awareness sessions
- An external ombudsman should be appointed
- The code of conduct should be extended to key suppliers/third parties
- Regular monitoring, tracking and resolution of the exceptions should be conducted with legal experts as required
- Audit committee should be appraised of the complaints received, violations reported and actions taken periodically

Related-party transactions

- Related-party policy should be available on the website
- A monitoring mechanism should be in place to proactively identify related parties and transactions exceeding the prescribed financial threshold
- All related parties including the ones associated with the board and senior leadership members should be disclosed to ensure fairness in dealings
- Audit committee should approve related-party transactions, and disclosures should be made as per the statutory requirements
- The board should proactively understand the implication of related parties and act as a guardian of shareholders' interests

Recommended governance practices for mature-stage start-ups

Business and financial MIS

- Key business metrics should form part of the MIS
- The reporting pack should include the detailed cash burn and runway, working capital analysis, P&L, balance sheet and reconciliation with accounting records
- MIS should be based on a single source of truth i.e. the financial books of the company, and should not be derived from parallel sources
- The terms used should be well defined and documented in the MIS
- Regular assessment should be made on the relevance of the MIS and any changes should be approved by the board
- The CFO office should prepare annual forecasting and track actuals against the forecast on a monthly basis. This should be reported to the board on a quarterly basis with action plans
- The CFO office to provide certification on the accuracy and consistency of the financials

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Culture development

- Organisational purpose and values should be defined so that people relate to it
- Diversity, equity and inclusion, and sustainability should be an integral part of the culture
- Voice of the people should be obtained annually through anonymous surveys and shared with the Nomination and Remuneration Committee (NRC)
- The organisational culture should be calibrated to meet the service requirements of the customer, i.e., millennials, regional element of the workforce/customer base

Recommended governance practices for mature-stage start-ups

Succession planning and compensation

- Nomination and remuneration committees should be constituted with an independent chair, as required
- The NRC should oversee succession planning process for senior leadership teams (SLT) including lateral hiring. A formal succession plan should be prepared for the CEO and SLT
- CEO and SLT performance should be reviewed periodically and compensation plans should be aligned to attract/retain top talent, reward performance and promote equity
- NRC to develop succession plan for the chair and board members as well

Fraud management

- Anti-fraud programme, crisis management, internal controls, risk management, independent whistleblower programmes should be aligned
- Prevention, detection and response to fraud scenarios should be identified and monitored
- The internal audit should be tasked with providing assurance on the effectiveness of the process and identifying exceptions
- The statutory auditor should carry out critical evaluation of fraud controls and raise red flags, if any, to the audit committee

Corporate social responsibility (CSR)

- The board should constitute a Corporate Social Responsibility sub-group in accordance with legal requirements
- The CSR policy should be developed and made available on the company website
- The CSR spends should be forecasted based on profitability projections
- Appropriate projects should be initiated by the management and the same should be monitored by the CSR Committee

Recommended governance practices for mature-stage start-ups

Risk and crisis management

- Board should consider constituting a separate risk committee to oversee risk management, even if not required by the law
- Risk management practices should be matured, and appropriate technology tools should be implemented
- Risk organisation structure should be well defined under a designated Chief Risk Officer
- Risks should be comprehensively identified and aligned with the internal audit strategy
- Risk profile of the company should be reduced to moderate to attract adequate public interest in the IPO
- Business continuity should become a key agenda for the risk management committee and the board
- Crisis management playbook should be developed and updated
- Periodic exercises should be conducted to test the effectiveness of the business continuity plan

Shareholder rights

- Board should constitute Stakeholder Relationship Committee (SRC) as per the legal and regulatory requirements
- Information asymmetry among various shareholders should be minimized
- Good practices on shareholder communication i.e. investor presentation post results, should be followed
- SRC should oversee grievance redressal mechanisms for shareholder grievances, other third-party grievances including vendors and business partners

Disclosure management

- Board should do a mock exercise in alignment with disclosure requirements for a listed entity to understand the gaps
- Coverage of disclosures should include those relating to board report, annual report, regulatory filings, website, etc.
- Shareholder communication mechanism should be in place and should be stress tested as a part of IPO readiness

Governance status check

Do an assessment against the recommended governance practices based on the current stage of the company to gauge where your company stands, and ensure that proactive readiness is maintained as the company scales

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About IVCA

The Indian Venture and Alternate Capital Association (IVCA) is a not-for-profit organization that serves as the apex industry body for the alternate capital industry in India. IVCA's primary objective is to promote and foster a vibrant investing ecosystem in the country. The association achieves this by facilitating advocacy discussions with the Government of India, policymakers, and regulators.

IVCA is dedicated to supporting the growth of entrepreneurial activity, fostering innovation, and generating employment opportunities in India. Through its advocacy efforts and engagements with key stakeholders, IVCA aims to contribute to the development of India as a leading hub for fund management.

IVCA's membership consists of the most active domestic and global investors, including venture capitalists (VCs), private equity firms (PEs), infrastructure and real estate funds, credit funds, limited partners, investment companies, family offices, corporate VCs, and knowledge partners. These members play a significant role in investing in various sectors, such as emerging companies, venture growth, buyouts, special situations, distressed assets, credit, and venture debt.

IVCA's mission is to facilitate a conducive environment for investment and growth in the alternate capital industry in India, ultimately contributing to the country's economic development and positioning it as a prominent fund management destination.

Contributors

Founders

Flipkart
Ramanan Iyer

Info Edge
Sanjeev Bikhchandani

InMobi Group
Naveen Tiwari

MakeMyTrip
Deep Kalra

Mamaearth
Varun Alagh

Mosaic Wellness
Revant Bhate

Nykaa
Falguni Nayar

Paytm
Raj Nalam

Razorpay
Harshil Mathur

Urban Company
Abhiraj Singh Bhal

Investors

3one4 Capital
Siddharth Pai

Aarin Capital
T.V.Mohandas Pai

Blume
Ashish Fafadia
Mitul Mehta

TVS Capital
Gopal Srinivasan
Mani K.I.

Peak XV Partners
Sandeep Kher
Cchatardeep Dua
Jaspriya Kaur

ChrysCapital
Ashley Menezes

Multiples Equity
Kalpesh Jain
Ramgopal Seethepalli

Orios Venture
Rehan Yar Khan

Experts

CIIE.Co
Supriya Sharma

Excellence Enablers
M. Damodaran
Ex-SEBI Chairman

Thought Arbitrage Research
Kaushik Dutta

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Get in Touch

Deloitte Touche Tohmatsu India LLP

Sachin Paranjape
Partner
Risk Advisory
saparanjape@deloitte.com

Nikhil Bedi
Partner and Leader - Forensic
Financial Advisory
nikhilbedi@deloitte.com

Rohit Madan
Partner - Forensic
Financial Advisory
madanr@deloitte.com

Indian Venture and Alternate Capital Association

Rajat Tandon
President
IVCA
rajat.tandon@ivca.in

Amit Pandey
Vice President
IVCA
amit.pandey@ivca.in

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Deepti Berera - Director, Risk Advisory, Deloitte Touche Tohmatsu India LLP