Decode Your Termsheet

Reading a Termsheet for the first time (or even if it's not the first time) can be stressful. It is filled with legal jargon and clauses that founders may not fully understand. At times, we have seen funding fall through due to differences in terms, and not commercials.

#DecodeYourTermsheet is our series to make it easy for founders to understand standard terms and negotiations with VCs. The more you understand the termsheet, the easier it will be to close funding faster and manage the process more smoothly and cost effectively.

In each section, we will take an important clause of the Termsheet and dive deep into it.

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1 Introduction: What Is A Termsheet?

Picture this. You have been speaking to several investors about your startup. Your story is exciting enough that an investor decides to back you and offers you a Termsheet.

You're elated! However, you're not sure what all of these terms mean. What's standard and what's not? How do you evaluate whether you're getting a good deal or not?

It's important to first understand what really is a Termsheet.

A Termsheet is an agreement that outlines the basic terms and conditions of an investment. It serves as a template and basis for more detailed documents such as the Shareholders Agreement and Share Subscription Agreement.

In the following slides, we will cover the most important clauses that you will come across in a Termsheet. We help you understand what to focus on and how to successfully take a deal to closure.

We also provide a standard VC Termsheet and how each of these clauses will appear when you read a Termsheet.

2 Reserved Matters

Reserved Matters simply refer to certain actions or matters that require prior consent of the investors before a decision is taken over the same.

There are three important categories of Reserved Matters:

- Strategic & Corporate
- Investment Protection
- Business Operations

Reserved Matters

Strategic & Corporate Matters

- Incorporation of any subsidiary of the company or any other corporate restructuring;
- Any merger, acquisition, change in control or consolidation of the company;
- Change in the legal status of the company;
- Any decision to enter into any joint ventures, partnerships, collaborations or consortiums with any person;
- Alteration or changes to the rights, restrictions, preferences, price, conversion ratio or privileges of any securities of the company.

Kalaari Perspective

Strategic & Corporate Matters have mostly been standardized over the years. There is rarely room to negotiate and investors will want a say in these decisions.

You should, however, negotiate a majority based investor approval construct so that no individual investor will have disproportionate control over critical decisions.

Reserved Matters

Investment Protection Matters

- Any action that authorizes, creates or issues securities & additional issue of any class or series of stock;
- Buy back or redemption of securities of the company or any reduction of share capital or any increase, decrease, alteration or modification of the authorised or issued share capital;
- The liquidation, dissolution, sale, license or transfer of substantial assets of the company;
- Any transfer or encumbrance of securities by a founder;
- Any decision to make a public offer or list the securities of the company on any stock exchange.

Kalaari Perspective

Investment protection rights are usually a standard list of reserved matters that offer investors protection in the case of a liquidation event.

Since investors are typically minority shareholders in your company and may own ~10-15% of your startup at the early stage, there are certain checks and balances that are put to make sure the capital provided is used as per the stated mandate. These matters are also standardized and there is not much room to negotiate.

Reserved Matters

Business Operations Matters

- Approval of annual budget at the beginning of the Financial Year, including modification of such budget;
- Incurrence of aggregate expenses (capital and operating) in excess of a certain percentage over amounts set out in the business plan;
- Any changes in business objectives, commencement of any new line of business, or change of scope of the business of company, or closure of an existing line of business;
- Appointment, dismissal or alteration of the terms of employment of key employees, including increase in the total compensation to key employees.

Kalaari Perspective

There is more flexibility when it comes to negotiating on business operational matters.

Provide a 10-15% permissible deviation from your annual operating plan and milestones. Approvals on matters such as key employee hiring, compensation, expenses, etc. can and should be reviewed depending on the stage of your company.

3 Information & Inspection Rights

Information & Inspection Rights

Information Rights outline the investor's right to access and receive certain information and inspect the company's books and records. This clause allows investors to monitor the company's performance, financials, and governance processes.

Standard information rights include:

-Monthly MIS information and reports
-Monthly / Quarterly Financials, including balance sheet and cash-flow statements
-Audited financial statements of the company
-Annual Operating Plan before the commencement of the next financial year
-Record of Board & Shareholder Minutes
-Information regarding any material litigation, regulatory notices, etc
-Any other information related to the financial condition of the business as the investors may request

Kalaari Perspective

Information and Inspection Rights are standard across every termsheet.

As your company evolves and matures, you may have several shareholders and information can become sensitive.

Here, it is a good idea to restrict who gets Information & Inspection Rights and you can choose to not grant these rights to all shareholders.

Information & Inspection Rights

Inspection Rights give the investors the right to access/visit the company's premises, assets, reports, books, contracts, and any other corporate and financial records with due prior written notice.

Since investors don't have an operational role in the company, information & inspection rights give them insight and visibility into the company's business and performance metrics. By having access to key information and insights into the company's decision-making processes, investors can make informed decisions about their investment and potentially provide guidance to the company's management team.

Kalaari Perspective

While certain basic information rights such as audited financials will be accessible to all investors, you can separate the information right and depth of information to be shared by dividing it into majority investors and minority investors. Thus, you can avoid having to share detailed and confidential information with a large group of investors with small shareholding.

You should also incorporate appropriate confidentiality provisions to ensure that the information/data being shared with the investors is not disclosed to third parties for unauthorized use.

4 Founder Vesting

Founder Vesting

Vesting is a clause that most VCs will ask for when you raise funding.

Suppose you raise $1M from a VC for 10% of your company. You and your co-founder will now each hold 40% of the shares, and create a 10% ESOP pool. If, for any reason, you or your co-founder split up and leave the company in the early stages while retaining all your equity, the long-term growth of the company can get hampered as a major portion of the equity will be locked up with someone who is not an actively involved anymore.

This is why we include the Founder Vesting clause.

Founder vesting refers to a process where a startup's founders agree to earn their equity in the company over a period of time, rather than receiving it all at once.

Kalaari Perspective

VCs are backing the founders' vision and their ability to execute in the early stages.

Vesting incentivizes the founders to stay with the company and continue to work towards its success. If a founder were to leave the company before their shares are fully vested, they would forfeit a portion or all of their equity, depending on the circumstances.

Founder Vesting

In general, founders of early-stage startups can expect to have a **four-year vesting schedule, with a one-year cliff period before any shares begin to vest.**

This means that if a founder were to leave the company within the first year, they would not earn any equity in the startup. After the cliff period, the founders' shares can get vested equally either monthly, quarterly, or yearly.

Kalaari Perspective

The specific terms of founder vesting, such as the length of the vesting period and the vesting interval, can be negotiated between the founders and the VC.

While in early stage deals it is common for 100% of the shares to be subject to vesting, in some cases where the company has a sufficient track record or achieved some meaningful milestones already, founders can negotiate for a certain percentage of their shares to be vested upfront. It is also not unusual for an early-stage investor in a subsequent funding round to ask for a reset of the vesting schedule.

Founder Vesting

Whenever a founder leaves before the cliff period, they do not get any of the shares. However, in case they leave after the cliff period, one of the following two can happen:

1) Termination with Cause
This is when the founders' employment is terminated due to engaging in serious misconduct, gross negligence, fraud, material breach, or other such activities. In this situation, all the vested and unvested shares will be forfeited for a nominal value. These shares are usually transferred to the ESOP pool, EWT (Employee Welfare Trust), or utilized to incentivize an incoming founder.

2) Termination without Cause
There may be other situations which are not cause events but have the potential to jeopardize the growth potential of the company such as a divergence emerging in the founders' vision towards the company's future or similar issues between the founders and investors or a founder, personally, being unable to scale up at the same pace as the company. In case of termination without cause, the founder keeps the vested shares, and the unvested shares fall away. However, in some cases, the founders can negotiate for a portion of the unvested shares to accelerate.

Kalaari Perspective

Overall, it is standard for venture capital deals to include founder vesting and termination.

Depending on the stage of the company and its business, as well as the investment cycle, founders can work with investors to find a mutually acceptable vesting schedule and conditions for forfeiture or repurchase of shares.

5 ESOP (Employee Stock Option Pool)

ESOP (Employee Stock Option Pool)

Employee Stock Option Pool (ESOP) refers to a pool of shares that the company sets aside for its employees as a form of long-term incentives.

VCs care about ESOPs to see if there is long-term alignment between the founders and the employees of the company. ESOPs enable you to create and share wealth with your team, especially as the company grows. The people who join a startup, especially at an early stage, are taking significant risks and most often a pay cut as well.

ESOPs give them an additional upside on top of their salary. It helps you attract and retain high quality talent and keep employees committed to the long-term success of the company.

Kalaari Perspective

VCs will look at **how much of the ESOP is unallocated prior to their investment in the company.** When you're at the Seed-Series A stage in your company, any new incoming investor will expect you to have at least a **10-12% unallocated ESOP pool.**

The unallocated ESOP pool will also change as the stage of the company evolves. It's common for it to go down to 4-5% as the company reaches Series C and beyond.

ESOP (Employee Stock Option Pool)

Founders should be aware of the impact of the ESOP on their ownership stake in the company, as the creation of an ESOP will dilute their ownership.

The size of the ESOP is typically negotiated between the company and the investors as part of the term sheet.

The ESOP plan needs to be approved by the Board.

Kalaari Perspective

For founders, it's also important to manage investor expectations as the pool is created. **Incoming investors will always want the unallocated ESOP pool to be created before their investment**, as creating the pool post investment would otherwise dilute their ownership further. Existing investors may sometimes be unhappy about this, so it is important to create alignment with them throughout this process.

In situations such as an M&A or other liquidation events, it's common for the distribution of proceeds to happen on an as converted basis, which disregards unallocated ESOPs from the shareholding percentage calculations.

6 Pre-Emptive Rights

Pre-Emptive Rights

Preemptive rights give the existing investors the right to invest in future funding rounds to maintain or increase their ownership percentage in the company.

There are two types of Pre-Emptive Rights:

1) Pro-Rata
Pro rata rights give existing investors the right to maintain their ownership percentage in future funding rounds based on their current ownership percentage.

2) Super Pro-Rata
Super pro rata rights allow investors to invest beyond their pro rata allocation, giving them the option to increase their ownership percentage.

Kalaari Perspective

Pre-Emptive Rights are market standard. Trying to negotiate VCs from not even having Pre-Emptive rights is rarely possible.

Founders should ideally also want their investors to exercise their Pre-Emptive Rights, as it gives a strong signal to the market of the existing investors continued conviction in the company.

Pro-Rata Rights

Let's understand this with an example.

Suppose your startup raised $2M at $10M post-money valuation from VC-1, giving them 20% ownership in your company.

The company is growing well and is now raising $20M at a $100M post-money valuation. In order to do this, you will have to issue new shares to the incoming investor which would increase the overall number of shares and thereby dilute all the existing shareholders.

In this situation, your existing investor will also get diluted by 20%, taking their ownership down to 16% from 20%.

By exercising their pro-rata rights, VC-1 can invest **an additional $4M at the same $100M post-money valuation, which would give them the 4% needed to maintain their original ownership.**

The remaining $16M can be plugged in by incoming investors, thereby closing the round.

Kalaari Perspective

Before you talk to new investors, **understand whether your existing investors expect to exercise their pre-emptive rights or not.** If they don't plan to exercise it, positioning this correctly to your incoming investors is absolutely essential in order to have a successful fundraising closure. This is not something you want to be caught by surprise later as a founder.

If your existing investors do plan to exercise their pro-rata but your round gets oversubscribed, try to go to them for a smaller allocation unless they have shown an inclination already to support it. Don't try to negotiate hard to make that happen when the investors don't want to do it, as it might backfire and affect the round closure.

The way you position and orchestrate meeting everyones requirement and doing so quickly without multiple negotiations is paramount for the deal to close.

Super Pro-Rata Rights

With super pro-rata rights, your investors can invest more money at the same valuation to increase their ownership in the company.

Super Pro-Rata is not considered to be market standard and founders do have more room to negotiate.

Kalaari Perspective

Remember, receiving a Termsheet is not the same as getting money in the bank.

Though Super Pro-Rata is not market standard and founders can choose not to take it, there are certain circumstances where it may be okay for you to consider it. For instance, a growth VC who is willing to commit a very small amount in the early stage because they like your business and could potentially be a lead in the future may be given Super Pro-Rata.

If Super Pro-Rata shows a degree of interest in you and commitment towards your company, it's a good thing. However, if it takes away other investors interest in you, then it's a bad thing.

7 ROFR & Tag Along Rights

ROFR (Right of First Refusal)

ROFR - The Right of First Refusal - is a term that gives investors the right to purchase any shares that the founders of the company want to sell to a third party at the price offered by such third party.

If the investors decline to exercise their ROFR, then the founder can sell the shares to the respective third party at the determined price.

There may also be situations where a group of smaller shareholders want to sell their shares to a third party for whatever reason. The ROFR can also come into play here to stop this from happening by allowing the major investor to purchase the shares at the same price.

Kalaari Perspective

ROFR is a clause that majority of investors will demand in a Termsheet.

Founders usually have the freedom to negotiate the ROFR process to make sure its efficient and not a time-consuming process. Give ROFR only to investors who have a certain ownership threshold and avoid giving it to a large base of investors.

Keep a defined time period for each step in executing the ROFR with your investors. Do not keep it open ended or too long to ensure there are no delays. Provide anywhere between 15-30 days for investors to intimate whether they want to exercise the ROFR or not, and an additional 15-30 days to complete the transaction.

Tag Along Rights

Investors and founders sometimes have the rights to sell their shares (with founders having certain restrictions).

Let's suppose that the founders are looking to sell their shares to a third party buyer. A tag-along right gives the VC an option to participate in the sale of shares alongside the founders on the same terms. **It ensures that no sale can proceed without the ability of the existing investors also getting to participate in that deal for an exit.**

Depending on how much shareholding a founder is looking to sell, the tag-along right could either provide the VC an option to sell a pro-rata portion of its shares (eg. if a founder is selling 10% of its shares, then the VC can tag-along 10% of its shares) or sell its entire shareholding (i.e. if, let's say the founder is selling 50% of its shares or the sale results in a change of control of the company).

Kalaari Perspective

Any value creation in a startup takes time. It's important for the founders to have enough ownership in the company during these initial phases as their vision and execution will be key to the company's growth. The investors are backing the founders in the early stages, and them selling their shares before any real value is created sends a bad signal.

The tag along right ensures that the long-term incentives are aligned between the VCs and the founders, and the founders don't look to sell their shares too early in the company's journey. However, investors usually allow for smaller secondary sales at different periods of the company, as they understand the different stages in a founders' personal lifestyle as well. In some cases, they may buy the shares themselves from the founders.

Tag Along Rights

Similarly, Tag Along also provides protection to the early-stage investors and smaller shareholders as the company matures and has a more broad-based cap table.

In such cases, in addition to tag-along rights being linked to founder transfers, there can also be a tag-along right available to investors as well as the founders if a change of control event occurs prior to the exit date.

Let's suppose a group of investors holding 60% of the company decide to sell all their shares to a third party. In such a case, since the transfer of shares will lead to a change in control of the company, all the existing shareholders (including investors and founders), can choose to sell their shares at the same terms as well.

Kalaari Perspective

As the company raises more funding and matures from its start-up phase, the founders and early stage investors will have a much smaller shareholding in the company.

In these cases, if other shareholders (who would invariably hold majority shareholding of the company) decide to pursue a M&A opportunity / change of control transaction before the agreed exit period, then an opportunity to exit alongside should be provided to other shareholders as well.

8 Liquidation Preference

Liquidation Preference

Liquidation Preference refers to **the order in which investors get paid when a startup is sold or liquidated**. Essentially, it determines the priority in which different classes of stockholders receive payments.

A startup that has raised funding will typically have two classes of shares: **common and preferred**. The preferred shareholders shall have a liquidation preference that gives them the right to receive a predetermined amount of money before the common shareholders receive anything.

There are two main important types of Liquidation Preference:

1) Non-Participating
2) Participating

Kalaari Perspective

VCs will always ask for this clause to be included in a standard Termsheet to protect their investment.

Liquidation Preference becomes irrelevant when a company is successful. However, depending on the liquidation preference, founder returns can be significantly affected. At times, based on how liquidation preference is set, its possible that investors may make some money while the founders do not.

Typically, the liquidation preference is linked to 1x of the investment amount. If any investor asks for greater than 1x, you should reject that. **Never trade a higher liquidation preference to accommodate valuation.**

Non-Participating Liquidation Preference

In this scenario, **the preferred shareholders will either receive their liquidation preference before the common shareholders receive anything or they will receive the proceeds along with the common shareholders as per the pro-rata shareholding, whichever is higher.**

Kalaari Perspective

Suppose your startup raises $1M at a $5M post-money valuation from a VC, who will now own 20% of your company. **Assume that the investor has a 1x non-participating liquidation preference.**

- Suppose your company gets sold for $500k, which is less than the total capital raised. In this scenario, the investors will be entitled to receive the entire liquidation amount and founders will not receive anything.

- If your company now gets sold for $3M, the investor will be entitled to receive $1M (1x of their initial $1M investment) before any of the common stockholders get paid as the pro-rata amount for the investor would only be $600k (20% of $3M). The remaining $2M will be distributed as per the pro-rata shareholding of the common stockholders. If the investor had a 2x liquidation preference here, they would be entitled to receive $2M before any other proceeds are distributed.

- Assume your company got sold for $100M and your investor still has 1x non-participating liquidation preference. In this case, they would receive $20M (20% of $100M) as the pro-rata proceeds would be higher than their liquidation preference.

Participating Liquidation Preference

In this scenario, the preferred shareholders receive their liquidation preference before the common shareholders. However, **after they have received their predetermined amount, they also participate with the common shareholders in the distribution of the remaining proceeds.**

Suppose your startup raises $1M at a $5M post-money valuation from a VC, who will now own 20% of your company. Assume that the investor has a 1x participating liquidation preference.

If your company now gets sold for $3M, the investor will first receive their 1x liquidation preference ($1M). After this payout, the investor will also participate along with the common shareholders in the rest of the proceeds as well through which they will get an additional $400k (20% of the remaining $2M).

Kalaari Perspective

1x – Non-Participating is the market standard liquidation preference you should get from investors.

Do not have investors with different liquidation preferences, as it makes it difficult to align incentives with all parties concerned.

9 Exit Rights

All VCs have a fixed time horizon, usually 10-12 years, to create liquidity for their own investors (called Limited Partners). **Just like how any investment has an entry and exit period, a VC also needs to exit their investments and fulfill their LP obligations as per the fund lifecycle. Hence, including exit rights as a part of an investment Termsheet is a standard norm.**

Understanding exit rights can help founders get to a faster closure on their termsheet. Exit rights should not be a deal breaker, and an acceptable middle ground can be found.

Exits can be facilitated via the following common routes:

IPO & Strategic Sale

Secondary Transactions

Buy Back

Drag Along

IPO & Strategic Sale

IPO (Initial Public Offering) is the cleanest path to exit. This is when the company lists on the public markets either through the issuance of new shares or an offer to sell existing shares in the company to the public. The investors' shares get converted to common shares in the event of an IPO and they will have their own norms on how much they can exit or not.

IPO is the simplest term to negotiate, and the only point of discussion may be the approval process to decide on the timing of the IPO.

A strategic sale is when the startup gets acquired by a larger company or organization. This can either be through an all-cash deal, a complete share swap, or a mix of cash and share swap. A strategic sale is more complicated and conflict prone in aligning all your shareholders.

Kalaari Perspective

Usually by the time a startup reaches a stage when an IPO or strategic sale can be considered as a preferred exit option, the cap table will likely have a large investor base.

Any exit and their terms will require investor consent, and it is important that the **consent mechanism is based on an investor-majority construct and no single investor should have veto powers.** The majority construct can be based on investor shareholding thresholds or a certain number of major investors or a combination of both. This construct varies on a case-to-case basis.

It's important for founders that the decision-making process is not crippled by a few dissenting shareholders and/or is not forced by the decision of a few shareholders.

Secondary Transactions

Financial investors typically have the right to sell their shares to a third party at any time they deem fit.

Usually, these independent secondary sales are structured along with the primary investment by a Private Equity firm or growth stage investors.

Kalaari Perspective

Secondary sales are a good option for investors. **It's important for founders to ensure that investors are not dumping their shares at the wrong price or the wrong time**. While there may not be a lot of room to negotiate this, having constructive shareholder relationship ensures that there is rarely disagreement on this.

In larger companies, it's possible to ask for board approval to facilitate secondary sales. However, earlier the stage of the company, this is less negotiable.

Buy Back

If the company is not able to provide an exit to their investors prior to the exit date, it may be required to buy back the shares from the investors at the FMV (Fair Market Value) or commercially agreed upon price.

Companies undertaking Buy Backs need to comply with certain thresholds and limits specified under applicable laws. Therefore, the Buy Back structure (in terms of how many shares can be bought back and how much capital can be used for the buy back) is decided on a case-to-case basis.

Kalaari Perspective

Buy Back is very complicated and most often not viable to execute in the startup construct.

Most companies will typically fall under one of three buckets: a) growing and scaling rapidly b) facing critical issues and is likely to shut down c) company is generating cash flow and growing but is not able to scale fast enough to be able to either raise follow on rounds or get acquired.

In the first two situations, it's unlikely that any investor will look to exercise this option. However, in the third case, Buy Back can emerge as one of the feasible options for the company to facilitate an exit to the investor.

Buy Backs are not exercised often, and it is not worth fighting over due to the practical impediments in exercising it.

Drag Along

If the company has failed to provide an exit to the investors prior to the exit date or if there is an event of default, the Drag Along right allows the majority investor(s) to sell their shares to a third party acquirer and force the remaining shareholders (including the founders & any other minority shareholders) to sell a part or all their shares to such incoming acquirer if the buyer wants to achieve a certain target shareholding percentage.

Drag Along enables the majority investors to sell their shares to a potential acquirer without being held back by minority shareholders who may have different interests or priorities.

Kalaari Perspective

Drag Along can be seen as a controversial term by founders. **Drag event is an outlier situation** when everything else breaks down, and it is not possible for the investor to continue holding shares in the company any longer. In reality, **we have rarely seen drag along being enforced by investors** and Kalaari has never dragged any company. Given the practical impediments in enforcing a Drag Along, it may be worth for founders to take a pragmatic approach towards understanding the necessity for having a Drag Along right and not delay deal closure on account of this clause.

Instead, **founders can look to build in certain safeguards and thresholds to ensure that the Drag Along right is available to only major investors and not the minor investors or angels.**

10 Presenting A Sample VC Termsheet

Proposed Investment Amount & Valuation	The proposed transaction comprises of primary investment by the Lead Investor ("Proposed Transaction") of a total of INR xxx ("Total Investment") at a pre-money valuation of INR xxx. The post-money valuation of the Company shall be INR xxx. The Lead Investor shall hold xx% of the share capital of the Company post Closing on a fully diluted basis.
ESOP	The Company shall reserve a post-money ESOP Pool of xx% of the share capital of the Company on a fully diluted basis prior to the Closing.
Instruments	A combination of a nominal number of equity shares and fully and compulsorily convertible preference shares ("Series xx CCPS"). The Series xx CCPS shall have voting rights pari passu with equity shares.
Closing Conditions	The Closing will be conditional upon the fulfilment or waiver by the Lead Investor of customary conditions to its satisfaction such as: (i) completion of a legal, financial, tax and business due diligence; (ii) receipt of third party, governmental and regulatory approvals, and (iii) any other conditions identified in the Definitive Agreements.

Founder Restrictions	Vesting: The shares held by the Founders in the Company as on the Closing Date shall be considered as restricted / unvested shares, which shall be subject to vesting over a period of 'x' years from Closing, with x% of the shares held by each Founder vesting at the end of each 'x' period from the Closing Date, subject to the Founder remaining in employment of the Company. Lock-in: The Founders will not without the consent of the Lead Investor transfer or encumber any portion of their shareholding (whether vested or unvested) in the Company. Non-compete and Non-solicit obligations: Customary non-compete and non-solicit obligations of the Founders shall be set forth in the Definitive Agreements.
Investors Rights	Reserved Matters: The Company and Founders shall require the written approval of the Lead Investor for taking or implementing any decision relating to the matters identified in the Definitive Agreements as 'Reserved Matters'. Transfer by Investor: Investor may transfer all or any of their shares to any person and the Founders, and the Company will do all such acts and deeds as may be necessary to give effect to such transfer.

Founder Restrictions	**Right of First Refusal**: In the event that any of the Founders or any other shareholder of the Company (other than Lead Investor) intends to transfer its shares, the Investor will have a ROFR to purchase all or portion of such shares. **Tag Along Right**: The Investors will have a pro rata tag-along right in any sale of shares by a Founders(s), provided however that if: (a) the sale of the shares by the Founders(s) results in a change of control in the Company, or (b) a Founder intends to transfer more than 50% of the shares held by such Founder in the Company, an Investor will be entitled to sell all the shares held by such Investor as part of such sale. **Pre-emptive Rights:** In the event that the Company proposes an offering of equity or equity linked instruments of any amount to any person or entity (other than grant of options or shares to employees under an approved plan), the Investor will have the right to subscribe to such instruments to maintain its shareholding on a fully diluted basis. **Anti-dilution**: Broad-based weighted average. **Liquidation Preference**: 1x non-participating. **Board**: The Lead Investor will have the right to nominate 'x' director and 'x' observer on the board of directors of the Company. The Board will totally comprise of 'x' directors, of which, 'x' shall be the Founders (unless otherwise agreed to by the Lead Investor), and 'x' shall be appointed by the Lead Investor.

Investor Rights	Information and Inspection Rights: The Investor will have customary information rights (monthly, quarterly and annual) and inspection rights.
Exit	The Company and Founders will make best efforts to provide a complete exit to the Investor within a period of 5 (Five) years from the Closing Date ("Exit Period") either by way of an IPO, strategic sale or any other manner and at such terms as approved by the Lead Investor. After the Exit Period, the Lead Investor shall have customary buy-back and drag along rights. Exit rights will be accelerated on occurrence of event of default (as detailed in Definitive Agreements).
Warranties & Indemnification	The Company and Founders will give joint and several representations, warranties and indemnities, as are expected for transactions of this nature.
Expenses	The Company shall bear all out of pocket expenses incurred by the Lead Investor in relation to consummation of the Proposed Transaction, including completion of the due diligence. It is clarified that all stamp duty expenses in relation to the Proposed Transaction shall be deemed to be costs incurred by and shall be borne by the Company. The total expenses in this regard, reimbursable by the Company to the Lead Investor shall be limited to INR xxx.

Founder Restrictions	The terms and conditions of this Term Sheet and the Proposed Transaction shall be confidential information and the Parties shall not disclose the same to any third party, except that disclosures to each Party's accountants, legal counsel and other advisors, in each case only where such persons or entities are under appropriate non-disclosure obligations imposed by professional ethics, law or otherwise, shall be permitted. Other than with the prior written consent of each of the other Parties, no press release relating to this Term Sheet or the Proposed Transaction shall be made by any Party.
Investors Rights	Founders and the Company agree to negotiate exclusively with the Lead Investor and shall not attempt to obtain alternative financing sources for a period of xx days from the signing of this Term Sheet (or such later date as may be mutually agreed to by the Parties) ("Exclusivity Period"). During the Exclusivity Period, without the consent of the Lead Investor, the Company and Founders agree that neither it nor any of its officers, directors, affiliates or representatives agents or assigns, directly or indirectly (i) will solicit, encourage, entertain or enter into discussions or negotiations with respect to any investment in, or purchase of, the Company or any portion of its equity or its assets; (ii) will introduce its business concept to other potential investor during this period; or (iii) will enter into an alternative transaction, or a commitment to enter into such a transaction, or a term sheet with any other party. If the Definitive Agreements are not executed within the Exclusivity Period, then this Term Sheet shall stand terminated, unless the Founders and Lead Investor mutually agree otherwise in writing.

Kalaari Capital is an early-stage, technology-focused venture capital firm based in Bengaluru, India. Since 2006, Kalaari has empowered visionary entrepreneurs building unique solutions that reshape the way Indians live, work, consume and transact.

The firm's ethos is to partner early with founders and work with them to navigate the inevitable challenges of fostering ideas into successful businesses. At its core, Kalaari believes in building long-term relationships based on trust, transparency, authenticity, and respect.

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Associate

Thank You

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