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KNOWLEDGE HUB · FOUNDERS & INVESTORS

The Ultimate Startup Fundraising Guide *for India* (2026)

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FORMAT

Guidance Note

— INTRODUCTION

Raising Capital in *India's Startup Ecosystem*

Raising capital is one of the most important milestones in a startup's journey. Access to capital enables founders to build teams, scale operations, invest in product development, and expand into new markets.

India has rapidly emerged as one of the world's largest startup ecosystems, with venture capital funds, angel investors, and institutional investors actively funding innovative companies. However, fundraising is not simply about pitching an idea — investors evaluate startups based on financial discipline, regulatory compliance, business models, and growth potential.

This guide provides founders with a structured overview of the startup fundraising process in India, including investor expectations, legal requirements, financial preparation, and common pitfalls to avoid.

— FUNDING LIFECYCLE

Understanding the *Startup Funding Lifecycle*

Startups typically raise capital across multiple stages as they grow. Each stage has distinct investor expectations, typical ticket sizes, and evaluation criteria.

<u>Stage 01</u>	<u>Stage 02</u>	<u>Stage 03</u>	<u>Stage 04</u>
Pre-Seed The earliest stage. Founders validate the idea and build an initial product. Investors evaluate the founding team, problem, and market potential. Personal Savings · Friends & Family · Incubators · Angel Investors	Seed Helps startups build their initial product, acquire customers, and establish market traction. Early unit economics and revenue traction are assessed. Angel Networks · Early VC · Accelerators	Series A Raised once product-market fit is demonstrated. Investors expect a scalable business model, strong growth metrics, and structured financial reporting. VC Funds · PMF Required · Growth Metrics	Series B+ Capital raised to scale operations rapidly — geographic expansion, product development, and market dominance. Led by growth equity and PE firms. Growth Equity · PE Firms · Scale

Key Types of *Startup Investors in India*

Understanding different investor categories helps founders target the right funding sources at the right stage. Each investor type has distinct ticket sizes, investment thesis, and value-add.

INVESTOR TYPE	TICKET SIZE	CHARACTERISTICS
Angel Investors ₹10L – ₹2 Cr	₹10L – ₹2 Cr	Individuals investing personal capital into early-stage startups. Beyond capital, angels typically provide mentorship, industry connections, and strategic guidance. Well-suited for pre-seed and seed rounds.
Venture Capital Funds ₹5 Cr – ₹200 Cr	₹5 Cr – ₹200 Cr	Institutional investors deploying fund capital into high-growth startups from seed stage onwards. VC funds focus heavily on market size, revenue growth potential, scalability, and exit opportunities.
Family Offices Varies	Varies	Invest capital on behalf of wealthy families. Many family offices are active in Indian startups and may participate in both early-stage and growth-stage rounds, often seeking direct investments with fewer governance restrictions.
Corporate Venture Capital Strategic	Strategic	Large corporations investing in startups aligned with their strategic objectives. These investments may provide market access, technology partnerships, and strategic collaborations in addition to capital.

Preparing Your Startup *for Fundraising*

Before approaching investors, founders must ensure their business is properly structured and investor-ready. Preparation spans three key areas.

Financial Preparation

Investors expect startups to present structured financial information. A well-prepared financial model helps investors understand how the company plans to grow and whether the assumptions are credible.

WHAT INVESTORS EXPECT

Historical financial statements · Revenue projections · Unit economics analysis · Cash flow projections · Capital requirements clearly articulated by use of funds

Legal Structuring

Startups should ensure their corporate structure is compliant with applicable laws. Investors also review regulatory compliance under the Companies Act, FEMA regulations, and tax laws.

LEGAL READINESS CHECKLIST

Proper incorporation as a private limited company · Shareholder agreements in place · Cap table clarity — clean, undisputed ownership records · Intellectual property owned by the company, not founders personally

Startup India / DPIIT Recognition

Obtaining recognition under the Startup India initiative provides startups with benefits including Angel Tax exemptions and access to government programs. Many investors also prefer DPIIT-recognised startups as it confirms eligibility under government guidelines and lends credibility to the entity.

— THE PROCESS

The Startup *Fundraising Process*

Fundraising typically involves multiple sequential stages, each requiring deliberate preparation and execution.

01 Investor Preparation

Assemble all materials before approaching investors. A polished investor data room creates confidence and accelerates diligence significantly.

Pitch Deck · Financial Model · Business Plan · Data Room

02 Investor Outreach

Founders connect with investors through angel networks, accelerators, VC introductions, and industry events. Warm introductions are generally more effective than cold outreach.

03

Investor Meetings

Investors evaluate startups across multiple dimensions. Startups may need to meet several investors before securing interest from the right partner.

Team Capability · Product Differentiation · Market Opportunity · Business Model

04

Term Sheet Negotiation

Once an investor decides to proceed, a term sheet outlines the key commercial terms of the investment. Founders should take professional advice before signing.

Valuation · Board Seats · Investor Rights · Liquidation Preference

05

Due Diligence

Before finalising the investment, investors conduct detailed due diligence. Proper documentation in place significantly accelerates this stage.

Financial Records · Tax Compliance · Corporate Filings · IP Ownership · Legal Contracts

06

Closing the Investment

Once due diligence is completed, investment documents are finalised and funds are transferred. This stage involves regulatory filings that must be completed promptly.

Share Subscription Agreement · Shareholder Agreement · RBI / FEMA Filings

— COMMON MISTAKES

Fundraising Mistakes *Startups Should Avoid*

Many startups struggle with fundraising due to avoidable mistakes. Being aware of these pitfalls allows founders to address them proactively.

01

Poor Financial Planning

02

Weak Cap Table Management

03

Incomplete Compliance

04

Overvaluation

Unrealistic valuation expectations can

Approaching investors without clear financial projections or capital planning. A robust financial model is non-negotiable at any stage.	Messy or disputed cap tables create serious concerns for investors and can complicate or derail future funding rounds.	Non-compliance with corporate or tax regulations may delay or derail investments at the due diligence stage.	discourage potential investors and make down-rounds more likely in future.
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— LEGAL & REGULATORY

Key Legal & Regulatory *Considerations*

Fundraising in India is governed by several regulatory frameworks including the Companies Act, FEMA regulations, SEBI rules (for funds), and the Income Tax Act. Startups must ensure compliance with these laws to avoid regulatory issues and delays during investment execution.

SEBI AIF Regulations

Most institutional venture capital investments in India are made through funds registered under the SEBI (Alternative Investment Funds) Regulations, 2012. These funds are classified into three categories.

<p>I</p> <p>CATEGORY I AIF</p> <ul style="list-style-type: none"> — Venture Capital Funds — Angel Funds — Social Venture Funds — Infrastructure Funds <p><i>Invest in sectors considered beneficial for economic development. Most early-stage VC funds operate under this category.</i></p>	<p>II</p> <p>CATEGORY II AIF</p> <ul style="list-style-type: none"> — Private Equity Funds — Debt Funds — Fund-of-Funds <p><i>Typically invest in growth-stage companies. Do not employ leverage or complex trading strategies.</i></p>	<p>III</p> <p>CATEGORY III AIF</p> <ul style="list-style-type: none"> — Hedge Funds — Long/Short Strategy Funds <p><i>Employ complex trading strategies and may use leverage. Most startup funding comes from Category I or Category II AIFs.</i></p>
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FEMA & Foreign Investment

Foreign investments into Indian startups are governed by the Foreign Exchange Management Act, 1999 (FEMA) and related rules issued by the Reserve Bank of India. Most sectors in India allow foreign investment under the automatic route — meaning government approval is not required — but compliance obligations must still be met.

MANDATORY RBI REPORTING REQUIREMENTS

When a startup receives foreign investment, the transaction must be reported to the RBI through the FIRMS portal. Failure to comply may result in penalties under FEMA.

FORM	WHEN FILED	PURPOSE
FC-GPR	After issuing shares to foreign investors	Reports inflow of foreign investment and allotment of securities to RBI through the FIRMS portal
FC-TRS	When shares are transferred between residents and non-residents	Reports secondary transfers of securities involving foreign parties

KEY COMPLIANCE REQUIREMENTS

Startups receiving foreign investment must adhere to pricing guidelines under FEMA — shares cannot be issued at a price below the fair market value as determined under applicable RBI/SEBI guidelines. Sectoral restrictions also apply for certain business activities.

Angel Tax — Section 56(2)(viib)

One of the key tax considerations for startups raising capital from resident investors is Angel Tax under Section 56(2)(viib) of the Income-tax Act, 1961. This provision taxes the premium received by a company when shares are issued at a price higher than the fair market value determined under applicable tax rules.

WHEN DOES ANGEL TAX APPLY?

Angel Tax may apply when a startup raises funds from resident investors and the share issue price exceeds the fair market value determined under the prescribed valuation methods.

EXEMPTION FOR DPIIT-RECOGNISED STARTUPS

Startups recognised under the Startup India Initiative and approved by DPIIT may claim exemption from Angel Tax, subject to conditions including company age limits, turnover thresholds, and restrictions on certain types of investments.

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Professional advice is strongly recommended before structuring an investment round to ensure Angel Tax exemption eligibility is preserved. The conditions for exemption are specific and must be documented carefully.

ESOP Taxation in India

Employee Stock Option Plans (ESOPs) are commonly used by startups to attract and retain talent. However, ESOPs have specific tax implications for employees under the Income-tax Act, 1961.

EVENT	TAX TREATMENT	CLASSIFIED AS
Exercise of Options	Difference between FMV on exercise date and exercise price is treated as perquisite income	Taxed as Salary / Perquisite
Sale of Shares	Difference between sale price and FMV on exercise date is subject to capital gains tax	STCG or LTCG depending on holding period

— INVESTMENT STRUCTURES

Investment Instruments Used *in Startup Funding*

Startup investments in India are often structured through specific financial instruments. Understanding these instruments helps founders negotiate better investment terms and anticipate governance implications.

<p>CCPS</p> <p>Compulsorily Convertible Preference Shares</p> <p>The most common instrument used by VC investors. Must convert into equity after a specified period or upon certain events. Investors receive liquidation preference and governance rights through CCPS, providing downside protection alongside upside participation.</p>	<p>CCD</p> <p>Compulsorily Convertible Debentures</p> <p>Debt instruments that convert into equity shares after a predetermined period. Often used in early-stage funding structures with a fixed conversion timeline, and may carry an interest component in some cases.</p>	<p>CN</p> <p>Convertible Notes</p> <p>Debt instruments that convert into equity during future funding rounds. Allow startups to raise funding quickly without determining a valuation immediately. Eligible startups may issue convertible notes under the Startup India framework.</p>
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— CAP TABLE MANAGEMENT

Importance of *Cap Table Management*

The capitalisation table (cap table) reflects the ownership structure of a startup. Investors review cap tables carefully during due diligence — a clean, transparent cap table is one of the most important signals of founder discipline.

WHAT INVESTORS ASSESS IN A CAP TABLE

Founder ownership — adequate skin in the game retained post-rounds · Investor ownership — existing investor stakes and their rights · ESOP pool — allocation and unvested options · Dilution impact — how future rounds will affect all stakeholders · Any disputes or unclear ownership that create legal risk

Maintaining a clean and transparent cap table from the outset — using professional tools and keeping all agreements documented — is essential for attracting institutional investors and ensuring smooth future rounds.

— FINAL THOUGHTS

Building an *Investor-Ready Startup*

Successful fundraising requires more than a compelling idea. Startups must demonstrate financial discipline, regulatory compliance, and a scalable business model.

India's startup ecosystem continues to evolve rapidly, supported by increasing investor participation and regulatory developments. By preparing early and working with experienced advisors, founders can significantly improve their chances of raising capital and building sustainable businesses.

Founders seeking venture capital funding should prioritise transparent financial reporting, regulatory compliance, strong corporate governance, scalable business models, and a clear growth strategy. Startups that combine innovation with disciplined financial management are more likely to attract long-term investment.

DISCLAIMER

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