

India Investment Legal Due Diligence Checklist

Comprehensive legal, FEMA, RBI, startup, and investor due diligence framework for investments in Indian companies (2026 Edition)

This checklist provides a practical legal due diligence framework for investors, private equity funds, venture capital firms, startup founders, legal advisors, Company Secretaries, and compliance teams involved in investment transactions in India. The guide covers FEMA compliance, RBI reporting, startup regulatory readiness, corporate documentation review, governance checks, and red flag risk assessments.

I. FEMA Compliance Checklist

- Verify whether the sector permits foreign investment under the Automatic Route or Government Approval Route.
- Check applicable sectoral caps under Consolidated FDI Policy.
- Review compliance with FEMA (Non-Debt Instruments) Rules, 2019.
- Ensure pricing guidelines are followed for issue/transfer of shares.
- Confirm valuation reports are obtained from Chartered Accountant or SEBI Registered Merchant Banker.
- Verify downstream investment compliance for Foreign Owned or Controlled Companies (FOCCs).
- Check compliance with entry conditions such as minimum capitalization and lock-in requirements.
- Review compliance for issue of Compulsorily Convertible Securities only.
- Ensure anti-money laundering and KYC procedures are completed.
- Review any prior FEMA compounding orders or RBI notices.

II. RBI Reporting Checklist

- Verify filing of Form FC-GPR within prescribed timelines.
- Check Form FC-TRS filing for transfer of shares involving non-residents.
- Review annual FLA (Foreign Liabilities and Assets) return filings.

- Ensure LLP-I and LLP-II filings where LLP investments are involved.
- Verify reporting of downstream investments to RBI.
- Check Advance Reporting Form submissions for receipt of foreign remittance.
- Review KYC reports issued by Authorized Dealer Banks.
- Verify FIRC (Foreign Inward Remittance Certificate) availability.
- Check delays in reporting and any compounding applications filed.
- Ensure RBI acknowledgements are maintained properly.

III. Corporate & Startup Compliance Checklist

- Review Certificate of Incorporation, PAN, TAN, GST, and statutory registrations.
- Verify capitalization table and founder shareholding structure.
- Review Articles of Association (AOA) and Shareholders' Agreements (SHA).
- Check ESOP schemes and employee stock option grants.
- Verify Board and shareholder approvals for previous fundraising rounds.
- Review compliance with Companies Act filings including AOC-4 and MGT-7.
- Check statutory registers, minute books, and board resolutions.
- Review startup recognition certificates from DPIIT if applicable.
- Check intellectual property ownership and assignment agreements.
- Verify employment agreements, founder vesting, and non-compete clauses.

IV. Investor Document Review List

- Review all investment agreements and side letters.
- Check Share Subscription Agreement (SSA) and Shareholders' Agreement (SHA).
- Verify liquidation preference, anti-dilution, and exit rights.

- Review investor consent rights and reserved matters.
- Check drag-along and tag-along rights provisions.
- Review voting arrangements and board nomination rights.
- Check convertible instrument terms including CCDs and CCPS.
- Verify compliance with securities laws and private placement rules.
- Review existing debt agreements and security interests.
- Assess pending obligations to prior investors.

V. Financial & Tax Due Diligence

- Review audited financial statements for last 3–5 years.
- Check statutory auditor qualifications and remarks.
- Verify pending tax demands, GST notices, and assessments.
- Review transfer pricing compliance for related party transactions.
- Check outstanding contingent liabilities and guarantees.
- Assess revenue recognition policies and cash flow stability.
- Verify compliance with TDS, PF, ESI, and labor laws.
- Review historical fundraising utilization and burn rate.
- Check pending litigation impacting financial position.

VI. Litigation & Regulatory Risk Assessment

- Review all ongoing litigation, arbitration, and regulatory proceedings.
- Check notices from SEBI, RBI, MCA, GST, Income Tax, or labor authorities.
- Review employment disputes and founder conflicts.
- Verify environmental, cybersecurity, and data privacy compliance.

- Assess risks related to consumer complaints and product liability.
- Review anti-bribery and anti-corruption policy implementation.
- Check compliance with Prevention of Sexual Harassment (POSH) requirements.

VII. Governance & Board Due Diligence

- Review board composition and independence.
- Verify proper conduct of board and shareholder meetings.
- Check committee constitution including Audit and NRC committees.
- Assess whistleblower and vigil mechanism effectiveness.
- Review related party transaction approvals and disclosures.
- Check insider trading compliance where applicable.
- Assess governance culture and promoter control risks.

VIII. Startup-Specific Red Flag Assessment Framework

- Founder disputes or lack of vesting arrangements.
- Unclear IP ownership or missing assignment deeds.
- Excessive dependence on a single customer or supplier.
- Regulatory non-compliance or delayed statutory filings.
- Weak accounting systems or poor financial controls.
- Unrecorded side agreements with investors or founders.
- Frequent management exits or employee attrition.
- Improper ESOP documentation or cap table inconsistencies.
- Significant related party transactions benefiting promoters.
- Revenue inflation or aggressive valuation assumptions.

IX. Data Room & Documentation Readiness

- Maintain organized digital data room with categorized folders.
- Ensure all contracts are signed and updated.
- Upload statutory filings, licenses, and tax returns.
- Maintain updated cap tables and shareholder records.
- Archive board minutes, resolutions, and compliance certificates.
- Provide litigation summaries and regulatory correspondence.
- Maintain ESG, cybersecurity, and privacy policy records.

X. Investment Closing & Post-Investment Checklist

- Obtain board and shareholder approvals for investment closing.
- Complete issuance and allotment formalities.
- File PAS-3 and update Register of Members.
- Complete FEMA and RBI reporting obligations post-closing.
- Execute definitive agreements and ancillary documents.
- Update cap table and share certificates.
- Monitor investor rights compliance post-investment.
- Establish governance reporting framework for investors.

XI. Best Practices for Investors & Startups

- Conduct independent legal, financial, and tax due diligence.
- Use experienced legal counsel and Company Secretaries.
- Maintain transparent communication with investors.
- Implement strong internal controls and compliance systems.
- Regularly update corporate records and filings.

- Adopt governance and ESG best practices early.
- Create compliance calendars and automated reminders.
- Prepare for future funding rounds through organized documentation.

XII. Suggested Due Diligence Timeline

Stage	Activities
Preliminary Review	Corporate records, basic compliance checks, NDA execution
Detailed Due Diligence	Legal, FEMA, financial, tax, governance, and litigation review
Risk Assessment	Identification of red flags and mitigation strategies
Documentation	Negotiation and execution of definitive agreements
Closing	Approvals, fund transfer, allotment, and filings
Post-Investment	Governance monitoring and compliance tracking

Conclusion: Legal due diligence is a critical risk-management process for investments in India. A well-structured due diligence exercise covering FEMA, RBI reporting, corporate governance, financial health, litigation exposure, and startup operational readiness helps investors identify material risks, negotiate stronger protections, and ensure regulatory compliance. Companies with organized documentation, strong governance frameworks, and proactive compliance systems are better positioned to attract investment and scale sustainably.