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The Ultimate Guide on

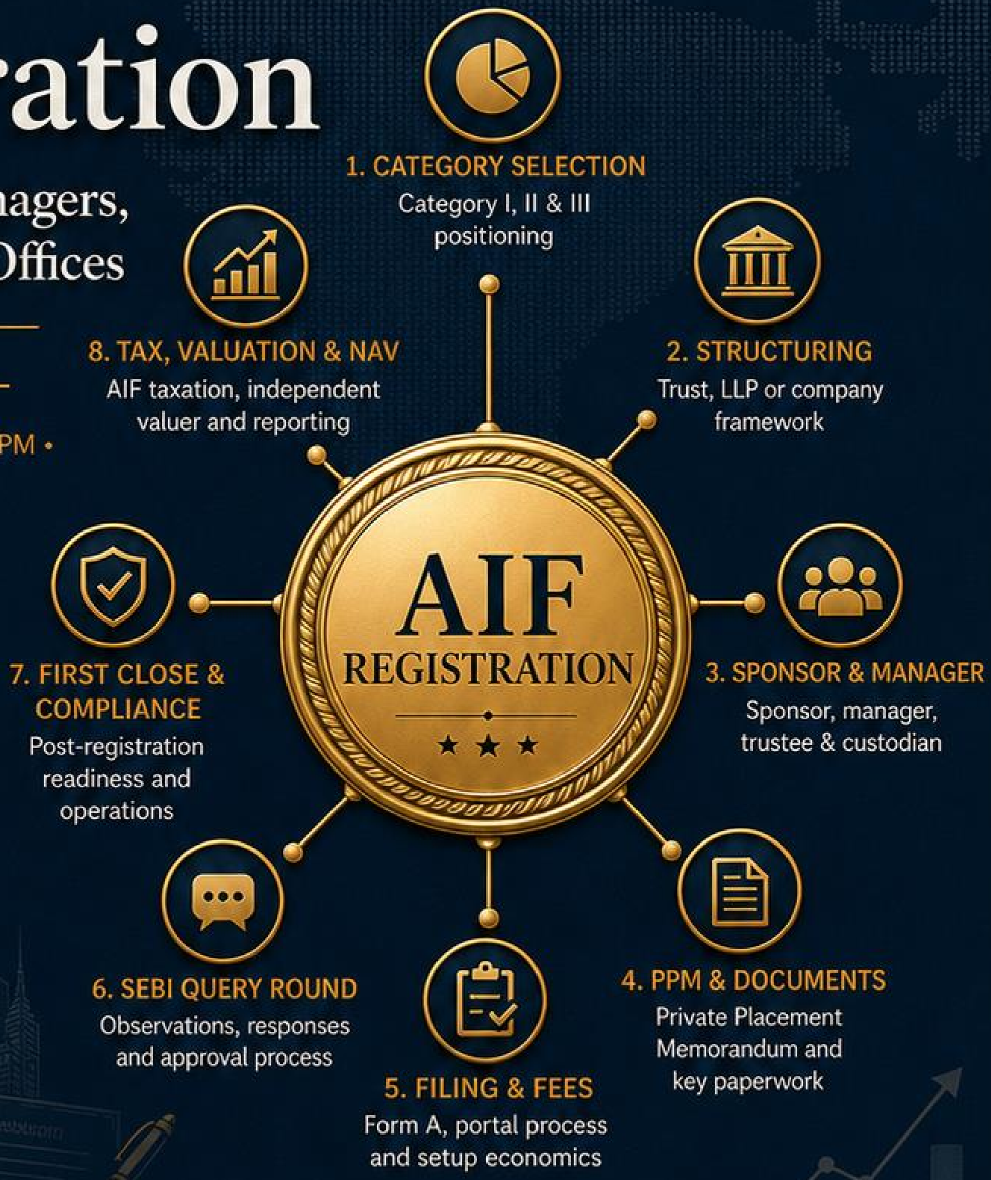
AIF Registration

for Indian Fund Managers, Sponsors & Family Offices

— GUIDE 2026 —

Category Selection • Structuring • PPM • Filing • First Close • Tax • Valuation

A practitioner-focused handbook covering AIF structuring, category selection, PPM drafting, filing mechanics, registration strategy, first-close readiness, taxation, valuation and ongoing compliance under India's AIF framework.



BY

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First Edition | 2026

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Sagar Shah is the Founder of Elite Valuation and leads the firm's Valuation and Advisory practice. A Chartered Accountant (All India Rank Holder), Company Secretary and IBBI Registered Valuer, he brings 15+ years of professional experience advising promoters, investors, listed companies, startups and multinational groups on complex valuation and transaction matters across India.

Before founding Elite Valuation, he spent 9 years at Ernst & Young across valuation, transaction advisory, transfer pricing and cross-border taxation. His work today spans financial reporting, M&A and restructurings, intangible assets, ESOPs, FEMA, AIFs, securities, financial modelling and other regulator-facing assignments where the valuation must stand up to scrutiny from auditors, regulators, investors and boards.

EXPERIENCE	CLIENT BASE	CREDENTIALS	BIG 4 FOUNDATION
15+ Years	**500+ Client Engagements**	**CA | CS | IBBI RV**	**9 Years at EY**

VALUATION & ADVISORY EXPERTISE

- Business & Company Valuation
- M&A, Merger, Swap Ratio & PPA Valuation
- Intangible Asset, Brand, Patent & IP Valuation
- ESOP, Sweat Equity & Share-Based Payment Valuation
- Ind AS / Financial Reporting Valuation
- Shares, Securities & Complex Instrument Valuation
- FEMA, FDI / ODI & Cross-Border Valuation
- Income Tax, Companies Act & SEBI Valuation
- AIF Valuation, Structuring & Compliance Support
- ESOP Structuring, Scheme Design & Implementation
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence, Transfer Pricing & Cross-Border Advisory

Practice focus. Elite Valuation is built for assignments where financial judgement, regulatory interpretation and transaction context intersect. The team supports both one-time transactions and recurring reporting requirements, with an emphasis on independent analysis, clear documentation and execution that is practical for management and audit teams.

HOW WE APPROACH ENGAGEMENTS

01	02	03	04
Clarify the purpose We start with the reporting, transaction or regulatory objective before selecting a method.	**Build from evidence** Assumptions are anchored to financials, market data, contractual terms and the economics of the business.	**Document the judgement** The report explains the why behind the number so that reviewers can follow and challenge it.	**Stay involved through review** We support management through auditor, board, investor and regulator questions on the valuation.

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WHAT WE DO

Elite Valuation supports fund managers across the AIF lifecycle, but the firm is not limited to fund registration. Our wider practice covers valuation, M&A, ESOP, intangible assets, financial reporting, FEMA, tax and transaction advisory. This breadth matters because an AIF mandate frequently touches portfolio valuation, sponsor economics, cross-border structuring, financial modelling and transaction execution at the same time.

01 AIF Registration & Category Assessment

Category I, II and III assessment, vehicle selection and end-to-end SEBI registration support through filing, observations and certificate.

02 Fund Structuring & PPM Advisory

Trust / LLP / company structuring, PPM review, contribution economics, investment restrictions, side-letter consistency and Merchant Banker coordination.

03 AIF Valuation & NAV Support

Independent portfolio valuation, NAV support and recurring valuation processes for unlisted equity, private credit, real estate and other illiquid holdings.

04 AIF Compliance & First-Close Readiness

Post-registration implementation, service-provider onboarding, compliance calendars, PPM audit readiness, investor onboarding and first-close support.

05 Business & Company Valuation

Independent enterprise and equity valuation for strategic, transaction, regulatory and shareholder purposes.

06 M&A, Merger & Swap Ratio Valuation

Acquisition, merger, demerger, restructuring, share-exchange ratio and transaction valuation support.

07 Intangible Asset & IP Valuation

Brand, customer relationship, technology, patent, copyright, licence and other intellectual-property valuation.

08 ESOP & Share-Based Payments

ESOP valuation, ordinary-share value, grant-date fair value, scheme support and Ind AS 102 assistance.

09 PPA & Ind AS Valuation

Purchase price allocation, impairment, financial instruments and other fair-value measurements for financial reporting.

10 FEMA & Cross-Border Valuation

FDI / ODI, cross-border issue and transfer valuation, pricing certificates and transaction-structure inputs.

11 Income-tax, Companies Act & SEBI Valuation

Independent valuation for statutory, tax, securities and transaction-specific requirements.

12 Financial Modelling & Transaction Advisory

Investor-ready models, due diligence, fundraising support, scenario analysis and execution-focused transaction advisory.

One team, multiple contexts. *A fund-registration question can quickly become a valuation, tax, FEMA, modelling or transaction question. We scope the work around the fund and the sponsor rather than treating registration as an isolated filing exercise.*

REGISTRATION	VALUATION	ADVISORY	REVIEW SUPPORT
Structuring, Form A & query management	**Portfolio & NAV opinions**	**Fund economics & transaction inputs**	**SEBI / investor / auditor questions**

WHO WE SERVE

We work with first-time and established fund managers, sponsors, trustees, investment teams, family offices and professional advisers across India. Clients typically involve us before the structure is locked, while the PPM is being drafted, during a SEBI observation round, before first close, or when portfolio valuation and ongoing reporting need a defensible operating process.

CLIENTS & STAKEHOLDERS

- First-time AIF sponsors and promoter groups
- Private equity and venture capital managers
- Private credit and special-situations managers
- Category III / long-short and market-linked managers
- Family offices admitting external capital
- Angel, venture and early-stage investment platforms
- CFOs, COOs and finance teams of fund managers
- Trustees, custodians and fund administrators
- Legal counsel and company secretaries
- Merchant bankers and compliance advisers
- Domestic and offshore institutional investors
- Listed groups and corporate houses launching funds

WHEN CLIENTS TYPICALLY CALL US

STRUCTURE Category, trust / LLP / company choice, sponsor-manager architecture or GIFT IFSC comparison	**PPM** Strategy, restrictions, fees, carry, conflicts or contribution agreement consistency	**SEBI FILING** Form A, ownership chain, fit-and-proper declarations, NISM or observation-response management
FIRST CLOSE Service-provider onboarding, investor documents, accounts, compliance calendar and launch readiness	**VALUATION** Independent portfolio valuation, NAV, unlisted equity, private credit or illiquid asset measurement	**ONGOING** PPM audit, regulatory reporting, material changes, benchmarking, depository reporting or fund governance

SECTORS & STRATEGIES WE ENCOUNTER

Private Equity	**Venture Capital**	**Private Credit**	**Special Situations**	**Real Estate**
Infrastructure	**Long-Short Equity**	**Angel / Early Stage**	**Fund of Funds**	**Family Office Strategies**

WHY CLIENTS WORK WITH US

Senior involvement on judgement-heavy issues	**AIF registration and valuation capability in one practice**	**Regulatory, valuation and transaction perspectives combined**	**Documentation designed to withstand later scrutiny**

START A CONVERSATION

If you are still deciding the category, drafting the PPM, preparing to file, responding to SEBI, approaching first close or setting up the valuation and NAV process, an early conversation is usually more useful than a late correction. Send us the fund summary, draft PPM, ownership chart or SEBI observation and we can help identify the next practical step.

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DISCLAIMER

This guide is provided for general information and educational purposes only. It does not constitute legal, tax, regulatory, investment, accounting or other professional advice. The Alternative Investment Fund framework is frequently amended, and the application of the regulations depends on the category, legal form, investor base, ownership structure, investment strategy and facts of each fund. Readers should obtain advice tailored to their circumstances before acting.

Regulatory Position and Publication Date

This edition has been reviewed against the SEBI (Alternative Investment Funds) Regulations, 2012 as last amended on 14 July 2026, the Master Circular for AIFs dated 3 June 2026, and material AIF circulars available up to 20 August 2026. In particular, SEBI introduced the GARUDA mechanism for processing placement memoranda on 30 July 2026. Because circulars, FAQs and operational portal requirements can change without a new edition of this guide, current primary sources should always be checked before a filing or transaction is executed.

Scope of the Guide

The guide focuses on Indian AIF registration, fund structuring, application mechanics, first-close readiness, taxation, valuation and recurring compliance from a practitioner perspective. Examples, costs, timelines and case studies are simplified and illustrative. They are intended to explain the decision process, not to represent a guaranteed regulatory outcome or any actual client engagement.

Professional and Regulatory Use

A document, valuation, declaration or analysis prepared for one purpose may not automatically satisfy another. SEBI registration, PPM disclosure, tax treatment, FEMA, Companies Act, accounting and investor-contract requirements should be analysed separately even where they arise in the same fund or transaction. Eligibility, signatory and timing requirements should be confirmed at the date of use.

Market Data and Illustrations

Industry statistics are based on published SEBI information identified in the guide. Illustrative cost ranges, timelines and commercial examples are indicative and may vary materially by service provider, state, fund strategy, investor mix, cross-border complexity and the nature of regulatory observations.

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PART I - FOUNDATIONS

Chapter 1: The AIF Landscape and Why Registration Matters

India's alternative investment industry has stopped being a niche. Total commitments raised by SEBI-registered Alternative Investment Funds crossed Rs. 16.94 Lakh Crore by the quarter ended 31 March 2026, against Rs. 13.49 Lakh Crore a year earlier and roughly Rs. 6.4 Lakh Crore at the end of March 2022. Funds actually raised crossed Rs. 7 Lakh Crore for the first time, and deployed investments reached approximately Rs. 6.76 Lakh Crore. In under four years the industry has more than doubled.

That growth is the reason this guide exists. Capital of that scale attracts two things simultaneously: new sponsors who want to launch funds, and a regulator that becomes progressively more precise about who is permitted to manage other people's money. The framework continued to move through 2026: SEBI issued the consolidated Master Circular for AIFs on 3 June 2026; the AIF Regulations were further amended on 14 July 2026; and on 30 July 2026 SEBI introduced the GARUDA mechanism for processing placement memoranda. The current consolidated text and operative circulars should therefore be checked at the time of every filing.

What an AIF Actually Is

Regulation 2(1)(b) defines an Alternative Investment Fund as any privately pooled investment vehicle, established or incorporated in India, which collects funds from investors - Indian or foreign - for investing in accordance with a defined investment policy for the benefit of those investors. Three elements in that definition do the heavy lifting, and each one is a gate.

- Privately pooled. Capital must be raised by private placement. Any public solicitation - an open

website subscription form, a mass mailer, a social media campaign inviting investment - takes the vehicle outside the AIF framework and into collective investment scheme territory.

- Established in India. The vehicle itself must be an Indian trust, limited liability partnership or

company. An offshore fund investing into India is not an AIF; it is a foreign portfolio investor or a foreign direct investor, governed by an entirely different rulebook.

- Defined investment policy. This is where most first-time applications stumble. A defined

investment policy is not a sentence about seeking attractive risk-adjusted returns. It is a specific statement of sectors, instruments, stage, geography and ticket size. Regulation 3(1) then makes registration mandatory: no entity or person may act as an Alternative Investment Fund unless it holds a certificate of registration from SEBI. There is no de minimis exemption for a small fund and no grace period for a fund that intends to register later. Family trusts, employee welfare trusts, holding companies and securitisation vehicles sit outside the definition; pooled vehicles that raise third-party capital do not.

INDUSTRY SNAPSHOT - 31 MARCH 2026	
Category	**Share of commitments**
Category II AIFs	75.2%
Category III AIFs	18.6%
Category I AIFs	6.2%

Total commitments: approximately Rs. 16.94 Lakh Crore. Source: SEBI quarterly AIF data; source draft notes the Category I share as indicative.

Why Sponsors Register - and Why Some Should Not

Registration is expensive, slow and permanent in its compliance consequences. It is worth being honest about when it is justified. The four situations where registration genuinely earns its cost are: pooling third-party capital where the manager takes a fee or carry; institutionalising a family office so that external LPs can be admitted; using the statutory investment-fund pass-through for qualifying Category I and II AIFs under section 224 of the Income-tax Act, 2025; and building a track record that domestic institutional allocators will recognise.

Conversely, a sponsor deploying only proprietary capital, or investing alongside three friends with no fee arrangement, is usually better served by a simple holding company or an unregistered private trust. The compliance load of a registered AIF - half-yearly reporting, benchmarking submissions, annual PPM audit, valuation obligations, custodian and dematerialisation requirements - is not proportionate to a Rs. 15 Crore proprietary book.

OUR INSIGHT

The question we ask every prospective sponsor in the first meeting is not "which category do you want" but "whose money is this, and what are you charging them for it?" The answer to that determines everything downstream - the category, the vehicle, the tax profile and, frankly, whether registration is appropriate at all. We have advised at least four sponsors over the years to abandon an AIF application entirely, because their capital was proprietary and the structure was solving a problem they did not have. That advice costs me a fee. It saves them a decade of compliance they never needed.

The Registration Certificate Is Permanent - The Obligations Are Too

The certificate granted under Regulation 10 is valid for the lifetime of the AIF. There is no renewal cycle and no periodic re-application. This is often presented as a convenience, and it is, but it carries a corollary that sponsors underestimate: the obligations attached to that certificate also run for the lifetime of the fund, and they begin from the date of registration, not from first close. A fund that registers in March and does not raise a rupee until the following December is still a regulated entity for those nine months.

The 2026 amendments introduced the concept of an "inoperative fund" under Regulation 29, giving SEBI a formal mechanism to classify dormant vehicles. Sponsors who register speculatively - securing a certificate before the fundraise thesis is proven - should read that development as a signal. The regulator is paying attention to registered funds that never actually operate.

PRO TIP

Before you spend a rupee on structuring, write a one-page investment policy statement covering six fields: sectors, instrument types, stage of investee company, geography, ticket size range and the specific basis on which the team expects to generate returns. If you cannot complete all six fields without hedging, you are not ready to file. This same page will later become the spine of your Form A, your Private Placement Memorandum and your first investor conversation - and any inconsistency between those three documents is the single most common trigger for a SEBI query.

What Falls Outside the AIF Net

Because registration is mandatory and the definition is broad, it is worth being precise about what is excluded. The exclusions matter in two directions: a sponsor may be relieved to find their vehicle outside the perimeter, and a sponsor operating an existing pooled arrangement may be alarmed to find they are inside it.

Vehicle	Position	The distinguishing feature
Family trust	Outside	Established for the benefit of relatives of the settlor; no third-party pooling.
Employee welfare, gratuity or ESOP trust	Outside	Established for employees, not for investment return to external contributors.
Holding company	Outside	Holds investments on its own account rather than pooling third-party capital.
Securitisation trust or SPV	Outside - separately regulated	Governed under the applicable securitisation and RBI framework.
Mutual fund or collective investment scheme	Outside - separately regulated	Publicly offered; governed by their own SEBI regulations.
Informal investor syndicate pooling capital for fees or carry	Inside	Third-party capital, defined strategy and manager economics - the AIF test is met.
Family office admitting external investors	Inside	Once capital is accepted from beyond the family, private pooling begins.

Table 1: Vehicles inside and outside the AIF perimeter. The last two rows describe the arrangements most likely to require regularisation.

The final two rows deserve emphasis. A number of informal syndicates and angel groups operating in India accept capital from participants who are not family, deploy it against a stated thesis, and take a share of the upside. That is an Alternative Investment Fund by definition, whatever the arrangement is

called internally, and Regulation 3(1) does not contain an exception for informality or small scale. Sponsors in that position should take advice on regularisation rather than waiting to be asked.

A Note on Reading the Rulebook

One practical skill separates advisers who navigate this framework efficiently from those who do not: knowing which source governs a given question. The AIF rulebook is not a single document, and the sources are not of equal weight.

- The Regulations. The SEBI (Alternative Investment Funds) Regulations, 2012, as amended, are the

primary source. Eligibility, categories, minimum corpus, continuing interest and investment restrictions are found here. Always read the current consolidated text rather than the 2012 original.

- The Master Circular. The consolidated circular issued on 3 June 2026 supersedes the previous

edition of 7 May 2024 and gathers every operative circular and clarification into twenty-five chapters. Reporting formats, PPM templates, due diligence certificate formats and valuation guidance live here. This is the document most practitioners work from day to day.

- The FAQs. SEBI's frequently asked questions on AIFs carry significant practical weight even though

they are not law. Several of the most consequential filing requirements - including the extension of the disciplinary history declaration to 10-per-cent controllers and current portal fee and payment mechanics - originate in FAQ updates rather than in the regulations.

- Informal guidance and orders. SEBI's informal guidance letters and published orders show how

the regulator has applied the framework to specific facts. They are persuasive rather than binding, but on a contested category question they are frequently the most useful material available. The hierarchy matters because commentary ages badly in this area. A blog post accurately describing the angel fund framework in 2024 is actively misleading in 2026, and a checklist compiled against the 2024 Master Circular will omit requirements introduced since. Verify against the primary sources, and note the date of every secondary source you rely on - including this one.

How This Guide Is Organised

The chapters that follow move in the order a real engagement moves. Part I establishes the framework and the category decision. Part II covers structuring - the vehicle, the parties and the eligibility tests.

Portal, the full cost budget, and the query rounds that determine whether an application takes ninety days or ninety weeks. Part IV addresses what happens after the certificate arrives - first close, tax, and the valuation and NAV reporting obligations that recur for the life of the fund.

Case Study: When a Family Office Crosses the AIF Perimeter

A family investment office manages only promoter-family capital through a private holding structure. It now proposes to admit four unrelated business families, pool their commitments under one investment thesis and charge a recurring management fee plus performance-linked carry. The commercial activity has changed even if the internal label has not: the relevant questions are now whether third-party money is being pooled, whether investment decisions are made under a defined policy, and whether the manager is being remunerated for managing that pool.

The practical lesson is to run the regulatory-perimeter test before drafting the vehicle documents. A structure designed for proprietary family capital can become a very different regulated proposition the moment external contributors and manager economics are introduced.

Question	If Yes, What It Signals
Is capital coming from persons outside the family / promoter group?	Third-party pooling requires a fresh perimeter analysis.
Will one manager deploy the pool under a common investment policy?	The arrangement has fund-like characteristics.
Will the manager earn a management fee or carry?	Manager economics reinforce the pooled-investment character.
Is the capital purely proprietary with no outside contributors?	A simpler proprietary structure may remain more appropriate.

AIF Perimeter - Five Questions Before You Structure

Before choosing a vehicle, confirm that the proposed arrangement actually sits inside the AIF perimeter. These questions force the commercial facts to the surface.

- Is capital being pooled from persons outside the sponsor / promoter family or proprietary group?
- Will one Manager deploy that pool under a common investment policy rather than investor-by-investor instructions?
- Will investors participate economically in a pooled portfolio rather than hold identified assets directly?
- Will the Manager or Sponsor earn management fee, carry or another return linked to managing the pool?
- Is there any other SEBI / RBI regulated structure that more accurately describes the activity?

PRACTITIONER'S CHECKLIST

- Confirm that the proposed arrangement is actually within the AIF perimeter before incorporating a fund vehicle.
- Write the investment policy in six fields: sector, instrument, stage, geography, ticket size and return basis.
- Use the current consolidated AIF Regulations and Master Circular, not an old checklist or blog post.
- Do not register speculatively without a credible fundraising thesis and operating plan.
- Map post-registration obligations before assuming the certificate is the end of the process.

PART I - FOUNDATIONS

Chapter 2: Decoding the Three Categories

The category decision is the single most consequential choice in an AIF registration, and it is made before the first document is drafted. It determines what the fund may invest in, whether it may borrow, whether it receives statutory tax pass-through, how much continuing interest the sponsor must commit, what the registration fee is, and how intensively SEBI will scrutinise the strategy description. Getting it wrong does not produce a polite correction; it produces an application that cycles through query rounds until the applicant is effectively asked to re-categorise and re-file.

THE AIF CATEGORY TAXONOMY		
Category I - economic / social focus	**Category II - residual non-leveraged category**	**Category III - complex / leveraged strategies**
Venture Capital Funds; Angel Funds; SME Funds; Social Impact Funds; Infrastructure Funds; Special Situation Funds	Private Equity; private credit / debt; real estate; funds of funds; other strategies that are neither Category I nor Category III	Long-short equity; hedge / absolute-return strategies; PIPE and other complex trading strategies; leverage permitted subject to the regulatory framework

Category selection should be tested against the actual instruments, restrictions and use of leverage - not merely the commercial label of the fund.

Category I: Funds SEBI Wants to Encourage

Category I covers funds investing in sectors the government or regulators consider economically or socially desirable: start-ups and early-stage ventures, small and medium enterprises, infrastructure, and social impact. These funds receive certain concessions and, in specific sub-categories, relaxed thresholds. Angel Funds sit within Category I and operate under a materially different set of rules from the rest of the framework.

The angel fund framework was substantially rewritten in 2025. Continuing interest moved from a corpus-level percentage to a deal-level commitment of 0.5 per cent of each investment or Rs. 50,000, whichever is higher. The minimum corpus for an angel fund is Rs. 10 Crore against Rs. 20 Crore for other categories, and angel funds are exempt from the per-scheme filing fee. The SEBI (AIF) Amendment Regulations, 2026 further revised the investor-count threshold under Regulation 10(c). Any sponsor considering an angel fund should treat pre-2025 commentary as unreliable.

Category II: The Residual Category That Holds the Industry

Category II is defined negatively. It is any AIF that does not fall in Category I or III, does not undertake leverage or borrowing other than to meet day-to-day operational requirements, and is not permitted to engage in complex trading strategies. Private equity funds, growth funds, private credit and debt funds, real estate funds, distressed asset funds and funds of funds all live here.

This residual character is precisely why Category II holds roughly three-quarters of industry commitments - Rs. 12.74 Lakh Crore as at 31 March 2026 - and why it accounted for more than 92 per cent of the quarterly increase in commitments during Q4 FY26. It is also why the category boundary is contested. A fund with a credit book and a meaningful equity sleeve, or one that uses derivatives for anything beyond genuine hedging, is exposed to the argument that it belongs in Category III.

Category III: Complexity, Leverage and Fund-Level Tax

Category III covers funds that employ diverse or complex trading strategies and may use leverage, including through derivatives. Long-short equity, absolute-return and other trading-oriented strategies commonly sit here. Category III remains operationally and tax-wise distinct, including its leverage framework and absence of the Category I / II statutory pass-through. Separately, the 2024 amendment to Regulation 20 made appointment of a SEBI-registered custodian a requirement for AIFs generally; the old Rs. 500 Crore threshold for Category I / II should no longer be used as the appointment test.

Category III has been the fastest-growing segment, with commitments rising to roughly Rs. 3.15 Lakh Crore by March 2026 from Rs. 2.30 Lakh Crore a year earlier. That growth reflects genuine appetite for market-linked strategies among domestic high net worth investors, not a drift of private equity capital into the category.

Parameter	Category I	Category II	Category III
Registration fee	Rs. 5,00,000 (Rs. 2,00,000 for Angel Funds)	Rs. 10,00,000	Rs. 15,00,000
Minimum corpus per scheme	Rs. 20 Crore (Rs. 10 Crore - Angel Funds)	Rs. 20 Crore	Rs. 20 Crore
Minimum investment per investor	Rs. 1 Crore	Rs. 1 Crore	Rs. 1 Crore
Sponsor continuing interest	2.5% of corpus or Rs. 5 Crore, lower	2.5% of corpus or Rs. 5 Crore, lower	5% of corpus or Rs. 10 Crore, lower
Leverage	Not permitted	Operational borrowing only	Permitted, with limits
Tax treatment - Income-tax Act, 2025	Section 224 investment-fund framework applies, subject to detailed income-character rules	Section 224 investment-fund framework applies, subject to detailed income-character rules	No Category I / II section 224 pass-through; separate fund-level analysis required
Custodian	Mandatory - SEBI-registered custodian	Mandatory - SEBI-registered custodian	Mandatory - SEBI-registered custodian
Close-ended requirement	Yes	Yes	May be open-ended

Table 2: Category comparison across the parameters that drive the structuring decision. All fees are exclusive of GST.

OUR INSIGHT

The most expensive mistake we see is a sponsor selecting the category from a textbook definition rather than from their own term sheet. In one engagement, a manager had described the fund internally as a "flexible credit and special situations vehicle" and applied under Category II. The draft PPM permitted derivative positions for what the team called portfolio protection, and allowed up to a third of the corpus in listed equity. SEBI read that combination as complex trading strategy. Two query rounds later the application was effectively re-categorised. The remedy was not a better argument - it was narrowing the mandate to what the team actually intended to do, which was lending.

How to Make the Category Decision Correctly

Work backwards from the instruments, not forwards from the label. Take the twenty investments the fund realistically expects to make in its first three years and list, for each, the instrument type and whether any derivative overlay or borrowing is contemplated. If every instrument is equity or quasi-equity in unlisted companies at an early stage, Category I venture capital is available. If the book is a mix of unlisted equity, structured debt and mezzanine paper with no leverage, Category II is correct. If the strategy requires short positions, leverage or derivative exposure as a source of return rather than as a hedge, it is Category III and there is no argument to the contrary worth making.

PRO TIP

Draft the investment restrictions section of your PPM before you select the category, not after. Write down what the fund is prohibited from doing - no leverage beyond thirty days of operational borrowing, no derivative positions other than currency hedges on offshore commitments, no more than ten per cent of investable funds in a single investee company. If those restrictions are ones you are genuinely willing to live with for the life of the fund, Category II is defensible. If you find yourself wanting to carve exceptions, you are describing a Category III fund and should file as one, accept the higher fee, and structure for fund-level tax from the outset.

One further consideration deserves flagging at this stage: the category selection interacts with the tax outcome in a way that can dominate the economics. A private credit strategy generating interest income has materially different after-tax investor returns depending on whether it sits in Category II with pass-through treatment or in Category III with fund-level taxation. That interaction is modelled in Chapter 11, but it should inform the category decision from the first conversation rather than being discovered afterwards.

Category Boundary Red Flags

A category memo should not merely state the conclusion. It should record the features that could push the strategy across a boundary and how the PPM restricts them.

- Derivatives are used as a source of return rather than solely for a permitted hedge.
- Borrowing is expected to recur or persist beyond the narrow operational-borrowing framework.
- The mandate uses labels such as flexible, absolute return, tactical or special situations without instrument-level limits.
- The strategy requires exceptions to the concentration, leverage or investment restrictions written into the draft PPM.
- The tax model assumes Category II pass-through while the investment mechanics look economically like Category III.

PRACTITIONER'S CHECKLIST

- Test the category against the investments the fund actually expects to make, not the marketing label.
- Model leverage, derivative use and investment restrictions before deciding between Category II and III.
- Calculate sponsor / manager continuing interest under the correct category rules.
- Model after-tax returns by category before finalising the structure.
- Document why the selected category fits and what the fund is expressly prohibited from doing.

PART II - STRUCTURING THE FUND

Chapter 3: Choosing the Legal Vehicle - Trust, LLP or Company

Regulation 4 permits an AIF to be established or incorporated in India as a trust, a limited liability partnership or a company. In practice the overwhelming majority of registered AIFs are trusts, and there are sound reasons for that dominance - but the default should still be examined rather than assumed, because the vehicle choice drives governance, tax mechanics, investor admission flexibility and the document set SEBI will demand at registration.

VEHICLE SELECTION - DECISION MATRIX

Dimension	Trust	LLP	Company
Legal basis	Indian Trusts Act, 1882 / applicable State trust law	LLP Act, 2008	Companies Act, 2013
Formation	Registered trust deed; deed expressly enables AIF activity and manager appointment.	Incorporated with MCA; LLPIN issued; LLP agreement includes fund-management objects.	Incorporated with MCA; MoA must permit AIF / fund activity; board approvals apply.
Governance	Independent trustee holds fund assets; manager acts under an investment management agreement.	Designated partners bear statutory responsibility; no separate trustee layer.	Full Companies Act governance - board, statutory audit and corporate filings.
Investor admission	Highly flexible: contribution agreements admit investors without amending the trust deed.	Each new investor becomes a partner, requiring LLP agreement amendment and MCA filing.	Share issuance / private-placement mechanics apply in parallel.
Best suited to	Most third-party capital funds, especially multiple closes and institutional LPs.	Small closed groups of known investors with limited rolling admissions.	Rare - usually where a corporate group requires a corporate vehicle.

Figure 3: The three permitted vehicles under Regulation 4, compared on the dimensions that actually change the answer.

Why the Trust Structure Dominates

The trust wins on investor admission mechanics. A fund raising capital in multiple closes over twelve to eighteen months needs to admit investors repeatedly without amending its constitutional document each time. A trust achieves this through contribution agreements executed between the trustee and each contributor; the trust deed itself remains untouched. An LLP cannot do this cleanly - every new investor becomes a partner, requiring an amendment to the LLP agreement and a filing with the Ministry of Corporate Affairs. For a fund with forty investors admitted across four closes, that is forty amendments.

The trust also separates custody of assets from management of assets in a way that institutional investors recognise and that SEBI expects. The trustee holds the fund property for the benefit of the contributors; the investment manager, appointed under a separate investment management agreement, makes investment decisions. This separation is not cosmetic. SEBI verifies trustee independence directly, and the same person or entity cannot act as both sponsor and trustee.

Drafting the Trust Deed - Where Applications Get Delayed

The trust deed is the document SEBI reads first, and objects-clause problems are a recurring cause of avoidable delay. Two failure modes appear repeatedly.

The first is a deed drafted too narrowly. A trust deed stating only that the trustee shall make investments for the benefit of the beneficiaries, without any reference to the AIF framework, will draw a query asking for the deed to be amended. The deed must expressly state that the trust is established to operate as an Alternative Investment Fund under the SEBI (Alternative Investment Funds) Regulations, 2012, and must contain enabling provisions covering the fund's contemplated investment activities, the appointment of an investment manager, the issuance of units, the admission of contributors, and distribution waterfalls.

The second is a deed drafted too broadly. A trust deed listing a long schedule of unrelated permitted activities - property holding, lending, trading, consultancy - alongside fund management raises the question of whether the entity is genuinely operating exclusively as an AIF. Amending a registered trust deed mid-application costs three to six weeks including re-registration at the sub-registrar and re-execution of stamped counterparts. It is far cheaper to get the objects clause right the first time.

OUR INSIGHT

We ask to see the draft trust deed before it is registered, every time, without exception. The stamp duty is paid, the deed is registered with the sub-registrar, and then three weeks later SEBI asks for an amendment - that sequence has cost clients more time than any other single issue in our AIF practice. The deed is a twenty-page document and a careful read takes an afternoon. Re-doing it takes a month and a second round of stamp duty. In one matter the sub-registrar's office in the relevant state had a six-week backlog for registration appointments, which turned a drafting oversight into a two-month delay on a fund that had already soft-circled Rs. 180 Crore of commitments.

The Investment Manager Is a Separate Entity

Whichever vehicle is chosen for the fund, the investment manager must be incorporated separately - almost always as a private limited company or an LLP. The manager and the AIF are treated as distinct legal entities throughout the registration process, with separate document sets, separate declarations and separate financial statements. The manager's constitutional document must explicitly include fund management or investment management within its objects. A memorandum of association that does not is a routine query trigger, and one that is entirely preventable at incorporation.

Sponsors frequently ask whether the sponsor and the manager can be the same entity. They can. SEBI permits this, and it is common where an established corporate group is both funding the continuing interest and running the investment team. Where they are the same entity, both sets of documents - sponsor identity, manager identity, net worth certification and financial statements - must still be furnished for that single entity. The trustee, by contrast, must be independent and cannot be an associate of either.

The GIFT IFSC Alternative

For funds whose investor base is predominantly offshore, a fund set up in the GIFT City International Financial Services Centre under the IFSCA Fund Management Regulations is a genuine alternative rather than a variation. It is a different regulator, a different registration process, a different tax regime and a different operating cost base. The IFSC route offers a materially faster and lighter authorisation process and significant tax concessions for non-resident investors, but it requires a physical presence in the IFSC and a registered Fund Management Entity.

The decision usually resolves on investor geography. A fund raising primarily from Indian resident high net worth individuals and family offices belongs onshore under the SEBI AIF Regulations, because the pass-through and the domestic investor familiarity outweigh the IFSC concessions. A fund raising primarily from offshore institutional capital should model both routes before committing. Attempting a hybrid - an onshore AIF with a substantial offshore feeder - introduces FEMA, Press Note 3 and downstream investment considerations that are addressed in Chapter 5.

PRO TIP

Run a three-column comparison before you incorporate anything: onshore trust, onshore LLP and GIFT IFSC. Populate each column with five numbers - total setup cost, time to authorisation, annual running cost, effective tax rate for your two largest expected investor types, and the cost of admitting a new investor at a subsequent close. Most sponsors discover that the answer is obvious once those fifteen cells are filled, and that the analysis they were agonising over was really an analysis of investor geography all along.

Case Study: Vehicle Selection for a Rs. 300 Crore Private Credit Fund

A mid-sized non-banking financial services group planned a Rs. 300 Crore private credit fund lending to mid-market manufacturing and logistics companies. The investor base was expected to be roughly 70 per cent domestic family offices, 20 per cent domestic institutional and 10 per cent non-resident Indian capital, admitted across three closes over fourteen months.

The group's initial instinct was an LLP, on the reasoning that its existing lending business was housed in an LLP and the team was familiar with the compliance rhythm. Modelling the admission mechanics changed the decision. With an estimated thirty-five to forty investors admitted across three closes, the LLP route implied roughly forty amendments to the LLP agreement, each requiring execution by all existing partners and an MCA filing, at an estimated blended cost of Rs. 35,000 to Rs. 60,000 per admission in legal and filing fees - a range of approximately Rs. 14 Lakh to Rs. 24 Lakh in pure administrative cost, before accounting for the calendar friction of collecting signatures from thirty-nine other partners each time a new investor joined.

The trust route carried a one-time incremental cost of the trustee appointment and annual trustee fees of approximately Rs. 6 Lakh to Rs. 10 Lakh per annum, with investor admission handled through standard-form contribution agreements at negligible marginal cost. Over an assumed seven-year fund life the trust was more expensive on trustee fees and materially cheaper on admission friction, and it was the structure the group's institutional investors expected to see. The fund was established as a trust with a professional corporate trustee, a newly incorporated private limited investment manager, and the NBFC group itself as sponsor funding the continuing interest.

The decisive factor was not the arithmetic. It was that two of the three anchor institutional investors had internal investment policies that contemplated trust-structured funds and would have required an exception process for an LLP. Structure follows capital.

Vehicle Decision Snapshot

The legal vehicle should be selected by reference to investor admission, governance and operating mechanics rather than familiarity with a particular entity form. The table below is a useful final sense-check before incorporation.

Structure	Usually Strongest Where	Primary Watch Point
Trust	Multiple closes, larger LP base and institutional fundraising are expected.	Trustee appointment, deed drafting and state-level stamp / registration mechanics.
LLP	Small, known investor group with limited admission activity.	Every new partner creates amendment and filing mechanics.
Company	A corporate vehicle is required for a specific group or governance reason.	Companies Act governance and share-issuance mechanics run in parallel.
GIFT IFSC route	Investor base is predominantly offshore and IFSC economics are genuinely relevant.	Different regulator, substance requirements and tax / operating model must be evaluated separately.

Questions Before You Incorporate the Vehicle

- How many investors and closing dates are realistically expected, and will any institutional LP require a trustee-governed structure?
- What state-level stamp duty / registration mechanics apply, and can later investors be admitted without repeated constitutional amendments?
- Is offshore capital material enough that an IFSC comparison should be completed before committing to the onshore vehicle?

PRACTITIONER'S CHECKLIST

- Compare trust, LLP, company and - where relevant - GIFT IFSC before incorporation.
- Review the trust deed / constitutional objects before stamping and registration.
- Design investor admission mechanics around the expected number and timing of closes.
- Confirm the manager entity has explicit fund-management objects.
- Test the structure against the requirements of likely anchor investors, not only administrative cost.

PART II - STRUCTURING THE FUND

Chapter 4: Sponsor, Manager, Trustee and Custodian

SEBI's application requires complete details for four parties, and each is assessed on different criteria. Sponsors routinely underestimate how much of the registration turns on who these parties are rather than on what the fund intends to do. A clean strategy attached to an unexplained ownership chain will take longer to register than a complex strategy attached to a transparent one.

The Sponsor: Skin in the Game

The sponsor is the person or entity that establishes the AIF - the settlor of the trust, the promoter of the company or the designated partner of the LLP - and, critically, the party that funds the continuing interest. Continuing interest is the regulatory expression of alignment: SEBI requires the sponsor or manager to maintain a meaningful investment in the fund that cannot be withdrawn ahead of other investors.

For Category I and Category II AIFs the requirement is 2.5 per cent of the corpus or Rs. 5 Crore, whichever is lower. For Category III it is 5 per cent of the corpus or Rs. 10 Crore, whichever is lower. The word "lower" matters: for a Rs. 1,000 Crore Category II fund the requirement caps at Rs. 5 Crore rather than running to Rs. 25 Crore. For angel funds the 2025 framework replaced the corpus-level test with a deal-level commitment of 0.5 per cent of each investment or Rs. 50,000, whichever is higher.

Fund type	Continuing interest requirement	On a Rs. 200 Crore corpus	On a Rs. 600 Crore corpus
Category I AIF	2.5% of corpus or Rs. 5 Crore, whichever is lower	Rs. 5.00 Crore	Rs. 5.00 Crore
Category II AIF	2.5% of corpus or Rs. 5 Crore, whichever is lower	Rs. 5.00 Crore	Rs. 5.00 Crore
Category III AIF	5% of corpus or Rs. 10 Crore, whichever is lower	Rs. 10.00 Crore	Rs. 10.00 Crore
Angel Fund (2025 framework)	Deal-level: 0.5% of each investment or Rs. 50,000, whichever is higher	Applied per investment	Applied per investment

Table 3: Continuing interest at illustrative corpus levels. Note that the 2.5 per cent test binds only below a corpus of Rs. 200 Crore for Category I and II funds.

The sponsor's net worth must be sufficient to fund that commitment, evidenced by a net worth certificate from a chartered accountant. This is not a formality. Where the sponsor is a newly incorporated entity with nominal capital and the continuing interest is Rs. 5 Crore, SEBI will ask how the commitment will be funded, and a certificate showing net worth of Rs. 12 Lakh will not survive that question. Where the sponsor is thinly capitalised but backed by a wealthy promoter group, the answer is usually to capitalise the sponsor entity properly before filing rather than to explain the gap afterwards.

The Investment Manager: Where SEBI Concentrates Its Scrutiny

The manager makes the investment decisions and is the entity SEBI examines most closely. Three attributes are assessed: the entity itself, the key investment team, and the alignment between the manager's stated business and the fund's stated strategy.

- The entity. A manager incorporated fewer than six months before filing draws questions about

operational readiness. SEBI is particularly attentive where the directors have no documented investment track record and the company's financial statements show no prior activity. This is not disqualifying - first-time managers register successfully every quarter - but it shifts the burden onto the individual track records of the team.

- The key investment team. At least one member must hold the NISM Series-XIX-C Alternative

Investment Fund Managers Certification, mandatory for applications filed after 10 May 2024 under amended Regulation 4(g)(i). The certificate is valid for three years. Applications where the certificate expired between examination and filing are queried immediately.

- Alignment. The manager's memorandum of association or LLP agreement must include fund

management within its objects, and the manager's declared investment focus must match the AIF's stated strategy. A manager whose objects describe general management consultancy, filing to run a private credit fund, will be asked to explain the mismatch.

OUR INSIGHT

For first-time managers, the absence of a fund-level track record is not the problem sponsors think it is. What causes queries is the way the track record is described. "The team has extensive experience in Indian private markets" tells a SEBI officer nothing. "The CIO led fourteen credit transactions aggregating Rs. 890 Crore at a named NBFC between 2017 and 2023, of which eleven have been fully repaid and two are in scheduled amortisation" tells them everything. We ask every key team member to produce a deal-by-deal sheet with counterparty type, ticket size, tenor, instrument and outcome. It takes a week to assemble and it removes an entire category of query.

The Trustee: Independence Is Verified, Not Assumed

For trust-structured AIFs, a trustee is mandatory and must be independent. SEBI checks this. The trustee cannot be an associate of the sponsor or the manager, and the same person cannot be both sponsor and trustee. Most funds appoint a professional corporate trustee - typically a specialised trusteeship company - at annual fees in the region of Rs. 5 Lakh to Rs. 12 Lakh depending on corpus and complexity.

Where the trustee is a body corporate, its certificate of incorporation is required, together with PAN and address proof for the trustee entity and each of its directors. The declarations under Form A Sections 6(a), 6(b) and 6(c) must be submitted separately for the trustee, not folded into a consolidated declaration covering all parties.

Trustees are not interchangeable, and the appointment is difficult to unwind once investors have subscribed. Five points are worth comparing before appointing one: experience with funds of your category and strategy; the turnaround time committed for executing investment documents, since the trustee signs on behalf of the fund and a slow trustee becomes a deal-execution constraint; the fee basis and whether it is fixed or scales with corpus; the extent of the trustee's own compliance and oversight requirements, which become your reporting obligations; and whether the trustee has any relationship

with the sponsor or manager that could be characterised as association.

The Custodian: Mandatory Sooner Than Most Sponsors Expect

A SEBI-registered custodian is now required for AIFs generally under Regulation 20(11), following the 2024 amendment that removed the earlier Rs. 500 Crore threshold for Category I and II funds. Category III funds retain additional custody requirements relevant to physical settlement of commodity derivatives. The practical point is simple: custodian selection and onboarding should be treated as a core launch workstream for every AIF, not as a later threshold-driven appointment.

PRO TIP

Identify your custodian and depository participant during the pre-application phase even if you are a Category II fund raising Rs. 150 Crore and technically below the threshold. Account opening, KYC on the fund entity and operational onboarding with a custodian typically takes four to eight weeks, and it runs in parallel with SEBI review at zero cost to your timeline. Funds that leave it until after the certificate arrives routinely find that the certificate is in hand and the first investment cannot settle for another month.

Mapping the Ownership Chain Before You File

The single most under-prepared element of the application is the ownership chain above the sponsor and the manager. SEBI expects the shareholding pattern to be tabulated with name, percentage shareholding and percentage voting rights for every shareholder or partner. Where a shareholder is a non-individual entity, further details of anyone holding 10 per cent or more in that shareholder are required - and the chain must be traced through to the natural person level.

An application disclosing that a holding company owns 35 per cent of the manager, without identifying who owns that holding company, will receive a query every single time, regardless of how unremarkable the underlying owners turn out to be. Build the chart before you build the application.

Appointment Sequencing Matrix

A frequent source of post-certificate delay is treating service-provider appointment as a single closing task. The roles should instead be sequenced according to when the fund actually needs them operationally.

Role / Workstream	Before Filing	Before First Deployment	Why It Matters
Sponsor / Manager	Finalise entity, ownership, net worth and team.	Fund continuing interest and operational accounts.	Core eligibility and alignment are assessed during registration.
Trustee (trust AIF)	Select and execute core documents.	Operational execution protocol agreed.	Independence and document-signing process affect the application and later transactions.
Custodian / DP	Identify provider and start KYC / onboarding.	Accounts live and settlement tested.	A certificate is of little use if the first investment cannot settle.
Administrator / Auditor / Valuer	Shortlist and agree scope.	Reporting calendar, data flow and responsibilities documented.	Recurring NAV, audit and investor reporting begin quickly after launch.

Questions to Ask Before Appointing Service Providers

- What execution turnaround will the trustee commit to for investment and financing documents?
- Can the custodian and DP support the instruments, dematerialisation and settlement model contemplated by the strategy?
- Do provider fees remain fixed, scale with corpus or change materially after additional schemes are launched?
- Are there any group relationships that could create an independence or conflict concern?
- Can the administrator, custodian, valuer and auditor exchange data on a timetable that supports one reconciled NAV process?

PRACTITIONER'S CHECKLIST

- Identify sponsor, manager, trustee, custodian / DP roles before filing.
- Ensure continuing-interest funding is supported by sponsor / manager net worth.
- Build the investment team track record deal by deal and obtain current NISM certification.
- Confirm trustee independence and document the ownership chain to natural persons.
- Start custodian and DP onboarding early enough that the first investment is not delayed.

PART II - STRUCTURING THE FUND

Chapter 5: Eligibility and the Fit-and-Proper Gateway

Regulation 4 sets out the eligibility conditions SEBI applies to an AIF application. They read as a checklist and are usually treated as one, which is a mistake: the substantive test is not whether the boxes can be ticked but whether the applicant can withstand the fit-and-proper assessment that runs underneath them. Most applications satisfy the mechanical conditions on day one. Applications that stall do so on disclosure.

The Mechanical Conditions

- The AIF is established or incorporated in India as a trust, LLP or company, with constitutional documents permitting AIF activity.
- The fund raises capital exclusively by private placement, with no public solicitation of any kind.
- Minimum corpus per scheme of Rs. 20 Crore, reduced to Rs. 10 Crore for angel funds. The corpus is a commitment figure, not cash collected upfront.
- Minimum investment of Rs. 1 Crore per investor. Employees and directors of the AIF or the manager may invest a minimum of Rs. 25 Lakh.
- Sponsor or manager continuing interest at the category-specific level set out in Chapter 4, maintained on a non-withdrawable basis.
- At least one key investment team member holding a current NISM Series-XIX-C certification.
- The applicant, sponsor, manager and their directors, partners and key personnel are fit and proper persons under Schedule II of the SEBI (Intermediaries) Regulations, 2008.

The Fit-and-Proper Declaration

Form A Section 7(b) carries the fit-and-proper declaration, and it must be submitted separately for the AIF, the trustee, the sponsor, the manager, and each of their respective directors and partners. It is the most commonly incomplete section of the entire application. A single declaration signed on behalf of all parties is not acceptable and produces a query that costs three to four weeks for what is a clerical shortfall.

Disciplinary History: The Field That Delays Applications

Under Regulation 7 and the associated SEBI circular framework, the disciplinary history of the AIF, sponsor, manager and their directors, partners, promoters and associates must be disclosed for the preceding five years, with monetary penalties disclosed where they exceed Rs. 5 Lakh. Since the January 2025 FAQ update, the declaration must also be obtained from any person controlling 10 per cent or more, directly or indirectly, in the sponsor or the manager.

Four categories of item are routinely omitted, and each of them is within scope:

- 1. Income tax orders and notices. Omitted on the reasoning that they are not securities market actions. SEBI's position is that any order from a regulatory or quasi-regulatory authority falls within scope.

- 2. Penalties subsequently set aside on appeal. The disclosure obligation attaches to the original action, not to the final adjudicated outcome. A penalty overturned in appeal is still disclosable, with the outcome noted.

- 3. Actions against individuals in a personal capacity. Where the individual is a director or partner of the sponsor or manager, personal actions are within scope even though they were not taken against them in their corporate capacity.

- 4. Matters involving upstream controlling entities. Since January 2025 the chain extends to 10 per cent controllers of the sponsor and manager, which frequently reaches entities the applicant does not control and cannot easily obtain information from.

OUR INSIGHT

Non-disclosure is treated far more seriously than the underlying issue. That is the sentence we want every sponsor to internalise. SEBI has historically been willing to proceed with applications where material regulatory history was disclosed openly and with context. Applications where SEBI independently surfaces a matter the applicant did not disclose face a different trajectory entirely - rejection, or referral onward. In one engagement, a 10-per-cent-plus corporate shareholder of the manager was itself a subsidiary of a listed company that had received an income tax notice three years earlier, since resolved. The client's view was that it was immaterial and closed. SEBI's view was that the non-disclosure required explanation. Obtaining that explanation needed board-level sign-off from the listed parent. Net delay: six weeks, on a matter that would have taken one paragraph to disclose upfront.

How to Apply the Disclosure Principle

The practical control is to treat regulatory history as a disclosure exercise, not a materiality filter. First identify the complete population of entities and persons in scope; then obtain confirmations, search the relevant public records, and document both nil and positive results. Only after the fact has been identified should the team explain its relevance, status and outcome in the application.

PRO TIP

Run a five-year regulatory health check on every entity and individual in the ownership chain above the sponsor and manager before you file - not after SEBI asks. The check should cover SEBI, RBI, IRDAI, PFRDA, the Income Tax Department, the Ministry of Corporate Affairs, and any court or tribunal proceeding in which the entity or individual was named as a respondent. Budget two to three weeks for it and document the search itself, so that you can demonstrate the enquiry was made even where the answer was nil. What you disclose with context is manageable. What SEBI surfaces independently is not.

Press Note 3 and Foreign Ownership

Where the sponsor or manager has foreign investors, the application must address Press Note 3 compliance - either confirming the required Government of India approval or declaring non-applicability. The declaration asks whether any investor in the sponsor or manager is from a country sharing a land border with India, and whether the ultimate beneficial owner is from such a country. A missing declaration on this point is a routine query trigger even where the answer is plainly negative.

More broadly, funds contemplating offshore capital should map the FEMA position before filing rather than after. An AIF with foreign investment is subject to downstream investment rules where the sponsor and manager are not owned and controlled by resident Indian citizens, which in turn constrains what the fund may invest in and on what pricing basis. Discovering that constraint after the PPM has been circulated to offshore LPs is an uncomfortable conversation.

The Documents SEBI Expects at Filing

Document	Trust	LLP	Company
Proof of formation	Registered trust deed	Certificate of Incorporation, LLPIN and LLP agreement	Certificate of Incorporation, MoA and AoA
Undertaking and checklist signatory	Trustee	Designated Partner	Director
PAN of the AIF	Required	Required	Required
Trustee CoI, PAN and address proof of directors	Required	Not applicable	Not applicable
PAN and address proof of partners or directors	Not applicable	Designated Partners	Directors
CA-certified net worth certificate of sponsor or manager	Required	Required	Required

Document	Trust	LLP	Company
Financial statements of sponsor and manager (previous FY)	Required	Required	Required
Shareholding or partnership pattern with voting rights	Required	Required	Required
NISM Series-XIX-C certificate	Required	Required	Required
PPM with Merchant Banker due diligence certificate	Required, except Angel Funds and LVFs	Same	Same
Press Note 3 declaration	Required	Required	Required
Declarations under Sections 6(a), 6(b), 6(c)	Separately for AIF, Trustee, Sponsor, Manager and 10%-plus controllers	Same	Same
Schedule of all named persons with PAN	Required	Required	Required

Table 4: Pre-application document requirements by entity structure. The signatory differs by vehicle, which is the detail most frequently missed.

Fit-and-Proper Pre-Filing Gate

Control	Minimum pre-filing evidence
Population complete	AIF, Sponsor, Manager, Trustee and every relevant director, partner, KMP, promoter / controller and upstream entity mapped.
Regulatory history checked	Written confirmations plus targeted searches / supporting records for the prescribed look-back population.
Positive matters explained	Authority, date, nature, monetary amount where relevant, current status, appeal / closure and contextual explanation.
Ownership and control reconciled	Shareholding, voting rights, beneficial ownership and 10%-plus controller disclosures tie to constitutional and KYC records.

PRACTITIONER'S CHECKLIST

- Run a documented five-year regulatory health check across the full relevant ownership and control chain.
- Obtain separate fit-and-proper / disciplinary declarations from every required person and entity.
- Trace 10%-plus controllers through intermediate entities to natural persons.
- Address Press Note 3 / foreign ownership explicitly where relevant.
- Draft positive disclosures with context and supporting documents instead of minimising them.

PART III - THE APPLICATION

Chapter 6: Building the Private Placement Memorandum

The Private Placement Memorandum is the fund's constitutional disclosure document and the one SEBI reads alongside Form A, testing each against the other. It must be drafted before the application is filed, because it is submitted simultaneously with Form A for all fund types other than angel funds and Large Value Funds for Accredited Investors. A sponsor who treats the PPM as a marketing document to be written after registration has misread the sequence entirely.

Part A and Part B

Under the Master Circular framework the PPM has two parts. Part A follows a mandatory template with a prescribed format and section sequence; deviation from it causes queries. Part B is flexible and is where the fund makes its commercial case.

PPM Part A - prescribed sections	What SEBI is testing
Investment objective and strategy	Whether the strategy is specific enough to be a defined investment policy, and whether it matches the category applied for and the strategy described in Form A.
Investment restrictions and concentration limits	Whether category-specific restrictions are correctly stated, including the 25 per cent single-investee concentration limit generally applicable to Category I / II funds, subject to the specific sub-category and Large Value Fund rules.
Risk factors	Whether risks are fund-specific rather than boilerplate. Generic market risk language attached to a specialised credit strategy invites a query.
Fees, expenses and the distribution waterfall	Internal consistency with the contribution or LP agreement, and compliance with the priority distribution framework restricting carry ahead of capital return.
Conflict of interest disclosures	Related-party transactions, co-investment allocation policy and allocation between the fund and any other vehicle the manager runs.
Disciplinary history	Five-year history for the AIF, sponsor, manager, their directors, partners, promoters and associates, and 10 per cent controllers.
Track record of the manager and key investment team	Deal-level specificity. Aggregate claims without underlying detail are challenged.

Table 5: The Part A sections that generate the most SEBI observations, and what the reviewer is actually assessing in each.

The Merchant Banker Requirement

For all schemes other than angel funds and Large Value Funds, the PPM must be filed through a SEBI-registered Merchant Banker, who independently verifies the disclosures and issues a due diligence certificate in the prescribed format. The Merchant Banker cannot be an associate of the AIF, sponsor, manager or trustee. This is a real gate, not a rubber stamp - the Merchant Banker's checklist is the same one SEBI uses, and a competent one will surface inconsistencies before the regulator does.

Certain PPM changes may be filed directly with SEBI without routing through a Merchant Banker - including updates to the market opportunity write-up, fund size, contact information and track records. Substantive changes to strategy, economics or risk disclosures continue to require the Merchant Banker route.

OUR INSIGHT

The pattern we flag most often in PPM review is stale language carried over from a predecessor fund. A manager launching Fund II sends me a document that still names a team member who left eighteen months ago, references an investment period that ended in the prior vehicle, and describes a market opportunity with data from three years ago. Every one of those is a query, and collectively they signal to the reviewer that the document was not read carefully by the applicant. We now run a mechanical check first - every name, every date, every number, every cross-reference - before looking at substance at all. It takes two hours and it catches things that would otherwise cost a month.

Consistency With the Contribution Agreement

SEBI does not formally review or approve the contribution or LP agreement, but inconsistency between that agreement and the PPM is a material trigger. The terms that must align precisely are the management fee calculation and base, the hurdle rate, the carried interest percentage and catch-up mechanics, clawback provisions, investor withdrawal and default rights, and key-person provisions.

The most common source of divergence is side letters. Anchor investors negotiate fee holidays, reduced carry or preferential co-investment rights, and those arrangements are documented separately and then not reflected in the PPM. Where the Merchant Banker's checklist surfaces the divergence, it is fixed before filing. Where it is not surfaced and SEBI finds it, the resulting query round is extended and the applicant is in the difficult position of explaining why the disclosure document did not describe the actual economics.

Writing a Strategy Description That Survives Scrutiny

Officers reviewing AIF applications are financially sophisticated and read hundreds of these documents. A strategy described as investing in high-growth opportunities across sectors is not a strategy; it is an absence of one. The investment policy in both Form A and the PPM must specify sectors, instrument types, stage, geography, ticket size range and the basis on which the team expects to generate returns.

Sponsors resist this on the reasoning that specificity constrains operational flexibility. It does not, in practice. A stated ticket range of Rs. 15 Crore to Rs. 50 Crore does not prevent a Rs. 12 Crore investment; it establishes that the applicant has thought about position sizing. What specificity actually does is demonstrate that the team has done the work, and that is what the reviewer is trying to establish.

Large Value Funds and Accredited Investors Only Funds

Two structures sit outside the standard PPM regime and are worth understanding before the drafting begins, because either can materially reduce the documentation burden for the right fund.

A Large Value Fund for Accredited Investors is a scheme in which each investor is an accredited investor committing above the prescribed higher threshold. These funds receive relaxations from several requirements applicable to ordinary schemes, including the Merchant Banker filing route for the PPM. The rationale is straightforward: where every investor has been independently certified as sophisticated and is committing at scale, the regulator relies on investor diligence rather than on prescriptive disclosure.

The Accredited Investors Only Fund scheme, introduced by the SEBI (AIF) (Third Amendment) Regulations, 2025 notified on 18 November 2025, extends this logic further. An AIOF runs a scheme exclusively for accredited investors and carries a set of relaxations - including from pari-passu investor rights requirements and, for AIOFs specifically, from the NISM certification requirement that otherwise binds every applicant. These relaxations apply only to funds that register specifically as AIOFs; they cannot be claimed after the event by a fund whose investors happen to be accredited.

The practical caution is that both structures constrain the investor base permanently. A fund that elects the AIOF route cannot later admit a non-accredited investor without restructuring, and the accredited investor pool in India, while growing rapidly, remains small in absolute terms. Elect these structures because the investor base genuinely is institutional and accredited, not because the documentation is lighter.

Track Record Disclosure

The track record section of Part A is read sceptically, and rightly so. Aggregate claims without underlying detail - a stated internal rate of return with no basis, or a portfolio described only by number of investments - will be challenged. Disclose the basis of calculation, whether returns are gross or net of fees and carry, whether they are realised or include unrealised marks, the valuation basis for any unrealised positions, and the vehicle in which the track record was generated. Where the record was built at a prior employer, say so, and be precise about the individual's role in each transaction rather than claiming the platform's record as the team's.

PRO TIP

Build a three-column consistency matrix before filing. Column one lists every material term: category, strategy, sectors, instruments, ticket size, fee, hurdle, carry, catch-up, investment period, fund life, extension rights, key persons, concentration limits and leverage. Column two records what Form A says. Column three records what the PPM says. Add a fourth column for the contribution agreement. Any row where the columns differ - including where they differ only in terminology for the same concept - is a query waiting to happen. This matrix takes half a day to build and is the highest-return half day in the entire registration process.

2026 Processing Update: GARUDA

On 30 July 2026, SEBI issued the GARUDA mechanism for processing placement memoranda of AIFs. The practical implication is that sponsors should no longer rely on a generic historical assumption about PPM processing time. The current circular should be checked for eligibility, documentary conditions and launch mechanics before the scheme is opened. This is especially important where a fundraising timetable has been built around an older waiting-period convention.

PPM Quality-Control Matrix

Area	Final question before filing
Strategy	Would a reader derive the same category, instruments, sector focus and return thesis from Form A and the PPM?
Economics	Do management fee, hurdle, carry, catch-up, expenses and waterfall mechanics reconcile to the contribution agreement and disclosed side-letter policy?
Conflicts	Are co-investment, allocation, related-party, cross-fund and warehousing conflicts described together with the decision process?
Track record	Are gross / net, realised / unrealised, source vehicle and individual team attribution stated clearly enough to reproduce the claim?

Before PPM Sign-Off

- Reconcile every defined term that also appears in the contribution agreement.
- Confirm the risk section is strategy-specific rather than inherited boilerplate.
- Check every team name, date, fund-size number and cross-reference mechanically.
- Confirm any side-letter economics or preferential rights are dealt with under the disclosed policy.

PRACTITIONER'S CHECKLIST

- Build a Form A / PPM / contribution agreement consistency matrix before filing.
- Make the strategy specific enough to be a defined investment policy while retaining intended flexibility.
- Reconcile fees, hurdle, carry, catch-up, side letters, conflicts and key-person terms across documents.
- Use the Merchant Banker review as a substantive quality gate, not a filing formality.
- Check current PPM processing routes, including GARUDA eligibility, immediately before launch.

PART III - THE APPLICATION

Chapter 7: Form A and the SI Portal - Filing Mechanics

The application process is managed through SEBI's Intermediary Portal, together with the signed documents and submission steps prescribed in the operative portal instructions. Portal workflows and document-delivery mechanics can change, so the filing team should verify the live instructions immediately before submission rather than rely on an old screenshot or checklist. The mechanics are unglamorous, but they are where otherwise sound applications lose time for reasons unrelated to the merits of the fund.

FILING SEQUENCE - FROM PORTAL ACCOUNT TO APPLICATION NUMBER

Step	Action	Control point
1	Create / validate the SEBI Intermediary Portal account	Use the applicant legal name and authorised email details exactly as maintained in the constitutional documents.
2	Open the AIF fresh-registration application	Select the correct category and save a controlled draft before populating supporting sections.
3	Complete applicant, Sponsor and Manager details	Names, PANs, ownership percentages and voting rights should reconcile to the ownership chart.
4	Upload PPM / due-diligence documents and attachments	Upload only the frozen, version-controlled filing set and follow the live portal document requirements.
5	Pay the application fee	Pay the exact portal-generated amount and verify the payment acknowledgement.
6	Final submit and record the application number	Save the acknowledgement, payment receipt and final submission PDF immediately.
7	Complete signed / physical submission if currently required	Use the same frozen document set and verify the live delivery instructions before dispatch.

Portal mechanics can change. The live SEBI instructions at the filing date prevail over any historical screenshot or checklist.

Form A Section by Section

Form A is structured across several sections, and each is read against a different reference document.

- Section 1 - Applicant details. The legal name of the AIF must match the trust deed or certificate

of incorporation exactly. A minor spelling difference, an abbreviated Pvt for Private, or a missing hyphen will generate a query. The category selected must be consistent with the strategy described later in the form.

- Section 2 - Sponsor details. SEBI assesses the sponsor's experience in fund management or

investment. For first-time managers the absence of a prior fund is not disqualifying, but each team member's individual experience must be articulated with fund names, deal types and tenures.

- Section 3 - Investment manager details. PAN, certificate of incorporation and shareholding pattern. SEBI looks for alignment between the manager's corporate objects and the fund's investment mandate.

- Sections 6(a), 6(b), 6(c) - regulatory action declarations. Submitted separately for the AIF,

trustee, sponsor and manager, plus any person controlling 10 per cent or more in the sponsor or manager. A consolidated declaration covering all parties is insufficient.

- Sections 7(a) to 7(d) - compliance declarations. Section 7(b) is the fit-and-proper declaration

under the SEBI (Intermediaries) Regulations, 2008, required separately for every entity and every director and partner of each.

The Fields Applicants Forget

- Shareholding pattern of sponsor and manager, tabulated with name, percentage shareholding and

percentage voting rights, tracing corporate shareholders through to the natural person level.

- Whether the sponsor, manager or any 10-per-cent-plus shareholder is registered with the RBI,

IRDAI, PFRDA or any other financial sector regulator.

- The Press Note 3 compliance declaration, or an express declaration of non-applicability.
- Details of every other AIF or venture capital fund floated or managed by the sponsor or manager,

with SEBI registration numbers.

- A schedule listing every person named anywhere in the application - applicant, sponsor, manager,

trustee, their directors and partners, the key investment team, key management personnel, controlling entities, associates and group companies - each with their PAN, in the prescribed format.

OUR INSIGHT

The application fee catches people. It is Rs. 1,00,000 plus 18 per cent GST, and the portal requires the exact amount including paise. Round it and the payment may be rejected, and the application simply does not proceed until the correct sum is received - without, in our experience, any conspicuous notification that this is the reason nothing is happening. We have seen an application sit unprocessed for eleven days for exactly this reason while the client assumed it was in review. Confirm the payment receipt on the portal before you assume the application is live, and take a screenshot of the confirmation and the generated application number the moment they appear.

The Physical Submission

Where the operative SEBI portal instructions require a signed or physical counterpart, it should be generated from the same frozen document set used for the online filing. The filing team should verify the current delivery requirement, address and format immediately before dispatch. The control objective is more important than the medium: the signed submission, portal upload and internal master copy must be identical, and any later correction should be tracked across every channel in which it was filed.

PRO TIP

Freeze the document set before you despatch anything. Assemble the complete bundle, generate a single index with document names and page counts, upload from that frozen bundle, and courier from the same frozen bundle on the same day. If a correction becomes necessary afterwards, correct both channels and note the change in your covering letter rather than silently replacing the portal version. Also use the blue question-mark icon on each portal page - it carries field-level guidance that answers most of the questions applicants otherwise raise with SEBI directly, and every avoided clarification request is a week saved.

Assembling the Named-Persons Schedule

The schedule of all named persons with their PANs is the single most time-consuming mechanical task in the application, and it is invariably started too late. It must capture every person and entity mentioned anywhere in the filing, which on a typical application runs to between forty and eighty entries once directors, partners, key personnel, controlling entities, associates and group companies are included.

Two aspects cause delay. The first is collection: obtaining PAN details and address proof from directors of an upstream corporate shareholder, or from a non-resident promoter, can take weeks and cannot be compressed by working harder at the last minute. The second is definition - applicants consistently interpret "associates" and "group companies" too narrowly, omit dormant entities on the reasoning that they are inactive, and then supply them in a second round. Build the list from the ownership chart and the statutory registers rather than from memory, and start collecting a month before you intend to file.

Keeping the Application File Clean

One discipline pays for itself repeatedly: maintain a single master folder with a version-controlled index of every document filed, every declaration signed and dated, and every piece of correspondence exchanged. Registration runs for three to six months and frequently longer. Team members change, the Merchant Banker rotates staff, and the person who drafted a declaration in month one is often not the person answering a question about it in month five.

The specific failure this prevents is the untracked correction. A document is amended in response to an observation, the amended version is uploaded, and the physical set retains the original - or the amended version is circulated internally but the declaration signed against the earlier text is never re-executed. Neither is a serious error in substance. Both produce query rounds, and both are wholly preventable with an index and a discipline of dating every version.

What Happens After Final Submit

An application number is generated on submission and becomes the reference for all subsequent correspondence. SEBI's Investment Management Department then reviews the application against Form A, the PPM and the Merchant Banker's due diligence checklist, typically returning observations within twenty-one to thirty-five days. Registration fees are not paid at this stage; they fall due only after in-principle approval, a sequencing point that matters for cash flow planning and is covered next.

Submission Control Sheet: The Four-Copy Test

Before pressing Final Submit, the application team should be able to prove that the portal copy, the signed physical copy, the internal master copy and the index all describe the same document set. This control is simple, but it prevents version drift during the most mechanical part of the process.

Control	Owner	Control Record
Document index frozen with page counts and version dates	Application coordinator	Signed PDF index and locked folder.
Portal upload reconciled to frozen index	Filing owner	Submission screenshots / acknowledgement.
Physical set generated from the same frozen files	Authorised signatory / coordinator	Courier set index and dispatch proof.
Post-filing correction log maintained	Application coordinator	Change note showing what changed, why and where it was resubmitted.
PAN / named-person schedule tied to ownership chart	Compliance owner	Cross-reference sheet to source KYC and constitutional records.

Questions Before Final Submit

- Does every legal name, PAN, shareholding percentage and voting-right percentage tie to the constitutional and ownership records?
- Is the named-person schedule complete for every person and entity appearing anywhere in the application set?
- Are all declarations separately signed by the correct entity / individual and dated consistently?
- Has the exact portal-generated fee been acknowledged and has the application number been saved?
- If a signed / physical counterpart is currently required, is it generated from the same frozen files uploaded online?

PRACTITIONER'S CHECKLIST

- Freeze one final document bundle for online and physical submission.
- Check every legal name, PAN, ownership percentage and declaration against source documents.
- Confirm payment receipt and application number immediately after portal submission.
- Start the named-person schedule early - upstream / non-resident details are the least compressible item.
- Maintain a dated filing index so every subsequent observation can be traced to the version submitted.

PART III - THE APPLICATION

Chapter 8: Fees, Costs and the Economics of Setting Up

Sponsors consistently underestimate the cost of establishing an AIF, usually because they benchmark against the SEBI registration fee alone. The registration fee is typically between a quarter and a third of the true first-year cost. This chapter sets out the full picture so that the fundraise can be sized against a realistic number.

The Statutory Fees

Fee	Amount (exclusive of GST)	When payable
Application fee - all categories	Rs. 1,00,000	On filing, via the SI Portal. Not refunded if the application is rejected.
Registration fee - Category I (other than Angel Funds)	Rs. 5,00,000	After SEBI grants in-principle approval
Registration fee - Category I Angel Fund	Rs. 2,00,000	After SEBI grants in-principle approval
Registration fee - Category II	Rs. 10,00,000	After SEBI grants in-principle approval
Registration fee - Category III	Rs. 15,00,000	After SEBI grants in-principle approval
Scheme filing fee - each subsequent scheme	Rs. 1,00,000	On filing each additional scheme. Angel Funds are exempt.

Table 6: SEBI fee schedule. GST applies as prescribed. Verify the live portal-generated amount, payment mode and acknowledgement at the filing date.

The Costs That Are Not SEBI Fees

The larger part of the budget sits outside the fee schedule. A realistic first-year cost stack for a Category II trust-structured fund of approximately Rs. 250 Crore target corpus is set out below. Every figure is indicative and will vary with complexity, service provider and location.

FIRST-YEAR COST RANGE - CATEGORY II TRUST, RS. 250 CRORE TARGET CORPUS	
Cost head	**Indicative range**
Entity setup and stamp duty	Rs. 1.0 - 3.0 Lakh
Legal documentation	Rs. 1.5 - 4.0 Lakh
PPM drafting and review	Rs. 1.5 - 4.5 Lakh
Merchant Banker due diligence	Rs. 2.0 - 5.0 Lakh
SEBI fees - Category II, one scheme	Approx. Rs. 11.0 Lakh (statutory)
Trustee - year one	Rs. 3.0 - 6.0 Lakh
Custodian and administration	Rs. 2.5 - 5.5 Lakh
Tax and compliance	Rs. 1.5 - 4.0 Lakh
Indicative first-year total	Approx. Rs. 24 - 43 Lakh

Illustrative ranges only; GST is additional. The statutory SEBI component is fixed, while professional and service-provider fees vary by scope, state, provider and complexity.

For a straightforward domestic Category II structure, the professional and setup spend can begin materially below the original single-point illustration. Including the statutory SEBI fee, a practical first-year range may start around Rs. 24 Lakh and rise with drafting intensity, cross-border ownership, additional schemes and specialist service-provider requirements. Sponsors should obtain a scoped quote rather than assume a large-firm cost structure.

The Recurring Cost Base

Annual running costs matter more than setup costs over a seven- to ten-year fund life, but the amount varies widely with corpus, strategy and service-provider model. For a straightforward mid-sized Category II fund, indicative annual bands may include trustee fees of about Rs. 3 - 6 Lakh, administration and accounting of Rs. 4 - 8 Lakh, statutory and tax audit of Rs. 1.5 - 4 Lakh, and independent valuation of roughly Rs. 2 - 6 Lakh depending on portfolio complexity and reporting frequency. Custody, benchmarking, compliance and secretarial support then scale with the operating model.

A practical recurring cost base can therefore begin around Rs. 18 - 25 Lakh per annum for a relatively straightforward structure and move toward Rs. 35 - 45 Lakh where the strategy, reporting cycle or cross-border profile is more complex. The correct number is the one built from actual provider quotes and the fund's stated service model - not a generic market headline.

OUR INSIGHT

The break-even question we put to every sponsor is this: at your stated management fee, what corpus do you need before the fee covers the running cost of the fund, leaving aside your own compensation entirely? At a 2 per cent management fee and a Rs. 50 Lakh annual cost base, the answer is Rs. 25 Crore just to break even on operations - and that fund has no budget to pay an investment team. Sponsors targeting a first close at the Rs. 20 Crore statutory minimum are, in almost every case, describing a fund that cannot pay for itself. We would rather have that conversation before the registration fee is paid than eighteen months later.

Sizing the Fund Against the Cost Base

The relationship is straightforward and worth stating explicitly:

MINIMUM VIABLE CORPUS

(Annual operating cost + Team compensation) / Management fee rate

For a fund with a Rs. 50 Lakh operating cost base, a three-person investment team costing Rs. 1.5 Crore annually, and a 2 per cent management fee, the minimum viable corpus is Rs. 100 Crore. Below that, the manager is deliberately subsidising the fund from other income or prior carry - a common first-time-manager position, but one that should be planned rather than discovered.

PRO TIP

Model the fee income curve against the drawdown schedule, not against committed corpus. Management fees are frequently charged on drawn capital rather than commitments during the investment period, or on commitments during the investment period and on invested cost thereafter. Those two conventions produce materially different cash flow profiles in years one to three, which is exactly when the cost base is heaviest and the manager has the least cushion. Decide the convention before the PPM is drafted, because changing it afterwards requires investor consent and a PPM amendment.

The Cost-Benefit Framing

Professional support should be scoped to the actual mandate. A focused domestic registration or review engagement may start around Rs. 3 - 5 Lakh; broader end-to-end support covering structuring, Form A, PPM review and query management commonly falls in a wider Rs. 5 - 10 Lakh range, with complex cross-border ownership or heavy drafting scoped separately. The point is not that an AIF needs a large advisory cheque: a relatively modest professional spend can prevent months of avoidable delay, repeated document amendments and missed fundraising windows.

Budgeting Questions Before the Sponsor Commits to Launch

The useful budget is not the cheque written to SEBI. It is the cash requirement of the manager and fund through the first two years, including the period before management-fee income reaches a steady level.

Budget Question	Why It Changes the Answer
What is the realistic first-close corpus, not the target corpus?	Early fee income and operating runway depend on capital actually admitted.
What is the fee base during the investment period and after it?	Commitments, drawn capital and invested cost produce different cash-flow profiles.
Which costs are borne by the fund and which by the manager?	The allocation affects both LP economics and manager break-even.
How many months of manager payroll must be funded before first close?	Registration and fundraising can precede recurring fee income by a meaningful period.
What recurring providers are required by the chosen category and strategy?	Custody, administration, valuation, audit and compliance costs should be modelled from day one.

Fund-Economics Stress Test

Stress case	Question the Sponsor should answer
First close delayed by six months	Can the Manager fund payroll and service providers without relying on management-fee income that has not started?
First close 40% below plan	Does the fee base still cover recurring fund costs and the minimum investment-team infrastructure?
Drawdown slower than expected	If fees are charged on drawn / invested capital, is there enough working capital to bridge the early years?
Provider costs 20% above budget	Which costs are contractually fund-borne, which are Manager-borne and how is the PPM cap / allocation described?

PRACTITIONER'S CHECKLIST

- Budget the full first-year cost stack, not only SEBI fees.
- Model annual recurring costs over the entire fund life.
- Calculate the minimum viable corpus from operating cost plus team compensation and the actual management-fee base.
- Model fee cash flows against drawdowns / invested cost where applicable.
- Set first-close and target-corpus expectations against fund economics before paying setup costs.

PART III - THE APPLICATION

Chapter 9: Query Rounds and Rejection Patterns

SEBI does not usually reject AIF applications. It queries them, repeatedly, until either the application is fit to approve or the applicant withdraws. The practical consequence is that registration timelines are determined almost entirely by query rounds, and query rounds are almost entirely preventable. This chapter sets out what triggers them and what the realistic timeline looks like on each path.

FIVE-PHASE REGISTRATION TIMELINE - INDICATIVE		
Phase	**Indicative timing**	**Primary work**
Pre-application	45-90 days	Entity setup, team, NISM certification, ownership diligence and PPM drafting.
Portal filing	3-7 days	Final Form A, fee payment and current submission formalities.
SEBI initial review	21-35 days	Initial observations / clarification requests may be issued.
Query response	15-45 days	Applicant closes observations; further rounds may follow.
Approval	7-15 days	In-principle approval, applicable fee and certificate formalities.

These are practical planning ranges from the source draft, not statutory service-level commitments. Complexity and completeness materially affect the timeline.

Path	Characteristics	End-to-end timeline
Best case - clean application	Experienced sponsor, clean disciplinary history, precise strategy, complete document set, one administrative round of observations	90 to 120 days
Typical - one substantive query round	First-time manager or one material issue requiring explanation, otherwise complete	120 to 150 days
Complex - cross-border or disciplinary history	Offshore ownership chain, Press Note 3 considerations, undisclosed or contested regulatory history, ambiguous category	150 to 180-plus days

Table 7: Realistic end-to-end timelines from entity setup to certificate issuance. Applications entering a fourth or fifth round

are generally dealing with a structural problem rather than a documentary one.

The Seven Recurring Query Triggers

WHAT ACTUALLY TRIGGERS SEBI OBSERVATIONS - PRACTICE PATTERN	
Recurring trigger	**Relative frequency index**
Incomplete disciplinary-history declarations	9
Strategy inconsistent between Form A and PPM	8
Incomplete ultimate beneficial ownership chain	8
PPM economics inconsistent with contribution / LP agreement	6
Press Note 3 declaration missing / incomplete	5
Manager objects clause does not cover fund management	5
NISM certification missing or expired	4
Category selection inconsistent with mandate	4

Illustrative practice index from the source draft; it is not presented as SEBI statistical data.

Each of these has a specific remedy, and none of them is expensive to fix before filing:

- 1. Strategy-category mismatch. The strategy in Form A does not align with the mandate in the PPM, or the PPM mandate is materially broader than Form A describes. Even using different terminology for the same strategy across the two documents draws a query. Remedy: the consistency matrix from Chapter 6.

- 2. Missing or expired NISM certification. The certificate must be held by a key investment team member and current at the date of filing. Remedy: check the expiry date, not just the existence of the certificate.

- 3. Incomplete disciplinary history. Declarations not submitted separately for all four parties, or missing from 10-per-cent-plus controllers. Remedy: the five-year regulatory health check from Chapter 5.

- 4. Incomplete UBO chain. A corporate shareholder above 10 per cent is disclosed without identifying who holds 10 per cent or more in that entity. Remedy: trace to natural persons before filing.

- 5. PPM and LP agreement inconsistency. Fee holidays, rebates or carry mechanics that differ between documents, typically because of undisclosed side letters. Remedy: reconcile side letters into the PPM disclosure.

- 6. Press Note 3 not addressed. Where the sponsor or manager has foreign investors, the application must confirm approval or declare non-applicability. Remedy: include the declaration even where plainly not applicable.

- 7. Manager objects clause mismatch. The manager's MoA or LLP agreement does not explicitly include fund management. Remedy: fix at incorporation, or amend before filing rather than during review.

OUR INSIGHT

A pattern worth naming, because it is the one that costs the most and is discussed the least: the newly incorporated investment manager. A manager entity incorporated three months before filing, with directors who have no documented investment track record and financial statements showing no activity, invites questions about operational readiness that have no clean documentary answer. The fix is sequencing. Incorporate the manager early, capitalise it properly, put the team on its payroll, let it file one set of financial statements, and let the NISM certification be obtained under its name. Nine months of ordinary corporate existence converts a difficult conversation into a non-event.

How to Respond to Observations

A strong response is a controlled process, not a letter-writing exercise. The objective is to close the observation across every affected document.

01	**ANSWER THE EXACT POINT** Observations are often narrow. Give the direct factual answer and supply the specific document or evidence requested; do not restate the fund's merits instead.
02	**FIX THE SOURCE DOCUMENT** Where an observation reveals an inconsistency, amend the PPM, agreement or declaration. The source document is what survives; correspondence alone does not cure it.
03	**CLOSE ADJACENT ISSUES** If the response surfaces a related regulatory or disclosure point, address it in the same submission. Sequential discovery of connected issues is what escalates a query round.

What Rejection Actually Looks Like

SEBI must communicate a rejection decision within thirty days of the decision, after affording the applicant a reasonable opportunity to be heard. The application fee is not refunded. An applicant may reapply, but any non-disclosed regulatory action that contributed to the rejection remains on SEBI's record and will be visible on the subsequent application.

Rejection is uncommon where the applicant is transparent and responsive. It becomes materially more likely in one specific scenario: where SEBI surfaces a material non-disclosure during its own verification. That is the asymmetry at the heart of this chapter. Almost every substantive issue is survivable if disclosed. Very few are survivable if discovered.

PRO TIP

Keep a written query log from the day you file: date of observation, the exact text of each point raised, the document affected, who owns the response, the date sent, and the outcome. On a straightforward application this feels like unnecessary process. On an application that reaches a third round - typically eight to ten months after filing, often with a changed team member and a Merchant Banker who has rotated staff - it is the only reliable record of what was said, when, and why the document reads the way it does. It also makes the successor fund's application substantially faster.

Practical Query-Response Pattern

A strong observation response answers the question, fixes the underlying document if necessary and closes the loop with evidence. A weak response argues around the observation without addressing the source of inconsistency.

Observation	Weak Response	Better Response Pattern
Strategy wording differs between Form A and the PPM.	"Both descriptions mean the same thing."	Identify the difference, amend the broader document, provide marked and clean copies, and confirm the common wording now used.
Upstream ownership chain is incomplete.	Provide only the immediate shareholder again.	Trace each 10%-plus layer to the required ultimate persons and attach a reconciled ownership chart.
Disciplinary disclosure is unclear.	State that the matter is immaterial.	State authority, date, nature, amount / status, outcome and why it does or does not affect fit-and-proper assessment.

Observation-Response Discipline

- Log every observation verbatim, assign an owner and identify each filing document that may need amendment.
- Fix the underlying inconsistency before drafting the covering response; use marked and clean documents where text changes.
- Before submission, rerun the cross-document consistency check and preserve the response, acknowledgement and outcome in the permanent query log.

PRACTITIONER'S CHECKLIST

- Use a query log with point, owner, affected document, response date and outcome.
- Answer the observation asked and amend the underlying document where the issue is structural.
- Disclose related issues proactively instead of allowing sequential discovery.
- Treat non-disclosure as a greater risk than an adverse fact disclosed with context.
- If reapplying, remediate each stated ground of rejection before a fresh filing.

PART IV - LIFE AFTER REGISTRATION

Chapter 10: From Certificate to First Close

The certificate is not the finish line. It is the point at which the fund becomes a regulated entity with continuing obligations, and it starts a series of clocks that sponsors are frequently unaware of. Compliance obligations begin from the date of registration, not from first close - a distinction that catches funds which register early and raise slowly.

Filing the Scheme PPM

After the certificate is issued, the scheme placement memorandum must be processed in accordance with the operative SEBI framework before launch. The traditional framework required advance filing through a Merchant Banker, subject to specified exemptions. On 30 July 2026, SEBI introduced GARUDA - Green-Channel: AIF Rollout Upon Document Acknowledgement - for eligible placement memoranda. Sponsors should therefore check the current GARUDA eligibility, documentary conditions and launch mechanics instead of assuming that every scheme follows the historical waiting-period convention.

Once the PPM is on record the fund may solicit commitments. First close must then be declared within twelve months of SEBI taking the PPM on record, with a minimum committed corpus of Rs. 20 Crore, reduced to Rs. 10 Crore for angel funds. If the fund fails to reach the minimum corpus within the prescribed period, it must return all funds collected from investors together with returns, and file a report with SEBI within fifteen days.

OUR INSIGHT

The twelve-month first close window is the clock sponsors most often misjudge, because they start it too early. A sponsor who files the scheme PPM the week the certificate arrives - out of enthusiasm, or because it feels like momentum - has just started a twelve-month countdown on a fundraise that has not begun. We generally advise clients to sequence the PPM filing to the fundraise rather than to the certificate: have the anchor conversations advanced, have soft commitments identified, then file. The thirty-day pre-subscription period is the only structural constraint, and thirty days is easy to plan around. Twelve months of unused runway is not recoverable.

Operational Setup Before the First Investment

Capital should not be deployed until the entity, cash, custody and operating stack are live. The six original setup steps are grouped below into three operating lanes.

01 ENTITY & CASH CONTROLS	Separate AIF PAN + dedicated bank account in the AIF name; investor cash remains segregated from Sponsor / Manager money.
02 MARKET INFRASTRUCTURE	DP relationship + dematerialised holdings; SEBI-registered custodian and settlement arrangements live before deployment.
03 FUND OPERATING STACK	Administrator, statutory auditor, tax adviser, valuation policy and independent valuer in place; demat units issued on drawdown against executed contribution agreements.

FIRST INVESTMENT READINESS GATE

Before the first investment, confirm that all three lanes are complete: (1) PAN and segregated bank cash controls, (2) demat / DP / custodian settlement infrastructure, and (3) administrator, auditor, tax adviser, valuation policy, independent valuer and unit-issuance workflow. A registration certificate without this operating stack is not deployment readiness.

CASH CONTROLS	SETTLEMENT	OPERATING STACK
PAN + segregated bank	**DP + custodian live**	**Admin + audit + valuation + unit issuance**

The Recurring Compliance Calendar

Obligation	Frequency	Applies to
Portfolio and activity reporting via the SI Portal	Half-yearly, with additional quarterly reporting for Category III	All AIFs; Category III has the heavier cycle
Submission of investment-level data to SEBI-empanelled benchmarking agencies	Annual	All AIFs with a completed reporting year
PPM compliance audit	Annual, completed within six months of financial year end	All AIFs, subject to prescribed exemptions
Independent valuation of portfolio investments	Category I / II: at least once every six months; may be extended to annual with 75% investor-by-value approval. Category III follows the prescribed NAV / independent valuation framework.	All categories as applicable under Regulation 23 and the current Master Circular.
NAV determination and reporting to investors and depositories	Per the fund's stated policy and prescribed timelines	All AIFs
Statutory audit and current investment-fund tax reporting (including Forms 78 and 79 where applicable)	Annual / prescribed due dates	Category I / II investment funds under section 224; other AIFs as applicable to their tax profile.
Intimation of material changes - key team, control of manager or sponsor, PPM amendments	Event-based; some require prior approval	All AIFs

Table 8: The recurring compliance calendar. Obligations run from registration, not from first close.

Material Changes Require Intimation or Approval

Any material change from the information provided at registration must be intimated to SEBI, and some categories require prior approval. The changes that most often catch managers are departures from the key investment team, changes in control of the manager or sponsor, amendments to the PPM, and changes to the category or investment strategy. Key-person departures are particularly sensitive because they interact with the key-person provisions in the contribution agreement, which typically suspend the investment period until a replacement acceptable to investors is appointed.

Co-Investment Vehicles Under Regulation 17A

One structural option introduced by the SEBI (AIF) Second Amendment Regulations, 2025 deserves attention from any Category I or II manager, because it solves a problem that previously had no clean solution. Co-Investment Vehicles under Regulation 17A allow such funds to offer co-investment opportunities to accredited investors in specific portfolio companies alongside the main fund.

The commercial relevance is significant. Anchor investors routinely negotiate co-investment rights, and managers frequently want to write a larger cheque into a high-conviction position than concentration limits permit at the fund level. Before the CIV framework, satisfying those demands required either the portfolio management services route or bespoke structuring that sat uneasily with the AIF regulations. CIVs are exempt from the Rs. 20 Crore minimum corpus, from PPM filing requirements and from continuing interest requirements, which makes them proportionate to their purpose.

The corollary is governance. A CIV creates an allocation question every time a deal is larger than the fund alone will take: which investors are offered the co-investment, on what basis, and at what economics relative to the main fund. That allocation policy should be written into the PPM conflict of interest section at registration rather than being improvised at the first opportunity, because an ad hoc allocation that favours one investor is exactly the kind of conflict that surfaces in a subsequent fundraise.

Dormancy and Winding Up

Two developments in 2026 close the loop at the other end of the lifecycle. Regulation 29 introduced the concept of an inoperative fund, giving SEBI a formal mechanism to classify registered vehicles that are not actually operating, and the Master Circular update of 16 June 2026 inserted guidance on winding up, including the retention of proceeds. Managers holding a certificate against a fundraise that has not progressed should understand that dormancy is now a recognised regulatory status rather than a quiet default position.

PRO TIP

Build the compliance calendar into a dated register in the first month after registration, with named owners and a reminder set six weeks ahead of each deadline, and review it at every quarterly manager meeting. The obligations are individually undemanding and collectively easy to lose track of - particularly the annual PPM compliance audit and the benchmarking submission, which have no natural internal trigger and are the two most commonly missed items in the first year of a fund's life. A missed filing is not usually serious in itself, but a pattern of missed filings is exactly the kind of record you do not want visible when you file the successor fund.

First-Close Readiness Gate

Workstream	Ready wh
Fundraising / PPM	The operative PPM processing / GARUDA condition is satisfied and subscription can lawfully commence.
Investor onboarding	KYC, contribution agreements, bank instructions and accreditation status (where relevant) are complete.
Operations	PAN, bank, demat / custodian / DP and administrator workflows are live and tested.
Governance	Trustee execution protocol, investment committee / approval process and conflicts framework are operational.
Reporting	Auditor, valuer, tax adviser and compliance owners have a dated first-year calendar and data responsibilities.

PRACTITIONER'S CHECKLIST

- Sequence scheme launch / PPM processing to the actual fundraising timetable.
- Complete PAN, bank, DP / custodian, auditor, administrator and valuer onboarding before first deployment.
- Build a compliance calendar in the first month after registration with named owners and early reminders.
- Check current GARUDA / PPM processing mechanics before relying on legacy waiting periods.
- Treat first close as an operational readiness event, not only a fundraising milestone.

PART IV - LIFE AFTER REGISTRATION

Chapter 11: Taxation of AIFs and After-Tax Structuring

Tax is not a post-registration consideration. It is a structuring input that should be modelled before the category is selected, because after-tax investor outcomes can differ materially even where the portfolio strategy is identical. From 1 April 2026 the Income-tax Act, 2025 is the operative statute. This chapter therefore uses the 2025 Act references where the provision has been carried forward, while noting the familiar legacy references only where they help practitioners reconcile older PPMs, tax memoranda and precedent documents.

The Category Divide

Section 224 of the Income-tax Act, 2025 now carries the statutory investment-fund pass-through framework for qualifying Category I and Category II AIFs (the familiar legacy provision was section 115UB of the Income-tax Act, 1961). Category III AIFs do not fall within that statutory investment-fund definition and therefore require a separate fund-level tax analysis based on their legal form and facts.

For a qualifying Category I or II investment fund, section 224 broadly preserves the character of income at the unit-holder level as though the investor had made the underlying investment directly, subject to the special treatment of business income and the detailed rules in the Act and Schedule V. The reporting architecture has also changed: the Income-tax Rules, 2026 use Form 78 for the unit-holder statement and Form 79 for the annual statement to the tax authority, replacing the familiar legacy Forms 78 and 79.

The current Act also expressly treats securities held by an investment fund specified in section 224(10)(a) as capital assets under section 2(22). That statutory classification materially reduces the historic uncertainty over whether gains on portfolio securities of a qualifying Category I or II investment fund could be characterised as business income merely because the fund invests professionally.

Feature	Category I and II AIFs	Category III AIFs
Statutory framework	Income-tax Act, 2025 - section 224 pass-through (legacy reference: section 115UB of the 1961 Act)	No equivalent provision
Non-business income	Exempt at fund level; taxed in investors' hands with character preserved	Generally taxed at fund level
Business income	Special treatment under section 224 / Schedule V; business-income consequences remain at fund level under the statutory investment-fund framework	Taxed at fund level
Trust structures	Pass-through applies by statute	Depends on legal form and determinacy under the operative Income-tax Act, 2025 trust provisions

Feature	Category I and II AIFs	Category III AIFs
Withholding on distributions	Section 393 withholding framework - 10% for resident unit holders; rates in force for non-residents (legacy reference: section 194LBB)	Fund-level tax discharged before distribution
Loss treatment	Business losses retained at fund level; other losses may pass through subject to the twelve-month holding condition	Losses retained at fund level
Investor reporting	Forms 78 and 79	Fund-level return; no Form 78 mechanism
IFSC-based funds	Additional concessions may apply	Specified-fund / IFSC concessions may apply under the current Act; verify investor, asset and income conditions

Table 9: Tax treatment by category. Section references follow the Income-tax Act, 1961 numbering; corresponding provisions under the Income-tax Act, 2025 apply from 1 April 2026.

Withholding and the Advance Tax Gap

For resident unit holders, the current withholding framework in section 393 applies a 10 per cent deduction to income from an investment fund specified in section 224, other than the exempt proportion specified in Schedule V; for non-residents the applicable rates-in-force framework must be considered together with treaty documentation. The 10 per cent resident withholding is not necessarily the final tax, so investors may still have a meaningful advance-tax or self-assessment balance depending on the character and amount of income.

The 10 per cent resident rate creates a systematic shortfall that catches investors. Withholding at 10 per cent against an effective tax rate that may approach 42.7 per cent for a high-income individual leaves a substantial balance to be discharged through advance tax or self-assessment tax. On Rs. 8 Lakh of interest income passed through from a Category II credit fund, withholding is Rs. 80,000 while the actual liability at the top marginal rate is approximately Rs. 3.42 Lakh - a shortfall of roughly Rs. 2.62 Lakh that the investor must fund independently, with interest consequences under Sections 234B and 234C if the advance tax instalments are missed.

OUR INSIGHT

This withholding gap is the most common source of investor irritation we encounter, and it is entirely a communication problem rather than a structuring one. An investor receives a distribution net of 10 per cent, reads it as post-tax, spends it, and then discovers a material advance tax liability in the following quarter. The fix costs nothing: issue a distribution note with every payout that states the gross amount, the character of the income, the tax withheld, and an explicit line reading that this withholding is not the final tax and that the balance must be discharged through advance tax. We have seen relationships with anchor investors damaged over a mechanic that one paragraph would have explained.

Category III: Fund-Level Taxation and Its Consequences

Category III funds require a separate entity- and investor-level tax analysis because the Category I / II investment-fund pass-through in section 224 does not apply to them. Where the vehicle is a trust, the tax outcome depends on the operative trust-tax provisions, determinacy of beneficiaries and the character of income; other legal forms follow their own charging provisions. IFSC-based specified funds may have separate concessions under the Income-tax Act, 2025, but those concessions are condition-driven and should be mapped to the current statutory definitions rather than legacy section numbers.

The consequence that matters commercially is that fund-level taxation at the maximum marginal rate removes the ability of a lower-rate investor to apply their own rate. A charitable trust, a pension entity or a corporate investor taxed below the maximum marginal rate receives no benefit from its status in a Category III structure. The industry has consistently argued for either a statutory pass-through equivalent for Category III or an election mechanism; this was not addressed in the most recent Budget cycle and remains a live policy gap that managers should monitor.

Case Study: After-Tax Outcome on a Private Credit Strategy

A private credit strategy targets a gross portfolio yield of 14 per cent on deployed capital, with a 2 per cent management fee and no carry until an 8 per cent hurdle is cleared. Assume a resident individual investor at the top marginal rate of approximately 42.7 per cent, an investment of Rs. 5 Crore, and a full year of deployment. The income is interest in character.

Structured as a Category II fund with pass-through, gross interest attributable to the investor is approximately Rs. 70 Lakh. Management fee of Rs. 10 Lakh reduces the distributable amount to approximately Rs. 60 Lakh. That Rs. 60 Lakh passes through as interest income and is taxed in the investor's hands at 42.7 per cent, producing tax of approximately Rs. 25.6 Lakh and an after-tax return of approximately Rs. 34.4 Lakh, or 6.88 per cent on the Rs. 5 Crore invested.

Structured as a Category III fund taxed at the fund level at the maximum marginal rate, the same Rs. 60 Lakh of net income bears fund-level tax of approximately Rs. 25.6 Lakh before distribution, and the investor receives approximately Rs. 34.4 Lakh with no further liability. For this investor, at this rate, the outcome is broadly equivalent.

The divergence appears with a different investor. Substitute a corporate investor taxed at approximately 25 per cent. Under the Category II pass-through the Rs. 60 Lakh is taxed at 25 per cent, giving after-tax income of Rs. 45 Lakh and a return of 9 per cent. Under the Category III structure the income has already suffered tax at the maximum marginal rate at the fund level, and the investor still receives Rs. 34.4 Lakh - a return of 6.88 per cent. The same strategy, the same gross yield, the same fee, and a difference of 212 basis points in after-tax return driven entirely by the category decision.

PRO TIP

Build an after-tax return table for your three largest expected investor archetypes - typically a top-rate resident individual, a domestic corporate or family office entity, and a non-resident investor claiming treaty relief - before you finalise the category, and put a version of it in Part B of the PPM. Two things follow. You will occasionally discover that the category you assumed is the wrong one for your actual investor base. And you will be the manager in the room who can answer the after-tax question precisely, which is a differentiator in a fundraise where most managers quote gross returns and change the subject.

Investor Tax Communication Checklist

- State the character of income allocated / distributed rather than showing only a net cash distribution.
- Show tax withheld separately and state clearly that withholding may not equal the investor's final tax liability.
- Give investors enough notice to address advance-tax obligations where material income is allocated during the year.
- Separate resident, non-resident, corporate, trust and other investor archetypes when illustrating after-tax outcomes.
- For any IFSC or treaty-based position, identify the qualifying conditions and documentation rather than presenting the concession as automatic.

PRACTITIONER'S CHECKLIST

- Model after-tax returns for the largest expected investor archetypes before selecting the category.
- Explain withholding versus final tax clearly in each distribution communication.
- Maintain investor tax reporting and pass-through records on a recurring calendar.
- Treat business-income classification as a material structuring issue for Category I / II funds.
- For 2026-27 onward, map legacy 1961 Act references to the operative Income-tax Act, 2025 provisions.

PART IV - LIFE AFTER REGISTRATION

Chapter 12: Valuation, NAV and the Independent Valuer Mandate

Valuation is where the AIF framework has tightened most sharply, and it is the obligation most likely to be under-resourced at the point of registration. A fund that treats valuation as an annual audit-support exercise will find itself out of step with a regime that now expects independent, methodologically consistent valuation on a recurring cycle, reported through to depositories at instrument level.

Why the Regime Tightened

The underlying concern is straightforward. AIF portfolios are dominated by assets with no observable market price - unlisted equity, structured credit, stressed real estate, mezzanine paper. Net asset value drives investor reporting, performance measurement, benchmarking, carried interest calculations and, in open-ended Category III structures, subscription and redemption pricing. When the input to all of those is a manager's own estimate, the incentive problem is obvious.

SEBI's response has been to move toward independent, methodologically consistent valuation and instrument-level reporting. Under Regulation 23, Category I and Category II AIFs must value their investments at least once every six months through an independent valuer; the frequency may be extended to once a year with approval of at least 75 per cent of investors by value. Category III AIFs operate under their NAV framework - NAV must be calculated independently from fund management at the prescribed frequency, and unlisted securities and listed debt securities are subject to independent valuation requirements. The current Master Circular should be checked for methodology, reporting and depository-upload mechanics at each reporting cycle.

Asset class	Primary approach	Common cross-check	Principal judgement area
Unlisted equity - mature investee	Income approach - discounted cash flow	Market approach on comparable company multiples	Discount rate build-up and terminal growth assumption
Unlisted equity - early stage	Recent transaction price, calibrated forward	Milestone-adjusted scenario weighting	When to move away from the last round price
Private credit - performing	Amortised cost or income approach on contractual cash flows	Yield comparison against current market spreads for equivalent risk	Credit spread movement and borrower deterioration
Private credit - stressed	Recovery-based analysis on expected realisable value	Security cover and enforcement timeline analysis	Probability and timing of recovery
Real estate holdings	Income capitalisation or comparable sales	Replacement cost as a sanity check	Capitalisation rate selection and absorption assumptions
Fund of funds positions	Reported NAV of underlying funds	Lag adjustment and independent review of underlying policy	Reporting lag and consistency of underlying methodology

Table 10: Valuation approaches by asset class. The final column is where an independent valuer adds the most - and where disputes with auditors concentrate.

The Valuation Policy

Every fund should adopt a written valuation policy at the outset, and it should be specific enough to be applied consistently by someone who did not write it. A usable policy states the valuation date and frequency for each asset class, the methodology hierarchy and the circumstances in which the fund moves from one approach to another, the identity and independence of the valuer, the process for approving valuations including who reviews and who signs, the treatment of material events between valuation dates, and the escalation route where the manager and the valuer disagree.

That last item is the one most policies omit and the one most likely to be needed. A documented disagreement process protects both the manager and the valuer, and its absence turns a technical difference of view into a governance problem.

OUR INSIGHT

The valuation issue that generates the most difficult conversations is the early-stage holding carried at last round price for too long. A portfolio company raises at a Rs. 400 Crore post-money valuation. Eighteen months later it has missed plan by a wide margin, the sector multiple has compressed, and the company is in a bridge round at a flat headline price with heavy structure - a large liquidation preference and full ratchet anti-dilution. The manager carries the position at the last round price because the headline price has not moved. That is not a valuation; it is a refusal to make one. Structure changes value even when price does not, and an independent valuer who models the preference stack will produce a materially different number. The uncomfortable mark taken early is always cheaper than the one taken during exit diligence.

NAV Reporting and Its Downstream Uses

NAV is not merely an investor reporting output. It feeds the benchmarking submissions that determine how the fund is measured against peers, the performance track record used to raise the successor fund, the carried interest calculation, and the ISIN-level reporting to depositories. An inconsistency between the NAV reported to investors and the data submitted for benchmarking is the kind of discrepancy that is easy to create and difficult to explain.

The practical implication is that valuation, fund accounting, investor reporting and benchmarking submission should be operated as one process with a single source of truth, rather than as four processes owned by four providers. Funds that fragment these functions across an administrator, an auditor, a valuer and an internal finance team without a controlling reconciliation are the funds that discover divergence at the worst possible moment.

PRO TIP

Appoint the independent valuer before the first investment settles, not before the first reporting date. There are two reasons. The valuer will identify, at the point of investment, the information you need to collect from the investee company - management accounts on an agreed frequency, the full capitalisation table including preference terms, budget-versus-actual reporting, covenant compliance certificates - and securing those rights is far easier in the shareholders' agreement than requesting them a year later. And a valuer engaged from inception values the position on a consistent basis throughout its life, which is precisely what an auditor, a benchmarking agency and a successor-fund investor will each test.

Benchmarking and the Track Record You Will Need for Fund II

The valuation you produce today becomes the track record you present in three years. Investment-level data submitted to SEBI-empanelled benchmarking agencies is used to construct peer comparisons against which the fund is measured, and those comparisons are what a prospective investor in the successor fund will examine. A manager who has marked optimistically through the investment period faces an unattractive choice at that point: defend marks that have not been realised, or take a correction immediately before a fundraise.

There is a related asymmetry worth naming. Optimistic marks flatter interim reporting and cost nothing in the short run, but they compress the reported return in later periods when reality asserts itself - and they do so precisely when the successor fund is being raised. Conservative marks do the opposite. Neither is a licence to manage the number; both are reasons to establish a consistent, independently applied methodology at the outset and stay with it through the cycle, because consistency is what makes a track record credible rather than the level of any individual mark.

A Closing Word on Independence

The value of an independent valuation lies entirely in its independence. A valuer who accepts the manager's assumptions without challenge produces a document that satisfies a filing requirement and protects nobody. The engagement worth paying for is the one where the valuer asks why the discount rate has not moved despite a change in the credit environment, why a preference stack has not been modelled, and why a position that has missed plan for six quarters is carried at cost. Those questions are uncomfortable at the time and they are the reason the mandate exists.

Who Can Act as the Independent Valuer?

The current Master Circular does not reduce AIF valuation eligibility to one qualification. The independent valuer must be independent of the AIF, Manager, Sponsor and Trustee / associates, have the prescribed experience in valuation of unlisted securities, and satisfy one of the eligibility routes specified by SEBI. These include the IBBI-registered-valuer route with the prescribed professional membership conditions, and the eligible credit-rating-agency group route, among others specified by SEBI. For a firm relying on the IBBI route, the entity-level and signing-valuer requirements should be checked before appointment.

Accordingly, an AIF should not describe IBBI registration as the only possible eligibility test. The engagement letter should record the exact eligibility route relied upon, independence confirmation, asset-class experience and the person authorised to sign the valuation.

Selection Test	What the Manager Should Verify
Independence	No disqualifying association with the AIF, Manager, Sponsor or Trustee and no conflict that compromises objectivity.
Regulatory eligibility	Which current SEBI eligibility route the valuer relies upon, and whether all entity / individual conditions under that route are met.
Experience	At least the prescribed relevant experience in valuation of unlisted securities, plus sector and instrument competence for the actual portfolio.
Reporting capability	Ability to support the fund's valuation frequency, methodology documentation, NAV reconciliation and auditor / investor queries.

Valuation Governance Calendar

The strongest fund valuation process is designed before the first portfolio company is acquired. Information rights, valuation dates, review responsibilities and reporting outputs should be treated as one connected calendar rather than separate year-end tasks.

Trigger	Core Output	Evidence / Control
New investment	Opening valuation / calibration file	Transaction documents, investment memo and capital structure captured at entry.
Scheduled valuation date	Independent valuation workpapers and conclusion	Current financials, management update, market evidence and methodology bridge.
Material portfolio event	Event assessment and, where required, refreshed value	Board / lender / financing evidence documenting the event and its valuation impact.
NAV / investor reporting cycle	Reconciled portfolio values feeding NAV	Tie-out between valuer outputs, administrator records and investor reporting.
Methodology change	Governance note explaining the change	Reason for change, quantitative impact and approval / review trail retained.

PRACTITIONER'S CHECKLIST

- Appoint the independent valuer early enough to shape information rights and reporting processes.
- Adopt a written valuation policy that addresses methodology, frequency, governance and exceptions.
- Use consistent methods over time and document any change in approach or key assumption.
- Reconcile valuation outputs to NAV, benchmarking and depository reporting.
- Select a valuer for relevant asset-class depth, independence, eligibility and recurring reporting capability.

CONCLUSION

Working With an AIF Registration Expert

An AIF registration is a project with a fixed set of deliverables and a highly variable timeline. The variability is almost entirely a function of preparation quality. Two applications for economically identical funds, filed in the same month, can complete in ninety days and in ten months respectively - and the difference will not be the strategy, the sponsor's pedigree or the size of the fund. It will be whether the trust deed objects clause was right the first time, whether the disciplinary history chain was traced before filing rather than after, and whether Form A and the PPM described the same fund.

What You Can Reasonably Do Yourself

A capable in-house finance or company secretarial team can and should handle a meaningful portion of this process. Specifically:

- Drafting the one-page investment policy statement and testing whether the strategy is specific enough to survive review.
- Assembling the corporate document set - incorporation certificates, PANs, address proofs, financial statements and shareholding schedules.
- Building the ownership chart tracing every shareholder above 10 per cent through to natural persons.
- Arranging the NISM Series-XIX-C certification for a key investment team member, well ahead of filing.
- Creating the SI Portal account, populating the mechanical sections of Form A, and managing the current submission logistics.
- Running the compliance calendar once the certificate is issued.

Where Professional Support Changes the Outcome

The remainder is judgement, and it is where engagements earn their fee. Category selection where the mandate sits near a boundary. Vehicle choice modelled against investor geography and admission mechanics. Objects clause drafting that anticipates how SEBI reads a trust deed. The five-year regulatory health check across an ownership chain the applicant does not control. Reconciling PPM economics against side letters. Responding to observations in a way that closes a point rather than reopening it. And the valuation and NAV architecture that will govern the fund's reported performance for the next decade.

What to Expect From an Engagement

A well-run registration engagement has four phases. A structuring phase of two to four weeks, ending in a decision memorandum covering category, vehicle, parties and tax profile. A documentation phase of four to eight weeks covering the constitutional documents, the PPM and the Merchant Banker coordination. A filing phase of one to two weeks. And a query management phase running from filing to certificate.

A focused domestic mandate can start around Rs. 3 - 5 Lakh, while broader end-to-end registration support commonly falls in the Rs. 5 - 10 Lakh range. Cross-border ownership, extensive drafting or unusual structuring is scoped separately.

A Pre-Filing Readiness Checklist

Before the application is submitted, every line below should be capable of a confident yes. Where any line cannot be answered, the answer is not to file and hope - it is to close the gap first, because closing it before filing costs days and closing it during review costs weeks.

Readiness item	Why it matters
The one-page investment policy is written and specific on sectors, instruments, stage, geography, ticket size and return basis	It is the source document for Form A, the PPM and the first investor conversation.
The category has been tested against the twenty investments the fund actually expects to make	Category mismatch is the costliest error to correct after filing.
The constitutional document objects clause is drafted and reviewed before registration and stamping	Amending a registered deed mid-application costs three to six weeks.
The investment manager is incorporated, capitalised, and its objects include fund management	A newly formed, thinly capitalised manager invites readiness queries.
A key investment team member holds a current NISM Series-XIX-C certificate	Expiry between examination and filing is queried immediately.
The ownership chart traces every 10-per-cent-plus holder to a natural person	Incomplete UBO chains draw a query without exception.
A documented five-year regulatory health check is complete across the full chain	What you disclose is manageable; what SEBI finds independently is not.
The consistency matrix across Form A, PPM and contribution agreement shows no divergence	Terminology differences alone are sufficient to trigger observations.
The named-persons schedule with PANs is complete	Collection from upstream and non-resident parties cannot be compressed.
Custodian, depository participant, valuer and administrator are identified	These onboardings run in parallel with SEBI review at no cost to the timeline.

Table 11: Pre-filing readiness checklist. Every line reflects a failure observed in practice rather than a restatement of the regulations.

PRO TIP

Whether you engage us or another adviser, ask one question before you appoint: how many AIF applications have you personally taken from structuring to certificate, and can you describe the two that went badly and why? Anyone can describe the process. The value sits in knowing where it fails - the sub-registrar backlog, the 10-per-cent controller who will not sign, the unverified portal payment that quietly stalls an application. Advisers who have only read the regulations will describe the happy path. Ask for the other one.

The Cost-Benefit Equation

A focused Rs. 3 - 5 Lakh advisory engagement, or a broader Rs. 5 - 10 Lakh end-to-end mandate, protects a vehicle intended to raise and deploy many multiples of that amount. Measured against the cost of a delayed registration - a missed anchor-investor committee cycle, a closed deployment window, deferred management-fee income and the credibility cost of another slipped first close - professional support is often one of the smallest line items in the launch budget.

How Elite Valuation Can Help

- Category and structure assessment - determining the correct AIF category and legal vehicle before documents are drafted, modelled against your actual investor base.
- End-to-end SEBI registration - Form A preparation, SI Portal filing, physical submission, and management of every query round through to certificate.
- Private Placement Memorandum support - Part A and Part B review, consistency reconciliation against Form A and the contribution agreement, and Merchant Banker coordination.
- Regulatory health checks - five-year disciplinary history review across the full ownership chain above the sponsor and manager, documented for disclosure.
- Net worth certification and continuing interest planning - CA-certified net worth statements and funding plans for the sponsor commitment.
- Independent portfolio valuation - IBBI Registered Valuer opinions on unlisted equity, private credit and illiquid holdings, on a defensible and consistent methodology.
- NAV determination and investor reporting - recurring valuation cycles aligned to SEBI reporting timelines, benchmarking submissions and depository-level reporting.
- Post-registration compliance setup - compliance calendars, PPM audit readiness, and material change intimations.

ONE LAST THING BEFORE YOU CLOSE THIS GUIDE

A fund is easiest to fix before it is filed.

Once the trust deed is registered, the PPM is circulated, the category is selected or the first-close timetable is promised to investors, the room to correct a structural issue narrows quickly. AIF registration is not difficult because the forms are long. It is difficult because category, strategy, ownership, disclosures, service providers, tax, valuation and launch timing all have to tell the same story.

You do not need to have the structure solved before calling us. Send the fund thesis, draft PPM, term sheet, ownership chart, trust deed or SEBI observation. We will help identify the category, key regulatory workstreams, missing documents and the most practical sequence to get the fund from idea to first close - without creating avoidable rework.

CALL US WHEN YOU ARE DEALING WITH

- Selecting Category I, II or III and the mandate sits close to a regulatory boundary
- Choosing trust / LLP / company structure or comparing an onshore AIF with GIFT IFSC
- Drafting or reviewing the PPM, contribution economics, side letters or investment restrictions
- Preparing Form A, the ownership chain, fit-and-proper disclosures or a response to SEBI observations
- Moving from registration certificate to first close and operational onboarding
- Setting up independent portfolio valuation, NAV and recurring investor / depository reporting
- A cross-border, tax, FEMA or transaction issue that affects the fund or an underlying investment
- A valuation, M&A, ESOP, intangible asset or financial model question elsewhere in the sponsor group

EXPERIENCE	CLIENT ENGAGEMENTS	PROFESSIONAL CREDENTIALS	PRACTICE
15+ Years	500+	CA | CS | IBBI RV	Ex-EY | Pan-India

WHAT HAPPENS IN THE FIRST CONVERSATION

01	02	03
We understand the fund	**We map the regulatory path**	**We define scope and sequence**
Strategy, investor base, target corpus, legal entities, team, timeline and what is already committed.	Category, vehicle, PPM / GARUDA route, ownership disclosures, service providers, tax and valuation workstreams.	Documents, owners, timeline, filing plan, query-response process and first-close readiness actions.

BOOK A 15-MINUTE INTRODUCTORY CALL

Speak to us before the structure is locked, the PPM is filed or a query becomes a second-round problem. A short first conversation is often enough to identify the issue that would otherwise cost a month later.

CALL	EMAIL	VISIT
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The best time to solve an AIF registration problem is before it becomes a filed document, an investor promise or a regulatory observation.

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