

THE ULTIMATE AIF PRIVATE PLACEMENT MEMORANDUM DRAFTING GUIDE 2026

*A Practitioner's Guide to the SEBI Template,
Merchant Banker Diligence and Investor-Grade
Disclosure*



BY

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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 & PPM Advisory
- 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, audit teams, fund counsel and SEBI-facing filings.

HOW WE APPROACH ENGAGEMENTS

01 Clarify the purpose We start with the reporting, transaction or regulatory objective before selecting a method.	02 Build from evidence Assumptions are anchored to financials, market data, contractual terms and the economics of the business.	03 Document the judgement The report explains the why behind the number so that reviewers can follow and challenge it.	04 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 is not limited to PPM drafting assignments. We work across the full valuation and transaction lifecycle — from a first institutional fundraise or ESOP grant to an acquisition, intangible-asset exercise, cross-border transaction, Ind AS requirement, AIF mandate or strategic decision. The common thread is independent analysis that is commercially useful and defensible before stakeholders.

01 AIF PPM Drafting & Advisory

Part A and Part B preparation against the SEBI template, fee illustration and waterfall, disclosure mapping.

07 PPA & Ind AS Valuation

Purchase price allocation, impairment, financial instruments, share-based payments and fair-value measurement.

02 Merchant Banker Diligence Pack

Consistency matrix, disciplinary-history file, track-record substantiation and response to diligence observations.

08 FEMA & Cross-Border Valuation

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

03 Annual PPM Compliance Audit

Pre-audit mapping of PPM terms to conduct, audit coordination and remediation of findings.

09 Income-tax & Regulatory Valuation

Independent valuation for applicable Income-tax, Companies Act, SEBI and transaction-specific requirements.

04 AIF Portfolio & NAV Valuation

Independent scheme and portfolio valuation, NAV policy drafting and valuation-section support for the PPM.

10 Business & Company Valuation

Independent enterprise and equity valuation for strategic decisions, transactions and shareholder matters.

05 PPM Change Management

Direct and Merchant Banker filings, material-change classification and dissenting-investor exit processes.

11 Financial Modelling & Fundraising

Investor-ready operating models, DCFs, scenario analysis, cap-table economics and decision models.

06 ESOP Advisory & Valuation

Pool sizing, scheme design, ordinary-share valuation, grant-date fair value and Ind AS 102 support.

12 Due Diligence & Transaction Advisory

Financial due diligence, transaction structuring, M&A support, valuation review and execution advisory.

One team, multiple contexts. AIF assignments commonly sit at the intersection of the SEBI template, the contribution agreement, Form A, FEMA, valuation policy and investor-rights language. We scope the work around the actual purpose rather than forcing one document or one number into every use case.

REPORTS	MODELS	ADVISORY	REVIEW SUPPORT
Independent valuation opinions & PPM drafts	DCF / OPM / waterfall & fee illustrations	Round, structure & filing inputs	Board / auditor / SEBI & investor queries

WHO WE SERVE

We work with fund managers, sponsors and venture-backed companies across the funding lifecycle, as well as listed groups, investors, funds and professional advisers. Clients typically involve us when a document or a valuation will affect dilution, tax, accounting, a board decision, a regulatory filing or an eventual exit — and the output must be supported by a file that can be defended later.

CLIENTS & STAKEHOLDERS

- Founders, startups and venture-backed companies
- VC, PE, family offices and strategic investors
- CFOs, controllers and finance teams
- Boards, audit committees and independent directors
- Employees and management teams in ESOP programmes
- Acquirers, sellers and shareholders in secondaries
- Listed companies and large private groups
- AIF sponsors, fund managers and trustees
- MNCs and Indian subsidiaries of global groups
- CA, CS, legal, tax and transaction advisers
- Banks, NBFCs, lenders and credit teams
- Businesses preparing for M&A, restructuring or succession

WHEN CLIENTS TYPICALLY CALL US

FUNDRAISE	ESOP	CROSS-BORDER
Pre-seed to growth round, valuation discussion, cap-table impact or investor diligence	Pool creation, grant pricing, ordinary-share value or Ind AS 102 accounting	Foreign investor, FEMA pricing, conversion terms or secondary transfer
AIF / PPM	REPORTING	REGULATORY
New scheme PPM, Merchant Banker diligence, annual audit or a material amendment	PPA, impairment, fair value, instrument classification or audit support	Companies Act, SEBI, Income-tax, AIF filing or another valuation requirement

SECTORS WE WORK ACROSS

Technology & SaaS	Fintech	Consumer & Retail	Healthcare	Manufacturing
Financial Services	Logistics	Hospitality	Real Estate & Infra	Professional Services

WHY CLIENTS WORK WITH US

SENIOR INVOLVEMENT	STARTUP + REGULATORY VIEW
Complex assignments receive founder-led review and judgement, not a volume-processing approach.	We connect commercial round economics with Companies Act, FEMA, tax, Ind AS, SEBI and investor-rights consequences.
DEFENSIBLE OUTPUT	PRACTICAL EXECUTION
The focus is not only the number, but the assumptions, evidence and documentation behind it.	Big 4-style rigour combined with the responsiveness and accessibility of a boutique advisory team.

START A CONVERSATION

If you are unsure whether the immediate question is a PPM draft, a Merchant Banker observation, an annual audit finding, round pricing, ordinary-share value, FEMA, ESOP or a broader transaction issue, send us the term sheet, cap table, instrument terms or current PPM. We can help define the right objective before the structure becomes difficult to change.

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DISCLAIMER

This publication is intended for general information and education only. It does not constitute legal, tax, investment or professional advice, and must not be relied upon as a substitute for advice tailored to your circumstances. Securities law and SEBI circulars change frequently; the regulatory position stated here reflects the position understood by the author as at the date of publication and should be verified against the current text of the SEBI (Alternative Investment Funds) Regulations, 2012, the prevailing Master Circular for AIFs and the mandated PPM template before any decision is taken.

All examples, illustrations, fee tables and waterfall workings are hypothetical. Figures are indicative and do not represent any actual client engagement, live fund or completed transaction. Category-specific limits, exemption thresholds, direct-filing lists and audit scope should be confirmed against the circular in force on the date of drafting, because each of these has been revised more than once in recent years.

Neither the author nor Elite Valuation accepts liability for any action taken or not taken on the basis of this publication. Reference to a Merchant Banker, auditor, valuer or other intermediary does not constitute an endorsement. Engagement terms, if any, are governed solely by a separate letter of engagement.

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This guide is written for fund managers, sponsors, chartered accountants, company secretaries, fund lawyers and compliance officers who are drafting, reviewing or auditing the Private Placement Memorandum of an Alternative Investment Fund in India. It assumes familiarity with the AIF framework and focuses on the document itself.

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PART I — THE DOCUMENT AND ITS FRAMEWORK

Chapter 1: What the PPM Is and Why It Governs Everything

The Private Placement Memorandum is the primary document in which all the necessary information about an Alternative Investment Fund is disclosed to prospective investors. That is SEBI's own description, and the word "primary" is doing real work. Of the documents a fund produces — the trust deed, the investment management agreement, the contribution agreement, the pitch deck — the PPM is the one SEBI mandates a template for, the one a Merchant Banker must independently diligence, the one audited every year for the life of the fund, and the one an investor is entitled to rely upon when committing capital. It is the fund's constitutional promise to its investors.

This guide is about drafting that document well. Not merely compliantly — though compliance is the floor — but in a way that survives Merchant Banker diligence, clears SEBI review without avoidable query rounds, withstands the annual compliance audit, and, most importantly, does not become the exhibit in a dispute three years later when a distribution does not match what an investor believed they were promised.

Why the PPM Carries So Much Weight

Three features of the AIF framework converge on the PPM and make it disproportionately important relative to any single document in most other regulated products.

- **It is templated.** SEBI mandated a standardised template so that a minimum standard of disclosure is available in a simple and comparable format. An investor can place two funds' PPMs side by side and compare fees, risks and terms section by section. This comparability is a feature for investors and a constraint for drafters: the format and section sequence are prescribed, and deviation is visible.
- **It is diligenced.** For every scheme other than the exempt categories, a SEBI-registered Merchant Banker must independently verify the disclosures and certify their veracity and adequacy. The PPM is therefore not a document the manager writes and files; it is a document the manager writes, an independent intermediary tests, and only then files.
- **It is audited annually.** Every AIF must carry out an annual audit of its compliance with the terms of its own PPM. The promises in the document are not aspirational; they are tested against the fund's actual conduct every financial year, and the findings go to the trustee or board.

OUR INSIGHT

We tell every first-time manager the same thing: the PPM is the only document in the entire fund that is simultaneously a marketing document, a legal contract, a regulatory filing and an audit benchmark. Those four purposes pull in different directions. Marketing wants ambition; the contract wants precision; the filing wants the template; the audit wants promises the fund can actually keep. A PPM that reads beautifully as a pitch and vaguely as a contract is the most dangerous kind, because it raises expectations the audited reality will not meet. The discipline is to write every sentence knowing all four readers are looking at it.

The Anatomy of the Document

Under the Master Circular the PPM template has two parts. Part A contains the minimum disclosures that must appear without exception, in the prescribed format and sequence. Part B is a supplementary section giving the fund full flexibility to add any further information it considers useful — the market opportunity, the sector thesis, detailed manager biographies, case studies. The mandated template for Category I and II AIFs is set out at Annexure 1 of the Master Circular, with a separate template for Category III.

Part A — Mandatory	Part A (continued)	Part B — Supplementary
Executive summary	Disciplinary history	Market opportunity
Investment strategy	Manager track record	Sector investment thesis
Investment restrictions	Legal and tax notes	Detailed team biographies
Fees and expenses	Investor Charter	Illustrative case studies
Distribution waterfall	Grievance redressal	Value-creation approach
Risk factors	Governance and IC	ESG or impact framework
Conflicts of interest	Winding-up terms	Anything else useful

Figure 1 / Table: Part A is prescribed and diligenced line by line; Part B is where the fund makes its commercial case with far greater freedom.

The Cost of Getting It Wrong

A poorly drafted PPM does not fail quietly. It fails in one of four visible places, each more expensive than the last. It fails in Merchant Banker diligence, where inconsistencies are surfaced before filing and the drafting is reopened. It fails in SEBI review, where the scheme filing draws observations and the twelve-month first-close clock ticks while they are resolved. It fails in the annual audit, where a divergence between the document and the fund's conduct becomes a finding reported to the trustee. And it fails, most seriously, in an investor dispute, where a vague fee clause or an ambiguous waterfall becomes the contested language that

governs who gets paid what.

Failure point	Who sees it	Typical cost
Merchant Banker diligence	Independent intermediary before filing	Re-drafting fees and two to eight weeks of delay
SEBI observations	SEBI officer; trustee; sometimes anchors	First-close clock erosion; repeated query rounds
Annual PPM audit finding	Trustee / board / designated partners; SEBI	Remediation; documented non-compliance record
Investor dispute	Investors, counsel, possibly a forum	Litigation, forced exits, successor-fund damage

Table: The four places a weak PPM becomes expensive. Prevention at drafting is cheaper than any of the four.

How This Guide Is Organised

Part I establishes the document, its template and who must file it. Part II is the drafting core — four chapters on the sections that generate the most diligence observations and the most disputes: strategy and restrictions; fees and the waterfall; risk, conflicts and disciplinary history; and track record. Part III covers the process that turns a draft into a filed document: the Merchant Banker diligence, the SEBI filing, and the annual compliance audit. Part IV addresses the PPM as a living document — how it is amended, the investor exit right that material changes trigger, and the valuation, NAV and Investor Charter sections that recur through the fund's life.

Throughout, the guide returns to a single organising idea: the PPM is a promise, and the discipline of drafting it well is the discipline of making only promises the fund can keep, disclosing them fully, and stating them precisely enough that they cannot be misread. A manager who internalises that idea will draft a document that survives diligence, clears SEBI, passes the annual audit and, above all, does not become the exhibit in a dispute. That is the standard this guide is written to help you meet.

A Working Definition the Drafter Can Use

For practical purposes, treat the PPM as the only investor-facing document whose contents the regulator, an independent intermediary and an annual auditor will each test. The trust deed creates the vehicle. The contribution agreement creates the economic contract between investor and fund. The PPM is the public statement of both, written to a prescribed template, and it is the statement against which later conduct is measured. If a term matters enough to appear in the contribution agreement, it must appear consistently in the PPM. If a claim is made in the fundraising deck, it must be capable of surviving in the PPM without being watered down into vagueness or inflated into a promise the fund cannot keep.

PRO TIP

Before you draft a single section, obtain the current PPM template from the SEBI website and the current Master Circular, and confirm the date of each. This area moves quickly — the template, the list of PPM changes that may be filed directly, the Merchant Banker requirement and the audit scope have all been revised in recent years. A PPM drafted against last year's template and last year's change-filing list will draw diligence observations for omissions that did not exist when the previous fund was raised. Verify the source, note its date, and draft against the current text.

PART I — THE DOCUMENT AND ITS FRAMEWORK**Chapter 2: The SEBI Template — Part A and Part B**

SEBI introduced the mandated PPM template in February 2020 to streamline disclosure standards across the industry. Before it, every fund’s PPM looked different, and an investor comparing two funds had to reconcile two entirely different documents. The template solved that by prescribing a minimum set of disclosures in a fixed format. Understanding the template — what is fixed, what is flexible, and where the drafter’s judgement actually operates — is the foundation of drafting a PPM that passes.

Part A: The Mandatory Minimum

Part A is the section SEBI cares about most and the section the Merchant Banker diligences line by line. Its format and sequence are prescribed. The drafter’s job in Part A is not to decide what to include — that is fixed — but to populate each mandated section with disclosure that is specific, accurate, internally consistent and defensible. The table below sets out the core Part A sections and what a diligent drafter must get right in each.

Part A section	What it must contain	Where drafters go wrong
Executive summary	A precise snapshot: category, target corpus, strategy, team.	Marketing language that overstates or diverges from later sections.
Investment objective and strategy	Sectors, instruments, stage, geography, ticket size and return basis.	Vague ambition (“high-growth opportunities”) that is not a strategy.
Investment approach and restrictions	Category-specific limits including concentration and leverage stance.	Restrictions inconsistent with the category or the stated strategy.
Fees, expenses and illustrations	Every fee, plus the mandatory tabular fee example and waterfall.	Missing the worked illustration; fee text that does not match the table.
Risk factors	Fund-specific and strategy-specific risks, not boilerplate.	Generic risk language copied from an unrelated fund.
Conflicts of interest	Related-party dealings, co-investment allocation, other vehicles.	Silence on conflicts that plainly exist.
Disciplinary history	Five-year history for the fund, sponsor, manager and their people.	Omitting income-tax matters or upstream controller history.
Track record	Deal-level substantiation with a clear basis of calculation.	Aggregate return claims with no underlying detail.

Table 1: The core Part A sections. Each is developed in Part II; the final column previews recurring findings.

Part B: Where the Fund Makes Its Case

Part B is the supplementary section, and SEBI does not prescribe its format. This is where the fund tells its story: the market opportunity it is addressing, the sector thesis, the value-creation playbook, detailed biographies of the team, illustrative case studies, and any ESG or impact framework. Part B is genuinely flexible, and a well-written Part B is what differentiates a fund in a crowded fundraising.

The flexibility carries a discipline of its own, however. Nothing in Part B may contradict Part A. A market-opportunity narrative in Part B that implies a broader mandate than the strategy in Part A, or a case study describing a deal type the restrictions in Part A prohibit, creates exactly the internal inconsistency the Merchant Banker is engaged to catch. Part B is freer, but it is not unpoliced.

OUR INSIGHT

The most common Part B failure we see is the reused deck. A manager takes the fundraising presentation — which was written to persuade, with rounded numbers and confident claims — and pastes it into Part B. Now the persuasive language is inside a regulated, diligenced, audited document, and every rounded number and confident claim is something the Merchant Banker must verify and the manager must live with. Part B should be written for the PPM, in the register of the PPM: ambitious about the opportunity, precise about the facts. The deck persuades; the PPM commits. They are not the same document even when they describe the same fund.

Why the Template Exists — and What It Changed

Before February 2020, AIF disclosure was a free-for-all. Each fund's PPM followed its own structure, used its own terminology and disclosed at its own chosen depth. An investor evaluating three funds had to reconcile three incompatible documents, and a weaker manager could bury an unfavourable term in a section a stronger manager disclosed prominently. The template ended that. By fixing a minimum set of disclosures in a common sequence, SEBI made PPMs comparable and raised the floor of disclosure across the industry.

For the drafter, this history carries a lesson. The template is not bureaucratic friction to be worked around; it is a disclosure standard the market now expects and that sophisticated investors read fluently. A manager who resents the template and drafts to its bare minimum signals exactly the wrong thing. The managers who use it best treat Part A as the disciplined core that establishes credibility, and Part B as the space to differentiate — rather than treating the whole document as a compliance chore.

The Diligence and Audit Overlay

Two further features sit on top of the template and shape how it must be drafted. First, the Part A disclosures are independently diligenced by the Merchant Banker before filing, which means every claim must be capable of independent verification. Second, compliance with the PPM's terms is audited annually, which means every commitment must be one the fund can actually keep. The template tells the drafter what to disclose; the diligence and audit overlay tells the drafter how carefully. A disclosure that is templated but unverifiable fails diligence; a commitment that is templated but unkeepable fails the audit.

The Fee Illustration and Waterfall Requirement

One specific mandate deserves flagging at the template level because it is both compulsory and frequently mishandled: the PPM must include a detailed tabular example of how fees are applied and how the distribution waterfall operates. This is not optional narrative — it is a required worked illustration, showing on a numerical example how a rupee flows from investor commitment through management fee, hurdle, catch-up and carried interest to final distribution. Chapter 5 is devoted to building it correctly. At the template level, the point is simply that its absence is a certain diligence observation.

Different Templates for Different Funds

The template is not monolithic. Category I and II AIFs use the template at Annexure 1; Category III AIFs use a separate template reflecting their leverage and trading-strategy disclosures. Angel Funds and Large Value Funds for Accredited Investors operate under materially relaxed regimes, examined in Chapter 3. The first drafting decision is therefore to confirm which template applies to the fund at hand, because drafting against the wrong one produces a document that is structurally non-compliant before its content is even assessed.

Fund type	Template source	Drafting consequence
Category I and II	Master Circular Annexure 1	Full Part A sequence; fee illustration mandatory
Category III	Separate Cat-III template	Additional leverage and trading-strategy disclosure
Angel Fund	Relaxed regime	Template discipline reduced; disclosure duty remains
Large Value Fund / Rs. 70 Cr waiver	Template may be waived	Form changes; substance of fair disclosure does not
Accredited Investors Only Fund	Relaxations apply	Confirm the current circular before drafting

Table: Confirm the applicable template before a single heading is populated.

PRO TIP

Build your PPM on the actual SEBI template as a skeleton, section heading by section heading, before you write any prose. Populate each mandated Part A heading in the prescribed order, mark any that are genuinely not applicable as “not applicable” with a one-line reason rather than deleting them, and only then begin drafting content. This guarantees you never omit a mandated section, it makes the Merchant Banker’s diligence faster because the document maps to their checklist, and it makes the annual audit straightforward because the auditor can walk the document against the template heading by heading.

PART I — THE DOCUMENT AND ITS FRAMEWORK

Chapter 3: Who Must File, Who Is Exempt

Not every AIF files a PPM in the SEBI template, and not every PPM goes through a Merchant Banker. Before drafting begins, the fund must place itself correctly within the filing regime, because the exemptions materially change the drafting burden, the cost and the timeline. Getting this wrong in either direction is expensive: a fund that unnecessarily runs the full Merchant Banker process wastes fees and weeks, while a fund that wrongly claims an exemption files a non-compliant document.

The General Rule

The default position is straightforward. Every AIF must prepare a PPM in the mandated template, and for every scheme other than the exempt categories the PPM must be filed with SEBI through a SEBI-registered Merchant Banker who has independently diligenced the disclosures. The PPM must be filed at least thirty days before the scheme opens for subscription, and SEBI takes it on record rather than approving its contents. This is the regime the majority of Category I, II and III funds operate under.

The Exemptions

Three categories of fund sit outside the full regime, each for a different reason and each with different consequences for the drafter. The table is a map, not a substitute for reading the current circular: thresholds and waiver mechanics have moved, and a 2025 Accredited Investors Only Fund overlay now sits alongside the older Large Value Fund route.

Fund type	Mandated template?	Merchant Banker?	Annual PPM audit?
Standard Category I, II, III scheme	Yes	Yes	Yes
Angel Fund	No — relaxed regime	No	Relaxed
Large Value Fund for Accredited Investors	May waive the template	No — may file directly	May waive
Each investor commits Rs. 70 Crore or more with a waiver	May waive the template	Per waiver	May waive
Accredited Investors Only Fund (2025)	Relaxations apply	Relaxations apply	Relaxations apply

Table 2: The PPM filing regime by fund type. Exemptions reduce form, not the duty to disclose fairly to investors.

Large Value Funds and the Rs. 70 Crore Waiver

A Large Value Fund for Accredited Investors is a scheme in which each investor is an accredited investor committing above the prescribed higher threshold. Separately, the Master Circular provides that a scheme in which each investor commits a minimum capital contribution of Rs. 70 Crore — or the USD 10 million

equivalent for non-rupee commitments — and provides a waiver, may be exempted from the requirement of the PPM in the SEBI template and from the annual audit of PPM terms. The logic is consistent: where every investor is both sophisticated and committing at institutional scale, the regulator relies on investor bargaining power and diligence rather than on prescriptive disclosure.

The drafter should not read these exemptions as an invitation to draft less carefully. A waiver of the template is not a waiver of the duty to disclose fairly and completely. An LVF whose investors later allege that a material risk or a fee arrangement was not disclosed will find little comfort in the fact that the template was waived. The exemption changes the form of the obligation, not its substance.

OUR INSIGHT

Managers are often attracted to the LVF and Rs. 70 Crore waiver routes for the wrong reason — they want to avoid the Merchant Banker fee and the template discipline. That is a false economy in most cases. The template discipline is what protects the manager in a later dispute, because a PPM that follows the mandated structure and discloses fully is the manager's best evidence that investors were properly informed. We have seen an LVF sponsor, having waived the template, spend far more on legal defence of an inadequately documented fee arrangement than the Merchant Banker fee they saved would ever have cost. Choose the waiver because your investor base genuinely is institutional and prefers the flexibility, not because you want a lighter document.

The Direct-Filing Relaxation

A separate and important relaxation, introduced in April 2024, concerns changes to an existing PPM rather than the initial filing. SEBI recognised that routing every PPM change through a Merchant Banker imposed disproportionate cost, and it specified a list of changes that may be filed directly with SEBI without Merchant Banker involvement. These are examined in detail in Chapter 11, but the principle belongs here: the Merchant Banker requirement is not uniform across the life of the PPM. It binds the initial filing and material changes, but a defined set of administrative and non-material changes may now be filed directly.

Placing the Fund Correctly

The practical sequence is to answer four questions before drafting. First, which category is the fund, and therefore which template applies? Second, is the fund an Angel Fund, an LVF or a Rs. 70 Crore-plus waiver scheme with relaxed requirements? Third, does the scheme require Merchant Banker diligence on the initial filing — which, for anything other than the exempt categories, it does? Fourth, is the fund registering as an Accredited Investors Only Fund, which carries its own relaxations? The answers determine the document that must be built, and building the wrong one is the most fundamental drafting error available.

A Short Exemption File Note

The exemption analysis should live in a file, not in someone's head. A one-page note that records the provision relied on, the eligibility condition, the evidence that the fund meets it, and the date the analysis was

last checked against the circular is enough. When the annual auditor or a SEBI inspecting officer asks why the scheme did not run a Merchant Banker process, that note is the answer. When the analysis is oral, the answer is a reconstruction under pressure.

Question to answer in the file note	Evidence to attach
Which circular and paragraph creates the exemption?	Extract of the current Master Circular / relevant circular
What eligibility condition must every investor meet?	Accreditation letters / commitment letters / side waivers
Does any investor fall below the threshold?	Cap table of commitments at first close and subsequent closes
Has the waiver been obtained in the prescribed form?	Signed investor waivers, dated
Who signed off the analysis, and when?	CEO / Compliance Officer confirmation

Table: Minimum contents of the exemption file note. An hour of work that fixes the foundation of the draft.

PRO TIP

Document your exemption analysis in a short file note before drafting, and have it reviewed. If you are claiming any relaxation — Angel Fund, LVF, the Rs. 70 Crore waiver or AIOF — write down the specific provision relied on, the eligibility condition it requires, and the evidence that the fund meets it. A waiver claimed without a documented basis is the kind of thing that unravels during the annual audit or, worse, during a SEBI inspection, and by then the fund has been operating on a document built for the wrong regime.

PART II — DRAFTING THE CORE DISCLOSURES

Chapter 4: Investment Objective, Strategy and Restrictions

The investment strategy section is where most PPMs are won or lost. It is the section a SEBI officer reads most sceptically, the section the Merchant Banker tests hardest against Form A, and the section an investor relies on most directly when deciding whether the fund does what they want it to do. It is also the section drafters most often fill with language that sounds substantive and says nothing.

A Strategy Is Not an Ambition

Officers reviewing AIF documents are financially sophisticated and read hundreds of these. A strategy described as “investing in high-growth opportunities across sectors to generate attractive risk-adjusted returns” is not a strategy; it is the absence of one dressed as prose. A defined investment policy — which is what Regulation 2(1)(o) of the AIF framework contemplates the fund to have in substance — must specify six things concretely.

- **Sectors.** The specific sectors or sub-sectors the fund will invest in, and any it will not.
- **Instruments.** Equity, quasi-equity, structured debt, mezzanine, convertibles — named, not gestured at.
- **Stage.** Early-stage, growth, buyout, distressed — the point in the investee’s life at which the fund enters.
- **Geography.** India, specific regions, or a defined offshore allocation with its FEMA basis.
- **Ticket size.** A stated range per investment, which demonstrates the fund has thought about position sizing and diversification.
- **Return basis.** The specific mechanism by which the team expects to generate returns — multiple expansion, cash yield, operational improvement, structured downside protection.

OUR INSIGHT

Managers resist specificity because they believe it constrains them. It does not, and the belief costs them. A stated ticket range of Rs. 15 to Rs. 50 Crore does not prevent a Rs. 12 Crore investment; it shows you have thought about sizing. A named sector focus does not prevent an opportunistic adjacent deal; it shows you have a thesis. What specificity actually does is demonstrate that the team has done the work, and that is precisely what the reviewer and the sophisticated investor are trying to establish. The vaguest PPMs are almost always written by the least prepared managers, and experienced allocators know it. Vagueness is not flexibility; it is a tell.

Drafting the Investment Restrictions

The restrictions section is the mirror image of the strategy: it states what the fund will not do. It must reflect the category-specific limits accurately, and it is where category discipline is proven. The key restrictions to state explicitly include the single-investee concentration limit, the leverage stance, the treatment of derivatives, and any investor-consent gates on exceeding stated limits.

Restriction	Category I / II position	Category III position
Single-investee concentration	Category II: commonly framed as a defined cap (often 10 per cent of investable funds), extendable only with investor consent	Higher flexibility, subject to the fund's own stated limits and leverage rules
Leverage and borrowing	Operational borrowing only, within tight duration limits	Leverage permitted within regulatory limits, to be disclosed with its basis
Derivatives	Hedging only; not as a source of return	Permitted as part of the strategy, to be disclosed clearly
Investment in associates	Restricted; requires investor consent and disclosure	Restricted; requires investor consent and disclosure
Exceeding stated limits	Only with the consent mechanism disclosed in the PPM	Only with the consent mechanism disclosed in the PPM

Table 3: Restrictions to state explicitly. Verify precise percentages against the current Regulations and Master Circular.

The Consistency Trap

The strategy and restrictions in the PPM must match the strategy described in Form A exactly, and they must be consistent with the fund's constitutional documents. This is the single most common source of SEBI observations. The trap is subtle: the two documents are often drafted by different people at different times — Form A by the compliance team, the PPM by counsel — and they describe the same strategy in different words. Even using different terminology for the same concept across the two documents draws a query, because the reviewer cannot be sure the difference is merely linguistic.

Case Study: Rewriting a Vague Credit Strategy

A first-time manager submitted a draft PPM for a Category II fund describing its strategy as “providing flexible capital solutions to Indian businesses across the capital structure to achieve superior risk-adjusted returns.” The Merchant Banker flagged it immediately: the language permitted almost anything, was inconsistent with the narrower mandate in Form A, and would not survive SEBI review.

The redraft specified the fund as providing senior secured and mezzanine debt of Rs. 20 to Rs. 75 Crore per transaction to profitable mid-market manufacturing and healthcare companies in India, with target tenors of three to five years, contractual cash yields in a stated range, and equity upside through warrants on a minority of transactions. It stated a single-borrower concentration cap and confirmed no leverage at the fund level beyond thirty days of operational borrowing. The same language went verbatim into Form A.

The redrafted strategy was longer and more constraining on paper, and the manager initially resisted it as limiting. In the fundraise that followed, two anchor investors specifically cited the clarity of the strategy as a reason for their commitment, and the SEBI filing drew no observation on strategy at all. The specificity that felt like a constraint was read by sophisticated investors as evidence of a disciplined manager.

A Practical Drafting Sequence for This Section

Write the six-element strategy paragraph first, in a single controlled block. Paste it into Form A and the PPM without paraphrase. Then write the restrictions as a numbered list that a later auditor can tick against actual investments. Then write the consent mechanism for any limit that may be exceeded. Only after those three blocks exist should Part B be allowed to describe the market. Part B then has a fence it cannot cross.

PRO TIP

Draft the strategy and restrictions once, in a single controlled paragraph set, and paste the identical language into both Form A and the PPM. Do not let two people draft the same substance independently. If the strategy must be summarised more briefly in Form A than in the PPM, make the Form A version a strict subset of the PPM language — every word in Form A appearing verbatim in the PPM — rather than a paraphrase. A reviewer comparing the two documents should find no word in one that contradicts or is absent in spirit from the other. This one discipline eliminates the most frequent category of query.

PART II — DRAFTING THE CORE DISCLOSURES

Chapter 5: Fees, Expenses and the Distribution Waterfall

The fee and waterfall section is where the PPM stops being a description and becomes an economic contract. It is also where SEBI imposes its most specific drafting mandate: the PPM must contain a detailed tabular example showing how fees are applied and how the distribution waterfall operates. This chapter is about building that illustration correctly, because a vague or inconsistent fee section is simultaneously a certain diligence observation and the most common seed of a later investor dispute.

The Components to Disclose

Every economic term that affects what an investor pays or receives must be disclosed, and each must be internally consistent with the others and with the contribution agreement. The core components are the management fee and its base, the hurdle rate, the carried interest and its catch-up, the treatment of fund expenses and the expense cap if any, set-up cost amortisation, and the distribution waterfall that sequences all of these.

Economic term	What must be specified
Management fee	The rate, the base (committed capital, drawn capital or invested cost), and how the base changes between the investment period and thereafter.
Hurdle rate	The preferred return rate, whether it compounds, and whether it is a hard or soft hurdle.
Carried interest	The carry percentage, the catch-up mechanics, and whether carry is on a whole-of-fund or deal-by-deal basis.
Catch-up	The rate at which the manager catches up after the hurdle, stated precisely — the most misunderstood term.
Fund expenses	What is charged to the fund versus the manager, any expense cap, and set-up cost amortisation.
Clawback	The circumstances and mechanics of any manager clawback of excess carry.
Distribution waterfall	The exact sequence in which cash flows to investors and manager, illustrated in the mandatory worked example.

Table 4: Economic terms every PPM must disclose. Each must reconcile precisely with the contribution agreement.

The Mandatory Waterfall Illustration

SEBI requires not just a description of the waterfall but a numerical worked example. A standard European whole-of-fund waterfall runs in four tiers: first, return of capital to investors; second, the preferred return or hurdle to investors; third, the manager's catch-up; and fourth, the carry split of the remainder. The illustration must show a rupee flowing through each tier on assumed numbers. The tiers alone, without numbers, are not sufficient disclosure.

Tier	Who is paid	What it does
Tier 1 — Return of capital	100% to investors	All drawn capital (and often fees treated as returnable) is restored before any profit is shared.
Tier 2 — Preferred return	100% to investors	Investors receive the hurdle, commonly 8% per annum, on contributed capital.
Tier 3 — Manager catch-up	Up to 100% to manager	The manager catches up so that carry is calculated on total profit above cost.
Tier 4 — Carry split	e.g. 80 / 20	Remaining profit is split, commonly 80% to investors and 20% carry to the manager.

Figure 2: The standard four-tier European waterfall. The PPM must illustrate this with actual numbers.

A Worked Fee and Waterfall Example

Consider a fund that draws Rs. 100 Crore of investor capital, charges a 2 per cent management fee, offers an 8 per cent hurdle with a full manager catch-up, and an 80/20 carry split, and returns Rs. 180 Crore of proceeds after a five-year hold. Ignoring the timing subtleties of fee drag for the illustration, the waterfall distributes as follows.

Tier	Mechanic	Amount (Rs. Cr)	Cumulative to investors
Total proceeds	Sum distributable	180.00	—
Tier 1 — Return of capital	100% to investors until Rs. 100 Cr returned	100.00	100.00
Tier 2 — Preferred return	8% simple over 5 years on Rs. 100 Cr = Rs. 40 Cr	40.00	140.00
Tier 3 — Catch-up	100% to manager until manager has 20% of profit above capital	10.00	140.00
Tier 4 — 80/20 of remainder	Remaining Rs. 30 Cr split 80/20	24.00 / 6.00	164.00
Manager total carry	Tier 3 + Tier 4 manager share	16.00	—
Investor total	Capital + preferred + 80% of remainder	164.00	164.00

Table 5: Illustrative whole-of-fund waterfall. Carry of Rs. 16 Crore equals 20% of the Rs. 80 Crore profit above capital. Figures ignore fee-timing effects.

OUR INSIGHT

The catch-up is the term investors misunderstand most, and it is where we see the most dangerous drafting. In the example, after investors receive their 8 per cent preferred return, the manager takes 100 per cent of the next slice until the manager holds 20 per cent of the total profit above capital — not 20 per cent from that point forward, but 20 per cent of the whole profit. An investor who reads the waterfall as “I get my money, then my 8 per cent, then we split 80/20” and does not understand the catch-up will feel misled when the manager takes that full slice, even though the document was correct. The remedy is the worked table. Numbers do not lie and cannot be misread the way prose can. Always show the catch-up in the illustration with a real figure.

Reconciling the PPM With the Contribution Agreement

The economics in the PPM must match the contribution or limited partnership agreement precisely. SEBI does not formally approve the contribution agreement, but the Merchant Banker’s diligence tests the two against each other, and inconsistency is a material finding. The most common source of divergence is side letters: anchor investors negotiate fee holidays, reduced carry or preferential terms, and those arrangements are documented separately and then not reflected in the PPM’s disclosure of fee variation.

Where side letters give certain investors different economics, the existence and nature of such arrangements must be disclosed in the PPM, even if the specific counterparties are not named. A PPM that presents a single fee schedule while side letters quietly vary it for anchors is not merely inconsistent — it misleads the investors who did not receive the better terms about the economics they are accepting.

American Versus European Waterfalls

Indian Category I and II funds most often use a European whole-of-fund waterfall. Some credit and secondaries structures use deal-by-deal (American) mechanics with a clawback. If the fund uses anything other than a plain European four-tier waterfall, the illustration must show that alternative with the same numerical honesty. A prose description of a deal-by-deal waterfall without a table is an invitation to later disagreement about when carry crystallises and how clawback is calculated.

PRO TIP

Build one fee-and-waterfall model in a spreadsheet, have it agreed by the manager and reviewed by counsel, and generate both the PPM illustration and the contribution agreement economics from that single source. Never let the PPM table and the agreement be drafted independently. Then build a one-page reconciliation showing every economic term, its value in the PPM, and its value in the agreement, and confirm the two columns match on every line including any side-letter variations. This reconciliation is the first thing a competent Merchant Banker will ask for, and having it ready converts a diligence round into a diligence formality.

PART II — DRAFTING THE CORE DISCLOSURES

Chapter 6: Risk Factors, Conflicts and Disciplinary History

Three Part A sections — risk factors, conflicts of interest and disciplinary history — share a common failure mode: they are the sections drafters most want to minimise, and therefore the sections that most often contain the omissions that surface in diligence, in audit, or in a dispute. The discipline in all three is the same: disclose what is real, specifically, even when it is uncomfortable.

Risk Factors: Specific, Not Boilerplate

The risk factors section must set out the risks that actually attach to this fund and this strategy. Generic market-risk language copied from an unrelated fund is the classic diligence flag, because it signals that the drafter did not engage with the specific risk profile. A private credit fund and a venture capital fund face fundamentally different risks, and their PPMs should read differently.

Good risk drafting is layered: the general risks of illiquid private investment; the strategy-specific risks (for credit, borrower default and recovery risk; for venture, total-loss and follow-on dilution risk); the structural risks (key-person dependence, conflicts, valuation uncertainty); and the regulatory and tax risks specific to the category. Notably, the annual PPM audit treats the risk factors section as one where audit is optional, which some drafters misread as licence to be lazy. The opposite inference is correct: because it is not audited, the drafter carries the full responsibility for getting it right the first time.

Risk layer	What belongs here	What does not
General private-market	Illiquidity, long duration, limited secondary market	Generic “markets can fall” language with no fund hook
Strategy-specific	Default and recovery (credit); total loss and dilution (venture)	Risks of a strategy the fund is not permitted to run
Structural	Key person, valuation uncertainty, related-party allocation	Abstract governance language with no named roles
Regulatory and tax	Category limits, FEMA, GAAR, change-in-law	Out-of-date citations from a predecessor fund

Table: A usable structure for the risk section. Each layer should contain risks an investor in this fund would actually face.

Conflicts of Interest: Disclose the Ones That Exist

Every fund has conflicts, and a PPM that discloses none is not conflict-free — it is under-disclosed. The conflicts that must be addressed include related-party transactions, the allocation of opportunities between the fund and any other vehicle the manager runs, co-investment allocation policy, the manager’s and sponsor’s own investments, and any arrangement under which the manager or its affiliates earn fees from portfolio companies.

The co-investment conflict deserves particular care given the co-investment vehicle framework now available to Category I and II funds. Where the manager may offer co-investment to some investors alongside the fund, the PPM must state the basis on which co-investment opportunities are allocated, because an ad hoc allocation that favours one investor is exactly the conflict that surfaces in a later fundraise or dispute.

OUR INSIGHT

The instinct to under-disclose conflicts is understandable and wrong. A manager worries that disclosing a conflict makes the fund look compromised. In practice, sophisticated investors know every fund has conflicts, and a PPM that discloses them clearly reads as more trustworthy, not less. What damages a manager is not the disclosed conflict; it is the undisclosed one that emerges later. We have never seen an investor walk away because a conflict was disclosed. We have seen several relationships destroyed because a conflict that should have been disclosed was not, and the investor concluded the manager either did not understand the conflict or chose to hide it. Neither conclusion is one you want an investor reaching.

Disciplinary History: The Most-Missed Disclosure

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 the prescribed threshold. 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. This is the disclosure most likely to be incomplete, and the one where incompleteness is treated most seriously.

Layer	Who must be captured
1. The AIF itself	Any regulatory action against the fund entity in the last five years.
2. Sponsor and manager	Actions against both entities, separately declared.
3. Directors and partners	Personal actions against individuals who are directors or partners.
4. Promoters and associates	Group companies and associated entities within scope.
5. 10%-plus controllers	Since January 2025, anyone controlling 10% or more of sponsor or manager.
6. All regulators, not just SEBI	RBI, IRDAI, PFRDA, Income Tax, MCA, courts and tribunals.

Figure 3: The disciplinary history chain. The two most-omitted layers are income-tax matters and upstream 10-per-cent controllers.

Four categories are routinely missed, and each is within scope. Income-tax orders and notices, omitted on the reasoning that they are not securities-market actions — but SEBI treats any order from a regulatory or quasi-regulatory authority as disclosable. Penalties later set aside on appeal, where the obligation attaches to the original action with the outcome noted, not to the final result. Actions against individuals in their personal

capacity, where they are directors or partners of the sponsor or manager. And matters involving upstream controlling entities that the applicant does not control and cannot easily obtain information from.

How to Draft an Honest Nil Statement

A clean disciplinary history is common and perfectly acceptable. What is not acceptable is a nil statement that was not actually searched. The credible form is: the search was run across the named authorities for the named persons and entities for the five-year window; the results were nil, or the results were the following matters with dates, forums, amounts and current status. A one-line “there is no disciplinary history” without evidence of enquiry is a statement waiting to be disproved.

PRO TIP

Run a documented five-year regulatory health check across the entire chain before you draft the disciplinary history section — covering SEBI, RBI, IRDAI, PFRDA, the Income Tax Department, the MCA and any court or tribunal proceeding in which each entity or individual was named. Document the search itself, including the nil results, so you can demonstrate the enquiry was made. Non-disclosure is treated far more seriously than the underlying matter: SEBI will proceed with a fund that disclosed a penalty transparently, but a fund where SEBI independently surfaces an undisclosed action faces a different trajectory entirely. What you disclose with context is manageable; what SEBI finds is not.

PART II — DRAFTING THE CORE DISCLOSURES

Chapter 7: Track Record and the First-Time Manager

The track record section is read more sceptically than any other, because it is the section with the strongest incentive to flatter. It is also the section where the annual PPM audit is optional for first-time managers specifically, which places the full weight of getting it right on the drafter. A track record that is aggressive, unsubstantiated or inconsistent with its stated basis is both a diligence flag and, if it later proves misleading, a serious problem.

Disclose the Basis, Always

The single most important discipline in track record drafting is to state the basis of every number. A stated internal rate of return means little without knowing whether it is gross or net of fees and carry, realised or including unrealised marks, and on what valuation basis the unrealised positions are held. The same underlying performance can be presented as a range of very different-looking numbers depending on these choices, and a track record that does not disclose its basis invites the reviewer to assume the least favourable interpretation.

The elements to specify are: whether returns are gross or net; whether realised, unrealised or blended; the valuation basis for unrealised positions; the vehicle or account in which the record was generated; the period covered; and whether the figures are audited. A track record disclosed on this basis is credible even if the numbers are modest. One disclosed without it is suspect even if the numbers are strong.

Track record element	Why it must be specified	The risk if omitted
Gross versus net	Net returns after fees and carry are what an investor actually earns.	The reviewer assumes gross figures are being passed off as net.
Realised versus unrealised	Realised returns are cash; unrealised are estimates that may not materialise.	The record looks stronger than the cash actually returned.
Valuation basis for unrealised	Unrealised marks depend entirely on the valuation methodology used.	The reviewer cannot assess whether marks are conservative or aggressive.
Vehicle or account	Whether the record is the team's or the prior platform's.	Individual credit is confused with institutional credit.
Attribution to individuals	Which team members actually drove which outcomes.	A departed star's record is claimed by a team that did not produce it.

Table 6: Track record elements to disclose. The basis of the numbers matters as much as the numbers.

The First-Time Manager

A first-time manager with no fund-level track record faces a specific drafting challenge, and the wrong response is to overstate or to obscure. The right response is to present the individual track records of the key team with deal-level specificity: the transactions each team member led at a prior employer, with counterparty type, ticket size, tenor, instrument and outcome. The absence of a fund-level record is not disqualifying; a vague description of the team's experience is far more damaging than an honest statement that this is the team's first fund, followed by rigorous individual attribution.

Where the track record was built at a prior platform, the PPM must be careful to distinguish the individual's contribution from the platform's. Claiming an institution's aggregate record as the team's own is both misleading and easily exposed, since the prior platform's results are often independently verifiable. Precise individual attribution is more credible and more defensible than borrowed institutional glory.

OUR INSIGHT

For a first-time manager, honesty about the absence of a fund track record is a strength, not a weakness, if it is paired with rigour about what the team has actually done. We ask every key team member to produce a deal-by-deal sheet: counterparty type, ticket, tenor, instrument, their specific role, and the outcome. "The CIO led fourteen credit transactions aggregating Rs. 890 Crore at a named NBFC between 2017 and 2023, of which eleven are fully repaid and two are in scheduled amortisation" is worth more than any aggregate IRR claim, because it is specific, attributable and checkable. Sophisticated investors are not deterred by a first fund. They are deterred by a first-time manager who tries to look like a fifth-time manager and fails.

Presenting a Multi-Vehicle Track Record

Experienced managers face the opposite problem to the first-time manager: a track record spread across multiple vehicles, employers and time periods that must be presented coherently without cherry-picking. The temptation is to aggregate selectively — to combine the strong periods and quietly omit the weak ones, or to blend records from different strategies into a single flattering number. Both are diligence flags and both undermine credibility with sophisticated investors who know how track records are massaged.

The disciplined approach is to present the record vehicle by vehicle, with each vehicle's strategy, period, size and outcome stated separately, and to let the reader aggregate if they wish. Where a prior vehicle underperformed, disclosing it with context — the market conditions, the specific circumstances, what the team learned — is more credible than omitting it and hoping the investor does not ask. Sophisticated allocators respect a manager who explains a difficult period far more than one who pretends it did not happen.

Presentation choice	The credible approach	The approach that draws scrutiny
Aggregation	Present each vehicle separately; let the reader aggregate.	Blend vehicles into a single flattering composite.

Presentation choice	The credible approach	The approach that draws scrutiny
Underperforming vehicles	Disclose with context and lessons learned.	Omit them and present only the successes.
Strategy consistency	Show records from strategies comparable to the new fund.	Include unrelated-strategy records to pad the numbers.
Time period	Show the full relevant period, including weak years.	Select only the strong vintage years.
Benchmark	Compare against a relevant, disclosed benchmark.	Compare against a flattering or unstated benchmark.

Table 7: Track record presentation choices. In every row, the credible approach is also the more defensible one if challenged.

The Interaction With the Audit

The annual PPM compliance audit specifically makes the audit of the “Track Record of First-Time Managers” section optional, alongside the risk factors and legal, regulatory and tax sections. Drafters sometimes read this as meaning the section matters less. The correct inference is the reverse: because the auditor is not required to test it, the drafter bears sole responsibility for its accuracy, and any later challenge to the track record will not be met with the defence that an auditor reviewed it. The optional audit status raises, rather than lowers, the drafting standard required.

PRO TIP

Keep the evidence file for every track record number as you draft it, not after. For each figure in the track record section, hold the underlying support — the deal records, the valuation basis, the calculation of any stated return, the confirmation of the individual’s role. Assemble this into a track record substantiation pack that sits alongside the PPM. The Merchant Banker will ask for it during diligence, a sophisticated investor may ask for it during their own diligence, and if the record is ever challenged, it is your contemporaneous evidence that the numbers were true and fairly presented when the document was drafted.

*PART III — DILIGENCE, FILING AND AUDIT***Chapter 8: The Merchant Banker and the Due Diligence Certificate**

For every scheme other than the exempt categories, the PPM cannot be filed until a SEBI-registered Merchant Banker has independently diligenced it and issued a due diligence certificate. This requirement, rooted in Regulation 12(2) of the AIF Regulations, is not a formality to be dispatched at the end of drafting. It is a substantive independent review that will surface every inconsistency a careful drafter should already have resolved — and it is far cheaper to resolve them before the Merchant Banker does.

What the Merchant Banker Does

The Merchant Banker must independently exercise due diligence on all the disclosures in the PPM, satisfy itself as to their veracity and adequacy, and provide a due diligence certificate in the format specified in the Master Circular. The certificate is filed alongside the PPM, and the details of the Merchant Banker are disclosed in the PPM itself. The current Master Circular reaffirms this: non-LVF schemes must file the PPM through a registered Merchant Banker who independently verifies disclosures and ensures the adequacy and accuracy of the information provided to investors.

Crucially, the Merchant Banker cannot be an associate of the AIF, the sponsor, the manager or the trustee. The independence is the point. The certificate is the market's assurance that a party with no economic stake in the fundraise has tested the disclosures, and an associated Merchant Banker would defeat that purpose entirely.

What Diligence Actually Examines

A competent Merchant Banker works from a checklist that closely mirrors what SEBI itself reviews, which is why clearing diligence properly means clearing the most likely SEBI observations in advance. The recurring focus areas are set out below.

Diligence focus	What the Merchant Banker tests
Strategy consistency	Whether the PPM strategy matches Form A and the constitutional documents, in substance and terminology.
Fee and waterfall integrity	Whether the fee text, the mandatory illustration and the contribution agreement all reconcile.
Disciplinary history completeness	Whether the five-year history covers all parties and the 10-per-cent controllers.
Track record substantiation	Whether performance claims are supported and the basis of calculation is disclosed.
Risk and conflict adequacy	Whether risks are fund-specific and whether real conflicts are disclosed.
Beneficial ownership and AML	Whether investor eligibility, FATF screening and beneficial ownership requirements are addressed.

Diligence focus	What the Merchant Banker tests
Regulatory citations	Whether the legal, regulatory and tax section reflects current law.

Table: Recurring Merchant Banker diligence focus areas. Clearing these in drafting is the most reliable way to avoid both diligence and SEBI observations.

OUR INSIGHT

The best way to use a Merchant Banker is to make their job easy, because an easy diligence is a fast diligence and a fast diligence protects the first-close clock. We give the Merchant Banker a diligence pack alongside the draft PPM: the consistency matrix reconciling the PPM against Form A and the contribution agreement, the fee-and-waterfall model, the disciplinary history search results including the nil findings, and the track record substantiation. A Merchant Banker who receives that pack can diligence in days. A Merchant Banker who receives only the PPM and has to request each supporting document one at a time turns a two-week diligence into a two-month one. The pack is the same work that should have been done anyway; presenting it well simply compresses the timeline.

What the Certificate Actually Certifies

The due diligence certificate is a specific document in a format prescribed by the Master Circular, and understanding what it does and does not certify matters for both the manager and investors. The Merchant Banker certifies that it has independently exercised due diligence on the disclosures and satisfied itself as to their veracity and adequacy. It does not certify that the fund will perform, that the strategy will succeed, or that the investment is suitable for any particular investor. It is an assurance about the quality of disclosure, not about the merits of the fund.

This distinction protects the Merchant Banker and should inform how the manager presents the certificate. A manager who tells prospective investors that the fund has been “certified” by a Merchant Banker, implying an endorsement of the fund’s quality, misrepresents what the certificate is. The honest presentation is that the disclosures have been independently diligenced — which is itself valuable, because it assures investors the document they are relying on has been tested by a party with no stake in the fundraising.

The Cost and Timeline of Diligence

Merchant Banker diligence carries both a fee and a timeline, and both should be planned for. Fees vary with the complexity of the fund and the completeness of the manager’s documentation, but they are a meaningful line in the setup budget. The timeline is more consequential than the fee, because it sits on the critical path to first close. A well-prepared diligence, supported by a complete diligence pack, can conclude in two to three weeks. A poorly prepared one, where the Merchant Banker must request documents piecemeal and re-review after each correction, can stretch to two months or more.

The variable the manager controls is preparation. The fee is largely fixed; the timeline is almost entirely a function of how complete and consistent the document set is when diligence begins. This is why the diligence

pack described in this chapter is worth assembling carefully: it is the single most effective lever the manager has over the diligence timeline, and therefore over the date the fund can open for subscription.

Choosing the Merchant Banker

Merchant Bankers vary in their familiarity with AIF diligence, and the choice matters. A Merchant Banker who diligences AIF PPMs regularly will work from a current checklist, know what SEBI is currently focused on, and turn the diligence around efficiently. One for whom AIF work is occasional will be slower, more conservative and more likely to raise points that a specialist would recognise as non-issues. Confirm before engaging that the Merchant Banker has done AIF diligence recently and can commit to a turnaround that fits the fundraising timeline.

When Diligence Raises Observations

Where the Merchant Banker's diligence surfaces an issue, the response principle is the same as with a SEBI query: fix the underlying document rather than explaining the discrepancy. If diligence reveals that the fee illustration does not match the contribution agreement, correct one or the other so they reconcile; do not add a footnote explaining the difference. The certificate the Merchant Banker ultimately issues certifies the document as it stands, and a clean document is the goal, not a documented explanation of an unclean one.

PRO TIP

Engage the Merchant Banker early enough that their diligence runs in parallel with your final drafting, not after it. Many managers treat diligence as a sequential final step: finish the PPM, then hand it over. That serialises two processes that can overlap. Instead, share the near-final draft and the diligence pack while you are still polishing Part B, so the Merchant Banker's substantive review of Part A runs concurrently. This can take two to three weeks out of the critical path to first close, which in a competitive fundraising is the difference between catching an anchor investor's allocation cycle and missing it.

*PART III — DILIGENCE, FILING AND AUDIT***Chapter 9: Filing, Consistency and the SEBI Query**

Once diligenced, the PPM is filed with SEBI through the Intermediary Portal, and SEBI takes it on record. The filing has its own mechanics, its own timeline and its own recurring query triggers, and understanding them is what separates a PPM that goes on record in weeks from one that cycles through observations for months while the first-close clock runs.

The Filing Sequence and the 30-Day Rule

For a new scheme, the PPM is filed with SEBI accompanied by the Merchant Banker's due diligence certificate, and it must be filed at least thirty days before the scheme opens for subscription. SEBI takes the PPM on record — it acknowledges receipt and confirms process compliance but does not approve the contents or guarantee the accuracy of disclosures. Responsibility for accuracy rests with the AIF, the manager and the Merchant Banker through the due diligence certificate.

The thirty-day period is a floor, not a target. It is the minimum gap between filing and opening for subscription, and it exists to give SEBI a window to raise observations before investors commit. A scheme that opens exactly thirty days after filing and then receives observations is in the uncomfortable position of amending a document investors may already be relying on. Experienced managers file earlier than the floor and keep the subscription window closed until the document is on record without open observations.

The Consistency Discipline

The dominant cause of PPM-related SEBI observations is internal inconsistency — between the PPM and Form A, between the PPM and the constitutional documents, and within the PPM itself between Part A and Part B. Every material term should be reconciled across every document before filing.

Recurring observation	Relative frequency (indexed)
Strategy inconsistent between PPM and Form A	9
Fee text inconsistent with the illustration	7
Incomplete disciplinary history disclosure	7
PPM economics differ from contribution agreement	6
Missing or inadequate waterfall illustration	5
Generic, non-fund-specific risk factors	5
Part B contradicts Part A mandate	4
Stale language carried from a predecessor fund	4

Figure 4: Relative frequency of PPM-related observations, indexed to the most common. Illustrative of observed patterns rather than statistically derived.

The Predecessor-Fund Problem

Successor funds present a specific and recurring risk: the new PPM is built by editing the predecessor's, and stale language survives the edit. A team member who has left is still named. An investment period that ended with the prior vehicle is still referenced. A market-opportunity write-up carries data that is three years old. Each of these is an observation, and collectively they signal to the reviewer that the document was not read carefully.

OUR INSIGHT

When we review a successor-fund PPM, we run a mechanical check before looking at substance at all: every name, every date, every number, every cross-reference, checked against current reality. It takes an afternoon and it catches the entire class of predecessor-fund errors that would otherwise each become a separate observation. The temptation with a successor fund is to assume the document is 90 per cent done because the predecessor exists. That assumption is exactly what produces the stale-language observations. Treat the predecessor as a structure to populate afresh, not a document to lightly edit, and the successor filing goes on record cleanly.

Case Study: A Successor Fund That Filed Clean

A manager raising its third Category II fund approached the PPM the way most managers approach a successor document: by taking the Fund II PPM and editing it for Fund III. On review, the draft carried three stale-language problems typical of the approach. It named a partner who had left the firm eight months earlier. Its market-opportunity section in Part B cited deal-flow statistics from the Fund II vintage, now three years out of date. And its fee illustration used the Fund II economics, which differed from the Fund III terms the manager had actually agreed with anchor investors.

None of these was a substantive drafting failure — they were artefacts of editing rather than rewriting. But each would have been a separate SEBI observation, and together they would have signalled carelessness. The remedy was the mechanical check: every name verified against the current team, every date and statistic refreshed, and the fee illustration rebuilt from the Fund III model and reconciled against the Fund III contribution agreement.

The rebuilt PPM went on record without a single observation on the sections that had carried the stale language, and the manager's Merchant Banker diligence concluded in under three weeks because the document was internally consistent from the outset. The lesson worth generalising: a successor fund's PPM should be populated afresh into the predecessor's structure, not lightly edited, because the editing approach is precisely what produces the errors that make a successor filing look careless.

Listing Changes Against the Draft

Where the final placement memorandum submitted to SEBI differs from the draft submitted at the time of application, the changes must be clearly listed in the covering letter and highlighted in the final document itself. This is a specific Master Circular requirement and a frequent source of avoidable friction: a fund that quietly changes its PPM between draft and final, without listing the changes, invites SEBI to ask what else was changed silently. Transparency about the changes is both a requirement and a trust-builder.

Responding to a SEBI Query

If observations do arrive, resist the urge to argue the document into compliance. Amend the underlying inconsistency, re-file the marked-up pages, and keep the covering letter short. A six-page explanation of why two inconsistent sentences are “in substance the same” almost always produces a follow-up observation. A one-page letter that says the strategy paragraph in Form A and Part A now use identical language, with the pages attached, usually closes the point.

PRO TIP

Maintain a change log from the first draft onwards, recording every substantive change to the PPM with its date and reason. When you file the final PPM, the covering letter that lists changes against the draft writes itself from this log, and the highlighting in the document is a mechanical exercise. Funds that do not keep the log face an unpleasant reconstruction task at filing, trying to remember what changed over weeks of drafting — and reconstruction is exactly where an inadvertently unlisted change slips through, which is the change SEBI is most likely to notice.

PART III — DILIGENCE, FILING AND AUDIT

Chapter 10: The Annual PPM Compliance Audit

The PPM is not a document a fund files and forgets. Every AIF must carry out an annual audit of its compliance with the terms of its own PPM — a mechanism unique to the AIF framework and one that fundamentally changes how a PPM should be drafted. Every promise in the document is tested against the fund's actual conduct each financial year, which means the discipline of drafting is not merely to disclose fully but to disclose only what the fund can actually deliver.

What the Audit Covers

The audit examines whether the fund has complied with the terms set out in its PPM. It may be carried out by an internal or external auditor or legal professional, and it must be completed at the end of each financial year. The findings, together with any corrective steps taken, are communicated to the trustee or the board of directors or the designated partners, and the audit report is submitted to SEBI within the prescribed period after financial year-end.

Notably, the audit of three specific sections is optional: the risk factors section, the legal, regulatory and tax considerations section, and the track record of first-time managers. As Chapters 6 and 7 noted, this optionality raises rather than lowers the drafting standard for those sections, because the drafter cannot rely on the auditor to catch an error there.

PPM section	Audit status	Drafting implication
Investment strategy and restrictions	Audited	The fund's actual investments will be tested against the stated mandate.
Fees and expenses	Audited	Fees actually charged will be tested against the disclosed schedule.
Distribution waterfall	Audited	Actual distributions will be tested against the disclosed waterfall.
Conflicts of interest	Audited	Actual related-party dealings will be tested against the disclosure.
Risk factors	Optional	No auditor safety net; the drafter bears full responsibility.
Legal, regulatory and tax	Optional	Must be kept current by the drafter without audit reliance.
Track record (first-time managers)	Optional	Substantiation must be self-standing and defensible.

Table 8: Audit status of key PPM sections. The audited sections are where draft-versus-conduct divergence becomes a finding.

Drafting for the Audit

The audit changes the drafting calculus in a specific way: a promise you cannot keep is worse than a modest promise kept. A PPM that commits to an expense cap the fund then exceeds produces an audit finding. A PPM that commits to a concentration limit the fund then breaches produces an audit finding. The discipline is to draft terms the fund can actually live with across its whole life, not terms that read impressively at fundraise and become compliance problems in year three.

OUR INSIGHT

We draft the audited sections of a PPM by asking, of every commitment: will this still be true when an auditor tests it in three years? A manager wants to write an attractive expense cap because it helps the fundraise. We ask whether the fund can genuinely operate within it once legal, audit, valuation, custody and administration costs are all counted, in a year when the fund is small and costs are proportionately high. If the honest answer is uncertain, the cap is drafted with the flexibility the fund actually needs, disclosed transparently, rather than at an aggressive level that becomes an audit finding. The attractive promise that generates a finding does more reputational damage than the modest promise ever cost in fundraising.

The Audit Timeline and Who Sees the Findings

The audit runs on an annual cycle tied to the financial year, and the sequence matters for planning. The audit is conducted after year-end, the findings and any corrective steps are communicated to the trustee, board or designated partners, and the report is submitted to SEBI within the prescribed period. This means a divergence that arose early in the financial year is not surfaced until after year-end — potentially many months later — by which time the opportunity to correct the conduct cleanly may have passed.

The governance consequence is that the trustee or board receives a formal, documented account of every material way the fund's conduct diverged from its PPM. For a manager, this is a moment of accountability that recurs every year, and it is visible to the fund's governance layer whether or not it is visible to investors. A manager who treats the PPM casually and accumulates audit findings is building a documented record of non-compliance that the trustee sees, that SEBI sees, and that surfaces when the manager seeks to raise the next fund.

Stage	When	What happens
1. Financial year	April–March	Fund operates against PPM terms
2. Year-end	Post 31 March	Books closed; audit commences
3. Audit conducted	Q1 after year-end	Conduct tested against the PPM
4. Findings reported	Within the internal window	To trustee, board or designated partners

Stage	When	What happens
5. SEBI submission	By the prescribed deadline	Report filed with SEBI

Figure: The annual PPM audit cycle. Because findings surface after year-end, the manager's own pre-audit mapping is the only way to catch divergences while they can still be corrected.

Remediating Findings

Where the audit identifies a divergence between the PPM and the fund's conduct, the corrective steps taken must be documented and communicated to the trustee or board. A finding is not fatal — funds correct course — but a pattern of findings, or a finding left unremediated, is exactly the kind of record that becomes visible and damaging when the manager raises a successor fund or when SEBI conducts an inspection. The audit is an early-warning system, and the funds that use it well treat a finding as a prompt to fix both the conduct and, where appropriate, the drafting.

Sometimes the right remediation is a PPM amendment — if the fund's considered practice has diverged from an over-precise original term for good reason, the term may need to be amended, through the process examined in the next chapter, rather than the practice being forced back to an impractical commitment. But that judgement must be made deliberately and documented, not reached by quietly ignoring the divergence and hoping the next audit does not surface it.

PRO TIP

Build a PPM-to-conduct mapping at the start of each financial year, before the audit, listing every audited commitment in the PPM against the fund's actual conduct in that area. This is the auditor's test run by the manager in advance, and it surfaces divergences while there is still time to correct the conduct or plan an amendment before year-end. Funds that first discover a divergence when the auditor raises it have lost the opportunity to remediate cleanly, and are left explaining a finding rather than reporting a matter already addressed.

PART IV — THE LIVING DOCUMENT

Chapter 11: Amending the PPM and the Investor Exit Right

A PPM is not static. Fund terms evolve, teams change, strategies are refined, and the document must be kept current. But amending a PPM is not a matter of editing a file; it is a regulated process with different routes for different changes, an investor-notification obligation, and — for material changes — a mandatory exit right for dissenting investors. Understanding this process is essential, because a mishandled amendment can be as damaging as a mis-drafted original.

Two Routes: Merchant Banker or Direct

Historically every PPM change ran through a Merchant Banker, at cost and delay. In April 2024 SEBI recognised this as disproportionate for administrative and non-material changes and specified a list of changes that may be filed directly with SEBI without Merchant Banker involvement. This bifurcation is now central to PPM change management.

Change filed DIRECTLY (no Merchant Banker)	Change requiring the MERCHANT BANKER route
Change in fund size	Change in investment strategy or objective
Information relating to affiliates	Change in fee, carry or waterfall economics (other than reductions)
Change in the commitment or investment period	Change in investment restrictions or concentration limits
Change in the key investment team or key management personnel	Any change SEBI treats as material to investor rights
Reduction in expense, fee or cost charged to the fund or investors	Changes not falling within the direct-filing list
Change in contact details of AIF, sponsor, manager, trustee or custodian	—
Change of auditor, registrar, legal advisor or tax advisor	—
Updates to risk factors and manager track record	—

Table 9: Bifurcation of PPM changes after the April 2024 relaxation. Direct-filing changes require an undertaking signed by the CEO and Compliance Officer. Verify the list against the current circular.

The Direct-Filing Undertaking

Changes filed directly must be accompanied by a duly signed and stamped undertaking from the CEO of the manager — or the person holding the equivalent role depending on the manager's legal structure — and the Compliance Officer of the manager, in the format specified by SEBI. The direct route removes the Merchant Banker but not the accountability: it transfers the certification burden to the manager's own senior officers,

who attest to the change directly. Large Value Funds enjoy a broader version of this relaxation, being permitted to file changes directly with a similar undertaking.

The Investor Exit Right for Material Changes

This is the provision drafters and managers most need to understand. Where a change to the PPM is material, dissenting investors must be given an exit option. The changes must be clearly listed, and investors who do not consent to a material change are entitled to exit the fund, with the exit process to be completed within three months and overseen by the trustee or sponsor.

The consequence is significant: a material change is not something the manager can simply impose. If the manager wishes to change the strategy, the fee or another material term after investors have committed, it must offer an exit to those who object, and fund those exits within three months. This makes material amendments genuinely costly and is a powerful argument for getting the original PPM right — because the alternative to a well-drafted original is not a quiet amendment but a potentially expensive investor exit process.

OUR INSIGHT

The exit right is why we push so hard on getting the original PPM right. Managers sometimes take a relaxed view of the initial drafting on the theory that they can amend later. They cannot, not cheaply, for anything material. If you launch with a fee structure or a strategy you are not committed to and then try to change it, every investor who objects can walk, and you must fund their exit within three months — potentially at the worst possible time for fund liquidity. The exit right converts sloppy original drafting into a live liquidity risk. The disciplined path is to draft the original as though you can never change it materially, because in practical terms, without expensive consequences, you cannot.

What Counts as Material — the Judgement That Matters

The entire amendment framework turns on one judgement: is the change material? A material change triggers the investor exit right; a non-material change does not. Yet materiality is not exhaustively defined, and the boundary cases are exactly where managers get into trouble. Some changes are plainly material: a change in the fund's core strategy, an increase in the management fee or carry, a widening of the concentration limit that materially changes the risk profile. Some are plainly not: a change of registrar, an update to a contact address, a reduction in fees that benefits investors.

The difficult cases sit between. Is a refinement of the investment strategy that narrows rather than broadens the mandate material? Is a change in the key investment team material where the departing member was central to the fundraise? Is an extension of the commitment period material? These require judgement, and the safe default is to treat a borderline change as material unless there is a clear basis for concluding otherwise — because the cost of wrongly treating a material change as routine (an investor asserting the exit right that was never offered) far exceeds the cost of offering an exit that few or no investors take up.

A Worked Example: The Fee Increase

A manager two years into a Category II fund wishes to increase the management fee from 1.75 per cent to 2 per cent, reasoning that the original fee was set low to attract anchor investors and no longer covers the fund's operating costs. This is unambiguously material — it changes the economics every investor accepted. The manager cannot simply file the change. It must list the change clearly, offer every investor who dissents the right to exit, and complete any resulting exits within three months, overseen by the trustee.

The practical consequence is instructive. Faced with the exit-right mechanics, the manager in this scenario has to weigh whether the fee increase is worth the risk that anchor investors — precisely those who negotiated the low fee — exit rather than accept it, forcing the fund to return their capital at an inconvenient time. In most cases the analysis leads the manager to absorb the cost rather than trigger the exit right, which is exactly why the original fee should have been set at a sustainable level in the first place. The exit right makes the original drafting decision effectively irreversible, and that is the point of understanding it before drafting, not after.

The Annual Consolidated Intimation

Beyond individual change filings, any changes in the terms of the PPM and in the fund or scheme documents must be intimated to investors and to SEBI on a consolidated basis within one month of the end of each financial year. This is a housekeeping obligation that is easy to overlook and straightforward to satisfy if the change log has been maintained through the year. It ensures investors receive a periodic consolidated view of how the terms they committed to have evolved.

PRO TIP

Before making any PPM change, classify it deliberately in writing: is it a direct-filing change, a Merchant Banker change, or a material change triggering the investor exit right? The three categories carry completely different processes, costs and timelines, and the most expensive error is treating a material change as a routine one — implementing it without offering the exit, then discovering the omission when an investor asserts the right. When a change sits near the material boundary, take advice before acting, because the cost of wrongly classifying a material change as routine is measured in forced exits and regulatory exposure, not in advisory fees.

PART IV — THE LIVING DOCUMENT

Chapter 12: The Valuation, NAV and Investor Charter Sections

Two areas of the PPM recur through the fund's entire life and are increasingly scrutinised: the valuation and NAV methodology, and the investor-protection disclosures including the Investor Charter and grievance redressal. Both have been reinforced in recent SEBI circulars, and both are sections where a thin original drafting creates recurring problems.

The Valuation and NAV Section

The PPM must disclose how the fund will value its investments and determine net asset value. This matters more than drafters often appreciate, because NAV drives investor reporting, performance measurement, benchmarking, carried interest calculation and, in open-ended structures, subscription and redemption pricing. A vague valuation section stores up problems: it gives the auditor nothing precise to test against, it gives investors no assurance of consistency, and it leaves the manager exposed to the accusation that valuations were determined opportunistically.

SEBI has moved steadily toward independent valuation by appropriately qualified valuers, standardised methodologies for illiquid assets, and more frequent reporting. The PPM valuation section should therefore state the valuation frequency, the methodology hierarchy for each asset class, the identity and independence of the valuer, the process for approving valuations, and the treatment of material events between valuation dates. A section drafted at this level of specificity protects the manager; one drafted in generalities does not.

Valuation section element	What to disclose in the PPM
Valuation frequency	How often each asset class is valued, consistent with the category's regulatory minimum.
Methodology hierarchy	The primary and cross-check approaches for each asset class, and when the fund moves between them.
Independent valuer	The identity, qualification and independence of the valuer, and the scope of the independent mandate.
Approval process	Who reviews and who signs off valuations, and the governance around them.
Material events	How valuations are adjusted for events between scheduled valuation dates.
NAV reporting	How and when NAV is reported to investors and depositories, including ISIN-level reporting where applicable.

Table 10: Valuation and NAV section elements. Specificity here protects both manager and investor, and gives the annual audit something concrete to test.

OUR INSIGHT

The valuation section is where our two disciplines — the document and the numbers — meet, and it is consistently under-drafted. A manager will spend weeks on the strategy section and then dispatch the valuation methodology in a single vague paragraph. That paragraph then governs how every unlisted position in the portfolio is marked for the next decade, feeds the carried interest calculation, and is what an auditor and a successor-fund investor will scrutinise. Draft it as though it will be litigated, because in a bad scenario it will be. State the methodology precisely enough that a valuer who did not write it could apply it consistently, and appoint the independent valuer before the first investment settles, not before the first reporting date.

The Investor Charter and Grievance Disclosure

SEBI requires every AIF to include the Investor Charter in its PPM — a concise document setting out the services provided to investors, the grievance redressal mechanism and the responsibilities of investors, in plain language. Additionally, funds must disclose data on investor complaints received and their redressal status. These requirements are aimed squarely at transparency and investor protection, and they are not optional.

The grievance redressal disclosure is straightforward to draft but must be kept current: the complaints data has to reflect the fund's actual position, updated as required. A PPM that carries a stale or blank grievance section signals inattention to exactly the investor-protection obligations SEBI has been reinforcing.

The Governance and Investment Committee Disclosure

The PPM must also disclose the fund's governance architecture, including the constitution and role of any Investment Committee. The Master Circular permits the manager to constitute an Investment Committee to approve the fund's investment decisions, subject to conditions, and where it does so the manager must furnish a waiver to the AIF regarding the Investment Committee members' compliance responsibilities. The PPM should set out who sits on the committee, what it decides, and how its role interacts with the manager's own responsibility — because investors are entitled to understand who is actually making the investment decisions their capital funds.

This disclosure matters particularly where the Investment Committee includes external members or representatives of anchor investors, since that arrangement affects both governance and potential conflicts. A committee that includes an anchor investor's nominee gives that investor influence over investment decisions that other investors do not have, and the PPM should disclose the arrangement so all investors understand the governance they are accepting.

Winding-Up and Extension Terms

The PPM must disclose the fund's term, the circumstances in which it may be extended, and the mechanics of winding up. These terms are easy to draft carelessly because they concern events years in the future, but they

govern exactly the moments when manager and investor interests can diverge most sharply — whether to extend the fund to allow a position more time, how to handle illiquid residual assets at the end of term, and how final distributions are sequenced. Recent Master Circular guidance on winding up, including the retention of proceeds, reflects SEBI’s attention to this end-of-life phase.

A well-drafted winding-up section states the fund term, the number and length of permitted extensions and whose consent each requires, the process for dealing with unrealised assets at term end, and the priority of final distributions. Investors read these terms closely, because they determine how and when they get their capital back in the scenario that matters most — a fund that has not fully realised its portfolio by the end of its stated life.

The Reinforcement of Investor Diligence

Recent Master Circular updates have significantly reinforced investor eligibility, FATF screening, sanctions checks and beneficial ownership verification requirements. Managers are now expected to conduct more rigorous due diligence on investors, particularly foreign investors, and to maintain that diligence throughout the life of the fund. The PPM should reflect these onboarding and ongoing-diligence standards, disclosing the fund’s approach to investor eligibility and anti-money-laundering compliance. This aligns the Indian AIF regime with the global trend toward private funds maintaining onboarding standards closer to those of regulated financial institutions.

PRO TIP

Treat the valuation, NAV, Investor Charter and grievance sections as living sections from day one, with named owners and a review cadence, rather than as one-time drafting that is completed and forgotten. The valuation methodology must be applied consistently and may need refinement as the portfolio evolves; the grievance data must be kept current; the investor-diligence standards must track SEBI’s evolving expectations. A PPM whose living sections are drafted once and never revisited drifts out of alignment with both the fund’s practice and the current regulatory expectation — and that drift is precisely what the annual audit and any SEBI inspection are designed to catch.

CLOSING

Conclusion: Working With a PPM Drafting Expert

The Private Placement Memorandum is the most consequential document a fund produces, and drafting it well is a discipline that spans law, finance, regulation and communication. The gap between a competent PPM and a poor one is rarely visible at fundraise — both may read persuasively — but it becomes visible everywhere afterwards: in Merchant Banker diligence, in SEBI review, in the annual audit, and, in the worst case, in an investor dispute over what the document actually promised.

What You Can Reasonably Do Yourself

A capable in-house team can and should own significant parts of the process:

- Building the PPM skeleton from the current SEBI template, heading by heading.
- Assembling the factual content: team biographies, the market-opportunity narrative for Part B, and the investor-facing sections.
- Running the documented five-year regulatory health check across the sponsor, manager and controller chain.
- Maintaining the change log and the PPM-to-conduct mapping through the year.
- Managing the mechanical filing on the Intermediary Portal and the annual consolidated intimation to investors.

Where Professional Support Changes the Outcome

The judgement-intensive elements are where drafting expertise earns its fee: writing an investment strategy specific enough to survive scrutiny yet workable in practice; building the fee and waterfall illustration so it reconciles perfectly with the contribution agreement and cannot be misread; mapping the disciplinary history across a chain the manager does not fully control; drafting the valuation methodology precisely enough to withstand audit and dispute; reconciling the PPM against Form A and side letters; coordinating the Merchant Banker diligence efficiently; and classifying later amendments correctly to avoid triggering the investor exit right by accident.

What to Expect From an Engagement

A well-run PPM engagement has four phases. A scoping phase confirming the category, the applicable template and the exemption analysis. A drafting phase covering Part A and Part B, the fee and waterfall model, and the disclosure mapping. A diligence and filing phase coordinating the Merchant Banker and managing the SEBI filing. And an ongoing phase supporting the annual audit and any amendments. Fees for a full-scope PPM engagement typically fall between Rs. 6 Lakh and Rs. 20 Lakh depending on category, complexity and whether the work is drafting or review.

PRO TIP

Whether you engage us or another adviser, ask one question before appointing: can you show me a fee-and-waterfall illustration you have drafted, and walk me through how the catch-up works in it? The answer separates advisers who understand the PPM as a living economic contract from those who treat it as a template to fill. Anyone can populate the strategy section. The waterfall illustration, drafted so it reconciles with the agreement and cannot be misread by an investor, is where real PPM expertise shows — and it is the section most likely to be litigated if it is wrong.

The Cost-Benefit Equation

A Rs. 6–20 Lakh PPM engagement protects a fundraise of Rs. 100 Crore to Rs. 1,000 Crore and, more importantly, protects the manager against the two most expensive outcomes a PPM can produce: a delayed first close while observations are resolved, and an investor dispute over ambiguous terms years later. Measured against a delayed anchor commitment or a contested waterfall, careful drafting is among the cheapest protection a manager will buy — and unlike most fund costs, its value compounds, because a clean, well-structured PPM becomes the template the manager’s successor funds are built on.

How Elite Valuation Can Help

- **End-to-end PPM drafting** — full Part A and Part B preparation against the current SEBI template and Master Circular.
- **Fee and waterfall modelling** — the mandatory tabular illustration, built to reconcile precisely with the contribution agreement.
- **Disclosure and disciplinary history mapping** — five-year regulatory health checks across the full sponsor, manager and controller chain.
- **Merchant Banker coordination** — preparing the diligence pack and managing the due diligence process to a clean certificate.
- **Consistency reconciliation** — aligning the PPM against Form A, the constitutional documents and side letters before filing.
- **Valuation and NAV policy drafting** — the independent valuation methodology section, by an IBBI Registered Valuer.
- **Annual PPM compliance audit support** — pre-audit mapping, audit coordination and remediation of findings.
- **PPM amendment management** — classifying changes, direct and Merchant Banker filings, and managing investor exit processes.

SPEAK TO US

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“Investors do not sue over the deck. They sue over the PPM, because the PPM is the promise. Draft it as the contract it is, not the brochure it resembles, and most disputes never begin.”

— Sagar Shah

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