

by CA Adityavikram Banka · A S Banka Advisors

## THE CAP TABLE HYGIENE CHECKLIST

# Is Your Startup Due Diligence Ready for Series A?

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A definitive framework for founders preparing for institutional investment — before investors find the gaps first.

SERIES A READINESS

CAP TABLE AUDIT

DUE DILIGENCE

## The Foundation

# THE GOLDEN RULE

**"Investors don't invest in companies. They invest in shares. If the record of those shares is messy, the deal dies."**

### What Investors See First

- Ownership structure clarity
- Dilution history and logic
- Compliance trail on every allotment

### What Kills Deals Silently

- Inconsistent share records
- Undocumented conversions
- Missing filings and certificates

# THE MATH

Your cap table must reflect the **Fully Diluted** view — not just what has been issued today.

## Fully Diluted Calculation

Calculate ownership assuming **all ESOPs and convertible notes** have converted. This is the only number that matters to a Series A investor.

## Conversion Triggers

List conversion triggers for **every investor** — valuation caps, discount rates, and maturity dates must be explicitly documented.

## Decimal Precision

Calculate all ownership percentages to **2 decimal places**. Rounding errors compound across rounds and create disputes.

❏ **Critical Warning:** If you only show "Issued Capital," your ownership percentage is artificially inflated. Investors will recalculate — and they will find the discrepancy.

# THE ESOP POOL

Employee stock options are the most common source of cap table errors. Every element must be documented with precision.

1

## Authorised vs. Granted

Authorised pool and granted options must be clearly separated. Conflating them misrepresents available equity.

2

## Vesting Schedules

Every employee grant must have a documented vesting schedule — cliff period, vesting frequency, and acceleration clauses.

3

## Exercise Price

Exercise price must be defined and documented for every individual grant. Undocumented exercise prices are unenforceable.

4

## Lapsed Options

Lapsed options from departed employees must be formally returned to the pool and reflected in the cap table immediately.

**Missing any of these = equity leakage.** Investors will discount your valuation to account for the uncertainty.

# THE "DEAD EQUITY" AUDIT

Dead equity silently erodes your cap table's credibility and signals poor governance to every sophisticated investor.

## Inactive Advisors

Advisors holding **0.5–1%** for zero ongoing contribution are a red flag. Investors will ask what value they provide — and expect a clear answer.

- No advisory agreement on file
- No deliverables or milestones
- No vesting or cliff applied

## Departed Founders

An ex-founder who left the company but retained unvested equity creates structural risk. This must be resolved before any investor conversation.

- No buyback or cancellation executed
- No reverse vesting clause applied
- Equity overhang on the table

**Dead equity is the silent killer of Series A deals.** It signals to investors that founders lack governance discipline — before a single question is asked.

# COMPLIANCE: THE DEAL BREAKERS

Regulatory non-compliance is not a minor issue. These are the filings and records that determine whether your shares are legally valid.

## Form PAS-3

Filed with the Registrar of Companies for **every share allotment**. Missing filings mean the allotment may not be legally recognised.

## Stamp Duty

Stamp duty must be paid on **all share certificates**. Unstamped shares are not valid evidence in a court of law.

## Folio Numbers

Every folio number in the register of members must **match the corresponding row** in your cap table exactly.

- ❏ **Non-negotiable:** Investors' legal counsel will verify each of these during due diligence. Discrepancies here do not result in a price negotiation — they result in a deal termination.

# THE RED FLAG SCORECARD

Run through the checklist. Count your unchecked items. Here is what your score means for your Series A readiness.

## 0 Unchecked

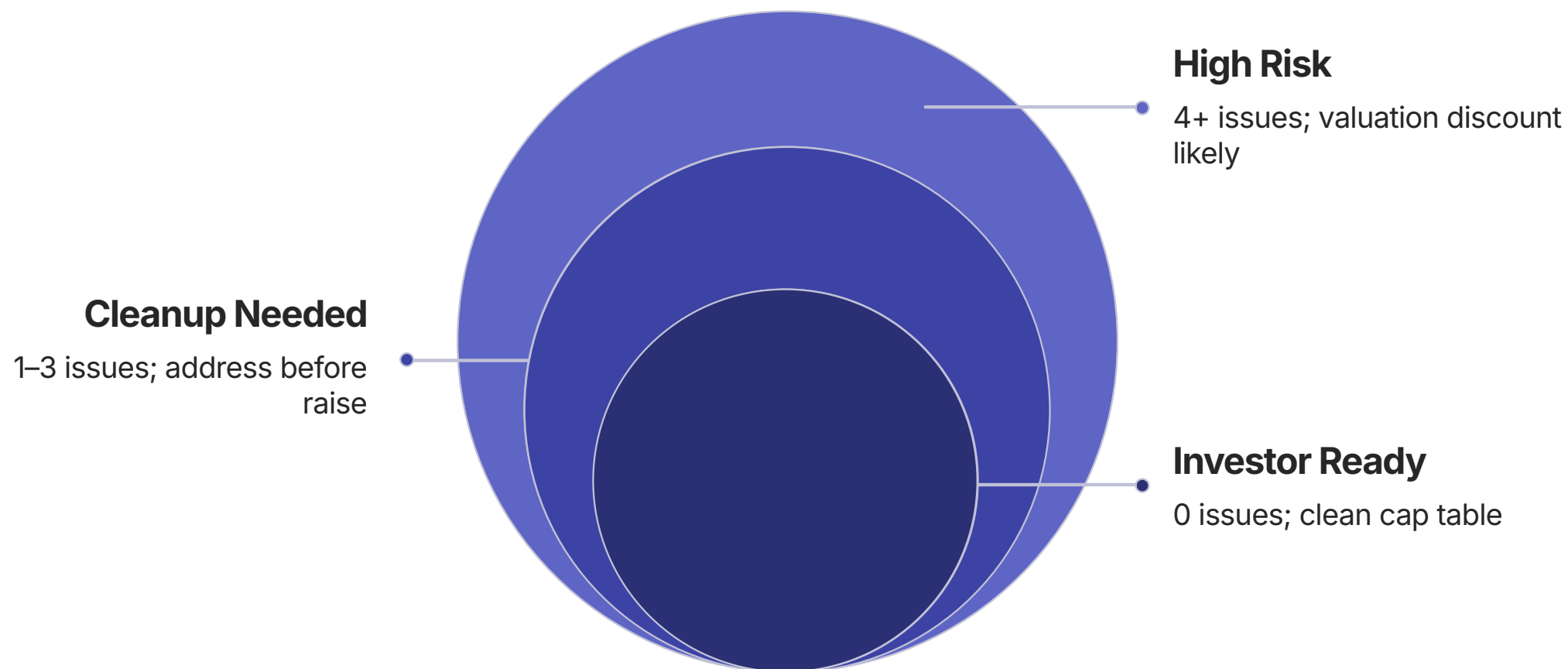
**Investor Ready.** Your cap table is clean, compliant, and will withstand institutional due diligence scrutiny.

## 1–3 Unchecked

**Minor Cleanup Needed.** Addressable within 2–4 weeks with the right advisory support. Do not send to investors yet.

## 4+ Unchecked

**HIGH RISK.** Valuation discount or deal delay is likely. Immediate remediation required before any investor outreach.



# THE REAL COST OF A MESSY CAP TABLE

Founders underestimate the financial and reputational cost of cap table errors. These are not hypothetical risks — they are documented outcomes from real deals.

## 2-4

### Weeks Delayed

Average term sheet delay caused by cap table discrepancies discovered during due diligence.

#### → Delayed Term Sheets

Investors pause the process while their legal team investigates discrepancies — costing 2 to 4 weeks of momentum.

#### → Legal Fees for Retroactive Filings

Correcting missed filings, unstamped certificates, and folio mismatches after the fact is expensive and time-consuming.

## ₹1Cr+

### Equity at Risk

One spreadsheet error can cost you Rs 1 Crore or more in equity through valuation discounts.

#### → Valuation Discounts

Investors price in the risk of unresolved equity issues by reducing the pre-money valuation offered.

#### → Lost Credibility

Sophisticated investors interpret a messy cap table as a signal of broader governance failure — and walk away.

Your Next Step

# GET A 15-MINUTE CAP TABLE RED FLAG REVIEW

## Free. Confidential. 15 Minutes.

Share your cap table and receive a focused review identifying the **top 3 risks** before you send it to any investor.

- No obligation, no sales pitch
- Specific, actionable findings
- Delivered by a qualified CA with M&A advisory experience

## What You Will Receive

01

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### Submit Your Sheet

Share your current cap table in any format.

02

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### 15-Minute Review

CA Adityavikram Banka reviews it personally.

03

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### Top 3 Red Flags

Receive a clear, prioritised risk summary.

Take Action Today

# BOOK YOUR CAP TABLE AUDIT

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## Schedule a Call

Book a 30-minute session directly via Calendly:

[calendly.com/asbanka-info/30min](https://calendly.com/asbanka-info/30min)



## Get the Free Checklist PDF

Comment "**CAP TABLE**" below this post to receive the complete Cap Table Hygiene Checklist as a free PDF.

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## CA Adityavikram Banka

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Chartered Accountant · Startup Advisory · M&A Due Diligence · Series A Readiness

## Specialisation

- Cap Table Structuring
- Investor Due Diligence
- ESOP Compliance
- ROC Filings