

Fund Formation

Entity structures, SEBI AIF categories, GIFT City options, and the document set required to form and operate a fund in India.

Overview

Fund formation is a structuring decision followed by a paperwork exercise. Getting the structure wrong is expensive to unwind; getting the paperwork wrong is merely slow. This guide covers both, in the order the decisions actually arise.

Choosing a structure

- India domestic trust + SEBI AIF Cat II: the default for INR-denominated funds with Indian LPs. Tax pass-through, familiar to domestic LPs.
- SEBI AIF Cat I (Venture Capital Fund): for early-stage-only mandates; carries some regulatory concessions and tighter investment restrictions.
- GIFT City IFSC fund (FME route): for USD commitments from offshore LPs, with a lighter tax regime and no FDI routing friction.
- Offshore feeder (Singapore / Mauritius / Delaware) into an India vehicle: only when LP demand genuinely requires it — it doubles compliance cost.

Core documents

- Trust deed constituting the fund and appointing the trustee.
- Private Placement Memorandum (PPM) in SEBI's prescribed template format.
- Contribution / subscription agreement executed by each LP.
- Investment management agreement between the trustee and the manager entity.
- Compliance manual, conflict-of-interest policy, and valuation policy.
- GP-level agreement covering carry allocation and partner economics.

Entities you will actually incorporate

- The Fund — a contributory trust, registered with SEBI as an AIF.
- The Manager — usually an LLP or private limited company holding the SEBI manager role and receiving the management fee.
- The Sponsor — often the same as the manager, contributing the mandatory sponsor commitment.

- The Trustee — an independent corporate trustee, appointed rather than incorporated.

Timeline and sequencing

Incorporate the manager entity first — SEBI needs it to exist before the AIF application. Draft the PPM in parallel with trust deed execution; the PPM is the long pole and the template audit requirement adds time.

SEBI typically reverts with queries once or twice. Budget 8–16 weeks from complete filing to registration certificate, and do not commit a first close date to LPs that assumes the fast end of that range.

Ongoing obligations

- Quarterly reporting to SEBI on the prescribed template.
- Annual PPM audit for funds above the applicable corpus threshold.
- Annual audited financial statements and LP reporting.
- KYC and AML on every LP at onboarding and periodically thereafter.
- Valuation of unlisted holdings by an independent valuer at least annually.

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