

The PACT

A balanced early-stage term sheet — priced round and convertible variants — with each clause explained from both the founder and investor side.

Overview

PACT stands for Practical Agreement on Capital Terms. It is a short, readable term sheet for pre-seed and seed rounds in India that avoids the two failure modes founders meet most: a one-page email with no protection for anyone, and a forty-page growth-stage document imported into a ₹2 crore round.

Economic terms

- Investment amount, pre-money valuation (or valuation cap and discount for convertibles), and resulting ownership.
- Security type: CCPS for priced rounds, or a convertible note / SAFE-equivalent for pre-priced rounds.
- ESOP pool: size and, critically, whether it is created pre-money or post-money — this shifts 3–5% of dilution.
- Liquidation preference: 1x non-participating is standard and is what this template uses.
- Anti-dilution: broad-based weighted average. Full-ratchet is not market at seed and should be refused.

Control and governance

- Board composition: at seed, two founders plus one investor director, with an independent seat left vacant.
- Reserved matters: a short, closed list — new share issuance, borrowings above a threshold, related-party transactions, sale of the company.
- Information rights: monthly MIS within 15 days, quarterly management accounts, annual audited statements.
- Pro-rata rights for the lead; no pro-rata for cheques below a stated size, to keep the cap table manageable.

Founder terms

- Founder vesting: four years with a one-year cliff, with credit for time already served.

- IP assignment from all founders, employees and past contractors as a closing condition.
- Non-compete limited to the actual business and to a period a court will enforce.
- Drag-along that only triggers above a defined return threshold, with tag-along for all shareholders.

Terms to refuse politely

Participating preferred at seed, full-ratchet anti-dilution, investor consent over ordinary hiring, redemption rights with a fixed date, and mandatory personal guarantees from founders. Each of these is defensible in some late-stage context and none of them belongs in a first institutional round.

If a term is unusual, ask the investor to explain what risk it protects against. Terms that survive that question are usually fair; those that do not are usually copy-paste.

From term sheet to close

A signed PACT is non-binding except for exclusivity, confidentiality and costs. Keep exclusivity to 30–45 days, and start diligence document collection the day it is signed rather than the day the SHA draft arrives.

Expect definitive documents (SHA and SSA) to take three to six weeks after signing. Nothing in those documents should surprise anyone if the term sheet was specific.

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