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The Discount You Chose.

How the corporate record sets valuation before the term sheet.

SATYAMAYA & PARTNERS
ENTERPRISE ADVISORS & CONSULTANTS

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Abstract.

Founders believe valuation is negotiated. Mostly, it is read. By the time a term sheet arrives, the corporate record has already answered the three questions every investor, lender and buyer asks: is the profit sustainable, is the business transferable, is the risk acceptable. The negotiation that follows largely prices the quality of those answers.

This paper argues that the discount applied in diligence is rarely a verdict on the business. It is a verdict on the record. And the record was written by choices made years earlier, usually without anyone realising that a price was being set. A register left blank, a share certificate never issued, a related-party transaction papered after the fact: each one is a small decision about how much of the company will be provable later, and each carries a price that compounds quietly until the day someone else reads the file.

We describe what diligence actually reads in an Indian private company, how gaps convert into deal terms, the discounts founders most commonly choose without knowing they are choosing, and a ninety-day sequence for repairing the record before it is examined. We close with a self-audit any founder can run in an afternoon.

WHO SHOULD READ THIS

Founders and promoters twelve to twenty-four months from a fundraise, borrowing event or exit; finance leaders preparing a company for scrutiny; and board members who would rather choose their discount than discover it.

CONTENTS

A note on method: this paper draws on patterns visible in India's public record and in advisory practice. It cites no proprietary data and invents no statistics. It is advisory commentary, not legal or investment advice.

SECTION I

The price was set before the meeting.

The folklore of valuation is a folklore of negotiation. The clever anchor, the competing term sheet, the walk-away theatre. All of it real, none of it primary. Before any of it begins, two documents have already had a conversation: the story the company tells, and the record the company kept.

The story is the deck, the projections, the founder's narrative of what the business is. The record is everything filed, registered, minuted, certificated, reconciled and signed over the life of the company. When the two match, the story stops being a claim and becomes evidence. When they diverge, even slightly, the story is reduced to an assertion, and sophisticated capital does not pay for assertions. It discounts them.

This is the first thing to understand about a diligence discount: it is not a punishment, and it is usually not even a disagreement about the business. It is the market price of unverifiability. A risk that cannot be measured must be priced as if it were real, because for the buyer, until proven otherwise, it is. The buyer is not saying your company is worth less. The buyer is saying that the portion of your company they cannot verify is worth nothing yet, and they are only paying for the part that survives examination.

Seen this way, the discount was never applied in the data room. It was applied in instalments, year after year, every time the record was allowed to drift a little further from the reality it was meant to mirror. The data room is simply where the instalments are added up and presented as a single number.

That is why this paper is called what it is called. The discount was chosen. Not deliberately, not maliciously, but chosen, in the sense that matters commercially: through decisions about record-keeping that always had a price, even when nobody was reading the price tag.

Buyers do not price what is true. They price what survives verification.

SECTION II

What diligence actually reads.

Long before the question list arrives, a competent diligence team has read the company's exhaust. In India, much of the record is public or reconstructable, which means the first chapter of your diligence was written without you in the room. The usual reading list:

- **MCA master data and filing history.**
  The first pull. Gaps in annual filings, habitual late fees and event filings made out of sequence read as a management team that does not look at its own dashboard.
- **Director status.**
  Every DIN checked for activity and disqualification history. A director who was once disqualified for lapses elsewhere invites questions everywhere.
- **The index of charges.**
  What is borrowed, what is secured, what was satisfied but never recorded as satisfied. Stale charges suggest nobody is minding the register.
- **The GST trail.**
  Filing regularity and the reconciliation between portal, books and bank. Revenue quality doubts start here and spread to everything.
- **Minute books and statutory registers.**
  The first physical request. Registers never opened and minutes that read as if written in one sitting change the posture of the entire exercise.
- **Share capital paper.**
  Allotment filings, certificates, stamping, transfer instruments. The cap table in the deck is a claim; this paper is the fact.
- **Related-party documentation.**
  Approvals dated before transactions, on arm's length terms, disclosed where required. The first thread every team pulls.
- **Contracts, employment and IP assignments.**
  Whether the assets being bought, including the ones that walk out of the office every evening, are actually in the company.

Notice what is absent from the list: your intentions. Diligence does not read intentions. It reads what intentions left behind.

SECTION III

The two prices of every gap.

Every defect in a corporate record carries two prices, and the difference between them funds entire advisory industries.

Found by you, a gap costs a fix. A delayed filing carries an additional fee. A missing register costs an afternoon and a stationer. An unstamped share certificate costs duty and a process. Condonation and compounding exist precisely because the law anticipates honest drift and prices the repair. These are known, bounded, almost always survivable numbers.

Found by them, the same gap is repriced through a different machine. A diligence finding converts into deal terms: a valuation adjustment, a specific indemnity, an escrow or holdback, an expanded warranty, a delayed closing, occasionally the deal itself. The arithmetic is unforgiving for a structural reason. A buyer who finds one unexplained gap cannot know it is the only one. The discount must therefore cover not just the defect found but the population of defects it implies. You pay for the known gap, and you pay rent on the unknown ones it suggests.

FOUND BY YOU

A fee, a filing, a process
Bounded and budgetable
Private, calm, on your clock
Costs money

FOUND BY THEM

Price cut, indemnity, escrow
Sized to cover the unknown
Public to the table, on theirs
Costs trust, then money

There is also a time asymmetry that founders feel only at the end. You had years to repair the record at fix prices. The buyer has weeks, and in those weeks every repair is priced at discount rates. Preparation is simply the act of choosing which of the two price lists your company will be billed on.

A gap disclosed is a line item. A gap discovered is a lens.

SECTION IV

The discounts founders choose.

The gaps below appear so often in Indian private companies that they amount to a standard menu. Beside each is the sentence it writes in the reader's mind, because that sentence, not the defect itself, is what gets priced.

- **Share certificates never issued, stamp duty unpaid.**
  Reads as: Ownership here is a story, not a document.
- **Allotment filings incomplete or out of sequence.**
  Reads as: The cap table is a spreadsheet, not a fact.
- **Statutory registers never opened.**
  Reads as: If the cheapest discipline was skipped, what happened to the expensive ones?
- **Minutes that read as reconstructions.**
  Reads as: If these were written for the occasion, what else was?
- **Related-party transactions without contemporaneous approval.**
  Reads as: The company and the family may be one pocket.
- **Core IP resting in a founder's personal name.**
  Reads as: The asset being bought is not in the company being bought.
- **Books, GST portal and bank that do not reconcile.**
  Reads as: Revenue quality is now a question, and the question spreads.
- **Director KYC lapses and late fees as a habit.**
  Reads as: Management does not read its own dashboard.

None of these, alone, kills a deal. What they share is cheapness of prevention and expensiveness of discovery. Each was avoidable for hundreds or thousands of rupees and a little attention. Each, discovered across the table, prices in lakhs or in points of equity. That ratio, prevention to discovery, is the most lopsided trade in Indian business, and it is offered to every founder every year.

SECTION V

The ninety-day repair sequence.

Record repair is unglamorous and almost mechanical, which is excellent news: it means it can be scheduled. For a company twelve or more months from a transaction, ninety days of disciplined work moves most records from liability to asset. The sequence matters more than the speed.

DAYS 1 TO 30 · PULL AND SCORE

Assemble the record from the source, not from memory. Pull MCA master data and the filing index, the GST trail, bank statements, the registers, the minute books, every share capital document. Score the company against the five SATYA disciplines, zero to two each. Build a single gap list, and against every gap write both of its prices. This is the only phase where surprise is acceptable. Spend it generously.

DAYS 31 TO 75 · FIX AND PAPER

Regularise what can be regularised: pending filings with their additional fees, condonation where available, certificates issued and stamped, registers written up, transfers documented. Where history must be recorded after the fact, record it honestly as what it is: a board noting today that documents an event of the past, dated today. Reconstruction is legitimate. Backdating is the single fastest way to convert a compliance problem into a credibility problem, and credibility problems do not have a price list. They have consequences.

DAYS 76 TO 90 · INDEX AND NARRATE

Build the data room architecture before anyone asks for it. Draft the disclosure schedule for what could not be fixed, with context written calmly and on your own terms. The rule of this phase is simple: fix what you can, disclose what you must, decorate nothing. A self-disclosed defect with a clear explanation is a line item. The same defect discovered reads as concealment, whatever the truth was.

Verification is boring right up until it is the only thing that matters.

SECTION VI

The SATYA self-audit.

SATYA, from the Sanskrit word for truth, is the operating model this firm uses for the corporate record: five disciplines that keep the company on record identical to the company in reality. The first four build the record. The fifth confirms it is true. In a diligence context, each discipline maps directly to a question the reader is silently asking.

S
STRUCTURE
Does the paper company match the real one?

A
ACCOUNTABILITY
Who owns each obligation, by name?

T
TRAIL
Does proof exist before the question?

Y
YEARLY CYCLE
Does the calendar outlive memory?

A
ASSURANCE
When was all of this last verified, not assumed?

HOW TO SCORE

For each discipline, score zero if no system exists, one if a system exists but has not been verified in the last year, and two if it was verified against the source this quarter. Ten is the maximum. A company below eight should treat record repair as a precondition to raising, borrowing or selling, because the diligence process will run this exact audit against you, on a compressed clock, at the other price list.

A blunt heuristic from practice: most companies that have never run the exercise score between three and five, and are sincerely surprised. The surprise is the finding. It means the record has been running on belief, and belief is precisely the thing diligence exists to replace.

Belief is not a control. Proof is.

CLOSING NOTE

The choice renews.

The title of this paper is not an accusation. It is a statement of agency. Every year of record drift was a choice with a price attached, made by busy people who never saw the price tag. But the choice renews. Right up until the moment someone else is reading the file, every record can still be repaired at fix prices, and every discount not yet discovered is a discount that can still be declined.

Founders sacrifice a great deal for the moment when their company is finally examined by serious capital. The record is the only witness that will speak for those years of work when the founder is not in the room. It deserves to be prepared like one.

ABOUT THE FIRM

Satyamaya & Partners LLP is a founder-led advisory firm in New Delhi (LLPIN: ACX-1582), serving Indian founders and promoters as enterprise advisors and consultants across compliance, corporate governance and the corporate record. Where the law requires certification or attestation, execution is carried out by qualified professionals associated with the firm.

ABOUT THE AUTHOR

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