

Due Diligence Checklist

Target Company	_____ _____ _____ —	Deal Code / Reference	_____ —
Buyer / Acquirer	_____ _____ _____ —	LOI / Exclusivity Date	_____ —
Lead CA (Financial DD)	_____ _____ _____ —	Target Close Date	_____ —
Lead Lawyer (Legal DD)	_____ _____ _____ —	DD Start Date	_____ —
Company Secretary	_____ _____ _____ —		

How to use this checklist

Print this checklist and work through it workstream by workstream. Assign an owner to each section. Tick each item only when the document or verification is complete — not when it has been requested. Items left blank at closing are outstanding risks. For the full methodology behind each workstream, see the Due Diligence Guide at mergerdomo.com/resources/due-diligence-guide-india.

WORKSTREAM	LED BY	OWNER (fill in)	STATUS
1. Financial DD	CA / Transaction Advisor	_____	[] Not started [] In progress [] Done
2. Tax DD	CA / Tax Advisor	_____	[] Not started [] In progress [] Done
3. Legal DD	Lawyer / Company Secretary	_____	[] Not started [] In progress [] Done
4. Commercial & Operational DD	Buyer / M&A; Advisor	_____	[] Not started [] In progress [] Done

5. India-Specific Compliance	CA / CS / Lawyer	_____	[] Not started [] In progress [] Done
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WORKSTREAM 1 — FINANCIAL DUE DILIGENCE

Owner: _____ Status: [] Not started [] In progress [] Complete

A. Core Financial Documents

- Audited financial statements — 3 years (P&L, Balance Sheet, Cash Flow)**
CA-certified. Verify auditor independence. Note any qualifications or emphasis-of-matter paragraphs.
- Monthly MIS / management accounts — current financial year to date
Compare with audited accounts for consistency. Look for seasonal patterns.
- Detailed trial balance — most recent year-end
- Fixed asset register with depreciation schedule
Verify assets are in service and not fully depreciated. Cross-check with physical inspection.
- Debtor ageing schedule — current and 12 months prior
Assess collectability. Flag debtors >90 days. Identify any related-party debtors.
- Creditor ageing schedule — current and 12 months prior
Look for stretched payables suggesting cash pressure ahead of sale.
- Full bank statements — all accounts, all banks, 3 years
Cross-check credits with revenue. Identify unexplained large transfers.
- Loan statements — all term loans, working capital facilities, equipment finance
- Inventory valuation report (if material to the business)
- Order book and backlog — confirmed and pipeline

B. Quality of Earnings — Normalised EBITDA

- Seller's normalised EBITDA workings with all add-back justifications**
Each add-back must be individually supported with documentary evidence.
- Verify all add-backs independently — do not accept seller's summary
Common issues: personal expenses run through business; promotional expenses disguised as capex; related-party costs at non-market rates.
- Identify all one-off / exceptional items claimed (verify they are genuinely non-recurring)
- Assess revenue recognition policy — is revenue recorded at delivery or earlier?
- Identify related-party revenues — will they continue post-acquisition?
Revenue from entities controlled by the promoter that will not survive the sale is NOT part of the business being acquired.
- Review promoter salary vs market-rate replacement cost
A legitimate add-back — but model the real management cost under your ownership.

C. Revenue Triangulation

- Reported revenue reconciled against GSTR-1 filings (last 3 years)**
Unexplained gaps require full explanation. This is the single most important cross-check in Indian SME DD.
- Bank statement credits reconciled against reported revenue
- Tax paid (advance tax + self-assessment) consistent with reported profit
- Payroll costs on P&L; cross-checked against PF / ESIC contribution records
- Purchase volumes consistent with reported production / output

- Debtor ageing consistent with revenue recognition timing

D. Working Capital & Liabilities

- Working capital analysis — establish normalised level vs closing level**
Negotiate a working capital peg in the SPA. A business stripped of receivables or inventory pre-sale creates a hidden cost for the buyer.
- Map every liability: term loans, WC facilities, equipment finance, informal borrowings, guarantees given
In a share sale, all liabilities transfer to the buyer. Cross-check against balance sheet and bank statements.
- Contingent liabilities schedule — all guarantees, pending disputes, warranty obligations
- Capital expenditure history and upcoming capex requirements
Deferred maintenance or upcoming mandatory capex affects true cash generation.
- Off-balance-sheet items and arrangements

E. Related-Party Transactions

- Complete list of all related-party transactions (sales, purchases, loans, rentals)**
- Verify each is at arm's length / commercial pricing
Related-party revenues at above-market rates inflate earnings. Related-party costs at below-market rates understate true cost.
- Identify which related-party relationships / revenues will cease post-acquisition
- Review inter-company loans — are any to be repaid or forgiven at closing?

■ Red Flags

- Reported revenue, GST returns, and bank statements cannot be reconciled.
- Add-back list that together eliminates most of the reported cost base, without documentary support.
- Related-party revenue that will not survive the sale included in normalised earnings.
- Working capital at diligence significantly below the historical operating level — possible pre-sale stripping.
- Large unexplained cash withdrawals or transfers in bank statements.

WORKSTREAM 2 — TAX DUE DILIGENCE

Owner: _____ Status: [] Not started [] In progress [] Complete

A. Income Tax

- Income Tax Returns (ITR) — last 5 years, all entities**
Reconcile against audited financial statements. Unexplained differences require full explanation.
- Tax assessment orders — last 5 years
- All pending assessment notices, demand notices, and SCNs from income tax department
Check independently on the ITD portal (incometaxindiaefiling.gov.in). Do not rely solely on seller disclosure.
- TRACES portal check — verify TDS deposited, Form 26AS reconciliation
- All TDS returns filed (24Q, 26Q, 27Q, 27EQ) — last 3 years
Verify correct deduction on salary, contractor payments, rent, professional fees, and interest.
- Advance tax payments consistent with reported profit levels
- Transfer pricing documentation (if transactions with associated enterprises)
- Any tax-exempt income or specific deductions claimed — verify eligibility

B. GST

- GSTR-1 (outward supply returns) — last 36 months**
Reconcile against reported revenue. Flag material mismatches.
- GSTR-3B (summary returns) — last 36 months
- GST portal check — any outstanding notices, demands, audit proceedings
Run independently on the GST portal. Note: some notices may not be disclosed by seller.
- Input Tax Credit (ITC) claimed vs eligible ITC — verify no excess claims
Excess ITC claims are a common area of GST scrutiny and create contingent liability.
- Verify GST registrations are current in all states of operation
- Any GST demands issued — assess likelihood of crystallisation

C. Labour & Social Security Compliance

- PF (EPFO) contribution records — 3 years, all employees**
Verify full employer and employee contributions are current. Check for any default proceedings.
- ESIC records — verify coverage and compliance where applicable
- Gratuity provision in accounts — verify adequacy
Underprovided gratuity is a common hidden liability in Indian SMEs, especially in businesses with long-tenured staff.
- Bonus liability under the Payment of Bonus Act
- Professional tax compliance — all states of operation
- Any pending labour tribunal / employment disputes

■ Red Flags

- Material unexplained gap between ITR declared profit and audited accounts profit (any year).
- Multiple outstanding GST notices or demand orders — indicates a pattern, not a one-off.

- TDS defaults across several financial years — systematic non-compliance.
- Undisclosed income tax assessments surfaced via independent ITD portal check.
- Insufficient gratuity provision for a workforce with long average tenure.

WORKSTREAM 3 — LEGAL DUE DILIGENCE

Owner: _____ Status: [] Not started [] In progress [] Complete

A. Corporate & Ownership

- Certificate of Incorporation, MOA, AOA — original or certified copy**
- Register of Members — verify seller owns shares being sold, free of encumbrance
Cross-check shareholding against most recent ROC annual return.
- MCA21 charge register — verify all charges satisfied for repaid loans
Unsatisfied charges on repaid loans are a common finding. Each must be formally released before closing.
- Significant Beneficial Ownership (SBO) register — verified and reconciled with cap table
Undisclosed beneficial ownership layers create post-closing governance complications.
- Director history — check for disqualifications under Section 164, Companies Act 2013
Run independently on MCA21. Director disqualification can affect corporate filings.
- Board resolutions authorising all material transactions in the last 3 years
- All ROC annual returns and financial statements filed — last 5 years
Gaps or delays in filing indicate compliance culture issues.
- Any show-cause notices, strike-off proceedings, or NCLT orders visible in MCA history
- ESOP / SWEAT equity schemes — details, outstanding obligations, dilution impact

B. Material Contracts

- All material customer contracts — check for change-of-control clauses**
A change-of-control clause allows the customer to terminate or renegotiate on transfer of ownership. If material, may need to be addressed as a condition precedent.
- All material supplier and vendor agreements — change-of-control review
- Distribution, dealer, and agency agreements
- Franchise agreements — transferability on change of ownership
- Technology licences — verify transferability and renewal terms
- Joint venture, partnership, and shareholder agreements
- Government and public sector contracts — special transfer conditions
Government contracts frequently require consent from the contracting authority on a change of ownership.
- Non-compete and exclusivity arrangements with customers or suppliers
- Any contracts approaching natural expiry — assess renewal risk

C. Intellectual Property

- Trademark registrations — verify each is in the COMPANY's name, not the promoter's**
Trademarks held personally by the Indian promoter are a very common finding. Transfer is required before or at closing, with stamp duty and tax implications.
- Patent registrations and pending applications
- Domain names — registered in company's name, renewal dates noted
- Software licences (commercial) — verify they survive change of ownership

- Proprietary software / source code — confirm ownership, developer agreements
- Trade secrets and know-how — confirm they are adequately protected and company-owned

D. Litigation

- Seller's disclosure of all pending litigation — civil, criminal, regulatory**
- Independent district court search — run separately, do not rely solely on seller
Run independently through e-Courts portal (ecourts.gov.in). Seller omissions are not always accidental.
- NCLT and DRT searches — NCLT for insolvency/company law; DRT for debt recovery proceedings
- Consumer disputes — check Consumer Dispute Redressal Commission databases
- For each proceeding: quantum of potential liability, outcome likelihood, timeline
- Any pending SEBI or RBI proceedings (if applicable)

E. Licences, Approvals & Real Estate

- Factory Licence (under Factories Act) — current, in company's name**
- FSSAI registration / licence — current, in company's name (food businesses)
- Drug manufacturing licence (pharmaceutical businesses)
- Pollution control / environmental clearances — current, expiry dates noted
- Import Export Code (IEC) certificate
- BIS certifications, quality approvals, sector-specific permits
- GST registration certificate(s) — all states of operation
- Shops & Establishment Act registration — all states
- Trade licences from local bodies — all operating locations
- RBI / SEBI licences where applicable
- For owned property: title deeds, encumbrance certificates, municipal approvals
- For leased property: lease agreement, confirm lease survives change of ownership, renewal risk
Stamp duty on lease renewal or re-execution varies by state. Assess early.
- Insurance policies — property, plant, product liability, key-person — confirm validity and transferability

■ Red Flags

- IP (trademark, domain, patent) held in the promoter's personal name — not the company.
- Change-of-control clause in a contract representing >10% of revenue.
- Litigation surfaced through independent court search that was NOT disclosed by the seller.
- Key operating licence not in the company's name — or held personally by the promoter.
- Unsatisfied charges on loans the company claims are repaid.
- SBO register incomplete or inconsistent with the actual shareholding structure.

WORKSTREAM 4 — COMMERCIAL & OPERATIONAL DUE DILIGENCE

Owner: _____ Status: [] Not started [] In progress [] Complete

A. Customer Analysis

- Revenue by customer — last 3 years, with % concentration**
Flag if top 5 customers represent >50% of revenue. Higher concentration = higher risk.
- For each top-10 customer: contract status, relationship owner, renewal risk
Is the relationship documented in a formal contract — or personal to the founder? Personal relationships do not transfer automatically.
- Customer churn — have any significant customers been lost in the last 2 years? Why?
- Trend in customer concentration — increasing or decreasing?
- Receivables ageing by customer — any overdue amounts from major customers?
- Order book — confirmed orders vs pipeline. What is the historical conversion rate?

B. Supplier & Supply Chain

- Spend by supplier — top 10 suppliers, % of total purchases**
- Single-source risk — any supplier with no viable alternative?
- Imported inputs — FX exposure, lead times, supply chain concentration risk
- Supplier contracts — pricing terms, exclusivity, termination provisions
- Any recent or anticipated supplier price increases?

C. Promoter & Key Person Dependency

- Map each significant customer relationship to a specific individual**
This is the most consistently underestimated risk in Indian SME acquisitions.
- For each key relationship owned by the founder: transition plan, contractual obligations, timeline
If the revenue is personal to the promoter, build this risk into the deal structure — not just the price.
- Identify key employees (sales, technical, operational) — retention risk assessment
- Non-compete and notice period terms for all key employees — are they enforceable?
- Any ESOP or bonus obligations the buyer inherits?
- Planned departures — any key employee known to be considering leaving?

D. Operations, IT & Processes

- Org chart vs operating reality — who actually makes decisions?**
- Are core business processes documented — or do they exist only in individuals' heads?
A business that stops when the founder steps back transfers poorly.
- IT systems and ERP — standard platforms or proprietary? Vendor support status?
- Third-party technology dependencies — any single-point-of-failure systems?
- Basic cybersecurity posture — access controls, data security, any known incidents
Required for any business where customer or operational data is a material asset.
- Capacity utilisation — is the business running near or at capacity?

Capex requirement — any material investment needed in next 12-24 months? Regulatory licence renewal schedule — full list with dates**E. Market & Competitive Position** Market size estimate and growth trajectory for the business's primary segment Key competitors — relative market position, pricing power Barriers to entry / competitive moat — what protects the business? Pricing history — has the business been able to pass cost increases to customers? Any known competitive threats or market disruptions in the sector?**■ Red Flags**

- All significant customer relationships personally owned by the founder — not the business.
- Revenue growing on paper but no verifiable order book or customer contracts to support it.
- No documented processes for any core business function — knowledge sits entirely in individuals.
- Key employee has already informally indicated intention to leave post-acquisition.
- Single-source supplier dependency with no viable alternative identified.

WORKSTREAM 5 — INDIA-SPECIFIC COMPLIANCE CHECKS

Owner: _____ Status: Not started In progress Complete

These checks are specific to the Indian regulatory environment and are not covered in generic due diligence frameworks. All should be run independently — do not rely solely on seller disclosure.

A. MCA21 Portal Searches (mca.gov.in)

- Charge register — all charges for repaid loans confirmed satisfied**
An unsatisfied charge does not mean the loan is outstanding — but the charge must be formally vacated. Run independently.
- Director history — Section 164 disqualification check on all directors
- Filing history — gaps or delays in annual return / financial statement filings
- Any show-cause notices, compounding applications, or strike-off proceedings
- SBO (Significant Beneficial Owner) filings — verify against actual ownership

B. CIBIL / Credit Bureau Checks

- Company CIBIL Rank (CMR) — any adverse classification or NPA status?**
- Promoter's individual CIBIL Score — any significant adverse history?
In many SME transactions the promoter has given personal guarantees on company borrowings.
- Check for any SARFAESI proceedings or DRT filings against the company

C. GST Portal Verification

- Verify all GST registration certificates are Active on the GST portal**
- Check GSTR filing history — any gaps in monthly / quarterly returns
- Verify ITC claims are consistent with eligible inputs
- Check for any pending GST audit or summons proceedings

D. EPFO / ESIC Portal Verification

- EPFO: verify PF establishment registration and contribution history**
- EPFO: any pending defaults, late payment notices, or inspection proceedings
- ESIC: registration and compliance if headcount / salary thresholds are met

E. FEMA & Foreign Exchange (if applicable)

- Any FDI received — verify FCGPR / FC-TRS filings with RBI are complete**
FEMA non-compliance on historical FDI is a common finding in SMEs that raised early foreign capital informally.
- Any ODI (overseas direct investment) by the company — verify compliance
- External commercial borrowings — verify FCEC registration and reporting compliance
- Any export proceeds outstanding beyond RBI realisation timelines (FEMA violation risk)

F. Sector-Specific Checks (tick those applicable)

<input type="checkbox"/> Pharma / Healthcare	Drug licence, CDSCO approvals, clinical trial registrations, NABH accreditation
<input type="checkbox"/> Food Processing / F&B	FSSAI licence, labelling compliance, food safety audit records

[] Manufacturing	Factory Act licence, pollution control consents, BIS/quality certifications
[] Financial Services	RBI / SEBI / IRDAI licence — transferability on change of ownership
[] E-Commerce / Consumer Data	DPDP Act compliance (Digital Personal Data Protection Act 2023)
[] Export-Oriented	IEC currency, EOU/SEZ compliance, export incentives (RoDTEP, SEIS) status
[] Government Contracts	Consent requirements under contract on change of ownership; MSE status if claimed

■ Red Flags

- FEMA non-compliance on historical FDI — informal foreign investment not reported to RBI.
- Company CIBIL CMR indicates NPA / adverse classification.
- EPFO or ESIC defaults — systematic non-payment of employee social security contributions.
- Sector-specific licence not current, not in company's name, or not verified as transferable.

DD ISSUES LOG — Consolidate All Findings Here

Complete once all workstreams are done. Categorise each finding before negotiating with the seller. Negotiate the package — not individual items in isolation.

PA — Price Adjustment	SI — Specific Indemnity	CP — Condition Precedent	WA — Walk Away
<i>Finding reduces EBITDA or increases liabilities — flows through to price.</i>	<i>Identified liability — seller indemnifies buyer if it crystallises post-closing.</i>	<i>Issue must be resolved before closing (e.g., transfer IP, obtain consent, release charge).</i>	<i>Finding is so material — or conduct so concerning — that the deal should be reconsidered.</i>

#	Finding / Issue	Workstream	Category (PA / SI / CP / WA)	Estimated Quantum / Impact	Resolved? (Y/N)
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					

Before negotiating with the seller

Consolidate all workstream findings into this log. Categorise every issue as PA, SI, CP, or WA before any findings discussion. Negotiate the package — not individual items in isolation. A seller confident in their disclosures should accept reasonable escrow or indemnity terms; strong resistance to any post-closing protection is itself a signal worth noting.

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