

How to use this checklist

Work through each section before engaging any buyer or advisor. Items marked as high-priority should be completed at least 3–6 months before going to market — gaps discovered by a buyer during diligence become renegotiation leverage. Items resolved before going to market cost you nothing.

■ **High priority** — complete before going to market

■ **Standard** — complete during preparation

01 Financial Preparation

Buyers anchor their valuation on the quality and consistency of your financial records. Clean, audited financials reduce uncertainty and protect your multiple.

- **Three years of audited financial statements are available**
Statutory audit by a registered CA. If any year is unaudited, buyers will discount.
- **Last 12 months of monthly management accounts (MIS) are prepared**
Monthly P&L, balance sheet, and cash position. Shows recent trading trend.
- **GST returns are filed and reconcile with books**
All GSTR-1, GSTR-3B filings current. Reconcile GST revenue with P&L; revenue.
- **ITR filings are current and match audited financials**
Tax returns for all three years match the audited accounts.
- **TDS compliance is complete — filings and payment**
26Q, 24Q filings current. No TDS defaults or notices.
- **All bank accounts are reconciled**
Monthly bank reconciliation for all accounts including current, cash credit, OD.
- **EBITDA has been normalised and adjustments are documented**
Remove one-off expenses, personal expenses, non-recurring items. Each adjustment must be evidenced — buyers will ask.
- **Debt schedule is complete — all loans, facilities, and liabilities listed**
Includes term loans, CC limits, director loans, inter-company balances, and any off-balance sheet obligations.
- **Accounts receivable are aged and reconciled**
Debtors ageing report. Identify and explain any receivables over 180 days.
- **Accounts payable are aged and reconciled**
Creditors ageing. Outstanding vendor disputes or claims should be flagged.

- Revenue by customer is available for the last 3 years**
Buyers will assess concentration. If top 3 customers > 40% of revenue, prepare an explanation.
- Related-party transactions are identified and documented**
Loans to directors, rent to promoter entities, purchases from family-owned suppliers. Undisclosed related-party transactions are a major red flag in Indian SME diligence.
- Personal expenses have been separated or documented**
If personal expenses run through the business, quantify and document them as normalisation items.

02 Legal & Compliance

Legal gaps discovered during diligence create delay, price reduction, or withdrawal. Resolving them before going to market costs far less.

- Company incorporation documents are complete and current**
MOA, AOA, COI, latest ROC filings (AOC-4, MGT-7). All in order at MCA21.
- ROC filings are current — no defaults or strike-off risk**
Annual returns and financial statements filed for all years. Director KYC current.
- All operating licenses and registrations are valid**
FSSAI, MSME, pollution consent, shop & establishment, sector-specific approvals. Check renewal dates.
- Licenses are in the company's name — not the founder's personal name**
Licenses in the promoter's name may not transfer with the sale. Begin re-registration where possible.
- No pending tax notices, assessments, or disputes**
Income tax, GST, TDS. If notices exist, get legal advice on materiality and disclose proactively.
- No material litigation or claims outstanding**
Civil, labour, or commercial disputes. Include settled matters that may reopen.
- Environmental compliance is current**
Pollution control board consents, hazardous waste disposal certificates where applicable.
- Labour law compliance is in order**
PF, ESIC, gratuity provisions, contract labour registrations. Check for any labour disputes.
- Statutory registers are maintained**
Register of members, directors, charges, contracts. Required under Companies Act.

03 Contracts & Documentation

Buyers will ask for every material contract. Missing or unsigned agreements create perceived risk and reduce valuation confidence.

- All customer contracts are signed, current, and in the company's name**
Unsigned LOIs or informal understandings should be formalised where possible.
- Customer contracts are checked for change-of-control clauses**
Some contracts allow the customer to terminate if the business changes hands. Identify and flag these before going to market.
- Key vendor and supplier agreements are documented**
Signed agreements, pricing terms, exclusivity periods, and renewal dates.

- Property leases are current, transferable, and registered**
Check for change-of-control provisions, remaining term, and renewal rights.
- IP — trademarks, patents, domain names — is registered in the company's name**
Brand names and trademarks in the promoter's personal name must be transferred to the company before closing.
- Employment contracts are in place for all key employees**
Signed contracts including roles, compensation, and confidentiality provisions.
- Non-compete and non-solicitation agreements exist for key team members**
Particularly for employees who carry customer relationships.
- Loan and charge documents are available**
Sanction letters, loan agreements, charge creation documents for all facilities.
- Insurance policies are current**
Fire, D&O, product liability, professional indemnity as applicable.

04 Operational Readiness

Buyers pay more for businesses that can run without the founder. Reducing dependency before going to market is one of the highest-return preparation activities.

- A second line of management exists and is operational**
At least one person below the promoter who can run day-to-day operations. This is the most consistently underestimated issue in Indian SME transactions.
- Key customer relationships have been introduced to senior team members**
Customers who deal exclusively with the founder represent a post-sale continuity risk buyers will discount.
- Key vendor relationships are managed by someone other than the founder**
Pricing, terms, and relationship continuity should not depend solely on the promoter.
- Core business processes are documented**
SOPs for operations, sales, collections, and HR. Not exhaustive — key processes that are currently in the founder's head.
- Technology systems and software are documented and transferable**
Licenses in the company's name. No personal accounts used for business systems.
- Revenue is not dependent on a single customer (or risk is documented)**
If one customer > 20% of revenue, prepare a clear explanation of the relationship's stability and contractual status.
- The management team is likely to remain post-sale**
Identify retention risks early. Consider what incentives may be needed to retain key people through and after the transaction.
- Business growth projections are prepared and supportable**
Buyers pay for credible future upside. Projections must be anchored to the financials — not aspirational.

05 Data Room Readiness

A well-organised data room signals professionalism and speeds up diligence. Prepare it before the first serious buyer engagement.

- Corporate documents folder — MOA, AOA, COI, share register, ROC filings**

- Financial folder — 3 years audited accounts, MIS, bank statements**
Include monthly for last 12 months.
- Tax folder — ITR, GST returns, TDS filings, assessment orders**
- Contracts folder — customer, vendor, lease, employment agreements**
- IP and licenses folder — trademarks, patents, registrations, renewals**
- HR folder — org chart, key employee contracts, PF/ESIC records**
- Legal folder — litigation register, legal notices, regulatory correspondence**
- An Information Memorandum (IM) is drafted**
The IM is the primary document shared with buyers after NDA. It should cover business overview, financials, operations, team, and growth opportunity. See the MergerDomo IM Template.
- A teaser is prepared for initial outreach**
One page, no-name basis. Sector, revenue range, EBITDA, deal type, and asking price range.

Important: This checklist is for preparation guidance only and does not constitute legal or financial advice. Engage a qualified CA and legal counsel before proceeding with any business sale transaction.