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The Rs. 500 Crore Wall: Structural Exclusion Of Startups From RBI's Bank Acquisition Finance Framework And The Case For A Tiered Startup M&A Protocol

Rudraksh Singh Sisodia [1]
Tanay Kulkarni [2]
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Abstract

On 13 February 2026, the Reserve Bank of India issued landmark amendments to the Commercial Banks Credit Facilities Directions, permitting Indian banks to finance corporate acquisitions for the first time. This reform enables bank-led leveraged buyouts and reshapes India's M&A financing landscape, yet it imposes a Rs. 500 crore net worth floor and a three-year profitability record that structurally excludes over 2.4 lakh DPIIT-recognised startups, most of which are pre-profitability and sub-Rs. 100 crore in net worth. This paper argues the framework entrenches a funding valley of death for startup M&A, and makes three further contributions. First, it shows the Competition Commission of India's 2024 deal value threshold operates independently, exposing bank-financed startup acquisitions to parallel competition scrutiny regardless of the RBI's floor, and interrogates the resulting "killer acquisition" tension. Second, it examines whether SEBI's open-offer exemptions should be recalibrated for listed startup targets financed under a reformed protocol. Third, it proposes a new paragraph 170H tiered acquisition finance track, situated within a broader case for formal RBI-CCI-SEBI coordination, tested against comparative practice in the United States, the European Union, Singapore, and illustrative bank-financed consolidations abroad. The conclusion of the paper is that the Rs. The 500 crore threshold is indicative of a defensible, India-specific prudential judgment, and not international benchmarking, but that prudential judgment should now be construed in conjunction with competition and securities law to ensure that one exclusion is not substituted by regulatory risk that is nonexistent.

Keywords: Acquisition Finance, Startups, RBI, CCI, Deal Value Threshold, Leveraged Buyouts, Tiered Regulation

1. Introduction

Amendment Directions of the RBI (Commercial Banks - Credit Facilities), 2026, dated 13 February 2026, effective 1 July 2026, amend Chapter XI of the consolidated Credit Facilities Directions, to allow the acquisition of control in non-financial target companies by banks financed by bank money

[1] Rajiv Gandhi National University of Law (RGNUL) , Punjab, Patiala, India; ✉rudrakshsinghsisodia30@gmail.com; ORCiD: 0009-0004-2203-5463.
[2] Rajiv Gandhi National University of Law (RGNUL) , Punjab, Patiala, India; ✉tanaykulkarni23043@rgnul.ac.in

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first time.[3] The reform repeals a posture of regulation which has existed over seven decades under Section 19(2) of the Banking Regulation Act, 1949.[4] The recalibration was triggered by the August 2025 FIBAC proposal of SBI that was supported by the Indian Banks Association and resulted in a five-cluster architecture that covered eligibility, structures, security, prudential limits, and governance.[5]

The Directions have been the subject of commentary mostly as a leverage-based enablement tool of big-cap acquirers; the startup-blocking implication of the Rs. 500 crore floor has attracted only incidental attention and none of it locates the exclusion in the broader regulatory framework that regulate such transactions.[6] This is a major blind spot in two respects. First, in the same quarter the RBI fixed eligibility at Rs. 500 crore, DPIIT raised the startup-recognition turnover ceiling from Rs. 100 crore to Rs. 200 crore, signalling opposite policy trajectories.[7] Second, a startup acquisition structured to satisfy a reformed RBI threshold does not thereby escape the Competition Commission of India's deal value threshold or SEBI's takeover code — a coordination gap this paper is the first to map in the startup-finance context. Employing doctrinal, empirical, and comparative methods, the paper proceeds across nine further parts: Part 2 traces regulatory history; Part 3 deconstructs the RBI eligibility criteria; Part 4 quantifies the empirical mismatch; Part 5 develops a comparative typology, including illustrative bank-financed consolidations abroad; Part 6 identifies policy risks; Part 6A examines inter-regulatory coherence among the RBI, CCI, and SEBI; Part 7 proposes a tiered protocol; and Part 8 concludes.

2. Regulatory History: From Prohibition To Permissibility

"Section 19(2) of the Banking regulation act, 1949 was aimed at avoiding the concentration of equity risk by banks and to make sure that depositor funds were not used in making speculative purchases.[8] This posture was consolidated by the Master Circular on Loans and Advances issued by the RBI which did not allow banks to finance acquisition or takeovers of shares without narrow

[3] RBI (Commercial Banks – Credit Facilities) Amendment Directions 2026, para 170A (13 February 2026, effective 1 July 2026); LiveLaw, 'Banking On Takeovers: RBI's New Acquisition Finance Regime In India' (LiveLaw, 9 June 2026) <https://www.livelaw.in/articles/banking-takeovers-rbi-acquisition-finance-regime-india-537244> accessed 11 July 2026.

[4] Banking Regulation Act 1949, s 19(2).

[5] Acuity Law, 'Leveraged Buyouts In India Navigating Financial Strategies Amid Regulatory Challenges' (Mondaq, 2 October 2025) <https://www.mondaq.com/india/financial-services/1685588/leveraged-buyouts-in-india> accessed 3 July 2026; LiveLaw (n 1).

[6] Anasruta Roy, 'Financing Corporate Acquisitions: RBI's Framework and the Case for Linked Reforms' (NLS Forum, 30 March 2026) <https://forum.nls.ac.in/nlsblr-blog-post/financing-corporate-acquisitions-rbis-framework-and-the-case-for-linked-reforms/> accessed 3 July 2026.

[7] Department for Promotion of Industry and Internal Trade, Notification GSR 108(E) (4 February 2026); Treelife, 'India's Revised Startup Recognition Framework 2026: What Every Founder Must Know' (Treelife, 10 April 2026) <https://treelife.in/startups/indias-revised-startup-recognition-framework-2026/> accessed 11 July 2026.

[8] See generally, A Mukherjee, 'Restriction on Holding Shares in Companies' in The Banking Regulation Act, 1949 (LexisNexis 2022) 112-118.

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infrastructure and disinvestment exception.[9] The recalibration completed in February 2026 indicates the RBI opinion that after IBC balance sheet clean-up and recapitalisation, systemic capacity to handle this exposure is back in place.[10] It is important to note that the RBI has made it clear that the reform does not entail wholesale deregulation: acquisition finance is only allowed in a situation where the deal is a strategic investment to generate long-term value by creating synergies, clearly differentiating between short-term financial engineering and the debt-intensive leveraged-buyout culture of the Western markets.[11] The proposal by SBI was biased towards listed companies phased relaxation; the final Directions of the RBI allowed unlisted companies to be eligible but with financial limits that preclude start-up acquirers.[12]

3. Granular Deconstruction Of The Eligibility Criteria

The CME Amendment Directions prescribe four cumulative criteria: a minimum net worth of Rs. 500 crore; a three-year track record of profit after tax; for unlisted acquirers, a BBB- credit rating or above; and a post-acquisition debt-to-equity ratio not exceeding 3:1.[13]

The net worth requirement is the most significant filter. DPIIT has recognised over 2.4 lakh startups; the vast majority are sub-Rs. 100 crore in net worth, with Series A/B medians estimated at Rs. 15-50 crore. Only a handful of mature entities, such as OfBusiness (Rs. 9,400 crore) and Groww (Rs. 5,676 crore), would clear the threshold.[14]

The three-year profitability requirement is an even more formidable barrier, given India's growth-over-profitability funding model and the 2023-2024 funding winter, which contracted investment by over sixty per cent from 2021 peaks before forcing a shift toward unit economics that most startups have not yet completed.[15] The investment-grade rating mandate further eliminates early and growth-stage entities lacking the operating history for a BBB- rating, and the 3:1

[9] RBI Master Circular on Loans and Advances, para 2.3.19 (July 2015).

[10] Khaitan & Co, 'ERGO Amendment to CME Directions' (Khaitan & Co, 19 February 2026) <https://www.khaitanco.com/sites/default/files/2026-02/ERGO%20-%20Amendment%20to%20CME%20Directions%20-%2019%20February%202026.pdf> accessed 3 July 2026.

[11] CMS INDUSLAW, 'RBI Opens the Door to Bank-funded Acquisitions: A Measured Shift, Not a Credit-Market Reset' (Lexology, 3 March 2026) <https://www.lexology.com/library/detail.aspx?g=04910099-38e7-434a-aa4f-42b429ddf714> accessed 11 July 2026.

[12] S&R Associates, 'Acquisition Finance by Banks in India' (S&R Law, February 2026) <https://www.snrlaw.in/wp-content/uploads/2026/02/SR-Insights-Acquisition-Finance-by-Banks-in-India.pdf> accessed 3 July 2026.

[13] Reserve Bank of India (Commercial Banks Credit Facilities) Amendment Directions, 2026, para 98A.

[14] Register Karo, 'Top 12 Most Profitable Startups in India 2026 List' (Register Karo, 17 February 2026) <https://www.registerkaro.in/post/most-profitable-startups-in-india> accessed 3 July 2026; Startup India, 5th Edition of States Startup Ecosystem Ranking (DPIIT, January 2026).

[15] EY, Private Equity and Venture Capital Trendbook 2025 (EY 2025) 14-16.

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ceiling—though conservative relative to global leveraged-buyout norms—constrains startups whose equity bases are already diluted through successive funding rounds.[16]

The Directions also prohibit NBFCs and AIFs to access acquisition finance, a clause that out-of-proportionately impacts startups, as India venture debt funds are mainly either Category II AIFs or registered NBFCs, eliminating the intermediary layer that might otherwise direct bank capital down.[17] The aggregate effect is near-total exclusion: banks may finance up to seventy-five per cent of assessed acquisition value, so a startup with Rs. 50 crore net worth could, even if it cleared every other test, contemplate an acquisition of only around Rs. 200 crore — transactional bandwidth inadequate for meaningful consolidation.

4. Empirical Profile Of India's Startup M&A Activity

India's startup acquisition market exhibits a deal-size distribution structurally incompatible with the Rs. 500 crore floor. Tracxn recorded 136 startup acquisitions in 2025 and a cumulative 5,568 since inception, overwhelmingly clustered in the Rs. 10-100 crore range.[18] By contrast, India's broader technology M&A market recorded fifteen transactions exceeding US$500 million in 2025 against five in 2024, driving aggregate deal value to roughly US$26-29 billion — but these marquee deals were executed by listed IT-services incumbents, not DPIIT-recognised startups.[19] Capital availability thus scales inversely with the ecosystem-consolidation function acquisition finance is meant to serve.

Three transactions illustrate the counterfactual. Zomato's 2020 acquisition of Uber Eats India (approximately US$350 million / Rs. 2,492 crore) targeted a negative-EBITDA business that would have failed the profitability test even had the 2026 framework then existed.[20] BYJU'S financed its 2021 acquisition spree — including Aakash Educational Services for roughly US$1 billion—through a US$1.2 billion Term Loan B syndicated by US lenders, capital Indian banks were then barred from

[16] Lexology, 'Reserve Bank of India's Draft Directions Governing Acquisition Finance by Commercial Banks: A Paradigm Shift' (Lexology, 20 December 2025) <https://www.lexology.com/library/detail.aspx?g=2b7f424f-55fd-443e-aedd-118dcf30ecdc> accessed 3 July 2026.

[17] Payal Agarwal, 'RBI Permits Leveraged Buy-Outs through Bank Finance' (Vinod Kothari, 14 February 2026) <https://vinodkothari.com/2026/02/rbi-permits-leveraged-buy-outs-through-bank-finance/> accessed 3 July 2026.

[18] Tracxn, 'Startups in India – 2026 Latest Funding Rounds, Trends and News' (Tracxn, July 2026) < https://tracxn.com/d/geographies/india/__ujYf3QI9FSnpS3x-zJCSwnay2nENQhm1kAN-U8-6Kfg#top-investors> accessed 11 July 2026; BW Disrupt, 'India Startup Funding 2025: A Year Of Reset Before Recovery' (BW Disrupt, 30 December 2025) <https://www.bwdisrupt.com/article/india-startup-funding-2025-a-year-of-reset-before-recovery-585366> accessed 11 July 2026.

[19] IBEF, 'India's tech M&As on a three-year high with deal value touching US$29 billion' (IBEF, 29 December 2025) <https://www.ibef.org/news/india-s-tech-m-as-on-a-three-year-high-with-deal-value-touching-us-29-billion> accessed 11 July 2026.

[20] Sarwant Singh, 'Sale Of Uber Eats Indian Operations To Spice Up M&A Action In The Global Food Delivery Industry' (Forbes, 22 January 2020) < https://www.forbes.com/sites/sarwantsingh/2020/01/22/sale-of-uber-eats-indian-operations-to-spice-up-ma-action-in-the-global-food-delivery-industry/ > accessed 3 July 2026.

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providing and which, under current thresholds, such an acquirer still could not access domestically.[21] HUL's Rs. 2,955 crore acquisition of Minimalist, while startup-adjacent, was a strategic FMCG play rather than intra-ecosystem consolidation.[22]

Venture debt — the principal alternative channel—reached US$1.38 billion across 187 deals in 2025, a twelve per cent rise on 2024, at a fifty-eight per cent CAGR since 2018.[23] Tickets, however, are capped at twenty to thirty-five per cent of the last round at thirteen to fifteen per cent interest—structurally unsuited to control transactions. The picture is one of a missing middle: startup-scale M&A is too large for venture debt and categorically barred from bank acquisition finance.

5. Comparative Regulatory Analysis

Mature credit markets calibrate acquisition lending through variables other than a single net-worth floor. The United States shows a shift from prescriptive to principles-based supervision: on 5 December 2025, the OCC and FDIC jointly rescinded the 2013 Interagency Guidance on Leveraged Lending as overly restrictive and a driver of migration to unregulated private credit.[24] The same day, the OCC issued Bulletin 2025-45, replacing its venture-loan guidance with a framework that permits lending to early-, expansion-, or late-stage companies provided banks maintain disciplined underwriting and reserves — differentiating by developmental stage rather than excluding by net worth.[25]

The ECB's 2017 Guidance on Leveraged Transactions defines scope by a post-financing debt-to-EBITDA ratio exceeding 4.0 times, exempting SMEs, investment-grade borrowers, and exposures below EUR 5 million — calibrating intensity to transaction risk rather than borrower category.[26] Singapore's MAS differentiates by lender and investor sophistication: its March 2025

[21] Suprita Anupam, 'BYJU's Acquisition Spree: A Costly, Deadly Gamble' (Inc42, 23 February 2024) <https://inc42.com/features/byjus-acquisition-spree-a-costly-deadly-gamble/> accessed 3 July 2026.

[22] ET Online, 'Hindustan Unilever acquires 90.5% stake in beauty brand Minimalist at Rs 2,955 crore valuation' (The Economic Times, 23 January 2025) < https://economictimes.indiatimes.com/industry/cons-products/fmcg/hindustan-unilever-acquires-90-5-stake-in-beauty-brand-minimalist-for-rs-2955-crore/articleshow/117455307.cms?from=mdr > accessed 3 July 2026

[23] Megha Reddy, 'Venture debt registers 12% growth in 2025, says report' (YourStory, 8 April 2026) <https://yourstory.com/2026/04/venture-debt-registers-12-growth-in-2025-says-report> accessed 11 July 2026; Farheen Shaikh, 'Venture Debt Funds in India: A Founder's Guide to Choosing the Right One' (EquityList, 24 March 2026) <https://www.equitylist.co/blog-post/venture-debt-funds-india> accessed 3 July 2026.

[24] FDIC, 'Interagency Statement on OCC and FDIC Withdrawal from the Interagency Leveraged Lending Guidance Issuances' (FDIC, 5 December 2025) <https://www.fdic.gov/news/press-releases/2025/interagency-statement-occ-and-fdic-withdrawal-interagency-leveraged > accessed 11 July 2026.

[25] OCC Bulletin 2025-45, 'Commercial Lending: Venture Loans to Companies in an Early, Expansion, or Late Stage of Corporate Development' (5 December 2025) <https://www.occ.gov/news-issuances/bulletins/2025/bulletin-2025-45.html> accessed 11 July 2026.

[26] European Central Bank, Guidance on Leveraged Transactions (16 May 2017) <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.leveraged_transactions_guidance_201705.en.pdf> accessed 3 July 2026.

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consultation on a Long-Term Investment Fund framework caps fund-of-funds borrowing at fifteen per cent of net asset value with a thirty per cent single-fund concentration limit, using leverage and diversification ceilings rather than acquirer size as the prudential lever.[27]

The real market experience demonstrates the potential and the danger of bank-provided acquisition finance of technology consolidation. In 2016, Dell acquired EMC at the highest amount of technology to date, at US$67 billion, funded by about US$40-50 billion in debt raised by a bank consortium led by Credit Suisse and others, allowing it to leave a falling PC business and enter enterprise infrastructure and, via the stake of EMC, VMware.[28] The transaction shows that the bank-syndicated debt, appropriately underwritten, can be used to finance a true strategic consolidation of technology assets, and not financial engineering - exactly what the RBI has said it is doing. It should be distinguished from consumer-platform deals such as Facebook's 2012 acquisition of Instagram, which was funded entirely from Facebook's own cash and stock rather than bank debt, and therefore offers no direct precedent for bank-led financing, however often it is cited loosely for that purpose.[29]

Bank-financed technology buyouts are not risk-free, however. The 2022 take-private of Citrix by Vista Equity Partners and Elliott Management was financed by a US$15 billion bank-underwritten debt package; rising interest rates left the lending banks holding roughly US$700 million in losses on syndication, illustrating how leverage calibrated to one interest-rate and valuation environment can rapidly become destabilising.[30] Put together, these episodes support and not cancel the argument about tiered and risk-calibrated access: it is not merely to take the practice of Western leverage and apply it in the Indian market to gain a level of competitive efficiency, but to push disciplined, India-specific underwriting down the acquirer-size curve to a lower level than the floor at which the practice is currently practiced.

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[27] Monetary Authority of Singapore, Consultation Paper on Providing Retail Access to Private Market Investment Funds (March 2025) paras 5.14, 5.40-5.41 <https://www.mas.gov.sg/-/media/mas/resource/publications/consult_papers/consultation-paper-on-providing-retail-access-to-private-market-investment-funds.pdf> accessed 11 July 2026.

[28] The Week Staff, 'Dell acquires EMC in biggest tech buyout in history' (The Week, 13 October 2015) <https://theweek.com/65825/dell-acquires-emc-in-biggest-tech-buyout-in-history> accessed 11 July 2026; Cahill Gordon & Reindel LLP, 'Cahill Represents Financing Sources in Landmark Buyout of EMC Corp. by Dell' (Cahill, 7 September 2016) <https://www.cahill.com/news/firm-news/2016-09-07-cahill-represents-financing-sources-in-landmark-buyout-of-emc-corp-by-dell/_pdfx/2016-09-07-cahill-represents-financing-sources-in-landmark-buyout-of-emc-corp-by-dell.pdf > accessed 11 July 2026.

[29] Facebook Inc, Form S-1/A (US Securities and Exchange Commission, 16 May 2012) <https://www.sec.gov/Archives/edgar/data/0001326801/000119312512235588/d287954ds1a.htm> accessed 15 July 2026 (confirming the Instagram acquisition was funded by 22,999,412 shares of common stock and US$300 million cash, with no debt financing).

[30] Abigal Summerville, 'Banks close painful Citrix debt chapter with $700 million loss -source' (Reuters, 22 September 2022) <https://www.euronews.com/next/2022/09/22/citrix-m-a-loans> accessed 11 July 2026; Bloomberg, 'A $15 Billion Risky Debt Deal Heralds Day of Reckoning for Wall Street' (Bloomberg, 22 September 2022) < https://www.bloomberg.com/news/articles/2022-09-22/citrix-debt-debacle-heralds-a-day-of-reckoning-on-wall-street > accessed 11 July 2026.

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6. Policy Risks Of Structural Exclusion

The exclusion generates compounding risks. First, offshore dependency is default: BYJU Term Loan B, which trades on margins based on LIBOR but subject to US-style covenants, was a prime source of its 2023-24 distress, as domestic banks could not provide a comparable facility - a risk the 2026 Directions does not mitigate below the Rs. 500 crore floor.[31] Second, consolidation lacks a push to the mid-market level: the Zomato-Swiggy duopoly demonstrates how leveraging acquisitions to build a globally competitive structure, but quick-commerce, agritech, and healthtech are not provided with a similar domestic funding source.

Third, the structure generates adverse selection: startups that have foreign-currency balance sheets or are sponsored by a private-equity fund continue to enjoy offshore access, whereas bootstrapped, domestically-funded startups, now more than half of DPIIT recognitions, have no access whatsoever.[32] Fourth, banks forgo a high-yielding asset class: the domestic opportunity is estimated at US$15-20 billion annually, of which the startup-scale tranche alone could diversify bank balance sheets if underwritten within appropriate risk parameters.[33]

Fifth, the exclusion reflects an inter-agency coordination failure: DPIIT's decision to raise the turnover ceiling to Rs. 200 crore and its recognition of over 2.4 lakh startups generating more than 23.36 lakh direct jobs signals a scaling commitment the RBI's uniform floor does not accommodate.[34] Fewer than a handful of recognised entities clear the threshold, an exclusion rate in excess of 99.9 per cent. This last risk is not confined to the RBI-DPIIT axis, however; as Part 6A shows, it recurs wherever the RBI's threshold intersects the independently-triggered jurisdiction of the CCI and SEBI.

6.1 Inter-Regulatory Coherence: Rbi, Cci, And Sebi In The Architecture Of Bank-Financed Control Transactions

The Rs. 500 crore wall is not solely a banking-law problem; it sits atop two other regulatory perimeters that operate on entirely different logics and are triggered independently of it, so that reform confined to paragraph 170G would leave the underlying transaction only partially de-risked.

The first is competition law. The Competition (Amendment) Act, 2023 and the Combinations Regulations 2024, effective 10 September 2024, introduced a deal value threshold (DVT):" any transaction whose value — including direct, indirect, and deferred consideration — exceeds Rs. 2,000 crore requires CCI approval if the target has "substantial business operations" in India, irrespective of the target's assets or turnover and irrespective of whether the de minimis

[31] Inc42 (n 19).

[32] Treelife (n 5).

[33] Mita Sood, 'RBI Draft Rules Open Bank Acquisition Finance for Listed M&A' (India Business Law Journal, 22 January 2026) <https://law.asia/rbi-acquisition-finance-draft-directions/> accessed 3 July 2026.

[34] Anil Kumar, 'India Crosses 2.40 Lakh DPIIT-Recognised Startups, Nears 24 Lakh Jobs Milestone' (TICE News, 1 July 2026) <https://www.tice.news/tice-trending/india-startup-ecosystem-crosses-240000-dpiit-recognised-startups-12123191> accessed 11 July 2026.

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exemption would otherwise apply.[35] The DVT was enacted specifically to close the "killer acquisition" gap exposed by deals such as Facebook/WhatsApp, where a high-valuation but low-revenue digital target escaped merger review entirely under asset- and turnover-based thresholds.[36] This generates an asymmetric overlap with the RBI framework that this paper critiques: a bank-financed acquisition will be cleared under a reformed, lower "net worth requirement under a paragraph 170H-type track, and still separately require CCI clearance - with its own 150-day timeline - solely because deal value (often inflated by earn-outs and deferred consideration common to technology deals) crosses Rs. 2,000 crore, and not dependent at all on the net worth of the acquirer.[37] Another tiered protocol that reduces the own floor of the RBI without considering this parallel trigger is the risk of financing the very type of high-value, competition-eliminating acquisition that the CCI reform of 2024 was meant to prevent, and turns a reform of access by startups into a reform of killing by acquisition.

The second border is the securities law. In the case of listed targets, Regulation 29 of the SEBI (SAST) Regulations, 2011 provides continuing disclosure when a five per cent thresh is exceeded, whereas Regulations 3 and 4 provide a mandatory open offer when twenty-five per cent or when acquisition of control are met, and only subject to the closed list of general exemptions in Regulation 10 and the case-specific discretion of SEBI in Regulation 11.[38] Any banking-law reform that attempts to package into acquisitions a blanket open-offer exemption due to the fact that they are bank-financed or startup-related would be unlawful, as the categories of the exemption are exhaustive and not in any way dependent on the source of financing; minority shareholder protection would be watered down in the absence of a justification based on the public interest. The preferable, elaborated in Part 7, is to combine full Regulation 29 disclosure with a faster-tracked, case-specific Regulation 11 relaxation of protocol-financed deals that are less than a specified size, rather than a carve-out.

[35] George Cyriac, 'Competition Commission of India Provides Updated Deal Value Threshold' (Morgan Lewis, 19 September 2024) <https://www.morganlewis.com/pubs/2024/09/competition-commission-of-india-provides-updated-deal-value-threshold> accessed 15 July 2026; AZB, 'Deal Value Threshold' (AZB, 30 September 2024) <https://www.azbpartners.com/bank/deal-value-threshold/> accessed 15 July 2026.

[36] Gauri Gupta, 'An Indian Perspective on Merger Control in Digital Markets: Looking Ahead by Looking Across' (Kluwer Competition Law Blog, 1 June 2023) <https://legalblogs.wolterskluwer.com/competition-blog/an-indian-perspective-on-merger-control-in-digital-markets-looking-ahead-by-looking-across/> accessed 15 July 2026.

[37] Amol Chitnis, 'Competition Laws – Introduction of Deal Value Threshold and Exemption of Certain Combinations' (Chambers and Partners, 6 December 2024) <https://chambers.com/articles/competition-laws-introduction-of-deal-value-threshold-and-exemption-of-certain-combinations> accessed 15 July 2026.

[38] SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011, regs 3, 4, 10, 29; Anshu Choudhary, 'Case-Specific Exemptions under the Takeover Regulations: Key Takeaways from SEBI's Orders' (India Corporate Law, 8 April 2024) <https://corporate.cyrilamarchandblogs.com/2024/04/case-specific-exemptions-under-the-takeover-regulations-key-takeaways-from-sebis-orders/> accessed 15 July 2026.

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No three regulators now make cross-notification of the others on acquisition-finance deals of this type; an institutional home of a standing coordination mechanism is plausible, and provided by the Financial Stability and Development Council, but not used at present.

7. Proposed Tiered Startup Acquisition Finance Protocol

The paper suggests a proposal to add a new paragraph, 170H, to Chapter XI, to create a parallel track of eligibility that is aligned with startup risk. The protocol is based on 5 pillars based on the typology of Part 5 under the condition of the coordination constraint of Part 6A."

To begin with, lower net worth threshold of Rs. DPIIT-recognised startups 50 crore, with a three-year-operating-history condition, replacing a positive-EBITDA trend by the net-profit-after-tax test, following the stage-differentiation of the OCC.[39] This would take the Series B/C group, projected to be fifteen to twenty per cent of recognised startups, without applying eligibility to pre-revenue organizations.[40]

Second, a venture-debt-like instrument, with a twelve to fourteen percent base rate and warrant coverage of 0.5 to 2 percent of principal, exercisable at the latest round valuation, recreating previously observed venture debt risk-compensation logic. In line with MAS using fund-level leverage limits, instead of borrower net worth, the protocol would limit post-acquisition debt-to-equity to 2:1, which is stricter than the general framework (where it is 3:1) to compensate the reduced net-worth floor and to guard against the Citrix-style over-leverage risk in Part 5.

Third, all acquisitions that are made of a listed target, the funding of which is based on paragraph 170H, have to follow the disclosure requirements of Regulation 29, in association with the System Driven Disclosures of SEBI to automated, real-time transparency.[41] In line with the conclusion of Part 6A, the present paper does not propose to bundle a blanket, blanket Regulation 10 exemption on open-offers with listed-target acquisitions simply because they are protocol-financed, but rather SEBI should pre-authorize a relaxed, fast-tracked Regulation 11 relaxation - shorter timelines and a simplified letter of offer, rather than exemption of the offer per se - where the value of the deal remains below a prescribed ceiling, and minority shareholder protection is preserved without unnecessary transaction friction.

Fourth, a filing requirement which obliges the lending bank to certify at the time of sanction whether the transaction alone crosses the CCI at the Rs. 2,000 crore deal value threshold, which requires CCI notification before disbursement where it does - a procedural adjustment, and not a new primary law, but a stopgap measure until a longer-lasting inter-regulatory protocol is adopted under the FSDC.

"Fifth, a twenty-four-month regulatory sandbox cohort under the RBI Enabling Framework of Regulatory Sandbox, under which since February 2024, theme-neutral cohorts and relaxations of statutory restrictions are allowed, the vehicle via which paragraph 170H could be tested without a

[39] OCC Bulletin 2025-45 (n 23).

[40] Yash Choudhary, 'Startup Ecosystem in India: Growth Trends 2016 to 2025' [2025] JMME 15(4) .

[41] SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011, reg 29; SEBI Circular SEBI/HO/CFD/PoD-1/P/CIR/2023/31 (16 February 2023).

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complete Directions amendment.[42] Layered protection is used across the board: risk weighting 125-150 per cent, a twenty per cent escrow of the value of the acquisition, quarterly stress test at the cohort level and an automatic sunset at twenty-four months.[43]

An alternative meriting consideration, and rejected here only on balance, is a credit-guarantee model on the lines of the Credit Guarantee Fund Trust for Micro and Small Enterprises, under which the government or SIDBI absorbs first-loss risk on startup acquisition loans rather than the RBI lowering its own net worth floor. This would avoid diluting prudential thresholds altogether, but it substitutes fiscal exposure for regulatory calibration, is slower to institute, and does nothing to resolve the CCI/SEBI coordination gap identified above; the sandboxed paragraph 170H track is accordingly preferred as the more immediately actionable and more comprehensive reform.

8. Conclusion

The RBI's acquisition finance framework is a landmark liberalisation, but the Rs. 500 crore floor and three-year profitability requirement bar virtually the entire DPIIT-recognised ecosystem from bank-financed acquisition capital." This exclusion is not the product of the RBI disregarding Indian conditions; if anything, the Directions reflect a deliberately India-specific prudential judgment, calibrated to avoid the debt-heavy leverage culture of Western markets rather than a simple race to match international competitiveness benchmarks. The difficulty is not that the RBI failed to consider the Indian market — it is that the resulting threshold was set without regard to the independently-triggered perimeters of the CCI and SEBI that govern the same transactions.

The comparative experience surveyed here, including the Dell-EMC and Citrix precedents, shows that tiered, risk-calibrated acquisition finance is both feasible and capable of being over-leveraged if coordination is absent. The five-pillar, reduced net worth, venture-debt-style instruments, co-ordinated SEBI compliance, a cross-notification filing by the CCI, and a regulatory sandbox proposed five-pillar paragraph 170H proposal provides a way to inclusive acquisition finance without impairing prudential integrity across the three regulators, as opposed to only the RBI. The startup ecosystem in India is still growing, so bridging the gap between the two is essential. Consolidation-based M&A will be judged by whether it can create globally competitive domestic champions by reducing it by 500 crore and not just by lowering it.

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