

New way to ride the tech boom: Help startups with legal issues

Synopsis

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US-based hedge fund [Naples Global LLC](#) has teamed up with Indian third-party litigation funding startup [LegalPay](#) to set up a fund to help finance local entrepreneurs embroiled in disputes with their investors, including private equity firms.

They have entered into an agreement to create a special purpose vehicle (SPV) that will help cash-strapped founders fight litigation, arbitration and other disputes with their investors.

"Since most founders are first-generation entrepreneurs, they lack the financial muscle to assert their legal rights," said LegalPay CEO Kundan Sahi. "The idea behind this product is to create a level playing field for those disgruntled founders so that they don't give up on their legitimate rights due to financial constraints."

LegalPay will assess every dispute and its risk-reward ratio before committing up to Rs 5 crore towards the legal costs in each case.

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SPV will focus on smaller startups where founders have strong cases but face financial constraints to fund their disputes

Founders can either pay back along with predetermined interest or give away a portion of the equity



"Our growing investor community continues to remind us that the demand for alternative investments is increasing and now we need to go outside the USA. LegalPay and their leadership team fit that category perfectly as they are creating a lucrative asset class in India/Asia," said [Kerry Morris](#), partner, [Naples Global](#) LLC. "We are looking forward to expanding our asset allocation as we grow our US business and service new international markets."

The fund has primarily committed to deploy \$5 million (about Rs 37 crore), with an option to increase the exposure. Naples Global's business model appears to have worked in the US and other developed markets. With Indian startups gaining size and scale, the hedge fund has decided to test the water here, said people aware of the matter. However, it cannot comment on the matter in view of the non-disclosure agreements signed with its clients, they said.

Common in mature economies

The development comes at a time when founders such as Ankita Bose of Singapore-based business-to-business e-commerce startup [Zilingo](#) and Asneer Grover, co-founder of [BharatPe](#), are at the loggerhead with investors.

However, the SPV to be set up by Naples Global and LegalPay will focus on smaller startups where founders have strong cases but face financial constraints to fund their disputes.

Such funds finance founders to fight litigation. Subsequently, the founders can either pay back along with predetermined interest or they will have the option to give away a portion of the equity in the startup to the fund. Confidentiality agreements bind most such agreements.

“Third-party funding in founder-investor dispute is a very common investment instrument in mature economies since most such disputes get resolved or settled out of court in a much shorter time frame compared to other conventional litigations and also there is certainty in the recovery,” said Vyapak Desai, head-international disputes and investigations at Nishith Desai Associates. “As the Indian startup ecosystem is becoming sizable, local entrepreneurs will also see such funds coming to their help to fund their dispute with investors.”

Many founders are unable to take on big investors because unlike the latter, who have legal teams at their disposal to handle disputes, the founders must fend for themselves.

Indian startups raised more than \$30 billion in 2021-22, up from \$10.14 billion in the previous year, according to data compiled by Tracxn.

Ankita Singh, founder of boutique law firm Sarvaank Associates, said there should be some mechanism that can help founders fight cases where they feel they have been wronged. “While on one side, this may be viewed as supporting the founder, which every investor strives towards, we also need to be careful and develop checks and balances so that this is also not misused in any way,” she said.

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