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Lexygen India Digest

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The July 2025 issue of the Lexygen India Digest summarises an important notification issued by the Securities and Exchange Board of India extending the additional liquidation period for venture capital funds registered under the erstwhile regulations migrating to the regulatory framework applicable to alternative investment funds. The regulatory updates section reports a decision by the Income Tax Appellate Tribunal holding that consideration received for grant of a right of first refusal is a capital receipt taxable at the time of transfer of the shares. The case updates section also reports a decision by the Income Tax Appellate Tribunal clarifying that the conversion of a company into an LLP will be treated as a 'transfer' in the absence of an exemption claimed under the Income Tax Act and subject to capital gains tax. The market updates section of this issue reports some significant private equity deals in the consumer retail, electronic commerce, digital healthcare, financial services, and technology sectors; fundraising by Indian private equity and venture capital funds; mergers and acquisitions in the healthcare, financial services, and consumer retail sectors; and certain other important deals.

REGULATORY UPDATES

A. SEBI NOTIFICATIONS

SEBI extends additional liquidation period for venture capital funds migrating to AIF Regulations

The Securities and Exchange Board of India ("**SEBI**") has, *vide* circular number SEBI/HO/AFD/SEC-3/P/CIR2025/85 dated June 6, 2025 ("**Circular**"), notified an extension in the additional liquidation period for venture capital funds ("**VCFs**") registered under the erstwhile Securities Exchange Board of India (Venture Capital Funds) Regulations, 1996, to migrate to the framework under the Securities Exchange Board of India (Alternative Investment Funds) Regulations, 2012 ("**AIF Regulations**").

Previously, the SEBI had prescribed, *vide* circular number SEBI/HO/AFD/AFD-POD-1/P/CIR/2024/111 dated August 19, 2024, an additional liquidation period up to July 19, 2025, for VCFs with schemes whose liquidation period had expired and who had opted to migrate to the framework under the AIF Regulations.

VCFs having at least one scheme which had not been wound up after the expiry of its liquidation period were allowed to migrate to the provisions of the AIF Regulations.

The Circular has now extended the additional liquidation period up to July 19, 2026.

B. CASE UPDATES

ITAT Delhi: Amounts received in consideration for grating ROFR is a capital receipt taxable at the time of transfer of shares

In a significant decision in *Dabur Investment Corporation vs. Joint Commissioner of Income Tax, Range-46, New Delhi*, the Delhi bench of the Income Tax Appellate Tribunal ("**ITAT**") has held that amounts received by a shareholder for granting a right of first refusal ("**ROFR**") to a joint venture partner constitutes a capital receipt, being advance against future sale of shares, and is taxable as capital gains at the time of actual share transfer.

To briefly summarise the facts of the case, Dabur Investment Corporation ("**DIC**") received annual amounts from its joint venture partner, a United Kingdom based company, as consideration for granting a ROFR over its shares in the joint venture. DIC recorded such consideration as an advance against the consideration for sale of shares, and accordingly included amounts received in previous years in its computation of capital gains in the year in which the shares were sold. In the course of assessment, the assessment officer ("**AO**") treated the consideration received by DIC as taxable income in the year of receipt. On appeal, the Commissioner of Income Tax (Appeals) ("**CIT(A)**") upheld the AO's decision, holding that the payments bore