



FINANCIAL ANALYSIS

Crowdfunding

Raising small amounts from many people online, and what is and is not allowed in India

Rules in force on 16 October 2026

For training and education only. Not investment advice.

Crowdfunding means raising a little money from a large number of people, usually over the internet.

In India, whether it is allowed depends on what the backer gets in return: nothing, a product, a loan repayment, or shares. The last one is where the law is strict.

Four kinds of crowdfunding



Donation-based

You give money as a gift and get nothing back. Used for causes, medical bills and relief, like an online charity drive.



Reward-based

You pledge money and get a product or a perk in return, often before it is made. No shares and no money back.



Lending (P2P)

You lend to borrowers through a platform and are repaid over time, usually with interest. You can lose money.



Equity-based

Backers get shares and a claim on future profits. This is an offer of securities, where the rules are strict.

The return to the backer decides the law: a gift, a product, a loan, or shares.

What is allowed in India

The same word, four very different legal answers.

Type	What the backer gets	Status in India
Donation	Nothing; it is a gift.	Allowed. Not an offer of securities, so outside SEBI's remit.
Reward	A product or a perk, not money.	Allowed. No financial return, so not a securities offer.
Lending (P2P)	Repayment, usually with interest.	Allowed only through an RBI-registered NBFC-P2P platform.
Equity	Shares and a claim on profits.	Not permitted as a public offer online. SEBI has notified no crowdfunding rules.

Sources: SEBI press release PR No. 137/2016, 30 Aug 2016; RBI NBFC-P2P Directions, 2025; Companies Act, 2013.

Why public equity crowdfunding does not fit

THE PLAN

A start-up wants to raise ₹2 crore.

It plans to offer shares to 1,000 people online, at ₹20,000 each. These figures are invented.

- 1 A private placement under the Companies Act may be offered to at most 200 people in a financial year, per kind of security.
- 2 This plan reaches 1,000 people: $1,000 \times ₹20,000 = ₹2 \text{ crore}$. That is far above 200.
- 3 An offer to more than 200 people is a deemed public offer, which needs a prospectus and listing on a recognised stock exchange.
- 4 An online crowdfunding platform is not a recognised stock exchange, so the shares cannot be sold to the public this way.

Raising equity from the public online is not permitted in India. The limit is the law, not the website.

Illustration with invented, round figures. Not a forecast and not legal advice.

The regulated routes that do exist

A company that wants outside money has legal ways to raise it.

1

Private placement

Offer shares or debentures to up to 200 people in a financial year, under Section 42 of the Companies Act. No public advertising.

2

Angel fund or AIF

A SEBI-registered angel fund, a type of alternative investment fund, pools money from accredited investors to back start-ups.

3

SME exchange listing

Small companies can raise equity from the public through the stock exchanges' SME platforms, with a prospectus and SEBI's framework.

4

P2P lending

Lending-based funding is allowed through an RBI-registered NBFC-P2P platform, which is only an intermediary and cannot lend itself.

Sources: Companies Act, 2013, s.42 and PAS Rules, 2014, r.14; SEBI AIF Regulations, 2012; SEBI ICDR Regulations, 2018; RBI NBFC-P2P Directions, 2025.

If you learnt this from older material

What older decks say

- SEBI floated a consultation paper, so equity crowdfunding rules are on the way.
- Online platforms let the public buy shares in start-ups.
- Crowdfunding is one single, new way to raise money.

What holds now

- SEBI has notified no crowdfunding regulations since its paper of 17 Jun 2014.
- In Aug 2016 SEBI warned that unauthorised online fund-raising platforms break securities laws.
- The answer depends on the type: donation and reward yes, P2P via RBI, public equity no.

The 2014 paper was only a proposal. The 2016 caution is a warning, not a new rule.

Sources: SEBI Consultation Paper on Crowdfunding, 17 Jun 2014; SEBI press release PR No. 137/2016, 30 Aug 2016.

Four things people get wrong



'All crowdfunding is banned in India.'

Donation and reward crowdfunding are allowed, and P2P lending through RBI-registered platforms; only public equity crowdfunding is not permitted.



'Backing a campaign makes me an owner.'

In donation and reward crowdfunding you get a thank-you or a product, not shares and not a share of any profit.



'A reward campaign guarantees the product.'

You are backing a plan. The product can be late or may never arrive. The checking is on the backer; there is no SEBI cover.



'P2P lending is like a bank deposit.'

It is lending to individuals. The platform cannot guarantee repayment or any return, and the money lent is at risk.

Four questions before backing a campaign

1

What do I get back?

A gift, a product, a loan repayment, or shares? The answer tells you which law, if any, protects you.

2

Who regulates it?

A P2P loan sits behind an RBI-registered platform. A donation or reward campaign has no SEBI or RBI cover for the offer itself.

3

Is this an equity offer?

If someone online offers you shares in a start-up as a 'crowdfunding' deal, treat it with great caution: SEBI has flagged such platforms.

4

Can I lose it all?

With lending and equity, yes. Early-stage ventures fail often, and there is no assured return and no deposit cover.

We explain how crowdfunding works and where the law stands. We do not recommend any campaign or platform.

Check yourself

Q1

A start-up offers shares to 1,000 people through a website. Why is this not a permitted route in India?

Q2

A friend lends money through a peer-to-peer platform and asks if it is regulated. What do you tell them?

Q3

Someone says 'crowdfunding is illegal in India.' Is that right?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- SEBI cautioned that unauthorised electronic platforms facilitating fund-raising contravene securities laws: SEBI press release PR No. 137/2016, 30 Aug 2016 (sebi.gov.in).
- SEBI proposed, but never notified, a securities-based crowdfunding framework: SEBI Consultation Paper on Crowdfunding in India, 17 Jun 2014.
- Private placement may be offered to at most 200 persons a year per kind of security (excl. QIBs and ESOP); more is a deemed public offer: Companies Act 2013 s.42; PAS Rules 2014 r.14.
- Peer-to-peer lending is regulated by RBI; the platform must register as an NBFC-P2P: RBI (NBFC-P2P) Directions, 2015, dated 28 Nov 2015.
- Angel funds and SME listing as regulated routes: SEBI (AIF) Regulations, 2012; SEBI ICDR Regulations, 2018.
- All company names, figures and campaigns in the worked example are invented for illustration and refer to no real venture.

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