VENTURE DEBT:

THE RISING TIDE OF CREDIT IN THE NEW ECONOMY

February 2023

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Trifecta Capital is India's leading alternate financing platform for startups across their life cycle with tailor-made Venture Debt, Growth Equity and Financial Advisory Solutions. Trifecta Capital serves market leaders and category creators across B2B, Consumer Services, Consumer Brands, E-commerce, Mobility, Edtech, Agritech, Fintech and Healthcare.

Trifecta Capital pioneered the asset class of Venture Debt Funds in 2015, by launching the country's first Venture Debt Fund. It has since provided over $500Mn of Venture Debt to 150+ startups across its three Funds. The Funds' portfolio includes many unicorns and several category leading businesses like Big Basket, Pharmeasy, Cars24, Vedantu, The Good Glamm Group, Infra.Market, Dailyhunt, UrbanCompany, CarDekho, Kreditbee, BharatPe, Cure.fit, GlobalBees, IdeaForge, Rebel Foods, StashFin, Open, Kissht, Ninjacart, Chalo, NoBroker, Turtlemint, Udaan, Dehaat and Livspace. Trifecta Capital Venture Debt portfolio companies have cumulatively raised $13.5Bn of equity and are cumulatively valued at $54Bn.

As of February 2023, Trifecta Capital has raised over $600Mn across three Venture Debt Funds and one Growth Equity Fund. To support startups, the Firm has also built a customized technology and advisory platform with an AUA of over $300Mn. Since inception, Trifecta Capital has invested over $650Mn across Venture Debt and Growth Equity and aims to be the financial partner of choice for leading new economy companies in India. It currently has offices in NCR, Bengaluru, and Mumbai.

EXECUTIVE SUMMARY

The last few years have witnessed record equity inflows into the Indian startup ecosystem, primarily led by macroeconomic, technological, and geopolitical tailwinds. During the same period, Venture Debt has also gained popularity among Indian startups that are looking to raise capital. Since CY19, the Indian Venture Debt market has grown at 22% CAGR with almost $1Bn invested in CY22. Its journey in India is beginning to mirror the trajectory of this asset class observed in developed markets.

As founders get more financially sophisticated, startup balance sheets are now being designed to include debt as a form of financing. This has also been enabled by a higher number of debt providers and introduction of a variety of product offerings. This is evidenced by the fact that despite the recent funding winter, Venture Debt is still in high demand among startup founders.

We are at a crucial inflexion point today. While the immediate funding slowdown can be an acid test for debt investments, it also brings with it an opportunity for founders to choose the right investors and for investors to consolidate investments. Macro trends indicate that Indian Venture Debt investments are set to grow to $6Bn by CY30. Additionally, with a more nuanced risk return profile, increased investor interest in debt instruments and higher participation from varied capital providers, the Venture Debt market can potentially leapfrog to $10Bn by CY30. This would imply a 10% share of projected VC investments, which is closer to the Venture Debt penetration seen in more developed markets such as the US.

In this report, we delve into the Indian Venture Debt journey so far, prevalent use cases, insights from the startup ecosystem on debt financing and the road ahead.

As part of the report, we connected with 40+ startup founders and one of the key themes that stood out was the limited awareness of Venture Debt as a form of financing. This has been one of the major deterrents in the growth of this asset class. Founders have been highly dependent on their existing networks to get introduced to debt options. Even today, Venture Debt is predominantly recommended and routed through equity investors. However, founders who have taken Venture Debt expressed numerous benefits such as deal execution speed, availability of larger amounts of capital, flexibility of repayment terms and wider eligibility for credit.

There are predominantly five use cases of debt financing that have become popular in Indian startups:

1. **Growth:** Expand into new geographies, deepen footprint in existing geographies, launch new products or new businesses.
2. **M&A Financing:** Boost inorganic growth by acquiring firms operating in existing or complementary businesses.
3. **Capex and Project Financing:** Meet capex requirements such as purchase of new warehouses or manufacturing facilities, machinery upgrades, strengthening existing supply chain, etc.
4. **Working Capital Financing:** Address working capital requirements of operational expenses such as purchasing raw materials, financing receivables, etc.
5. **Onward Lending:** Provide funds to Fintechs operating in the lending space to build out their loan portfolio.

Recognizing this opportunity, banks have also forayed into providing banking solutions and services customized to the needs of startups.

In addition, banks are gradually getting into offering some forms of credit to startups as well including select products such as working capital loans. Regulatory support to enable flexibility in underwriting and repayment norms can help drive further participation of banks into India's Venture Debt ecosystem.

Interest for private credit and alternative investments has also increased among different categories of investors in the last 5 years. Predictable cash flows, an attractive risk-return profile and potential for equity upside has led to a sizable allocation of Venture Debt within alternative investment portfolios. As of today, the preferred mode of engagement for most individual and institutional capital providers is through specialist funds.

Venture Debt investments cater to different kinds of limited partners in different ways:

1. **Insurance companies:** Predictable returns and regular cash flows from Venture Debt supports forward-looking estimation for insurance companies.
2. **Endowment funds:** Regular cash flows provided by Venture Debt investments help manage operational expenses of endowment funds.
3. **HNIs and family offices:** Venture Debt enables risk diversification in the alternate investment portfolio of family offices. It also helps traditional business houses in exploring investments in new-age businesses.
4. **Development Finance Institutions:** It aligns with the objectives of these institutions to expand the availability of credit to the startup ecosystem that has largely been under-served by traditional lenders.
5. **Banks:** Present underwriting models do not align with startup business models. Venture Debt helps build startups' credit history, thereby making them gradually eligible for bank loans.

As both global and domestic investors consider increasing their portfolio allocation towards private credit, Venture Debt has emerged as one of the leading segments driving these investments.

The following levers of demand and supply will propel the next wave of growth in Venture Debt.

Enablers for growth in demand

- **Increased awareness:** Higher awareness among startup founders, venture capital providers about product features, use cases and accessibility.
- **Product innovation:** Tailor-made solutions to solve for specific financing needs of a startup, beyond traditional debt.
- **Increased collaboration:** Deeper relationships of Venture Debt providers with other investors such as Venture capital firms, Banks, NBFCs, Private Credit funds, etc. to leverage each others' strengths in distribution, cost of capital, etc.

Enablers for growth in supply of capital

- **Broadened investor pool:** A wider array of investors in Venture Debt, such as global institutions, will help to fulfill increasing capital needs of the ecosystem.
- **Increase in allocation:** A steady track record of performance of Venture Debt funds across vintages will power higher portfolio allocations towards Venture Debt.

With the above enablers and continued regulatory support, Venture Debt is well placed for an exponential growth trajectory. It is an asset class whose time has well and truly come in India.

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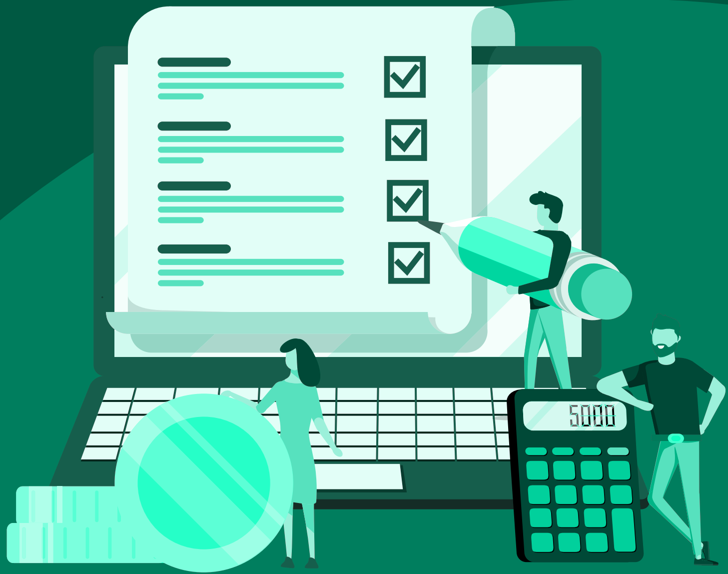
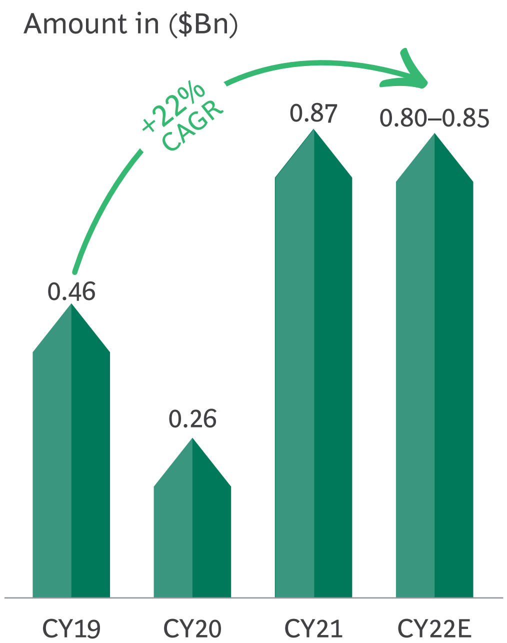


1 VENTURE DEBT: SCALING ALONG WITH STARTUPS

How credit is becoming mainstream for Indian startups

Indian Venture Debt investments rapidly growing to reach $1Bn p.a.

Venture Debt investment has grown at 22%



Over 100 deals closed in CY22

	Deal count	Average ticket size in $Mn
CY22E	100–120	7–7.5
CY21	94	9.3
CY20 (COVID-19 impact)	58	4.5
CY19	76	6.1

> When we started out in the early 2000s, there were no avenues for new independent businesses in India to raise debt in any form. However, as a founder, I am glad to note that this has changed completely today.
>
> — Rajeev Agrawal, Founder, Innoviti

Note: Data comprises ~380 disclosed deals comprising debt disbursements by prominent domestic and foreign investors; excludes $860Mn in debt funding raised by Oyo Rooms CY21
CY22 data estimated basis deal activity by top 4 Venture Debt funds
Source: Venture Intelligence; Tracxn; BCG-Trifecta Founder Interactions; BCG analysis

3 key factors for rapid growth

- **Secular growth:** Increase in YoY venture capital equity investments
- **Cyclical growth:** Equity slowdown from Q2 of CY22 onwards led to higher adoption of alternative financing options
- **Demand Supply Growth:** Increased awareness and access to non-dilutive sources of financing

A variety of startups considering debt to optimize cost of capital

StashFin

- Raised ~$100Mn in debt in their registered NBFC for the purpose of onward lending
- This included several debt providers across Venture Debt players, NBFCs and even global pools of debt in the form of ECB lines

Rebel Foods

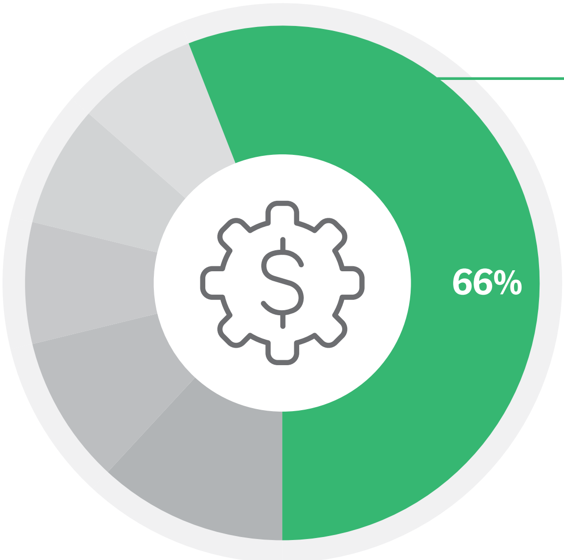
- Raised ~$30Mn in CY22 from multiple Venture Debt players towards strategic investments and acquisition of adjacent food brands

Zepto

- Zepto raised ~$20Mn Venture Debt in CY22 to finance working capital requirements and overall operational growth

Source: BCG+Trifecta analysis

Founders display interest in Venture Debt as part of their next fund raise



Respondents interested in raising Venture Debt in next 12–24 months

Top 5 Sectors

- Fintech/Insurtech
- Consumer goods / Consumer Tech
- Healthtech
- SaaS
- Logistics

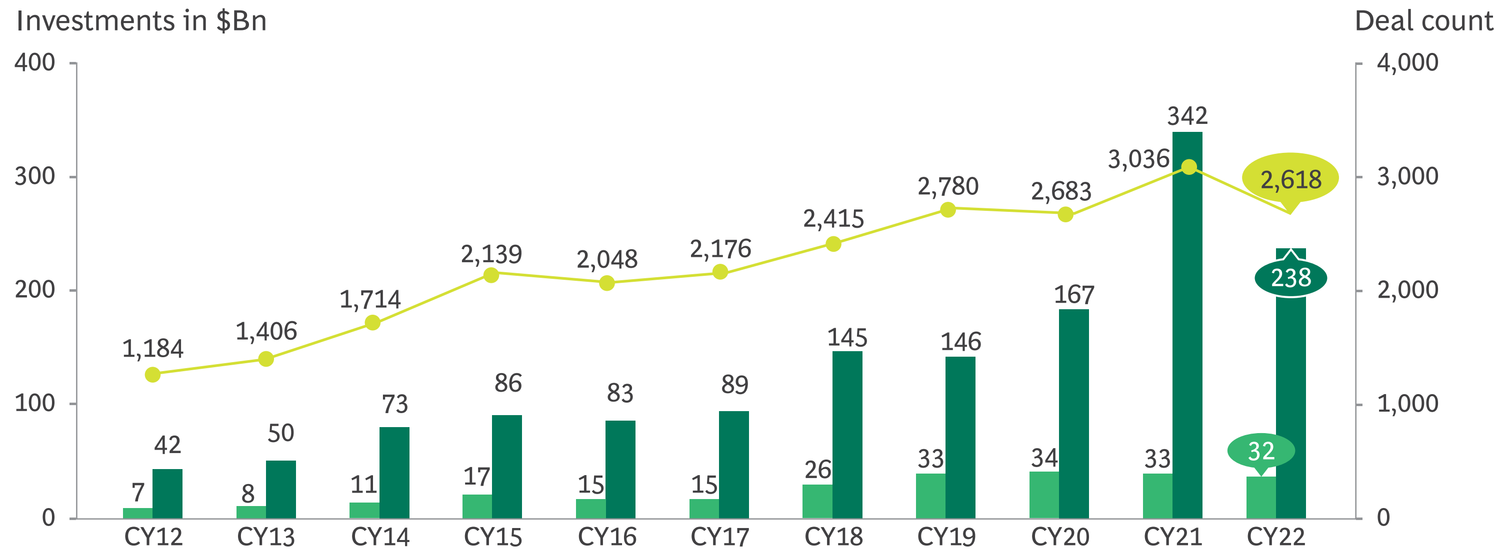
- **63%** of players are willing to substitute >20% of their next fund raise with Venture Debt
- **23%** players want to raise $10–20Mn in debt
- **14%** want to raise >$20Mn in debt

> We have raised debt actively in the past and continue to leverage appropriately for any planned capital raise. It helps us drive capital efficiency, operating discipline and improved RoE.
>
> — Souvik Sengupta, Founder, Infra.Market

Source: BCG-Trifecta Venture Debt Survey with Founders 2022 (N=35); BCG-Trifecta Founder Interactions; BCG analysis

US Venture Debt has scaled substantially in the last decade

Venture Debt penetration at 17% of VC investments by value and 19% by deal count, averaged over the last 5 years



% of VC

	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	Average (CY18–22)
By Deal Value	18%	16%	16%	20%	18%	17%	18%	23%	20%	10%	13%	**17%**
By Deal Count	15%	14%	16%	19%	20%	19%	20%	22%	21%	17%	17%	**19%**

Venture Debt deal count
Venture Debt investments ($Bn)
Venture Capital investments ($Bn)
Average (CY18–22)

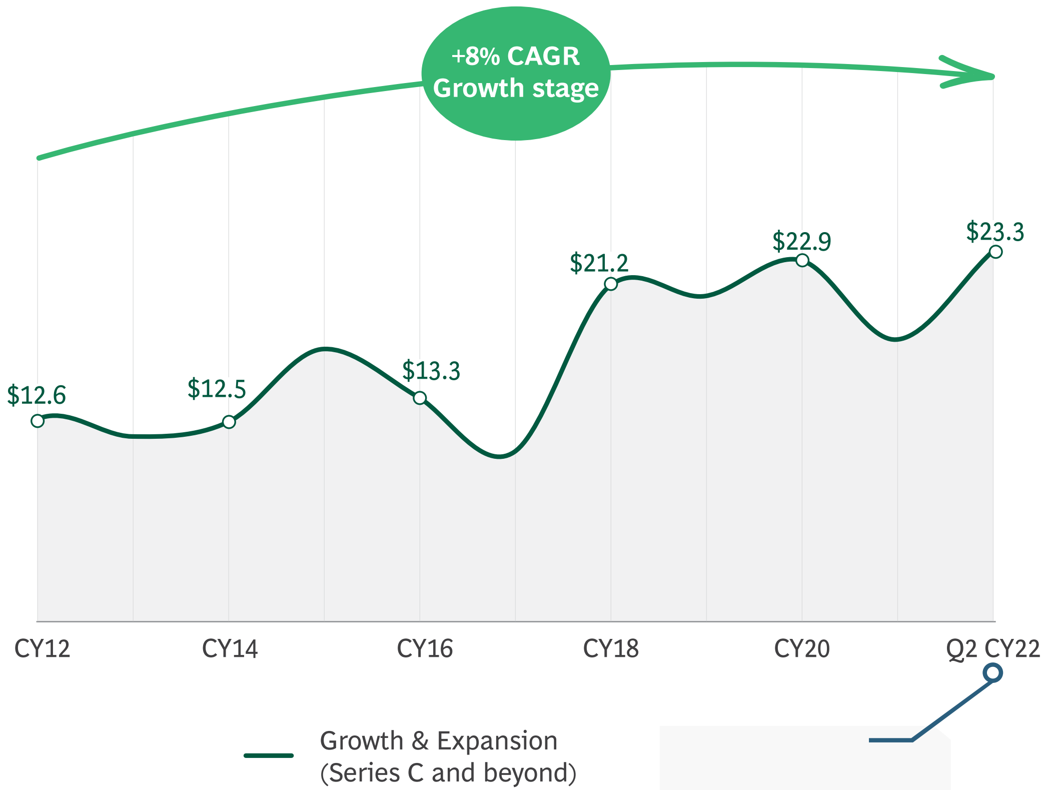
CY21: Venture Debt penetration dropped as VC flows hit a historical high at $342Bn; doubling from CY20

Venture Debt deals with ticket size > $100Mn have grown 2x since CY20 and 5x since CY18

Pitchbook definition
Venture Debt Provider: Banks, a Venture Debt fund, or any other type of investor that provides debt-financing to a venture-backed company
Venture Debt User: Venture-backed companies, that have completed at least 1 VC deal and have not subsequently undergone an IPO/PE Buyout/Acquisition
Source: PitchBook-NVCA Venture Monitor 2022; BCG analysis

US Venture Debt investments see greater traction in growth stages

Average Venture Debt ticket size for growth & expansion stage firms ($Mn)



Deal count CY21	1,274
Average % Venture Debt vs. VC ticket size	27%

Early Stage ticket size: $13Mn

Source: PitchBook-NVCA Venture Monitor 2022, BCG analysis

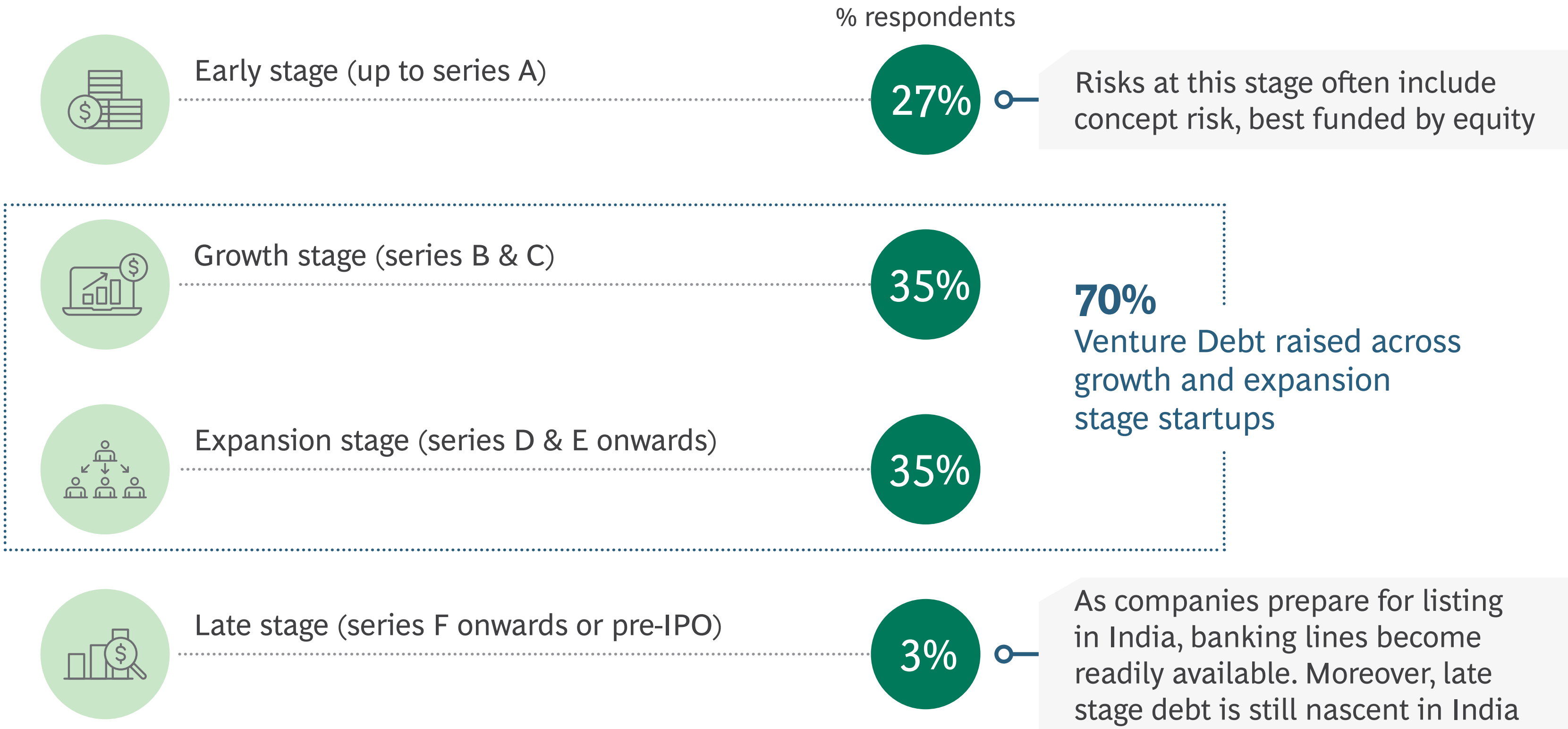
Growth stage ticket sizes increased over last 2–3 years despite overall market remaining stable at $32Bn

However, higher confidence in larger firms

- Early stage ticket sizes at $13Mn in CY22 i.e. almost half of growth stage ticket size
- Venture Debt ticket size as a % of VC ticket size (27%) higher for growth vs early stage (20%)

Indian Venture Debt investments also focused across growth & expansion stage firms

What was your firm's stage when you raised Venture Debt?



> One of our most important financial decisions, that we took early, was to optimize our capital structure with Venture Debt. At first, it served as an additional buffer to meet unexpected contingencies like demonetization, while later we found specific use cases which were structurally best financed with debt. Its terms also allowed us to retire the obligation at the appropriate time in our growth journey.
>
> — Anuj Srivastava, Founder, Livspace

Source: BCG-Trifecta Venture Debt Survey for Founders (N=35), BCG analysis, BCG-Trifecta Founder interactions

Venture Debt in India is led by Fintech, Consumer segments

% share of deal count in CY22[1]

Consumer product & services	29%
Fintech	19%
B2B services	13%
Healthcare	12%
Transportation & logistics	9%
Agritech	7%
E-commerce	6%
Edtech	5%

Notable startups

The Good Glamm Group, Atomberg, Stashfin, Paperboat, Rebel, Rupifi, Jai Kisan

> Venture Debt helps raise capital while managing dilution. We have actively leveraged Venture Debt for the strategic growth of our business, whether it is for working capital or to help finance inorganic initiatives.
>
> — Darpan Sanghvi,
>
> Founder, The Good Glamm Group

1. CY22 data estimated basis top contributing Venture Debt funds
Source: Venture Intelligence; BCG-Trifecta Founder Interactions; BCG analysis

2 CURRENT LANDSCAPE AND PERCEPTIONS

Use cases & value proposition

2A. Venture Debt Use Cases

2B. Venture Debt Value Proposition

2C. Perspectives: Banks

2D. Perspectives: Investors

2E. The Evolution of Venture Debt in India

3 types of non convertible debt options available for startups in India

Non convertible debt

Description

Early stage — Growth stage — Late stage

Revenue-based financing

- Flat fee applied on the total debt amount
- Repayment as percentage of monthly revenue
- No equity participation, board seats, etc.

Venture Debt

- Venture Debt is a bespoke debt product combining coupon and equity participation
- Offers larger ticket sizes with limited restrictions on end-use
- A complimentary, medium to long term capital for growth stage startups
- Preferred by startups having predictable cashflows

Bank Loans

- Traditional debt investments by private and public sector banks
- Firms with adequate cash reserves preferred, such as mature businesses
- Traditional frameworks & regulatory guidelines lead to limited flexibility on terms
- Cost effective, helps build scalable relationships

Convertible debt

Convertible notes

- Debt Investments which can fully convert to equity at a later stage
- Conversion at the end of a defined period or at the occurrence of an event like a future equity round
- Accessible to startups across all stages

Source: BCG-Trifecta analysis

Detailed structure of the 3 non convertible debt options

	Early stage / Growth stage: Revenue-based Financing	Growth stage / Late stage: Venture Debt	Late stage: Bank Loans
Typical debt provider	**Klub, Velocity, GetVantage, N+1**	Venture Debt funds **Trifecta Capital, InnoVen, Alteria Capital, Stride**	PSU and private banks **ICICI Bank, HDFC Bank, RBL, HSBC**
Special requirements	Monthly recurring revenue	Prior VC funding	Amount of cash/cash reserves and the stage of the company
Size	25–30% of annual turnover	Typically 20–30% of equity round or available cash	Depends on financial health 20–25% of turnover
Collateral	Cash Flows	Assets/IP	Assets and IP Cash collateral in the form of FD or Mutual fund
Maturity period	6–24 months	18–36 months	Working cap: Yearly renewal Capex: 2–3 years
Interest rate	Effectively 20–25%	13–15%	Banks: 9–12% NBFCs: 13–15%
Equity Participation	Not mandatory	Typically 8–12% of debt amount	None
Repayment structures	Predefined funding timelines & shared alignment towards growth	Amortizing with or without moratorium Revolving credit facilities	Working capital: Flexible drawdowns & monthly interest payment
Key benefits	Faster funding , minimal security	Minimal dilution option for fulfilling strategic growth plans Overall cost of capital goes down	Most optimal cost of capital
Enablers	Steady and easily tracked revenues with full visibility into channel sales	Institutional equity backing & strong unit economics	Working Capital and capex funding requirements for mature businesses or those with ability to offer collateral

Source: BCG-Trifecta analysis

What is Venture Debt[1]

- Debt Investment curated to the company's needs and growth plans
- Flexible payment structures and customized options available
- Offers capital with limited dilution to founders

Who are Venture Debt providers

- Globally, debt providers span across banks and non-banking organizations
- Venture Debt funds, typically structured as AIFs regulated by SEBI, are the most significant debt providers to startups in India
- NBFCs are gradually emerging as another segment of debt providers in India

Which companies can avail Venture Debt

Funding status:

- At least one round of institutional funding
- Should not have undergone an IPO, PE buyout or acquisition
- Private companies, backed by VC or PE investors, can raise Venture Debt

Typical business stage:

- Revenue generating
- Post product market fit stage
- Venture Debt can be availed as part of a financing round or in-between rounds

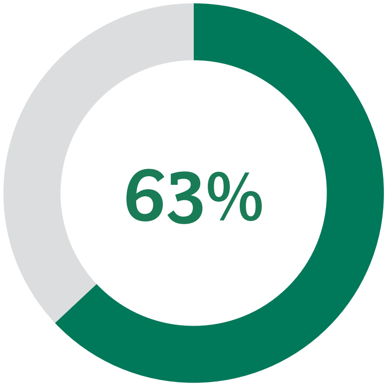
Examples of startups that have raised Venture Debt in the recent past

Stashfin	Rebel Foods	Globalbees	Udaan	Cogoport
BluSmart	Shadowfax	Toddle	Builder.AI	Jai Kisan
Infra.Market	The Good Glamm Group	Cars24	Zepto	Fashinza

1. Defined as per Pitchbook and BCG analysis

Source: BCG-Trifecta analysis

Founders prefer Venture Debt over other available debt options



Respondents prefer Venture Debt over other debt financing options

> The mindset of an investor is very different from the mindset of a debt provider. The best Venture Debt funds are able to marry the best of both to deliver capital to us at high speed and with an optimal risk appetite.
>
> — Aloke Bajpai, Co-founder, Ixigo

> For our business we chose Venture Debt, given that the quantum of debt and the purpose that we needed it for, it was relatively difficult with banks due to their comparative subdued risk appetite and process complexity.
>
> — Atul Shinghal, Founder, Scripbox

Revenue-based financing:
- Amount of capital available is lower than Venture Debt
- Attracts firms with steady monthly revenues such as subscription based businesses

Bank Loans:
- Tailored for more mature businesses
- Cash collateral involved
- Usually term loans are not available due to end use restrictions and relatively lower risk appetite

Source: BCG-Trifecta Venture Debt Survey with Founders 2022 (N=35)

2 CURRENT LANDSCAPE AND PERCEPTIONS

2A. Venture Debt Use Cases

5 key use cases of Venture Debt are prevalent in India

Use case	1 Growth Expand to new geographies, new offerings	2 M&A financing	3 Capex & Project financing
For example	Builder.ai Livspace Cars24 Cuemath	G.O.A.T. Brand Labs Curefoods GlobalBees Ixigo The Good Glamm Group	Furlenco BOX8 Innoviti BigBasket
Deep dive	**Cars24**: Full-stack e-commerce platform for used cars	**The Good Glamm Group**: Content-to-commerce for retail cosmetic and personal care products	**Big Basket**: Largest online food and grocery store; operates in 30+ cities across India
Strategic rationale	◇ Expansion in existing and new geographies across the world ◇ Capital needed for maintenance of used car inventory at various locations pan-India, typically as working capital	◇ Create "digital HUL" style consortium of brands ◇ Timely acquisitions of complementary firms; realize marketing & distribution synergies	◇ Set up new warehouses and processing facility for fruits & vegetables ◇ Strengthen the cold-chain
Result	◇ Raised \$800Mn+ in subsequent equity capital ◇ Present in 5 countries across the globe	Acquisitions: ◇ Content platforms: PopXO, ScoopWhoop, Miss Malini, Winkl & Vidooly ◇ Personal care: St. Botanica & Organic Harvest, MomsCo, BabyChakra	◇ Ramped up supply chain infrastructure; helped service the demand surge during multiple COVID related lockdowns

Source: Trifecta analysis

5 key use cases of Venture Debt are prevalent in India

Use case	4 Working capital financing	5 Onward lending
For example	Cashify.in, Blowhorn, Infra.market, Shadowfax, Bizongo	BharatPe, Kissht, KreditBee
Deep dive	**Infra. Market** B2B platform with full stack managed marketplace for construction materials	**Kissht** Credit led fintech company; offers instant loans to individuals & small businesses; forayed into payments & insurance
Strategic rationale	◇ Low-cost capital better for working capital intensive business ◇ Procurement of construction materials & financing of receivables to supplement the rapid growth	◇ Other debt providers were slower and offered smaller amounts of debt ◇ Post COVID growth goals: » Scale the NBFC book » Collaborate with more providers; achieve 2x leverage
Result	◇ 16x growth since raising 1st round of Venture Debt ◇ Working capital cycle remained constant as various forms of debt financed incremental scale	◇ Achieved leverage at scale ◇ Expansion to tier-II cities and towns; ramp up offline presence via facilitation centers ◇ Long term partnership with debt providers

Source: Trifecta analysis

Startups raise Venture Debt largely for financing growth and working capital needs

Venture capital: Top reasons for raising funds

	% share
Product development/ new product launch	71%
Operational expansion	66%
Customer acquisition	57%
Personnel and Team expansion	40%
Working capital financing	34%
Capex and Project financing	26%
M&A financing	17%
Onward lending	6%

55–70% firms used funds for new product launch, operational expansion and branding activities

Venture Debt: Top reasons for raising funds

	% share
Growth financing	38%
Working capital financing	31%
Optimize equity dilution	15%
M&A financing	8%
Operational expansion	4%
VCs were not willing/able to invest at that point of time	4%

30%+ firms used funds for growth and working capital needs. Optimizing dilution during an equity round also an important reason

Source: BCG-Trifecta Venture Debt Survey with Founders (N=35), BCG analysis

Innovative reasons to raise Venture Debt are emerging

Extra capital for the next opportunistic move

Funds are deployed in growth opportunities while there is high cash reserves i.e. higher ability to repay

Improve capacity to service debt by strategic deployment

Invest in revenue generating assets/ businesses to augment repayment capacity

Improve valuation while optimizing equity dilution

Leverage Venture Debt for business expansion to enhance valuation, with limited dilution

> We were cashflow positive when we took on debt from Trifecta, but it offered us the cushion to make bold opportunistic moves during the pandemic when nobody was thinking about growth.
>
> — Aloke Bajpai, Co-founder, Ixigo

> Venture Debt allowed us to make acquisitions in between VC rounds. We planned for it by matching the cashflows of the acquired firms and the upcoming equity fund raises to the debt repayments.
>
> — Darpan Sanghvi, Founder, The Good Glamm Group

> We raised a portion of our capital requirement back in 2015 as Venture Debt, limiting the equity stake dilution which was non-insignificant at such an early stage.
>
> — Vikram Vuppala, Founder, NephroPlus

Source: BCG-Trifecta Founder interactions

2 CURRENT LANDSCAPE AND PERCEPTIONS

2B. Venture Debt Value Proposition

Founders express several benefits of Venture Debt

Venture Debt allows you the extra time required to reach the desired size and scale before your next equity round.

— **Amit Raj,**
Founder, Box8

The quantum of debt & speed of access in Venture Debt is significantly higher than traditional debt options.

— **Mohit Dubey,**
Co-founder, Chalo

Best source of capital at times when the world is struggling to understand your valuation, especially if you have not had the need to raise a VC round in sometime.

— **Mandeep Manocha,**
Co-founder, Cashify

Venture Debt investors like Trifecta Capital understand the mindset of the founders and speak the same language, which helps build comfort, familiarity, trust and ultimately value.

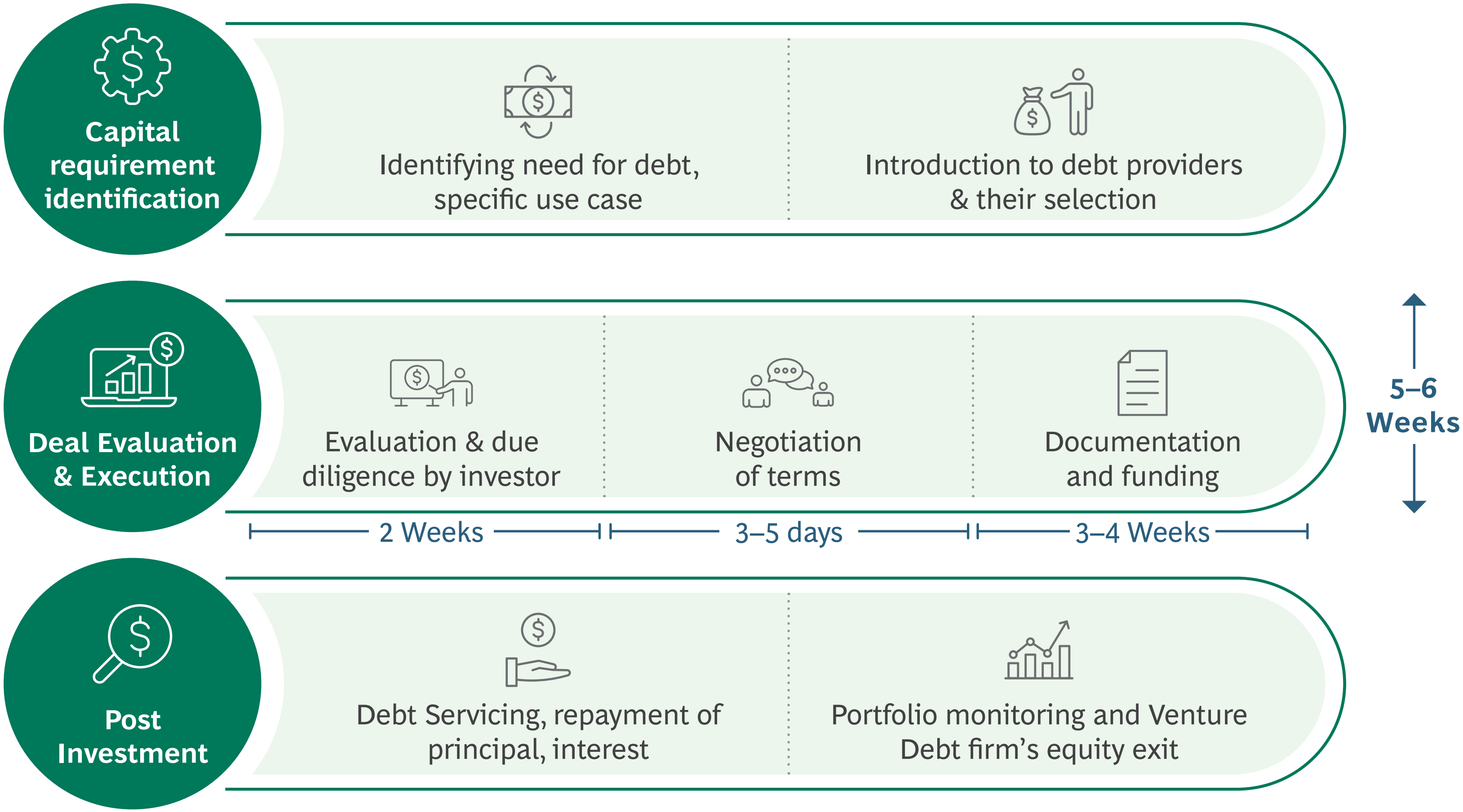
— **Ruchit Agarwal,**
Co-founder, Cars24

Venture Debt is a well kept secret that every startup founder should leverage to unlock growth while managing dilution.

— **Shashank ND,**
Founder, Practo

Source: BCG-Trifecta Founder interactions

Venture Debt funds have evolved to create a robust deal process



> Venture Debt is emerging as an asset class and an umbrella term for different private credit solutions. Venture Debt firms will continue to innovate on structured finance products as needed by the startup community.
>
> — **Rahul Khanna,** Managing Partner, Trifecta Capital

Source: BCG-Trifecta analysis

Startups are evaluated on their financial health as well as their equity potential

Reasonable cash runways are preferred when evaluating companies for Venture Debt

- At Series A, startups have higher runways as their 1st institutional capital has been raised but their spends have not yet ramped up
- This dips in Series B, but increases again in later stages as the investment sizes increase

Company's growth potential is evaluated in conjunction with current operational and financial metrics

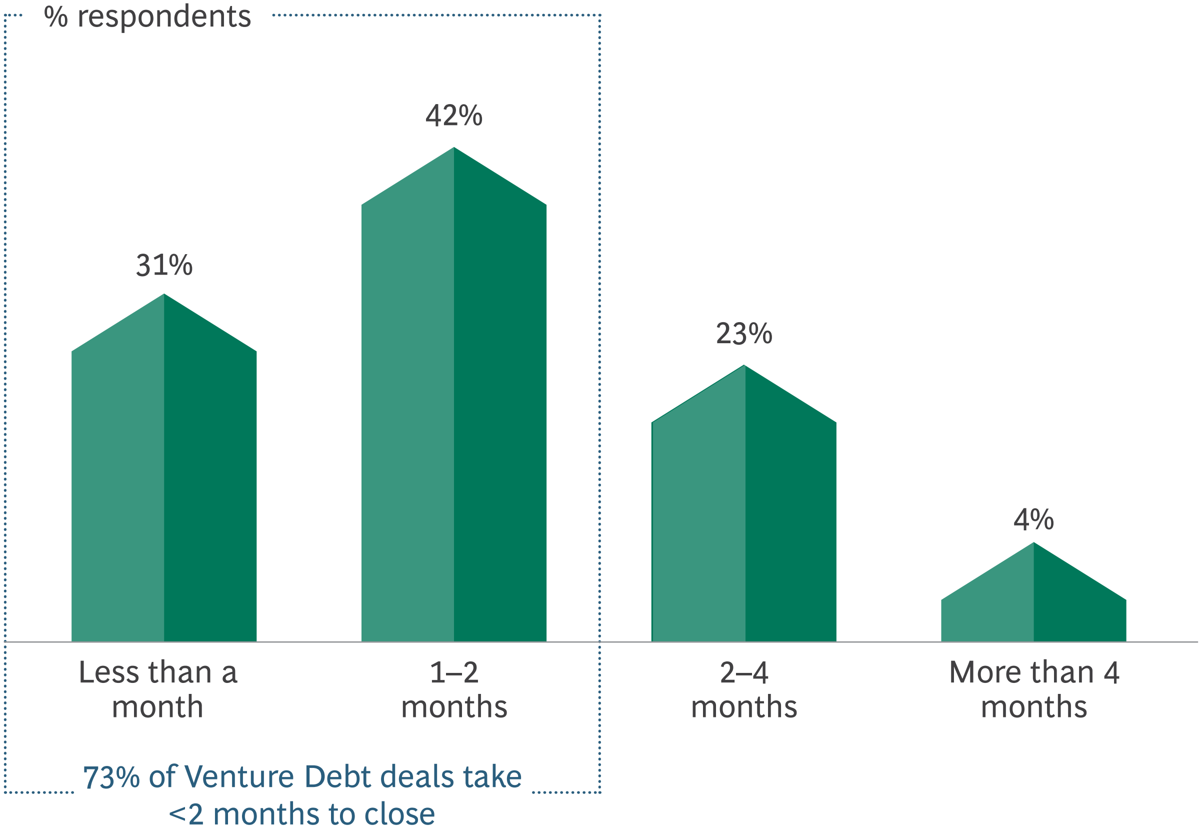
- High visibility of a future equity financing event helps with availability of higher amounts of Venture Debt
- Eligibility for Venture Debt is determined to some extent by gross margin, revenue and other financial metrics. However, the evaluation is not limited to these metrics

Sectors that attract more Venture Capital, also see higher flows of Venture Debt investments

- 70% of Venture Debt investments in last 5 years in 4 sectors – Fintech, Consumer products, Consumer services & enterprise
- Fintech and consumer services were amongst the top funded sectors in CY22, accounting for more than $6Bn in equity funding across 300+ deals. In addition, these sectors showcase strongest Venture Debt use cases across onward lending, fulfilling working capital needs & deploying capital for growth

Source: Trifecta analysis

Founders appreciate the speed of deal execution in Venture Debt

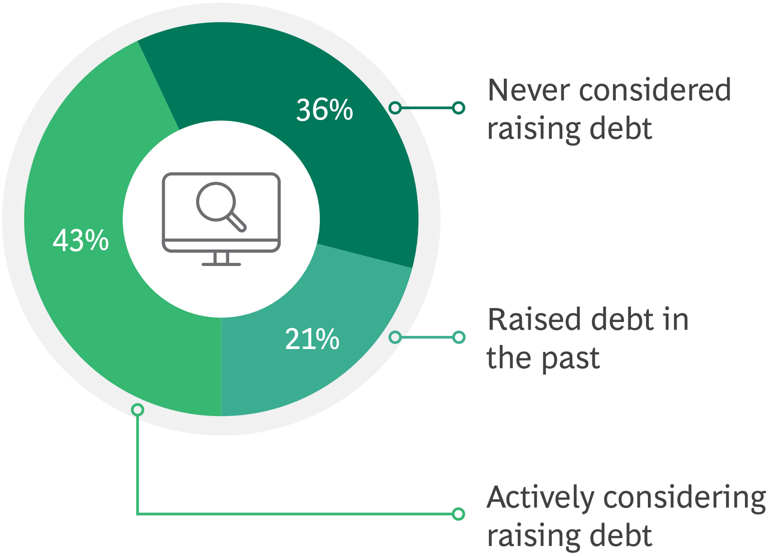


80% of companies feel Venture Debt deals close faster than VC deals

> Venture Debt has an advantage in terms of faster closure timelines, compared to other debt providers like Banks, VCs.
>
> — Aloke Bajpai, Co-founder, Ixigo

Source: BCG-Trifecta Venture Debt Study Survey 2022 (N=35), BCG analysis

Increasing product awareness is a key enabler for growth of Venture Debt investment flows



Highlights from the survey indicating lack of product knowledge among founders

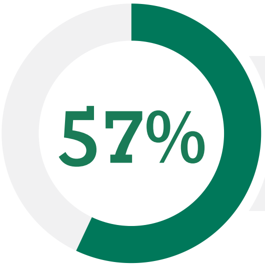
- First time founders feel Venture Debt is a nascent ecosystem
- Display limited knowledge on product structure & flexibility
- Perceived as 'expensive' option compared to equity dilution due to repayment requirements
- Limited awareness of Venture Debt investors

> Awareness is definitely an issue, Venture Debt is not top of mind for most equity investors.
>
> — Prayank Swaroop, Partner, Accel

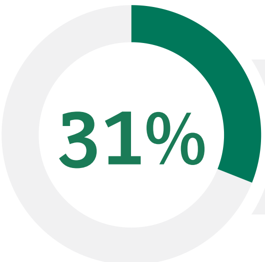
> I discovered the benefits of Venture Debt later than I would have preferred: Dilution at early stages have a lasting impact which could be mitigated if more founders know about this at Series A.
>
> — Vipul Parekh, Co-founder, Big Basket

Source: BCG-Trifecta Venture Debt Study Survey for Founders 2022 (N=35), BCG-Trifecta Interaction with Founders & Investors, BCG analysis

Founders are dependent on their existing network for choosing Venture Debt



Got introduced to their Venture Debt investor via existing network



Were introduced to their Venture Debt investor by a known VC firm

Opportunity to tap into alternative channels

Found their investor in corporate/startup meets

> Often, as soon as we close an investment term sheet, we discuss with our founders about pros and cons of Venture Debt, and introduce them to our partner Venture Debt funds.
>
> — **Prayank Swaroop,** Partner, Accel

> Venture Debt can be an interesting option in specific situations. A bunch of our portfolio companies are already working with leading Venture Debt firms and we are supportive of others opting for the same.
>
> — **Rajat Agarwal,** MD, Matrix Partners

> Debt providers need to educate founders and finance leaders on the benefits of taking on Venture Debt, via events, publications and broader ecosystem engagement.
>
> — **Rahul Taneja,** Partner, Lightspeed

Source: BCG-Trifecta Venture Debt Study Survey for Founders 2022 (N=35), BCG-Trifecta Interactions with Founders & Investors, BCG analysis

Founders prefer debt providers offering better economics

Factor	% Share
1. Interest rate	54%
2. Minimal debt covenants	40%
3. Flexibility & restructuring	37%
4. Tenure flexibility	29%
5. Quick TAT	25%
6. Relationship with Venture Debt provider	23%
7. Ability to offer large ticket sizes	6%

Founders & investors express importance of 'relationship with debt provider' as well

Commercials are table stakes: what is most important is the team behind the fund, can they help sharpen the business, do they have the capacity to follow up with a larger amount.

— Amit Kulkarni,
Director Finance & IR, Fireside Ventures

Myriad factors go into picking the right Venture Debt investor. While commercials are important, it is critical that companies pick the right partner on their growth journey.

— Sameer Brij Verma,
Partner, Nexus Venture Partners

The colour of the money is more important than the money itself. Despite temporary disruptions in business during COVID, we continued to receive an immense show of support which is why we doubled down on our relationship with Trifecta.

— Sachin Dev Duggal, Founder, Builder.ai

Source: BCG-Trifecta Venture Debt Survey for Founders 2022 (N=35), BCG-Trifecta Interactions with Founders & Investors, Investors, BCG analysis

2C. PERSPECTIVES: BANKS

Banks are venturing into startup banking with tailor-made offerings

10+ Indian banks actively providing some form of credit to startups

- Both public and private banks active in startup banking
- IDFC FIRST Bank, HDFC Bank, Axis Bank, RBL, ICICI, SBI, Bank of Baroda, amongst the front runners
- Citi and HSBC also actively engaged with Indian startups

Wider suite of offerings becoming the norm

- Offerings have moved beyond provision of current accounts and card facilities
- End to end digital solutions, varied credit facilities, and advisory services also gaining traction

Specialized and niche offerings for startups coming up

- SBI launched their first "startup" branch in Karnataka
- IDFC First Bank launched 'Leap to Unicorn' - to provide startup founders with mentors, networking and fundraising opportunities

> We don't just want to sell our products to the startups, we want to provide them with solutions to realize their business growth plans.
>
> — Head - Startup Banking
> Large Indian Private Bank

Source: BCG-Trifecta interaction with Banks; BCG analysis

Banks offer a wide range of startup banking services

Early stage

- Current account
- Secured credit cards
- Trade & Forex
- Corporate salary account
- Pre-approved OD

Growth stage
Additional to early stage offerings

- Working capital Debt
- Payment services
- Liquidity management
- Collection solutions
- Escrow management

Source: BCG-Trifecta interaction with Banks, BCG analysis

Regulations restrict term loans, structured products

Term Debt

- Appetite to provide credit to positive EBITDA firms only
- Regulatory framework for banks restrict wider term debt penetration in startups
- Venture Debt funds have more flexibility, allowing AIFs to offer credit to pre-profit startups

Capital call lines

- Banks in US, like Silicon Valley Bank, heavily leverage capital call lines i.e. offer credit to Venture Capital firms to further invest in startups
- Indian Banks regulated from providing such debt offerings which leads to 'indirect ownership of equity'

2 CURRENT LANDSCAPE AND PERCEPTIONS

2D. Perspectives: Investors

Venture Debt meets cashflow expectations of insurance firms, endowment funds

Insurance Companies

- Venture Debt provides downside protection for insurance company investors as they are typically more focussed on capital preservation
- Periodic distribution from Venture Debt provides predictable returns
- Additionally, cash flows in Venture Debt supports forward looking estimation and reporting

Endowment Funds

- Downside risk protection is of paramount importance for endowments
- Equity upside further helps to make this asset class more attractive than typical debt products
- Regular cash flows for endowment funds helps with managing opex due to the need to fund their P&L
- Periodic cash flow distributions are more favorable compared to venture capital cash flows which follow a steeper J-Curve pattern

Investors report a shared perception of attractive Risk Adjusted Returns

- High credit quality, diversified portfolio and almost zero delinquency
- Specialized underwriting through investment in Tier-1 VC backed startups
- Coupon distributions provide predictable cash flows with equity kickers further improving IRRs

Source: BCG-Trifecta Interactions with investors

HNIs, Family offices, DFIs participate in debt financing to startups through Venture Debt

HNI's & Family Offices

- Family offices typically get better deal flow access through a Venture Debt fund partner as compared to direct origination
- Venture Debt enables risk diversification in the alternate investment bucket
- Selective participation available in direct co-investment through either debt or equity
- Opportunity for traditional business houses to explore strategic initiatives with new-age businesses

> Venture debt provides a good combination of risk and returns. Fixed income like distributions along with an alpha to typical debt return makes it attractive.
>
> — Sriram Mahadevan,
> Principal - Endowment Investment Group
> Azim Premji Foundation

Domestic Financial Institutions (DFIs)

- DFIs are mandated to channel credit to the under-supplied startup ecosystem, which is integral to the economy's growth
- DFIs, such as SIDBI, facilitate incremental capital allocation, which has a multiplier effect, as they mandate their funds to invest twice of their FoF's contribution, providing additional capital to startups
- Venture Debt's profile supports DFIs' strategy to be self-sustaining with early periodic repayments, as compared to Venture Capital's delayed fund payouts, which could be used for reinvestment into other focus areas

> We've seen Venture Debt evolve over last 7–8 years in our journey with Trifecta. It has been able to fill a large vacuum in the debt market between high yield/ high-risk options like real estate NCDs and traditional low yield instruments.
>
> — Pankaj Dinodia,
> CEO, Dinodia Partners

Source: BCG-Trifecta Interactions with investors

Venture Debt funds help build startup's credit worthiness for bank loans

Banks

- Venture Debt helps fuel banks' coverage of the startup ecosystem
- Current bank underwriting models are not fully aligned with startup business models which typically consume cash during their growth phase
- Venture Debt helps startups build a credit history, eventually bringing them into the formal banking credit fold

> RBL Bank has been a partner and enabler to the startup ecosystem for several years. With our investment in Trifecta's fund, we get a window into the world of a diverse set of startups, investment themes and VC trends, in addition to generating strong risk adjusted returns.
>
> — Rajeev Ahuja,
> Executive Director, RBL Bank

> As the broader Venture ecosystem has matured and awareness on Venture Debt has increased, we've seen several categories of investors allocate towards Venture Debt. While there is a significant potential to deepen penetration within existing capital pools, tapping into new capital pools, including global capital is a large opportunity.
>
> — Nilesh Kothari,
> Managing Partner,
> Trifecta Capital

Source: BCG-Trifecta Interactions with investors

Investors showcased higher appetite for alternatives in last 5 years

6 key factors leading to increased interest in private credit & alternatives

- Credit mutual funds AUM dropped by more than 50% in last 2–3 years
- Yields dropped across tenures for AAA papers by 75–80 bps since 2019–20
- Indian AIFs have grown to $90Bn of AUM compared to $500Bn in mutual funds. Further, large global pools of equity also entering India
- Recent good performance of alternative investment funds like venture capital, Venture Debt
- Debt AIFs across vintage delivered double digit IRR, outperformed debt market index i.e. CRISIL Composite Bond Fund Index
- Increased access with exponential increase in SEBI registered AIFs (50%+ of AIFs registered in last 4 years)

Venture Debt: A new-age proposition within alternative investment landscape

- Relatively new with nearly $1Bn annual market size, growing at 22% CAGR
- Taps into the high potential space of Indian startup ecosystem - 3rd largest in the world with 100+ unicorns
- Strong acceptance of the product in the ecosystem in last 2–3 years
- Promising growth trajectory, expected to mirror the US Venture Debt market

> This asset class is well-suited to cater to our needs of yield and portfolio diversification. The quarterly distributions are convenient and help us in our income goals. The illiquid nature of the asset class is compensated by potentially higher returns.
>
> — Mihir Vora,
> Sr. Director & Chief Investment Officer
> MaxLife Insurance

Source: BCG-Trifecta Interactions with investors, Trifecta analysis

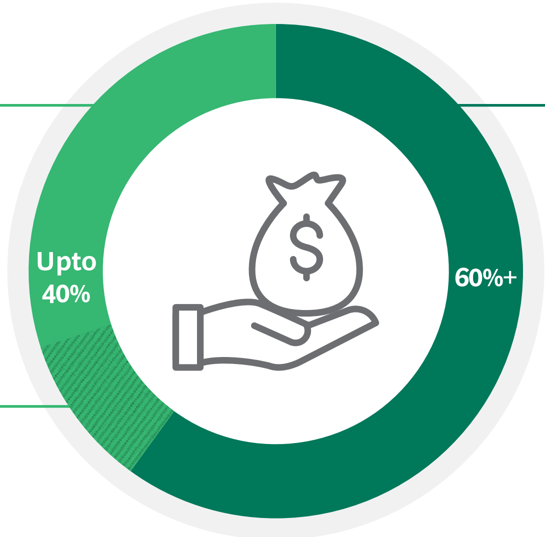
Venture Debt is a key part of alternate investment allocation for Indian investors

Total portfolio

Asset allocation of different investor groups varies basis risk and return expectations, cash flow requirements and strategic goals. Portfolio allocation to alternative assets observed:

- Indian HNIs and Family Offices: 5–20%
- Indian Banks and Insurance Companies: <2%
- Global Pension, Endowment, Sovereign funds: <20%

Upto 20% allocated to alternate investments



Allocation towards Private credit

- Global investors have allocated $200Bn+ p.a. towards private credit, out of which India accounts for $4–5Bn
- Unlike equity funds, top global private credit funds are accessible to Indian investors
- Venture Debt, performing mid-market credit and special situations investing are some common strategies

Private equity, hedge funds, venture capital

- HNIs and newer investors often enter alternative assets through equity, awareness of credit typically follows
- PE, VC strategies available to investors
- Global fund managers not easily accessible to Indian investors

Venture Debt is well placed within private credit

- Venture Debt allocation by Family Offices ranges from 30–100% of alternative debt investments
- Unlike traditional private credit for global pension funds, Venture Debt has potential to attract substantial inflows in the next 3–5 years

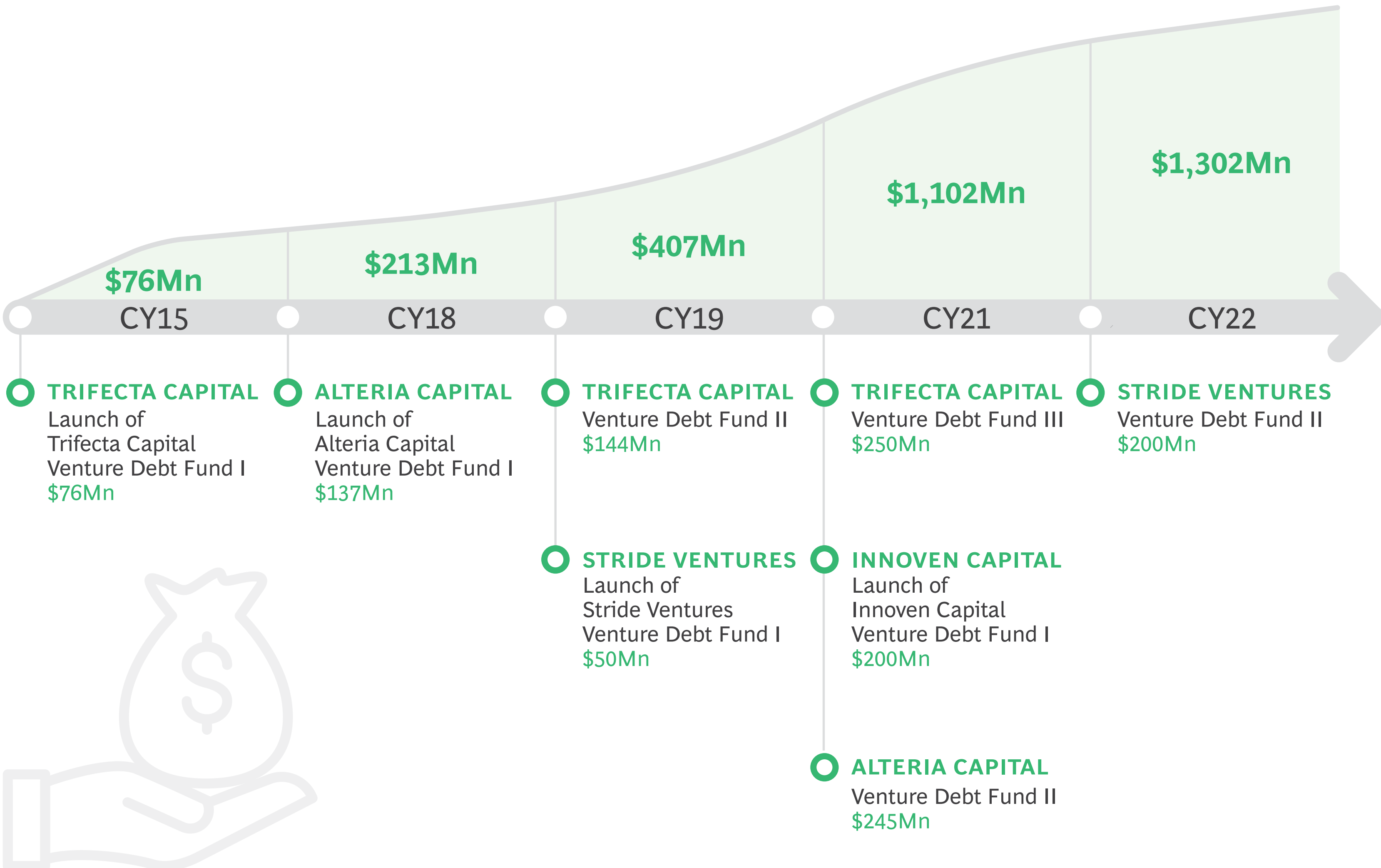
Source: BCG-Trifecta Interactions with investors

2 CURRENT LANDSCAPE AND PERCEPTIONS

2E. The Evolution of Venture Debt in India

Evolution of Venture Debt Funds in India

Cumulative Venture Debt Asset Class in India



Note: The cumulative Venture Debt fund data comprises of funds raised by Trifecta Capital, Alteria Capital, Stride Ventures and Innoven Capital
Source: BCG-Trifecta analysis

Trifecta Capital acting as a catalyst in further expanding product offerings across a startup's lifecycle

2015 onwards	2020 onwards	2021 onwards
Venture Debt Fund	**Financial Advisory Services**	**Growth Equity**
1st player in Indian startup ecosystem to offer Venture Debt to startups	Started financial advisory & other service offerings	Gradually progressing into growth equity funding for startups
Over \$500Mn Venture Debt fund raised till date	40+ startups leveraging Treasury Management services	1st fund of \$250Mn raised & invested in Dailyhunt, Livspace, Cars24, etc.
Portfolio of 150+ companies across industries	Access to leading members of the startup investor ecosystem	Targeted towards growth or late-stage tech-based startups
Atomberg, BharatPe, FabAlley, Livspace, Cars24, Infra.Market	Atomberg, Bizongo, FableStreet, Livspace, Klub, Infra.Market	Ixigo, The Good Glamm Group, Meesho, Livspace, Cars24, Pharmeasy

> We have sourced a significant number of investments in category leading technology companies with strong unit economics and clear path to a time-bound liquidity event from Trifecta's Venture Debt Portfolio.
>
> — Lavanya Ashok & Sandeep Bapat, Partners, Growth Equity Trifecta Capital

> Venture Debt complements our Growth Equity and Financial Advisory strategies, allowing us to offer services across the life cycle of new-age companies.
>
> — Abhishek Gupta, Partner, Trifecta Capital

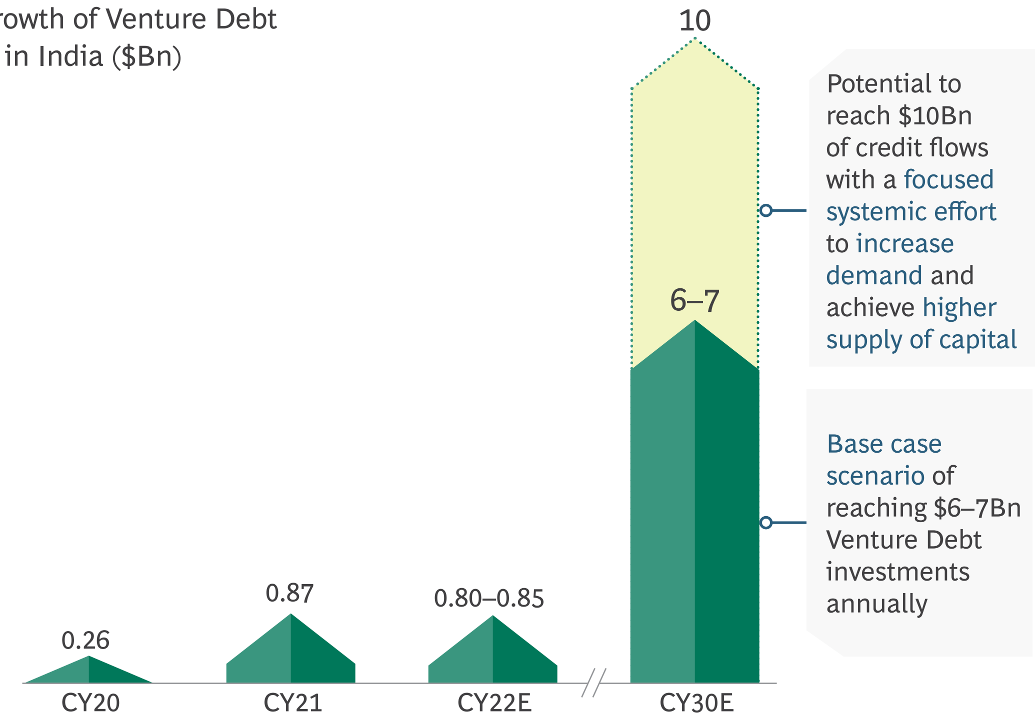
Source: BCG analysis

3 THE NEXT HORIZON: UNLOCKING THE FULL POTENTIAL

Primary levers for growth

Indian Venture Debt investment can potentially reach $10Bn by CY30

Estimated growth of Venture Debt investments in India ($Bn)



	CY20	CY21	CY22E	CY30E
Venture Debt funding as % of VC funding	3%	2%	3%	8–10%
VC funding ($Bn)	10	39	31	80–100
VC as % of GDP	0.4%	1.2%	0.9%	1–2%

Source: BCG analysis

- Venture Debt penetration as a % of Venture Capital flows expected to increase with time as the asset class & ecosystem evolves
- Venture Debt in the US has reached 15–20% penetration of Venture Capital over the last few decades
- With accelerated VC funding growth and rapid activation of demand-supply enablers, the Venture Debt asset class has potential to grow to $10Bn of annual investment flows by CY30

Macro trends indicate atleast 5x growth potential of Venture Debt as a proportion of VC flows by CY30

(All figures relate to CY21)

	US	INDIA
GDP	$22,996Bn	$3,084Bn
VC investments (% of GDP)	$342Bn (1.5%)	$38.5Bn (1.1%)
Venture Debt size (% of VC flows)	$33Bn (10%)	$0.87Bn (2%)
No of startups[1]	57,083	6,837

VC investments as percentage of GDP in India came close to the US benchmarks in 2021, a record-setting year for investments across both geographies

- In the US, Venture Debt investments accounted for ~15% of VC capital deployment
- With activated growth enablers, India has 5X growth potential for Venture Debt to reach ~10% of VC capital deployment by CY30, making it a $6–10Bn industry

1. As on August 24th 2022; Startup criteria used: Backing status - VC/Incubator/Angel, Ownership status - privately held
Source: Preqin, Pitchbook, Oxford Economics, Venture Intelligence, Tracxn; BCG analysis

Growth enablers: Demand

Increase awareness in the ecosystem

Today founders rely on their existing network for choosing Venture Debt. To enable faster growth, it is important to take steps towards building awareness of the product features, use cases, accessibility and implications of its key terms. Evangelizing interactive modes of engagement such as workshops, seminars, blogs will promote deeper knowledge of this asset class as a form of financing.

Unlock new credit structures

While debt financing gains momentum in India, curating need-based financial solutions will be key to enable higher interest among founders. Working capital lines, project-based financing, along with co-lending, growth stage debt and acquisitions financing are some leading examples. Beyond this, financial tools for founders to better understand and optimize cost of capital is a vital need in the market that can be adressed.

Growth enablers: Supply of Capital

Broaden the investor pool

As the industry matures, expanding the array of investors participating in Venture Debt funds will fuel the growing capital requirements. This includes building investment vehicle structures that can draw global institutional capital such as multi-family offices, pension funds, sovereigns, endowments, etc. to Venture Debt.

Strengthen presence in existing investor groups

While investors are considering Venture Debt as a part of their overall portfolio, increased awareness will driver higher allocation towards this asset class. This will be further aided by demonstrating a successful track record of Venture Debt investments across sectors and ticket sizes, over the next economic cycle. Vintage of experienced fund managers is also expected to provide additional comfort to investors and drive further allocations.

For further information, contact

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