



STRIDE
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India Venture Debt Report 2023


Preface

India has seen a meteoric rise in Venture Debt as one of the leading sources of finance for Venture backed start-ups. The year 2022 has seen a continuance in the rise of Venture Debt in India from 2021. The start-up ecosystem in India remains robust and is rapidly growing, allowing for multiple opportunities for Venture Debt as an asset class to flourish and complement Venture Capital. This report "India Venture Debt Report 2023" seeks to highlight the growth of Venture Debt in India over the past few years, showcase emerging use cases of Venture Debt and also disseminate the results of a detailed survey on Venture Debt as an asset class, conducted across founders and Venture Capitalists by Stride Ventures in February 2023.

Disclaimer

Data and figures in the survey herein may represent the whole or part of a set of responses to a given question to account for data completion matters. The data points included in the report are all sourced either from public sources or primary research conducted by Stride Ventures. Stride Ventures does not remain liable for the authenticity of any data and/or information mentioned in the report. The report is meant for private and non commercial use only.

Table of Contents

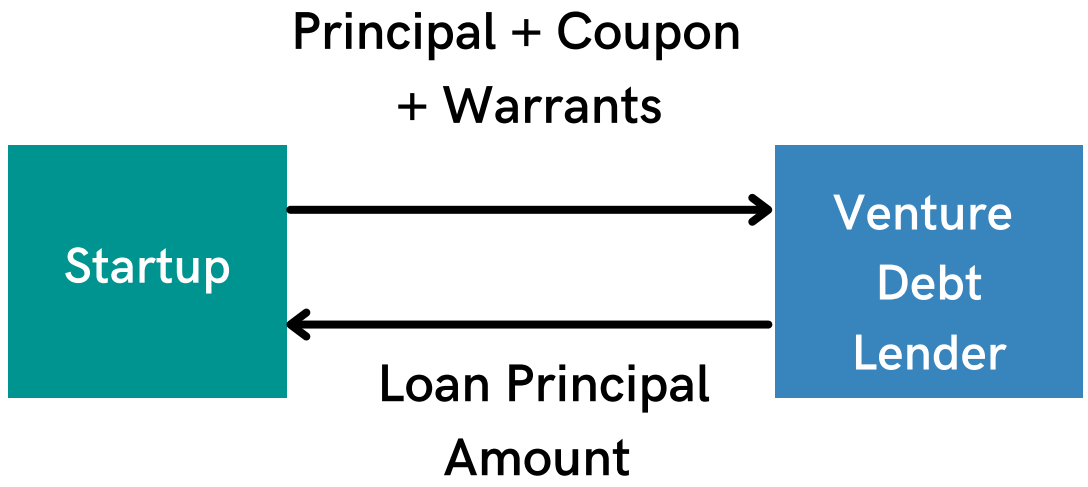
- | | | | |
|----|---|----|---|
| 01 | What is Venture Debt | 05 | Growth & Penetration of Venture Debt in India |
| 02 | Rise of Venture Debt in India | 06 | Use-Cases of Venture Debt |
| 03 | Emergence of Venture Debt as an Asset Class | 07 | Venture Debt Survey 2023 |
| 04 | Overview of the Venture Debt Ecosystem in India | | |
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What is Venture Debt?

Venture Debt refers to a variety of Debt financing products that are applicable specifically to Venture Capital-backed companies. It is primarily a type of loan that is offered to early-stage, growth stage and late stage companies with Venture capital backing.

Lenders offer Debt financing solutions to companies that show promise, may not be cash flow positive yet, do not have existing collateral, but have raised money from VCs and show strong growth potential in the future. Venture Debt is offered either by dedicated Venture Debt funds or by banks as a complement to equity financing. Venture Debt also gives way to less significant dilution for existing shareholders and does not require a valuation to be set for the business.

Venture Debt



Key Venture Debt players in India



Rise of Venture Debt in India

Fueled by a rapid increase in entrepreneurial ambition, India has opened the doors for various funding possibilities and also for alternate financing options like Venture Debt. The number of Venture Debt deals are at an all-time high along with a rise in average ticket size as well. The country has seen the advent of multiple Venture Debt funds over the last few years, raising large sums of money from investors in the Indian market and abroad. Founders of startups are finding new and specialized use cases of Venture Debt in their business models, thus understanding the utility of this asset class.

Founders and companies are clubbing equity rounds with Venture Debt to have better leverage on their books and are also considering other Venture Debt variations apart from term loans such as invoice financing, vendor financing, revenue based financing, amongst others.

Venture Debt

Emergence of Venture Debt as an Asset Class

The rise of Venture Debt as a prominent asset class, has benefited multiple stakeholders in the ecosystem including Founders or startups, Venture Capitalists as well as Investors (Limited Partners).

Founders

- **To extend the cash runway of a business:** Allows the founders to augment the remaining without further equity dilution. VD is a promising way to finance the business without having to set a valuation or incurring additional dilution from equity.
- **Working Capital Requirements:** A prominent use case of VD is to fund liquidity of held up working capital of startups as the company scales up.
- **Funding Capex Expenditure:** VD funds capital expenses or project financing needs. Thus, can be used as a cheaper alternative to equity to fund acquisitions or purchase of equipment.
- **Acquisition Financing:** Companies often look to merge or acquire competitors in a similar space for inorganic growth motives.

Venture Debt

Venture Capitalists (VCs)

- **Growth Partner:** VD comes into play when an existing Venture Capital backed start-up has reached a certain level of maturity.
- **Banks on Board:** VD is provided by specialized VD funds which may further be augmented through co-lending partnerships with banks. This enables VCs to rope in banks as partners in their businesses.
- **Complements equity financing:** It is a useful supplement to equity as it allows companies to extend their cash runway, prevent a down round and get to their next milestone.
- **Less dilution:** VD results in less dilution for existing shareholders and does not require another round of valuations to be set for the growth of a business, which works to be the benefit of early equity investors.

Limited Partners (LPs)

Venture Debt has provided investors with a new form of financial instrument with multiple benefits such as:

- **Fixed Rate of Return:** VD provides an assured rate of return of up to 20% annually for an investor due to lending nature of the asset class.
- **Short Holding Period:** Generally LPs get their principal repaid in about 3-4 years, thus benefitting from a short holding period.
- **Best of Both Worlds:** VD has the unique advantage of giving features of both equity and Debt investments, thus allowing for less risk to the capital by the Debt part and also allowing for participation in the growth of startups through warrants.
- **Access and Awareness:** Due to the unique feature of VD being sector agnostic, LPs get access and gain awareness of the entire universe of startups.

Overview of the Indian Venture Debt Ecosystem 2022

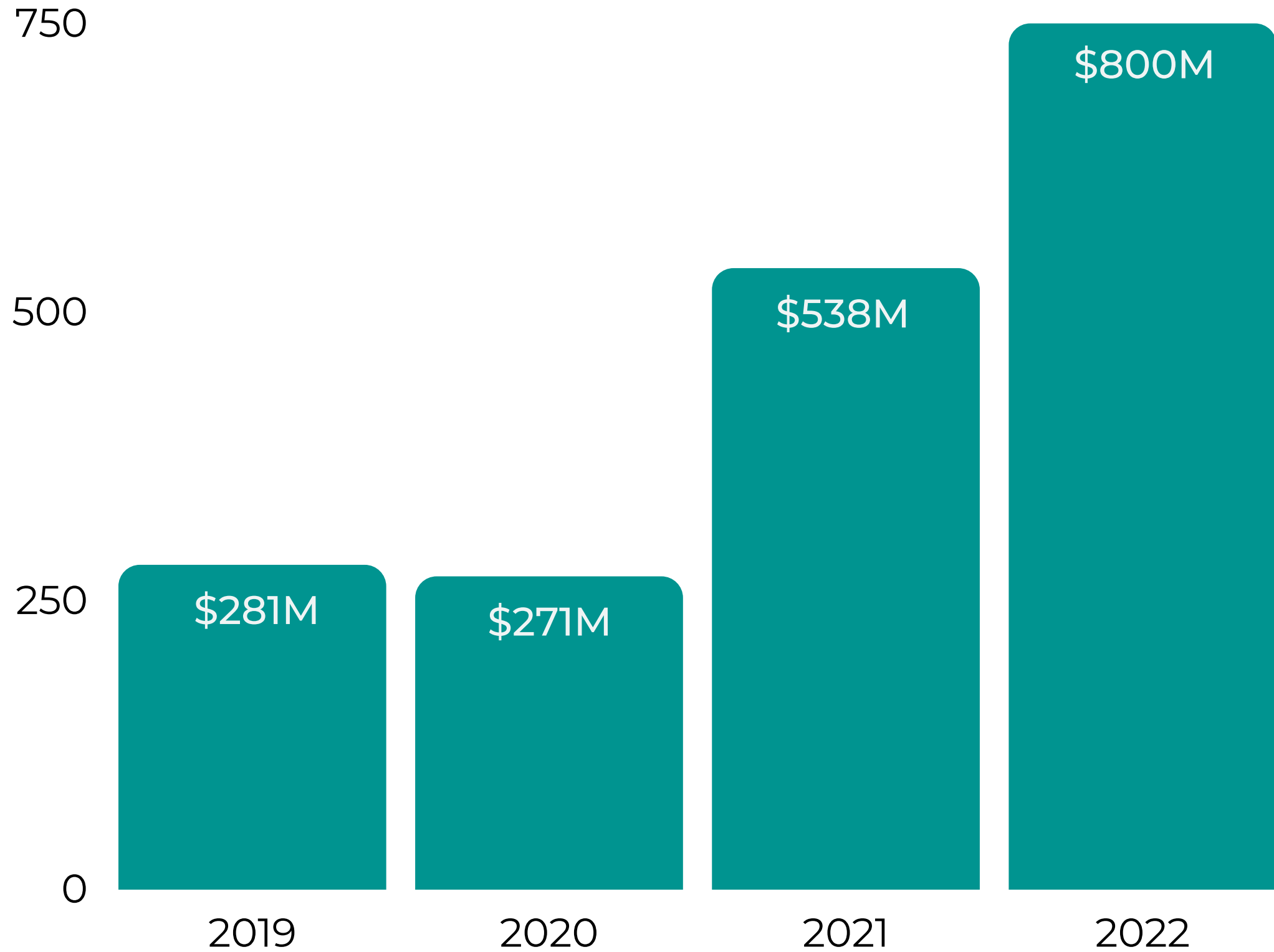
<p>6 VD Investors</p> <p>Total No. Active VD Investors in India*</p>	<p>170-180** Deals</p> <p>No. of reported VD deals in 2022</p>	<p>\$4-5M Average</p> <p>Average Ticket Size of VD deals in 2022</p>
<p>\$800M Disbursed</p> <p>Total amount of VD disbursed</p>	<p>FinTech Sector</p> <p>Sector saw the maximum VD deals</p>	<p>Delhi NCR Region</p> <p>Region received the maximum VD deals</p>
<p>120-130** Unique companies</p> <p>Raised Venture Debt in 2022</p>	<p>4.8 Years</p> <p>Average age of startups raising VD in 2022</p>	<p>\$118M Equity Funding</p> <p>Average equity funding raised by VD backed startups</p>

Source : Tracxn

*VD Investors who have participated in more than 10 deals in 2022 **due to non-disclosure in the media, the exact number has not been mentioned

Growth of Venture Debt in India

Amount Disbursed has become 2.6x from 2019 to 2022



Source : Tracxn and Public Sources

Penetration of Venture Debt (2022)



VD in India

VD in USA

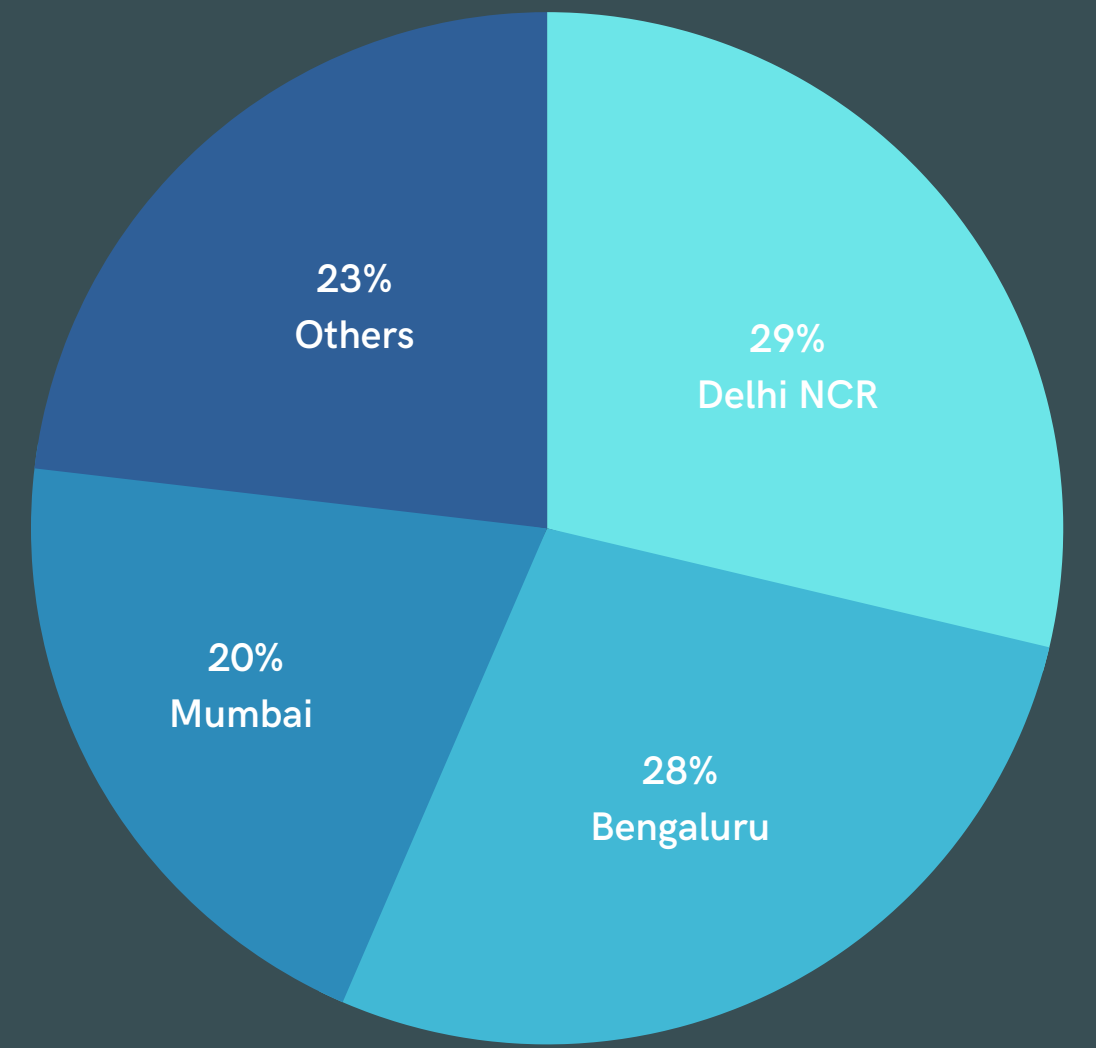
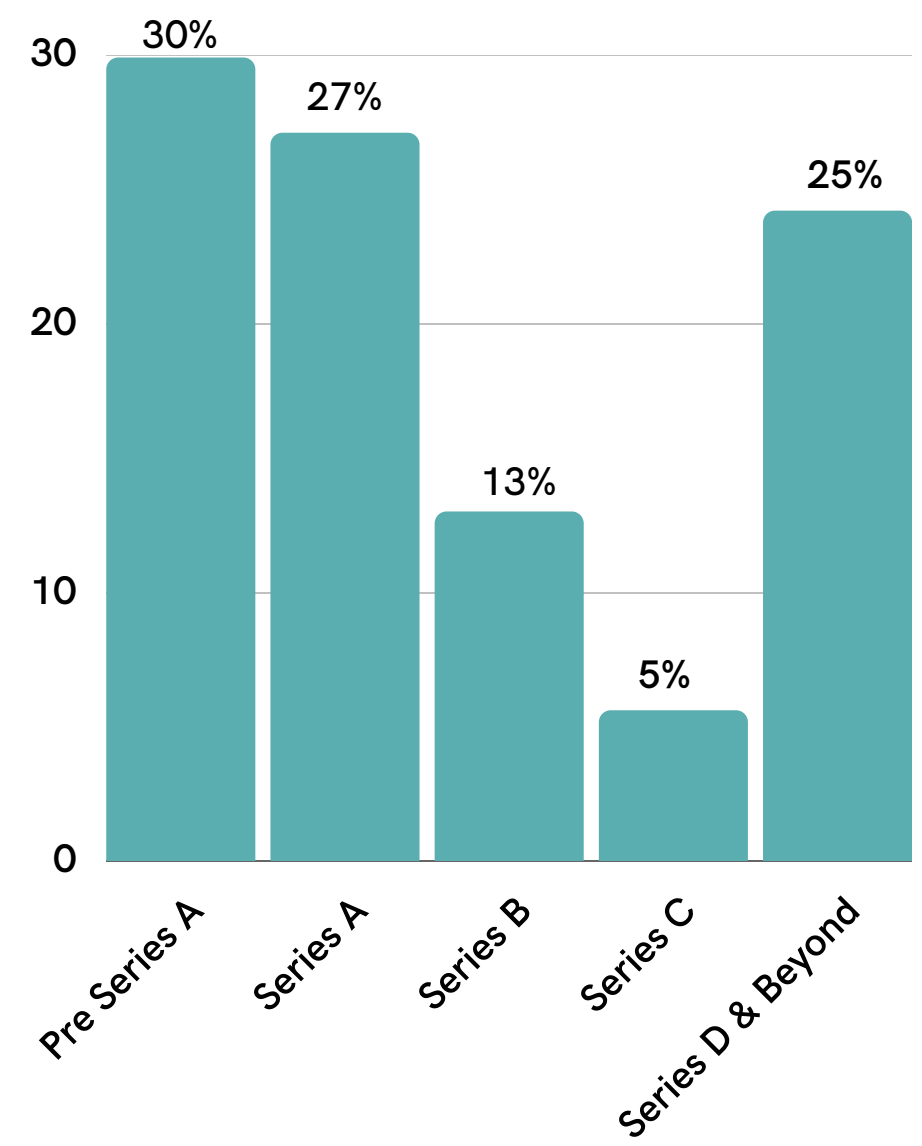
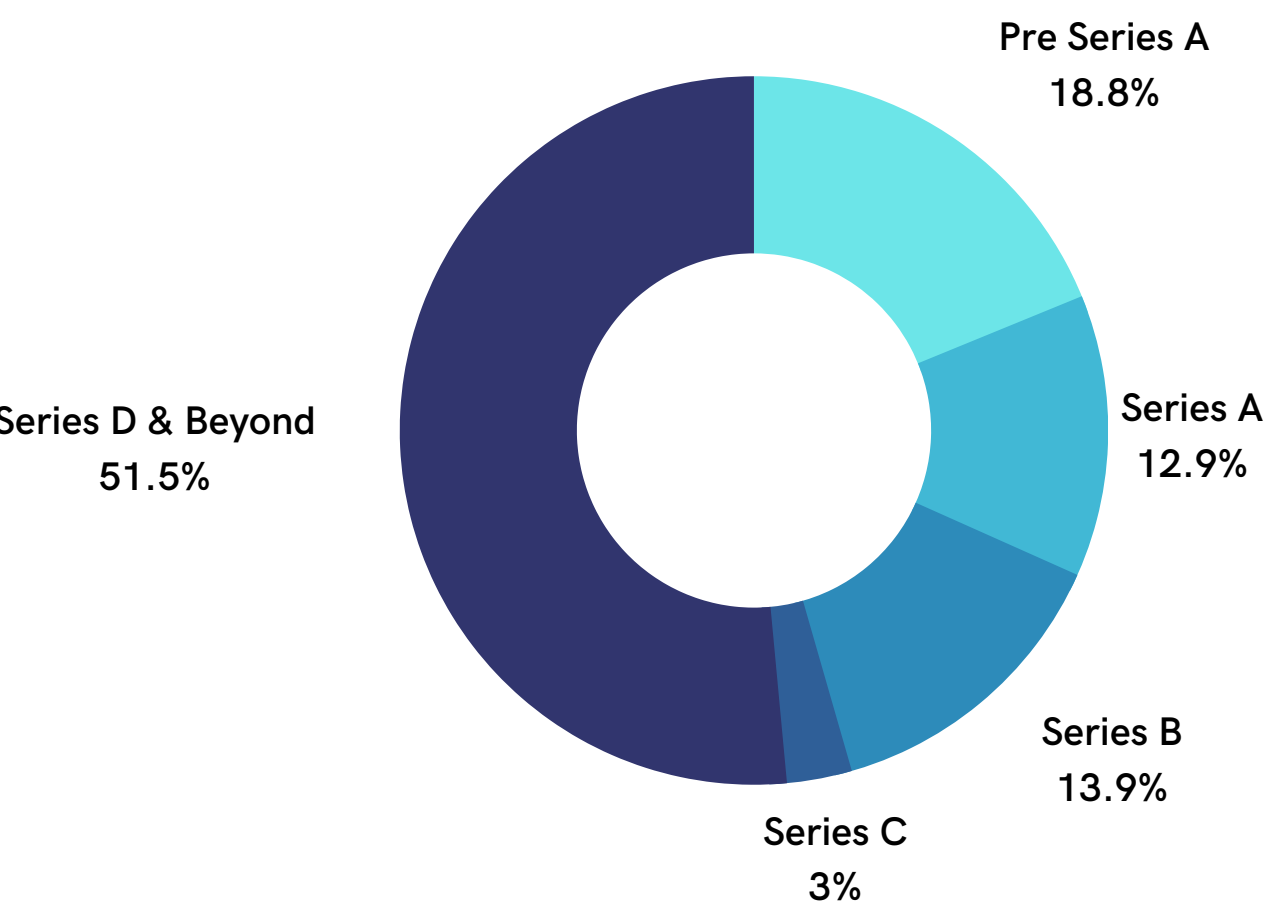


VC in India

VC in USA

Indian Venture Debt by Company Stage

VD raised City-wise Split

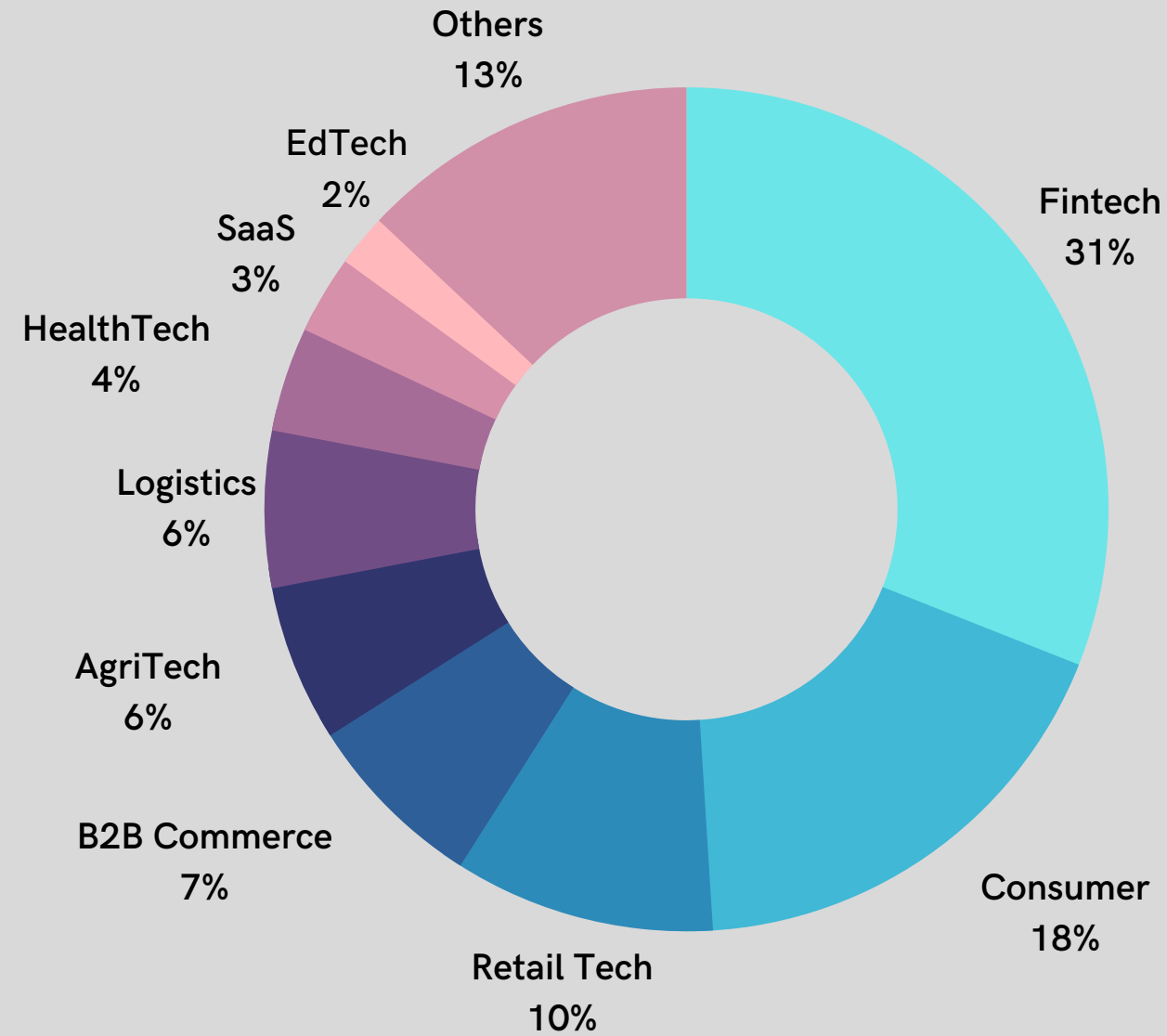


- Delhi NCR
- Bengaluru
- Mumbai
- Others

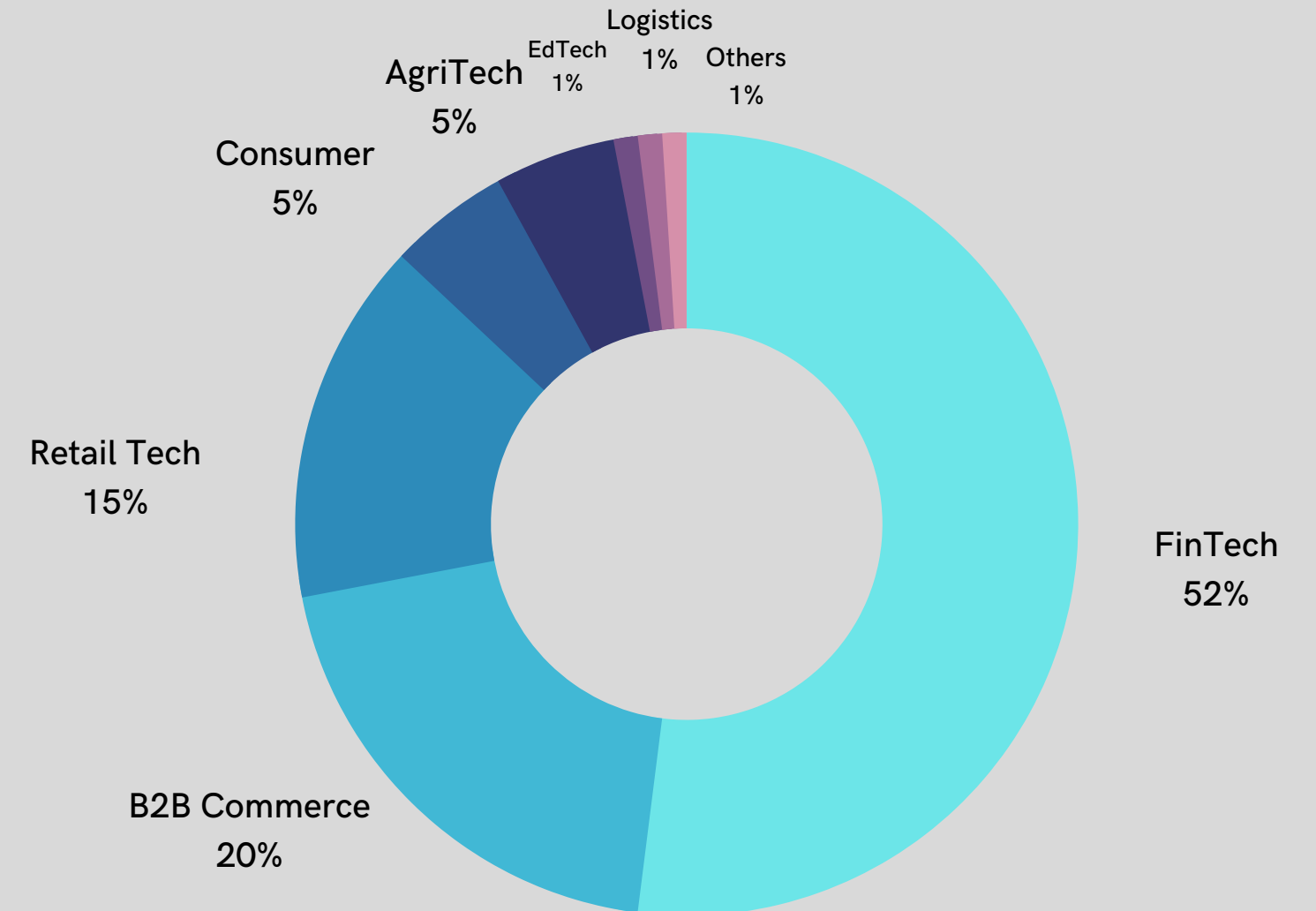
Source : Tracxn
 *The no of deals & the amount invested has been calculated excluding companies which have been acquired

Venture Debt by Sector in India

No. of Deals in 2022



Total Amount Invested



- FinTech is the leading sector for VD in India, accounting for the highest no. of deals & the maximum amount invested in 2022.
- B2B Commerce Sector is behind the FinTech sector in the amount disbursed; with both the sectors accounting for more than 70% of VD transactions in India.

Use-Cases of Venture Debt



Consumer



FinTech



B2B Commerce



B2B SaaS

Use Cases of Venture Debt



Working Capital Management

Working capital gets blocked in inventory which companies hold. The inventory days range from 30 to 180 days across different vendors. As the topline of these businesses grow, the amount of inventory in the business also increases which can be taken care of by Venture Debt in the form of a working capital rollover structure.



Acquisition Financing

Companies often look to merge or acquire competitors in a similar space for inorganic growth motives. These acquisitions are often a good time to use Venture Debt as big players looking to acquire other players can hold on to their valuable equity and use Debt to finance the acquisitions.



Receivables Financing

Modern trade distribution channels and online partner portals (such as Amazon, Flipkart, etc.) generally have a credit structure which results in high receivables days ranging from 30 to 90 days. This ongoing capital need is taken care by Venture Debt firms which allows for unlocking of capital for new orders.



Runway Extension

FinTech and B2B Platform startups often face a cash crunch for their day-to-day operations in which case they often have to opt to dilute their equity which hurts in the long run. Venture Debt provides a founder-friendly alternative as you can delay your next equity round by upto 18 months and hold on to more equity in the process.



Order Book Discounting

B2B Platform and SaaS companies generally have an order book. The cashflows of the order book can be discounted to avail liquidity early. This allows the companies to service the future confirmed order pipeline without diluting through equity raise.

Use Cases of Venture Debt



Capex and Project Financing

Consumer and B2B Startups often have to incur high capex or project costs when they are in the growth phase of their startup life-cycle. Here, Venture Debt can be used to finance the capex and project costs instead of valuable equity.



Onward Lending

The FinTech sectors entails products such as onward lending, which are loans sanctioned by banks to eligible intermediaries for further lending generally for creation of priority sector assets. FinTech companies looking to launch innovative lending products for the underserved market generally opt for Venture Debt term loans for further lending.



Financing for First Loan Default Guarantee

In case of co-lending arrangements between FinTech companies and banks, generally a First Loan Default Guarantee deposit needs to be given by FinTech companies to banks which is financed through a Venture Debt term loan facility.



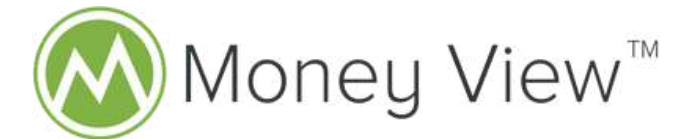
Favourable Tax Treatment

Some companies often have a holding entity outside India and a subsidiary in India. For these companies that do not want to transfer equity from the Holding Company to the Indian entity for taxation reasons or the fact that it can't be up-streamed later; taking some bit of Debt for covering expenses in the Indian entity provides a viable alternative.

VD Backed Consumer/Retail Startups



VD Backed FinTech Startups



VD Backed B2B Startups

B2B Commerce



GLOBALFAIR



udaan



B2B SaaS



Venture Debt Survey 2023



Purpose

This survey aims to encapsulate the rise of Venture in India as a financial instrument. The report aims to highlight upcoming trends of Venture Debt in India, along with showcasing the mindset of Founder and VCs in the process. The participants of this survey are from diverse fields and sectors giving us a holistic view whilst sharing their years of wisdom.



Research Methodology

About 150 Startup Founders and VCs have taken this survey with 50:50 split between the two. The survey consists of questions regarding Venture Debt, reasons behind VDs rise in India, focus area for VD funds, amongst others. The group of Founders belong to Early, Growth and Late Stage Companies and have experiences across 15+ Sectors in India.

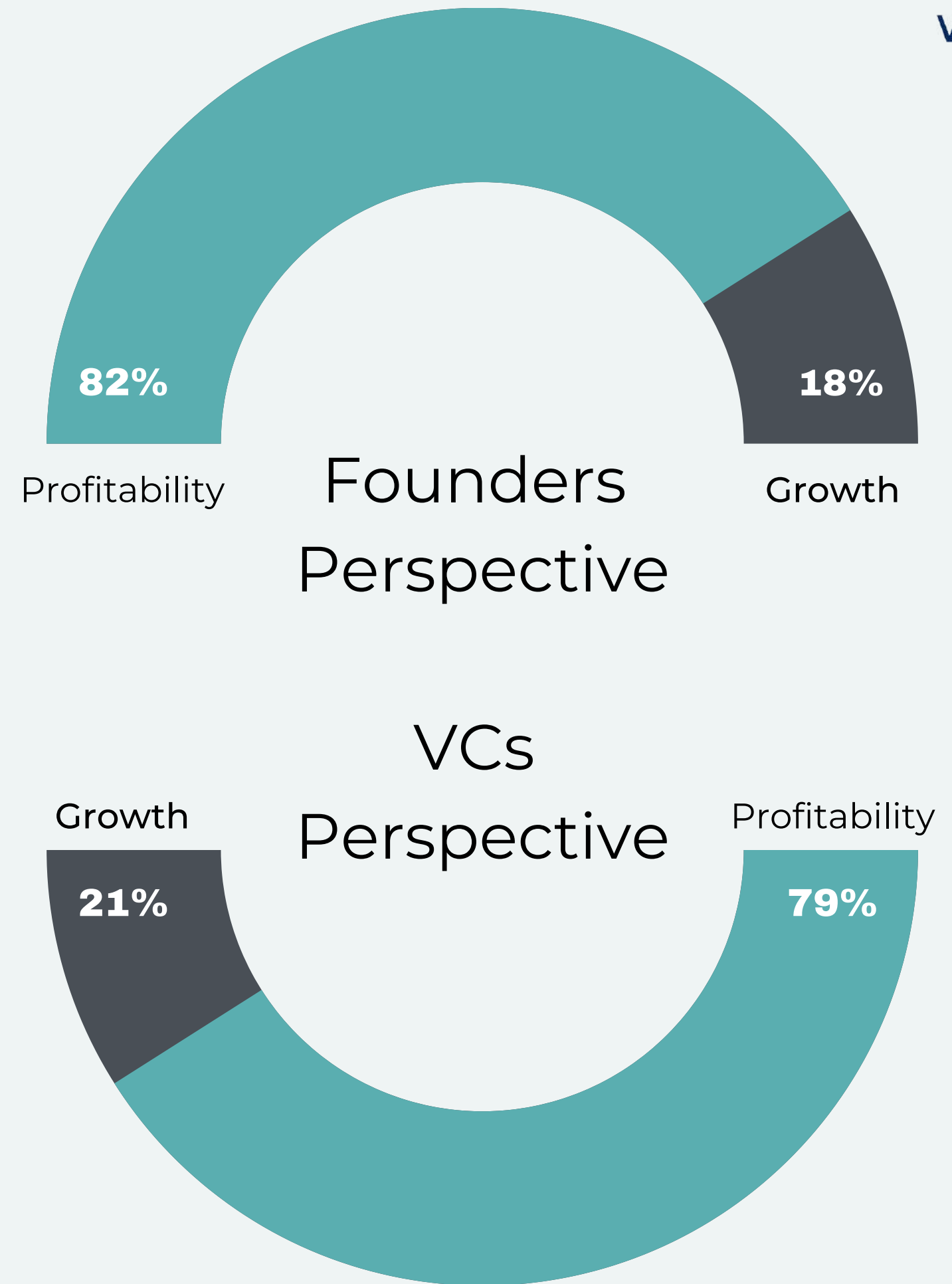


Disclaimer

This survey may not conform to the strict standards of polling or research. The results of the survey may not be completely accurate. The findings of the survey are entirely based on the answers shared by respondents. The findings is not meant to be representative of the entire startup ecosystem but only a broad sample.

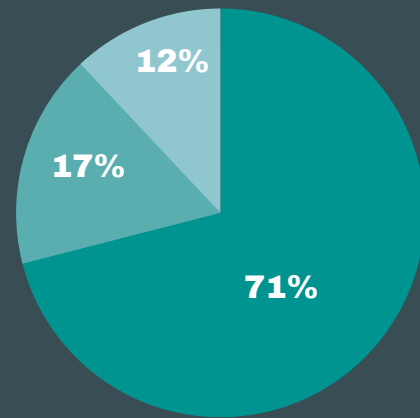
Focus of Startups in 2023

- **82% founders** would like to focus on **profitability** this calendar year and put their attention on scaling their startups.
- **79% VCs** would like to focus on profitability and **21% VCs** would like to focus on growth.
- However, in 2022 around **55% VCs** and **68% founders** wanted to focus on growth rather than profitability.

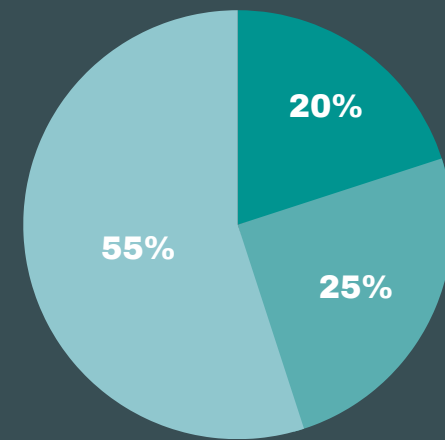


How likely are startups to raise VD in 2023?

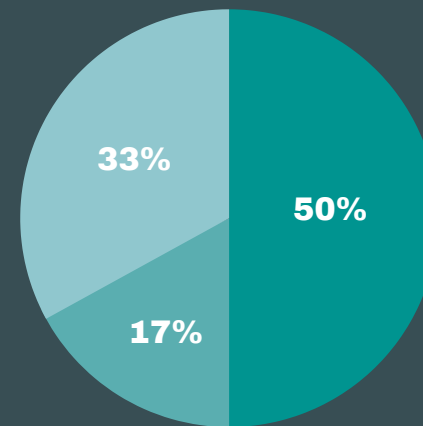
Startup Founders



Early Stage



Growth Stage

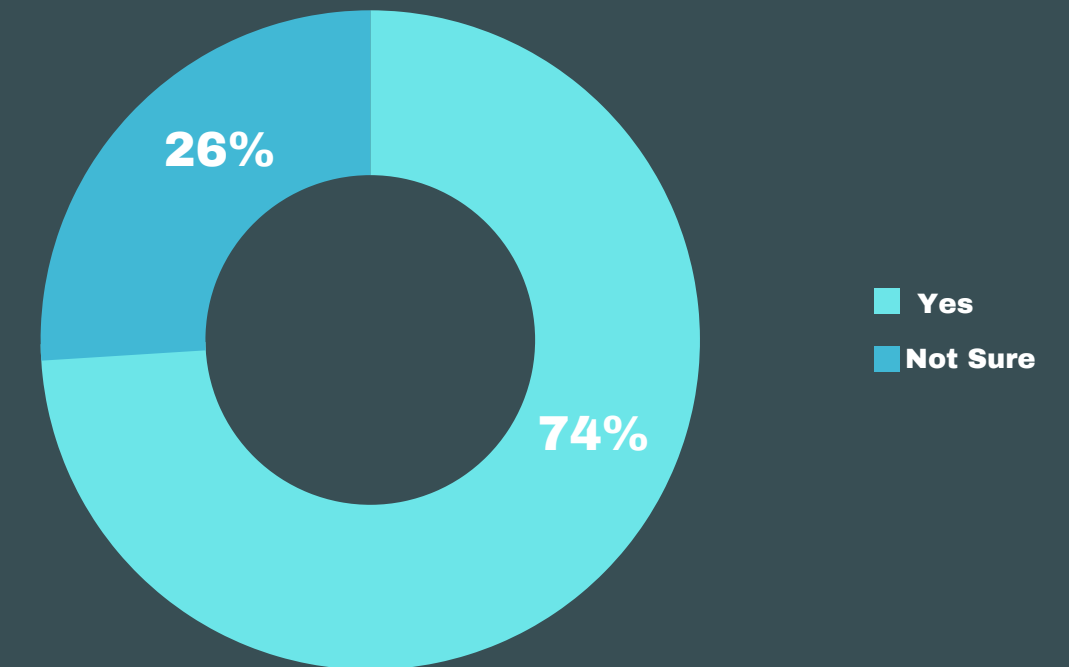


Late Stage

■ Yes ■ No ■ Not Sure

- Information gathered from the survey indicated 71% founders of Early stage companies, were certain of raising VD in 2023 as compared to 50% of Late stage founders and 20% of Growth stage founders.
- However, the sentiments were different in 2022 as 100% founders of Growth stage companies were certain of raising VD as compared to 86% Early stage founders and 67% Late stage founders.

Venture Capitalists

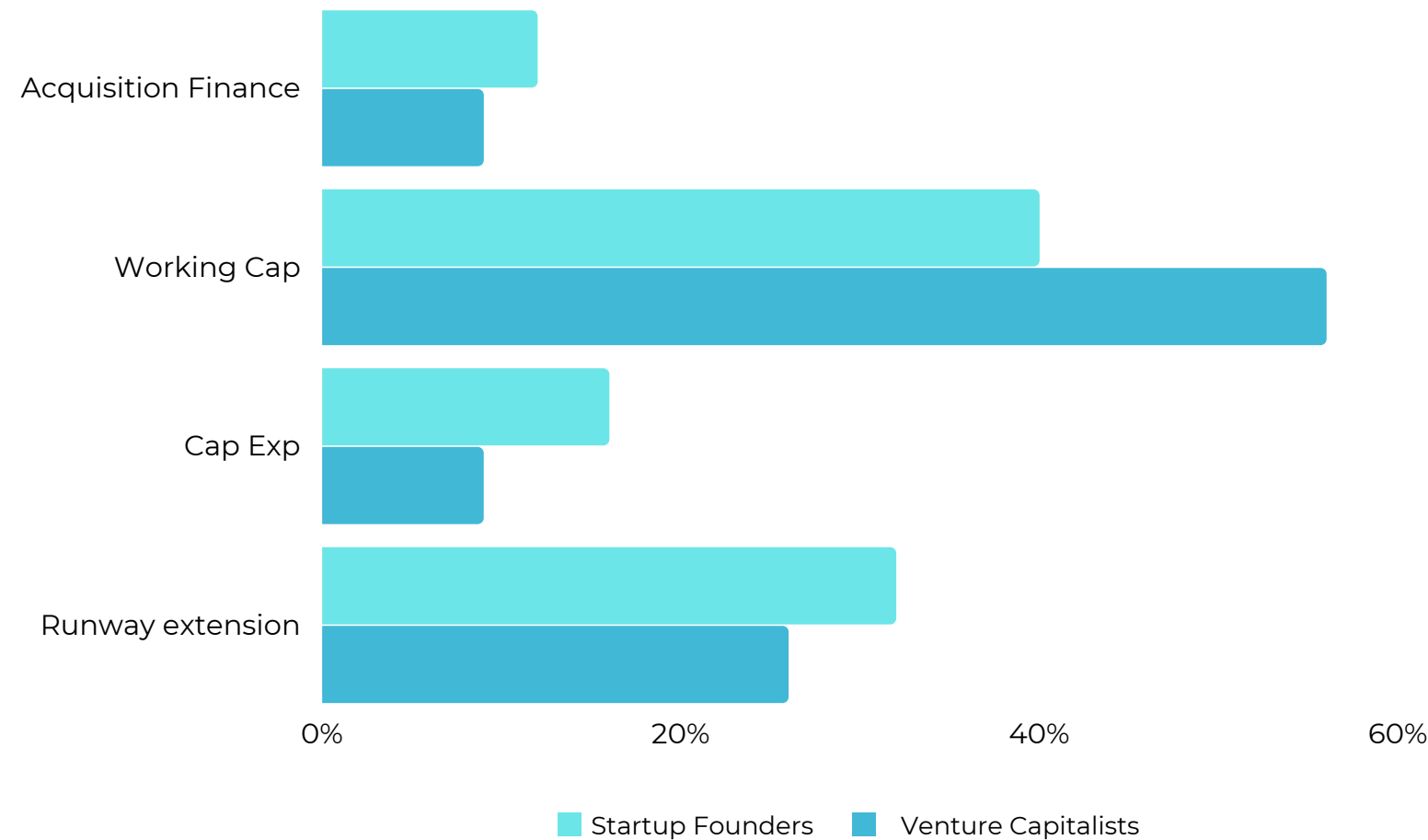


■ Yes
■ Not Sure

- Our findings from our survey revealed that 74% of VCs would recommend their portfolio companies to take on Venture Debt in 2023.
- None of the VCs responded a "No" to this question.
- The findings from 2022 survey were also similar with 71% of VCs preferring to recommend raising VD to their portfolio companies.

VD Perspective : Founders V/s VCs

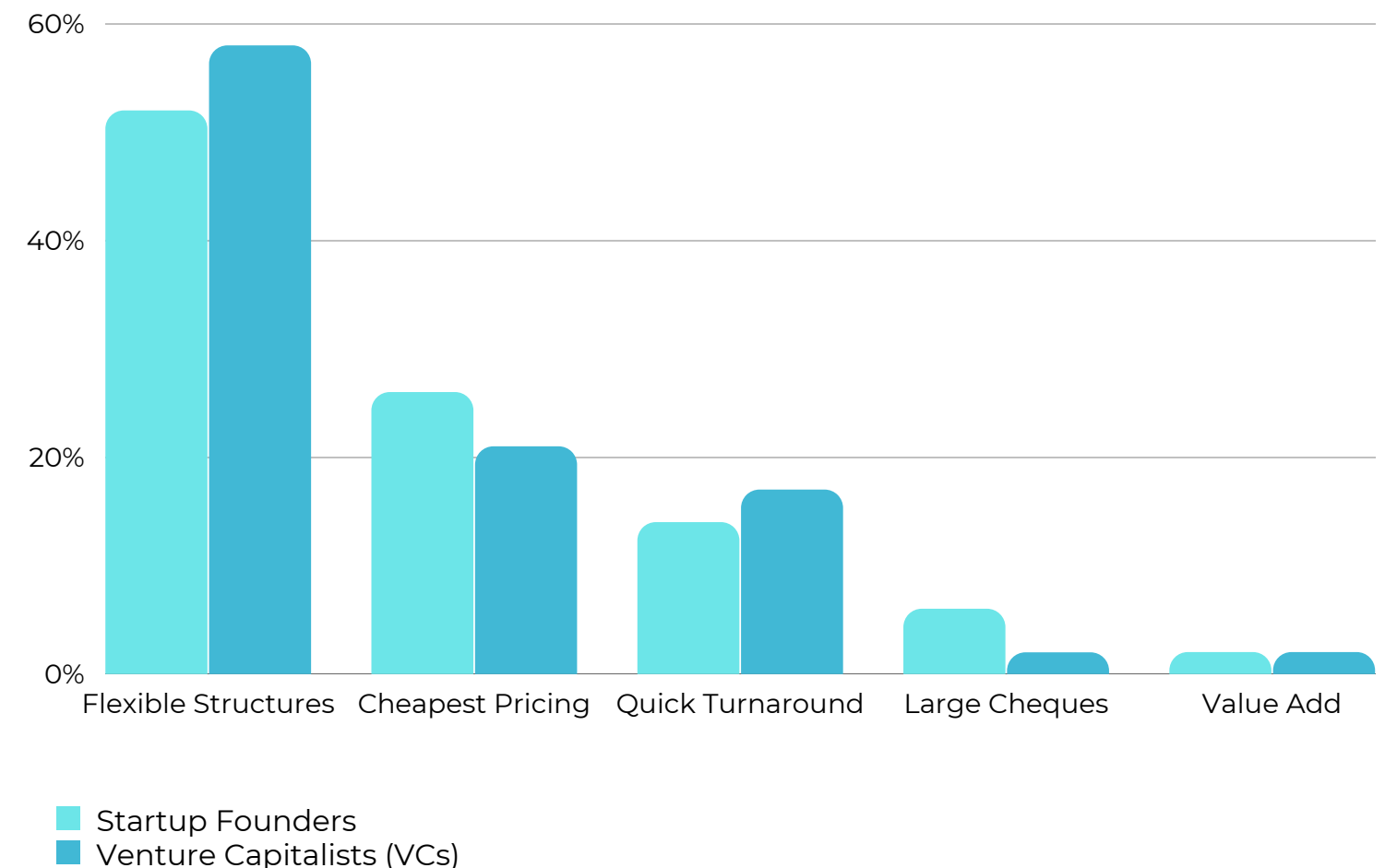
Use Case of Venture Debt



- 40% founders and 56% VCs believe that Working Capital is the leading use case of Venture Debt.
- 32% of founders and 26% of VCs believed that Runway Extension is the second best use case of VD.
- The survey results in 2022 also indicated that the best use case of VD is Working Capital followed by Runway Extension according to both the founders and VCs.

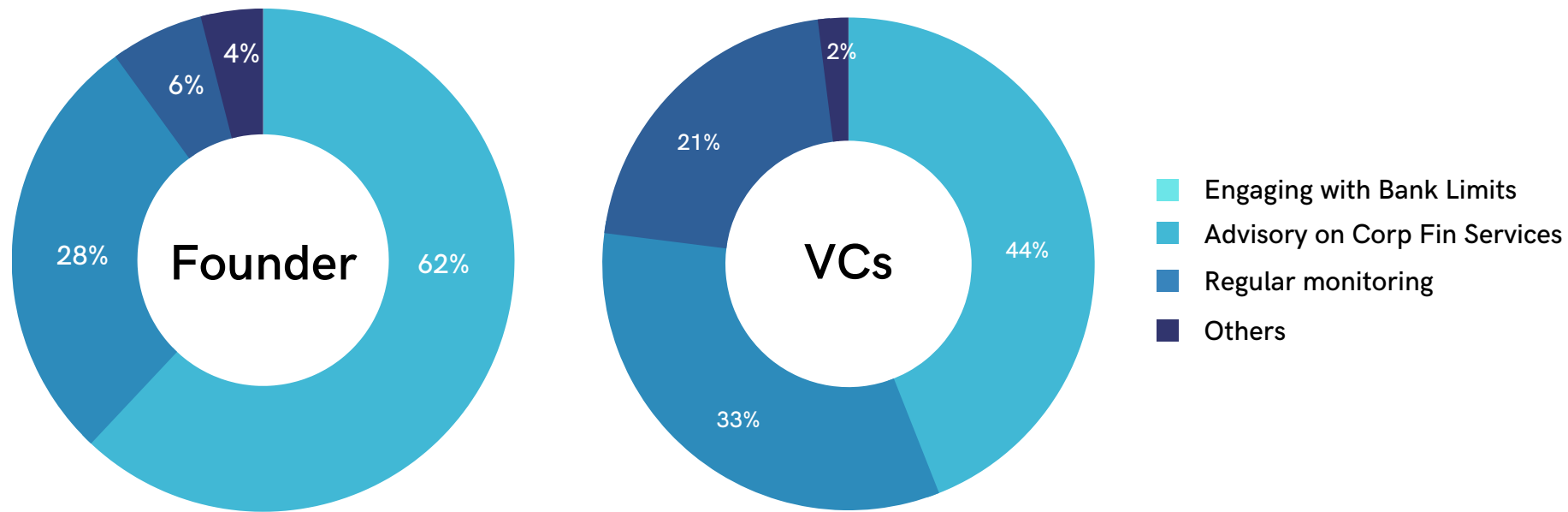
- 52% of the founders believe that Flexible Structures is the leading factor while choosing a Venture Debt partner followed by Cheapest Pricing (26%).
- 58% of the VC's believe that Flexible Structure is the most important aspect in choosing a Venture Debt partner.
- According to the survey in 2022, founders believed that Flexible structure was the leading factor, however VCs believed that Cheapest pricing was the most important factor while choosing a VD partner

Key factors for selecting a VD Partner



VD Perspective : Founders V/s VCs

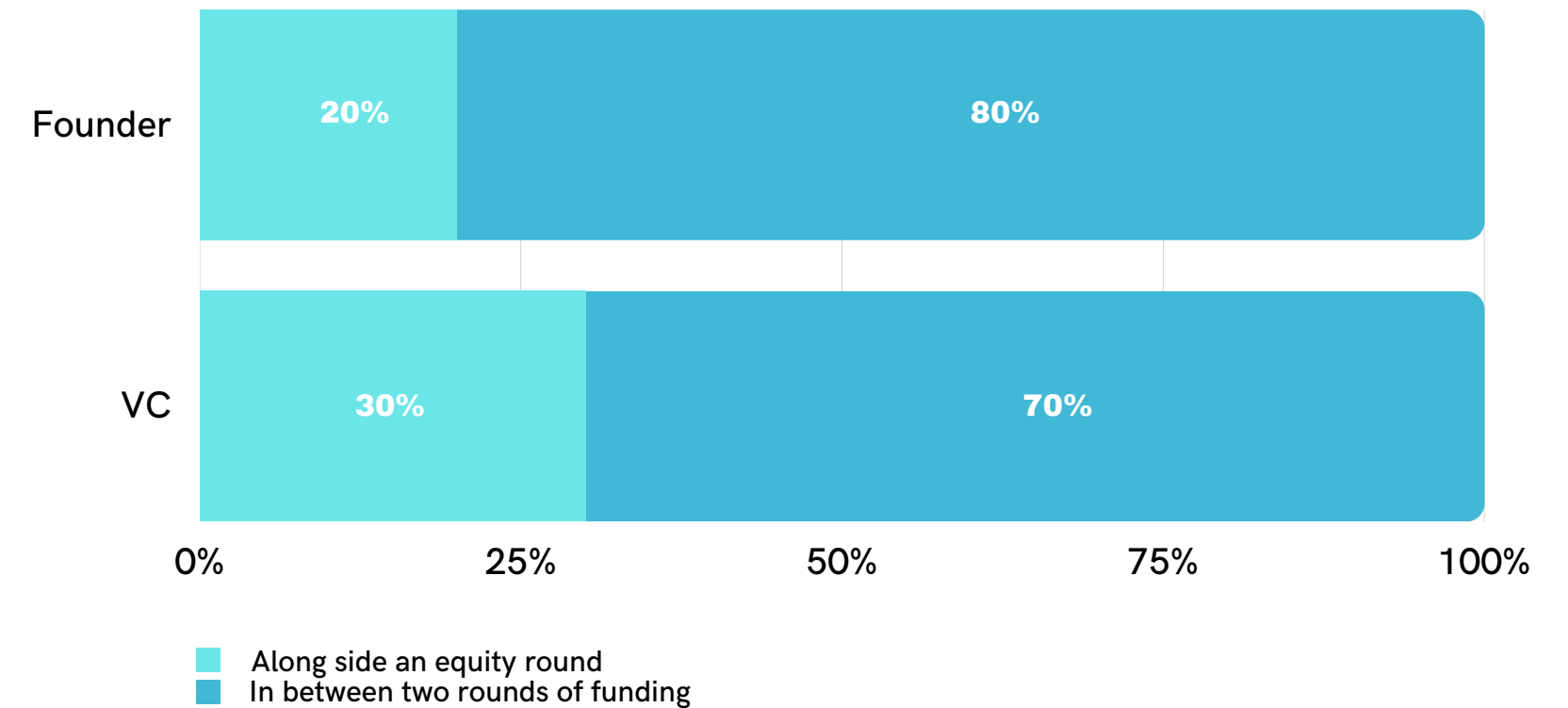
Which are the most important value added services offered by VDs?



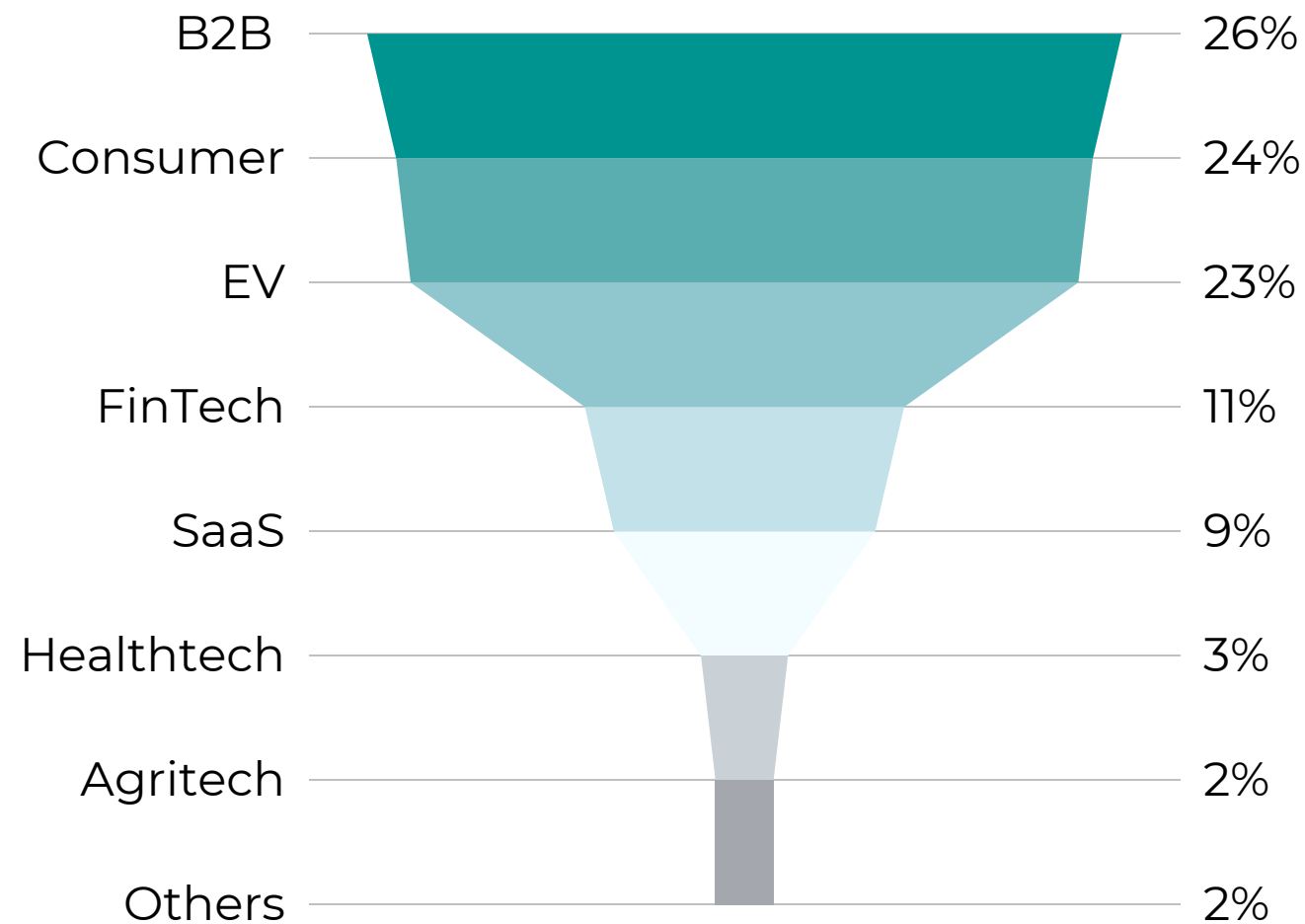
- Around 62% founders and 44% VCs felt that helping to Engage with Bank Limits is the most important value added service offered by a VD fund. This is followed by Advisory on Corporate Financial Services - 28% founders & 33% VCs.
- As per our survey last year, the sentiments of both founders and VCs were different. Advisory on Corporate Financial Services being the most important value added service followed by Engaging with Bank Limits.

When is the best time to take Venture Debt?

- In 2023, 80% of founders and 70% of the VCs were of the opinion that VD should be raised in-between two rounds of funding.
- Similar sentiments were reflected in the 2022 survey where 72% founders were of the opinion that VD should be raised between two rounds of funding and on the other hand VCs were equally split between raising VD between two rounds of funding and alongside an equity round.

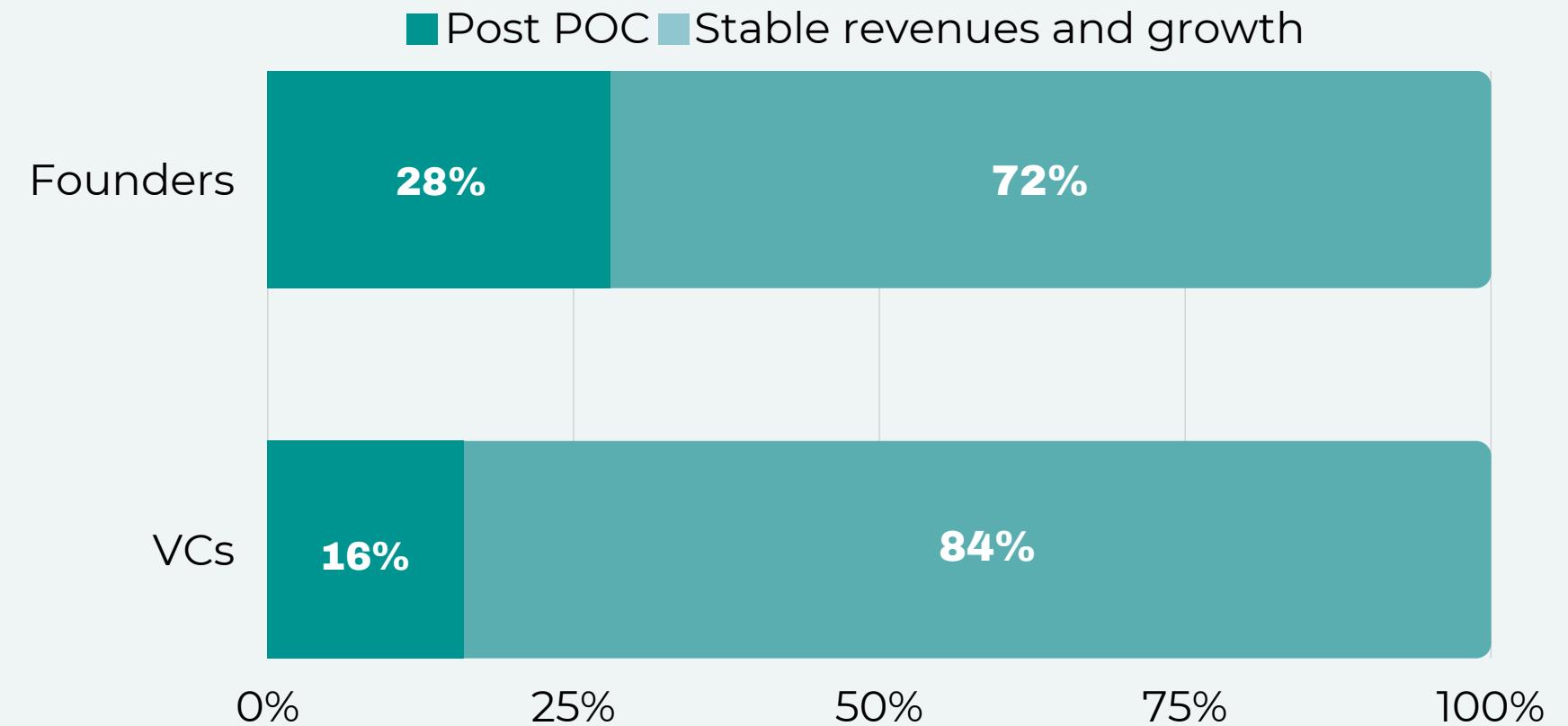


Stage and Sector - Trending in 2023



Sectors most likely to raise VD in 2023

- According to founders and VCs, B2B is going to be the most trending sector for VD in 2023, followed by Consumer and EV.
- Other sectors which received lesser VD prospects were - AgriTech, HealthTech and SaaS.
- However, survey results of 2022 indicated that FinTech was going to be the most attractive sector for VD, followed by Consumer and AgriTech.



Stage at which VD should be raised

- Majority of the founders (72%) feel that stable revenue and growth is needed before raising VD, however 28% of founders are also open to raising VD at a Post Proof of Concept stage.
- Around 16% VCs are open to recommending VD at a Post POC stage. However, majority of them voted for stable revenue and growth stage (84%) as the apt time to raise VD.
- Survey in 2022 also indicated that stable revenue and growth is needed before raising VD according to both Founders and VCs.
- The previous survey indicated that 7.1% of founders were open to raise VD at a pre-revenue stage. However in 2023, none of the founders or VCs believe that VD should be raised at a pre-revenue stage

About the Report

The India Venture Debt Report 2023, published by Stride Ventures, provides an outlook on the Venture Debt ecosystem through primary and secondary sources. The survey is intended for the perusal of Founders, Venture Capitalists, Venture Debt investors, other stakeholders of the Indian global startup ecosystem and the public at large for knowledge and reference point on Venture Debt in India.

This report is published in Feb'23. For any further information and your feedback, please write to us on corporate@strideventures.in

About Stride Ventures

Stride Ventures, a leading Venture Debt fund, has become synonymous with innovative startup financing in India. The firm has always characterized itself as a fund that has the ability to constantly adapt and evolve and bring forth novel solutions to the Venture ecosystem.

Stride Ventures has emerged as the preferred Venture Debt lender doing over 60+ transactions in 2022 alone, attracting the best new age companies across sectors and has cemented its position in the VC fraternity and the founder community as a distinguished and critical lender in the ecosystem.

Thank you!

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