



India Venture Debt Report 2021

An annual report by Stride Ventures

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 2021 has been the most active year ever with respect to Venture Debt Investments in India. 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 2021" 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 2022.

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 personal use only.

Table of Contents

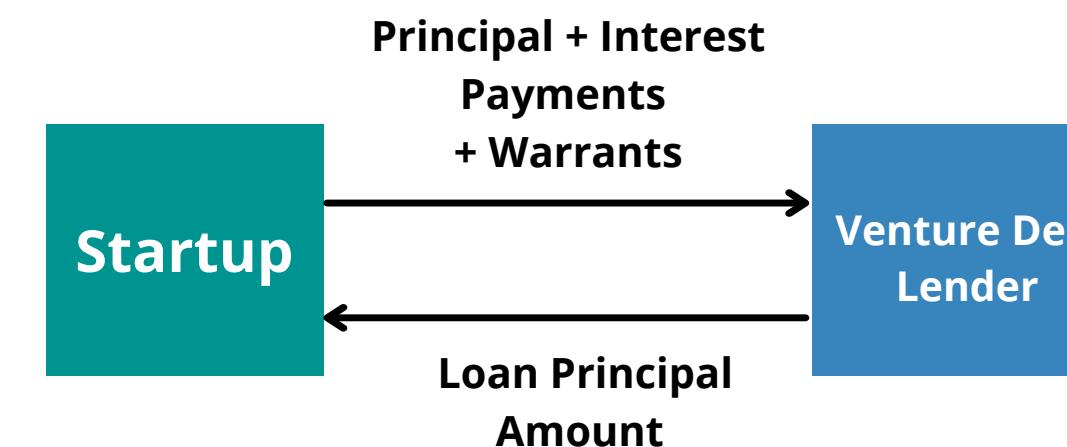
- | | | | |
|----|---|----|---|
| 01 | What is Venture Debt ? | 05 | Growth & Penetration of Venture Debt in India |
| 02 | Rise of Venture Debt in India | 06 | Use Cases of Venture Debt |
| 03 | Emergence of Venture Debt as an Asset Class | 07 | Stride Venture Debt Survey 2022 |
| 04 | Overview of the Venture Debt Ecosystem in India | | |

Venture Debt

What is Venture Debt?

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

Lenders offer debt financing solutions to companies that show promise, may not be cash flow positive, 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.



Key Venture Debt players in India



Venture Debt

Rise of Venture Debt in India

The sharp growth of entrepreneurial focus in 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 rise 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.

Emergence of Venture Debt as an important asset class

The rise of Venture Debt as an 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. Venture debt 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, an acquisition, or project financing needs. Thus, can be used as a cheaper alternative to equity to fund acquisitions or purchase of equipment.

Venture Debt

Venture Capitalists (VCs)

- Growth Partner: Venture Debt comes into play when an existing Venture Capital backed start-up has reached a certain level of maturity.
- Banks on Board: Venture debt is provided by specialised 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: Venture Debt provides an assured rate of return of upto 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: Venture Debt 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 Venture debt being sector agnostic, LPs get access and gain awareness of the entire universe of startups.

Overview of the Venture Debt Ecosystem in India - 2021

6
VD Investors

Total No. Active VD Investors in India*

\$538M
Disbursed

Total amount of VD disbursed

91
Unique companies

Raised Venture debt in 2021

111
Deals

No. of reported VD deals in 2021

Fintech
Sector

Sector saw the maximum VD deals

5.98
Years

Average age of startups raising VD in 2021

\$5.85M
Average

Average Ticket Size of VD deals in 2021

Bengaluru
City

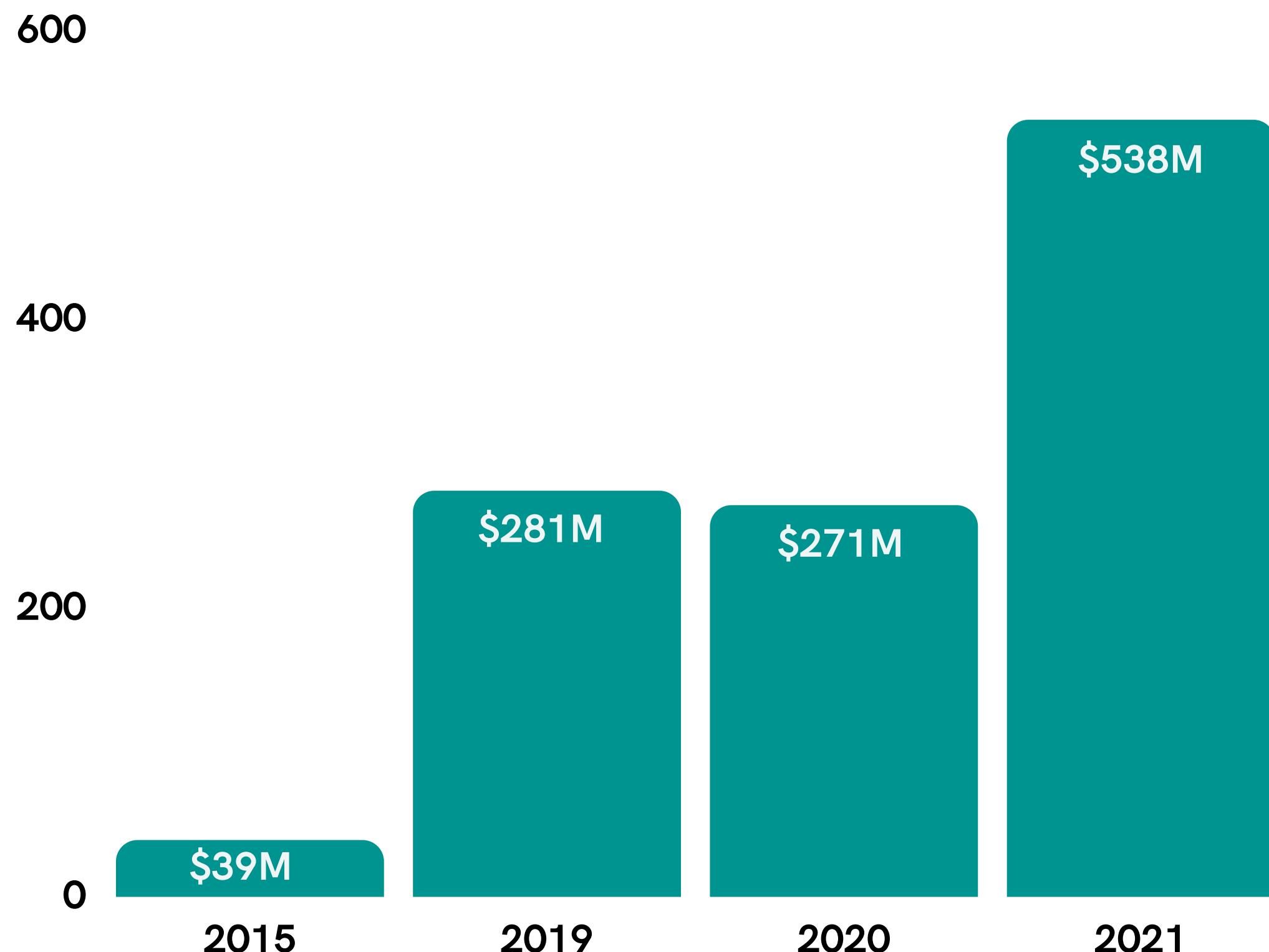
City received the maximum VD deals

\$126M
Equity Funding

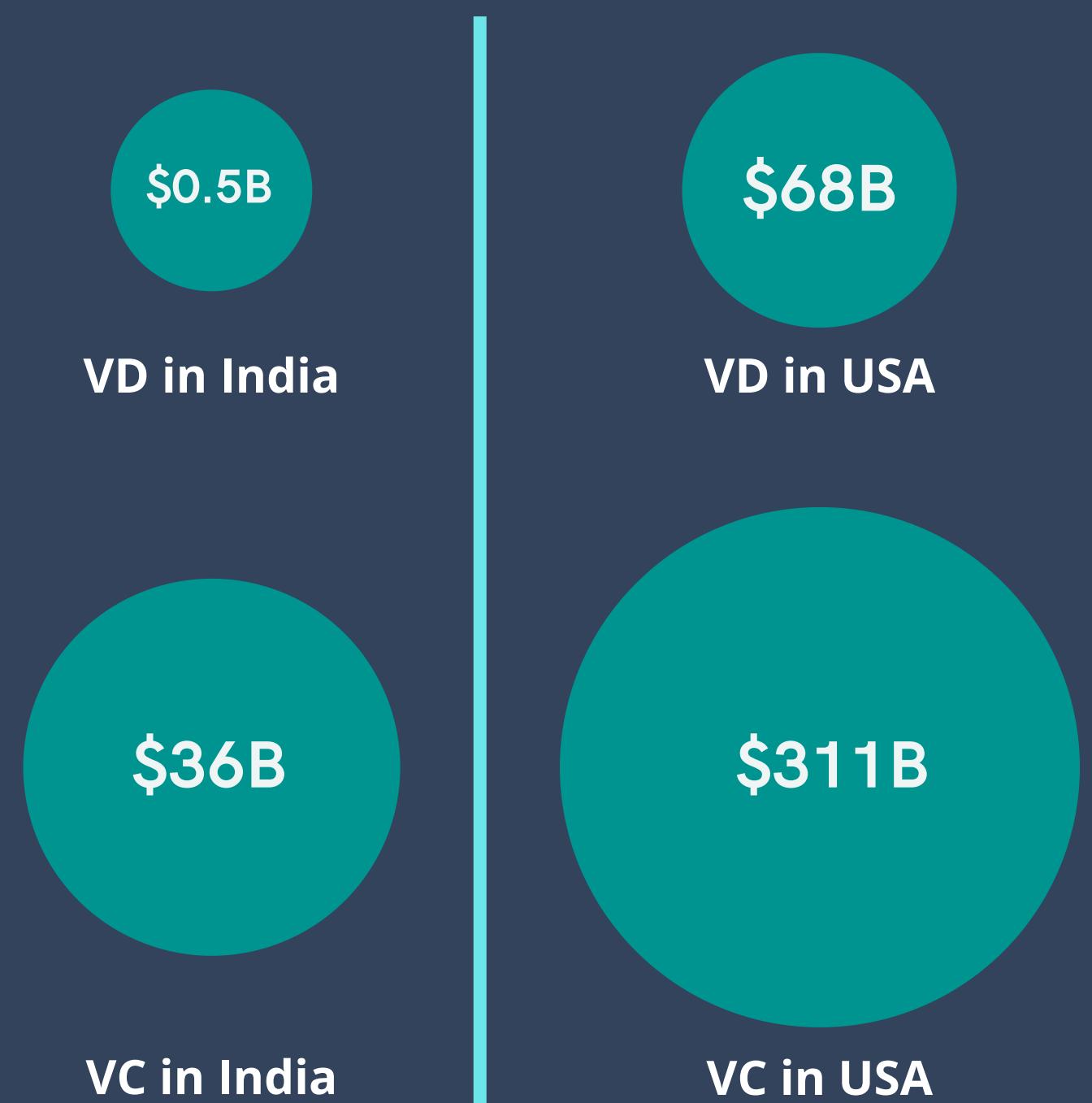
Average equity funding raised by VD backed startups

Growth of Venture Debt in India

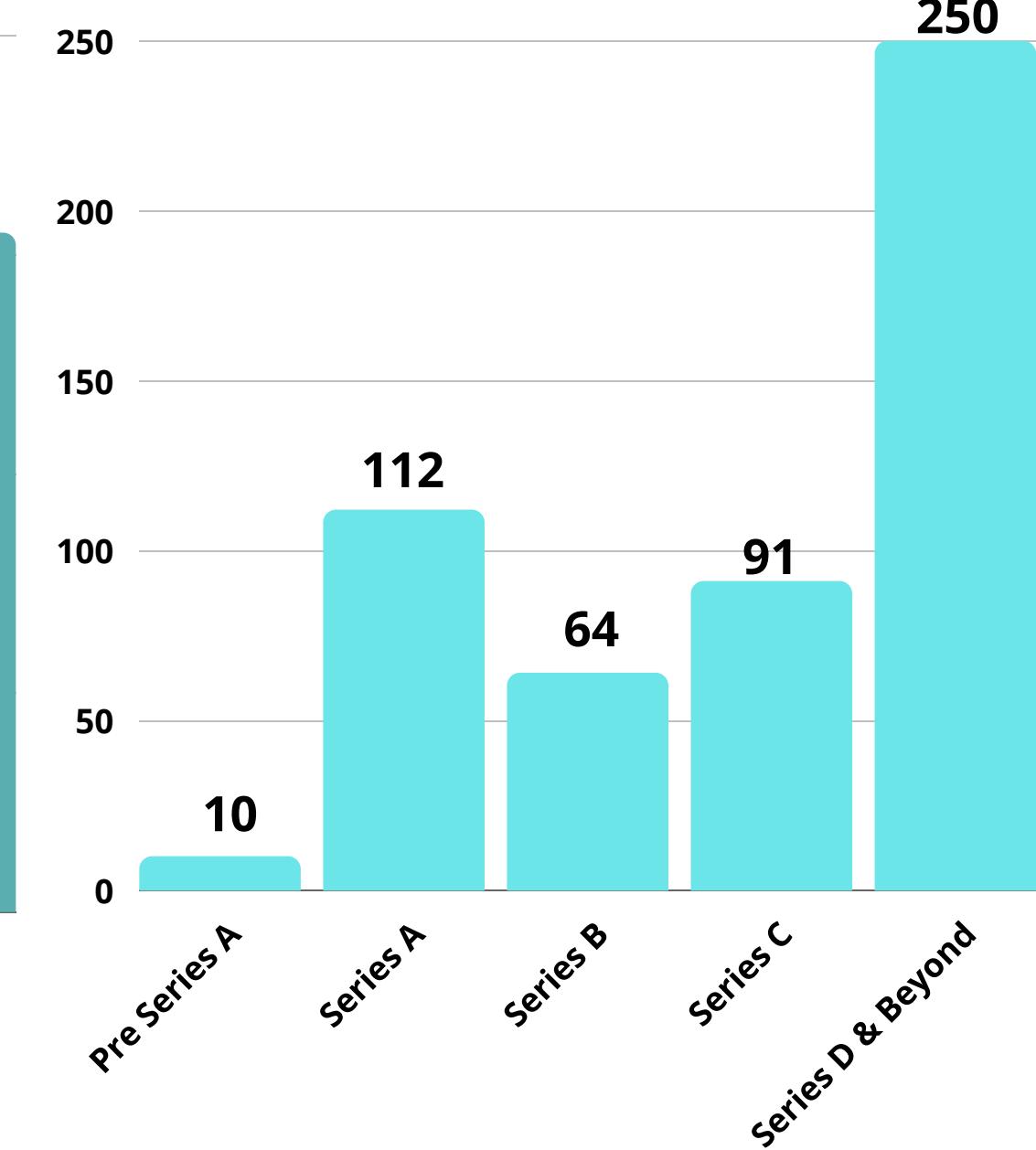
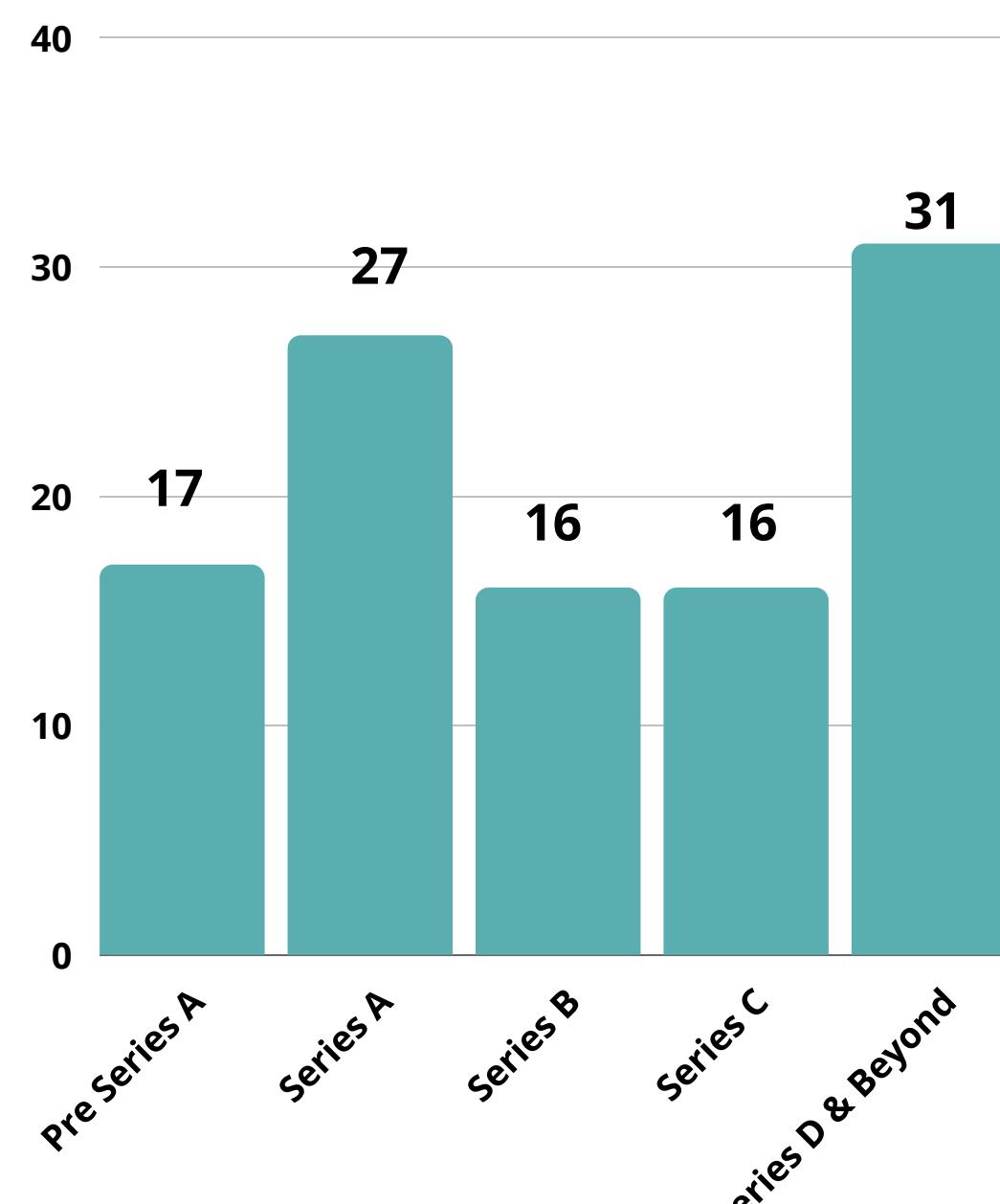
Amount Disbursed over the Years



Penetration of Venture Debt (2021) India VS USA



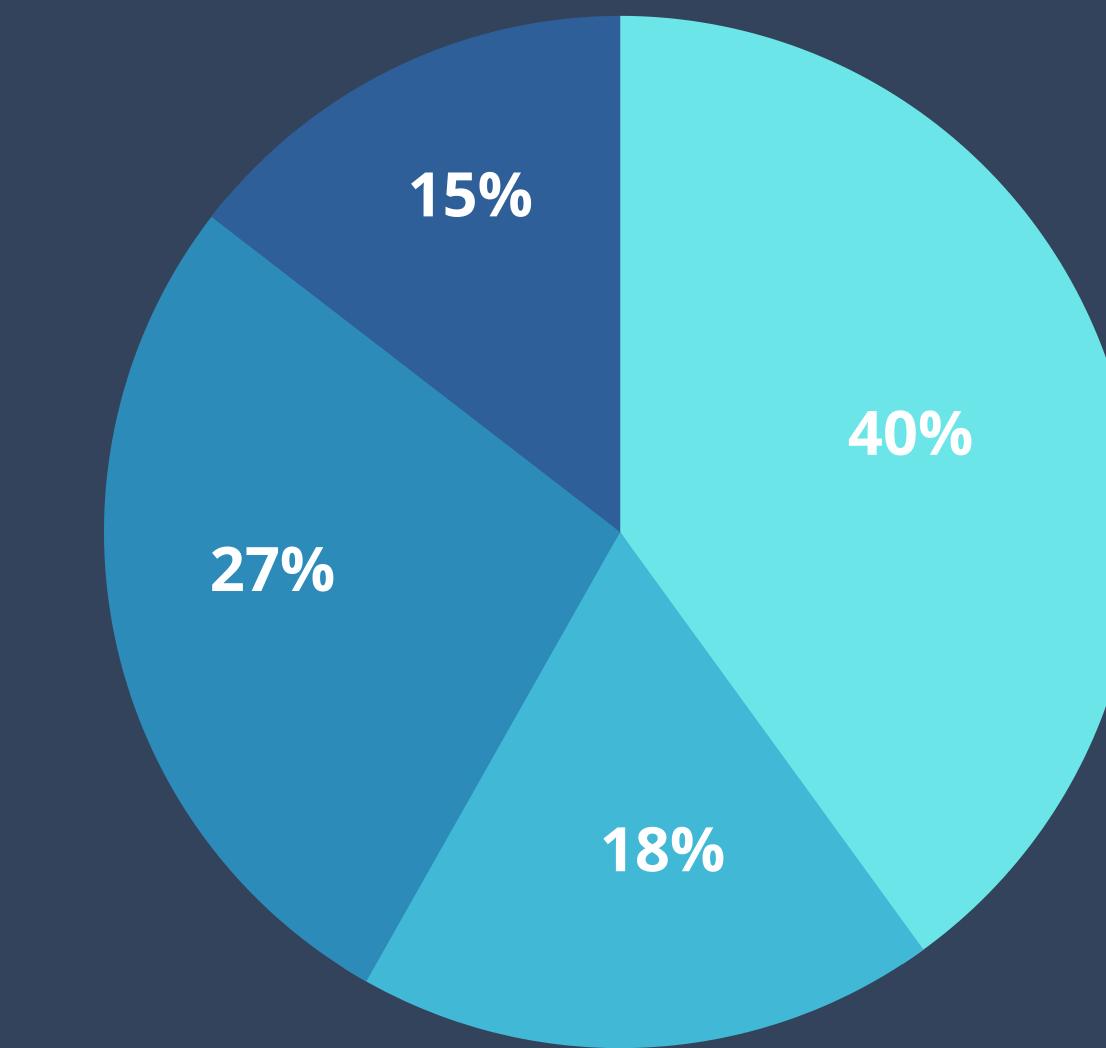
Venture Debt by Company Stage in India



No. of Deals in 2021

Total Amount Invested (in \$Mn)

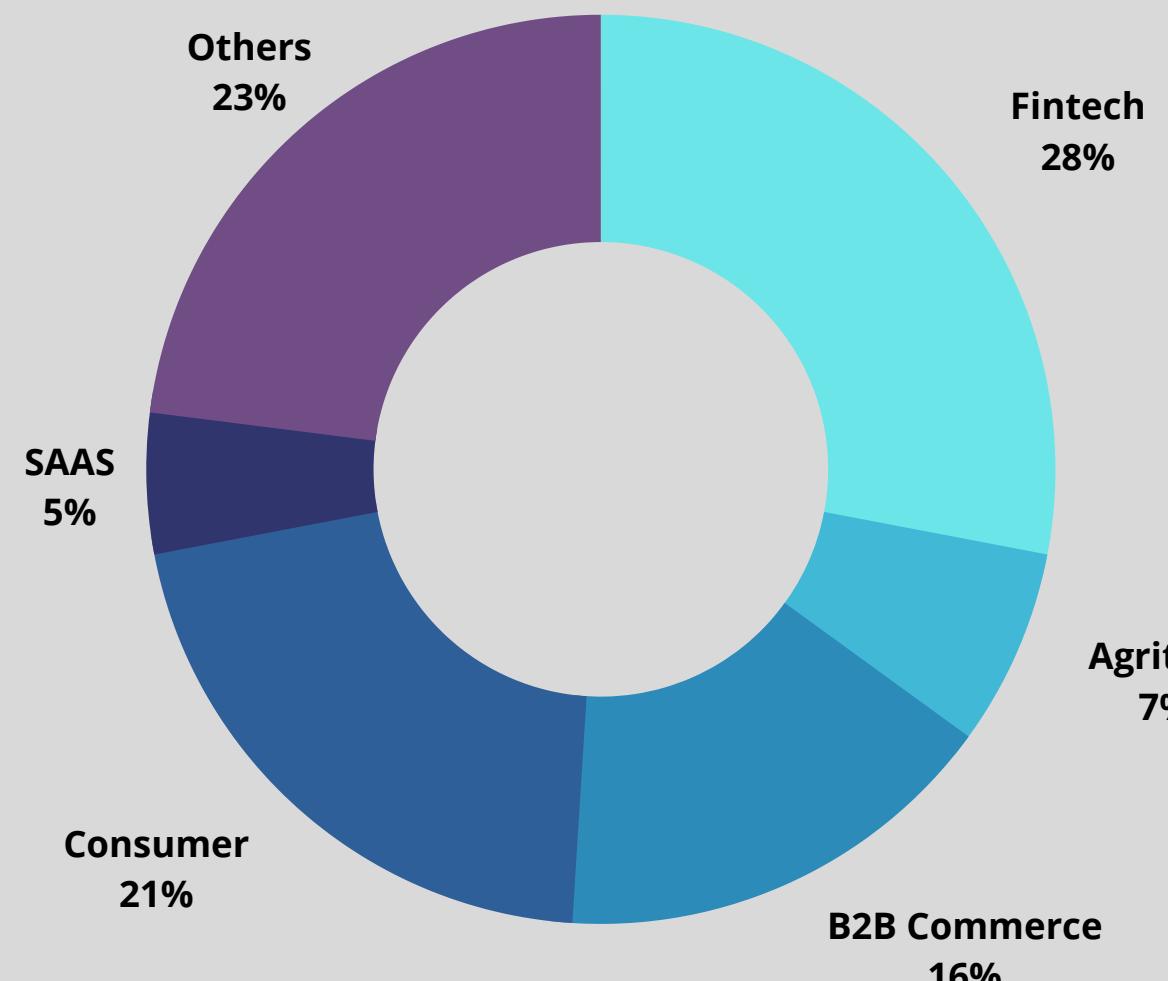
Venture Debt in India by cities



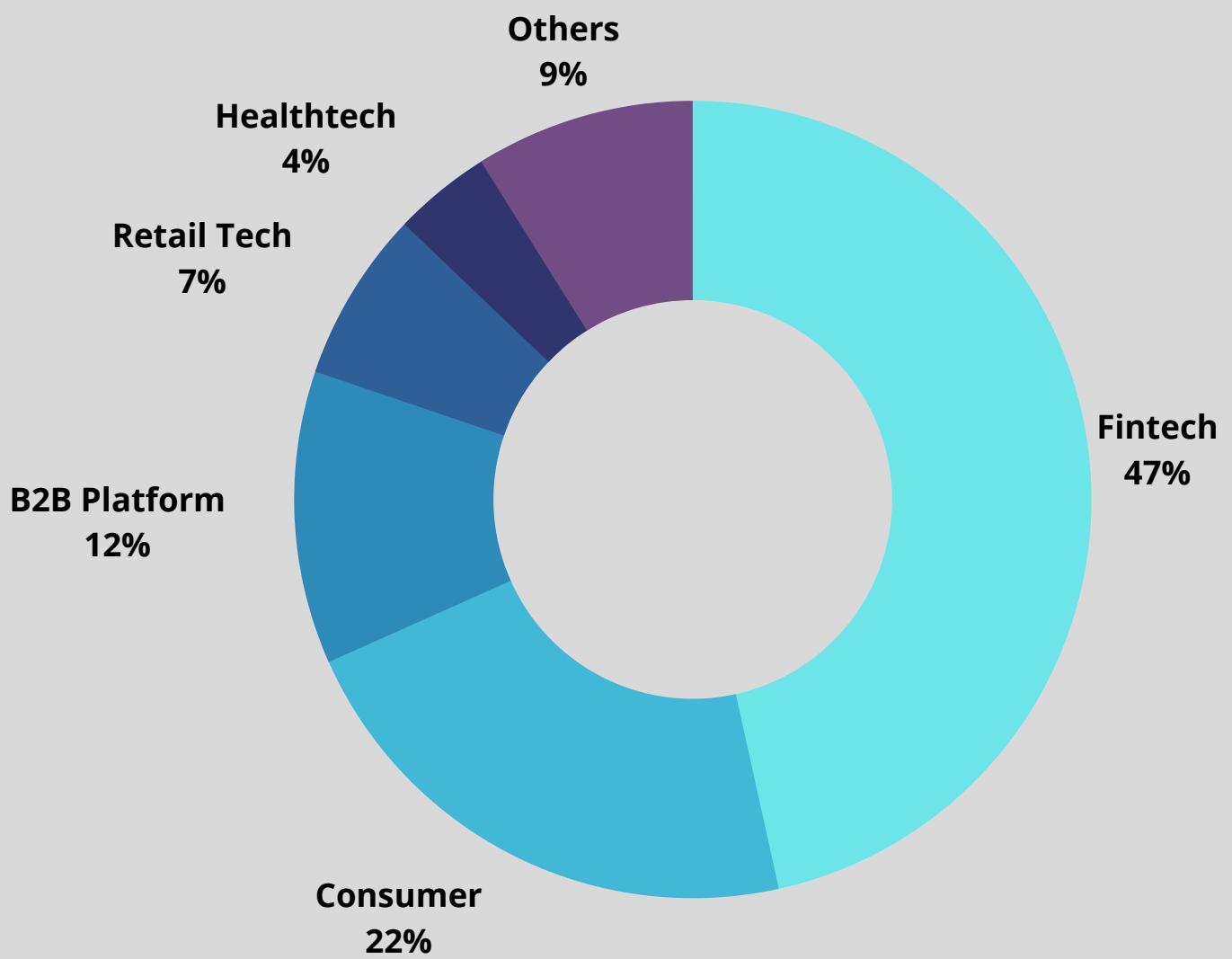
- Bengaluru
- Mumbai
- Delhi NCR
- Others

Venture Debt by Sector in India

No. of Deals in 2021



Total Amount Invested (in \$Mn)



- Fintech is the leading sector for VD in India, accounting for the highest no. of deals & the maximum amount invested in 2021.
- Consumer Sector is close behind the Fintech sector in the amount disbursed; with both the sectors accounting for almost 70% of VD transactions in India.

Use Cases of Venture Debt



FinTech



Consumer



B2B SaaS



B2B Platform

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 startups as well B2B Platform 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.



Convenience in Taxation

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 Startups



VD backed Fintech Startups

 ziploan

 klub

 CredAvenue™

 BharatPe

 slice

 PROGCAP

 RUPIFI

 scripbox

 CREDITVIDYA

 zest

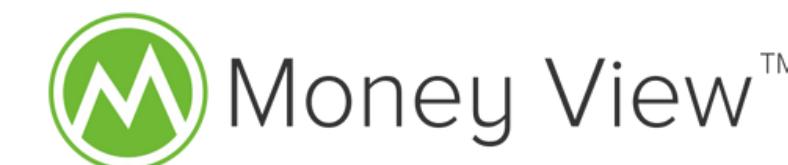
 MobiKwik™

 freecharge

 mSwipe™

 of business

 MONEYTAP

 Money View™

 Krazy Bee
Delivering dreams

 AVAIL

 LENDINGKART

VD backed B2B Startups



Stride Ventures Debt Survey 2022



Purpose

This survey aims to encapsulate the rise of Venture Debt 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

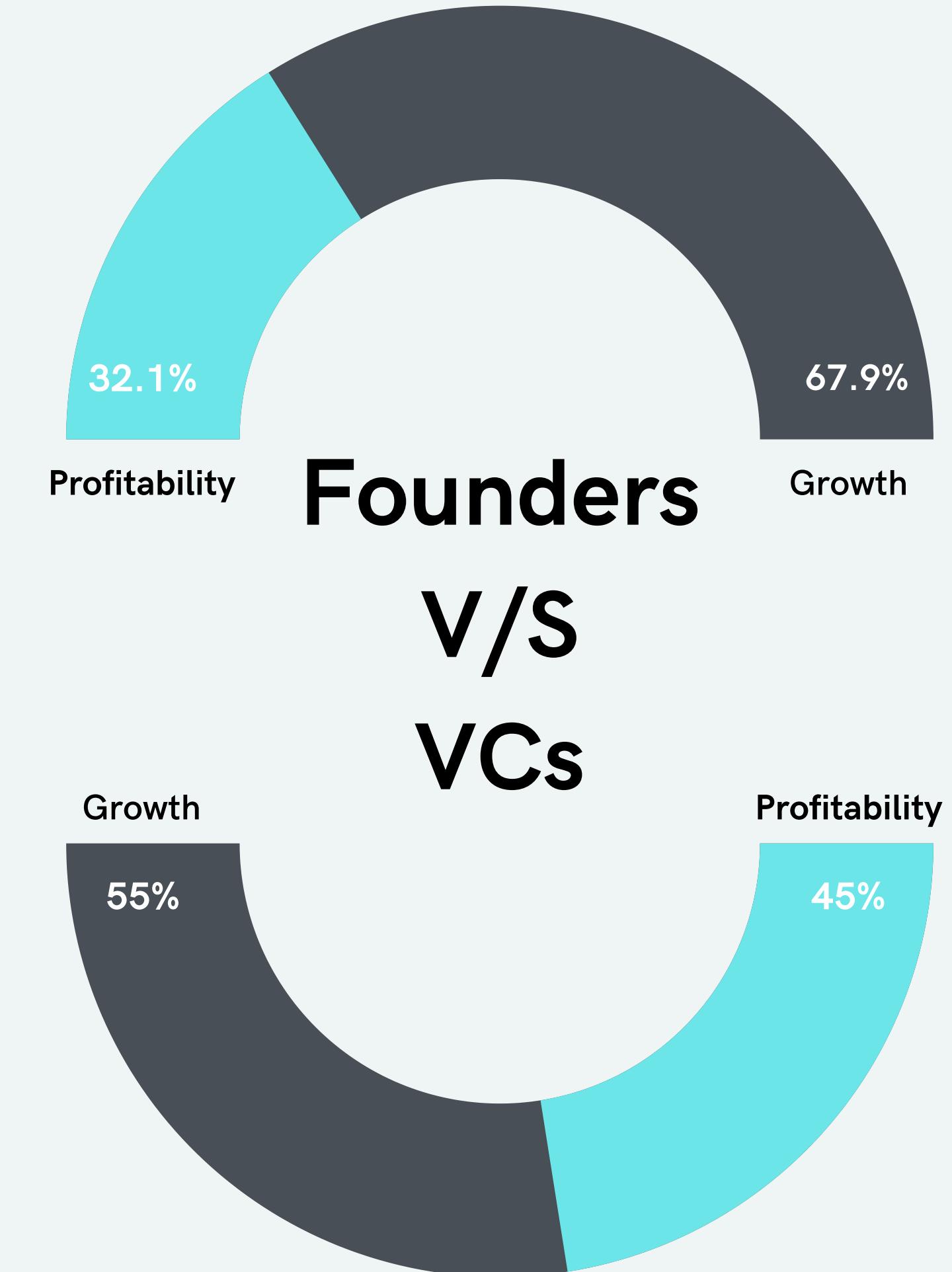
About 100 Startup Founders and VCs fraternity have taken this survey with 65:35 split between the two. The survey consists of questions regarding Venture Debt, reasons behind VDs rise in India, focus area for VD funds, amongst others. The group of Founders belong to Early, Growth and Late Stage Companies 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.

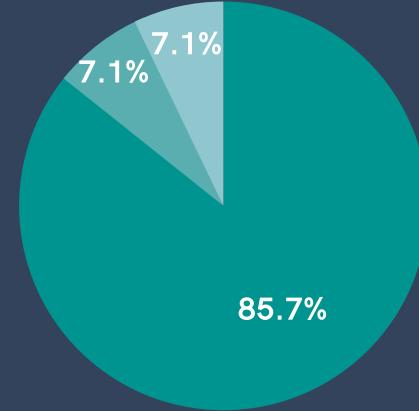
Focus of Startups in 2022

- VCs are almost divided evenly between focus on growth(55%) and profitability(45%) for startups in 2022.
- On the other hand, only 32.1% founders would like to focus on profitability this calendar year and rather put their attention on scaling their startups.



How likely are startups to raise VD in 2022?

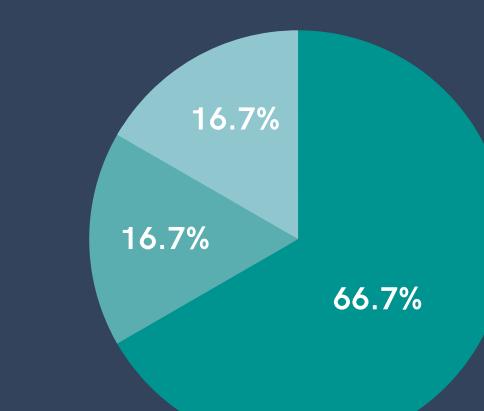
Startup Founders



Early Stage



Growth Stage

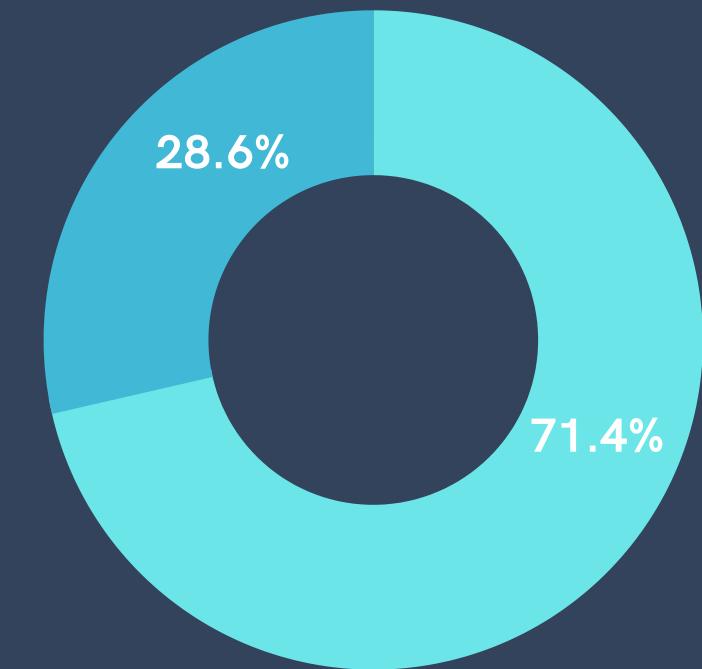


Late Stage

■ Yes ■ No ■ Not Sure

- Information gathered from the survey indicated 100% founders of Growth stage companies, were certain of raising VD in 2022 as compared to 85.7% of Early stage and 66.7% of Late stage founders.
- 7.1% of early and 16.7% of Late stage founders were unsure about raising VD this year.
- Results from the survey indicated 7.1% founders of Early stage and 16.7% of Late Stage startups were not interested in raising VD in 2022.

Venture Capitalists

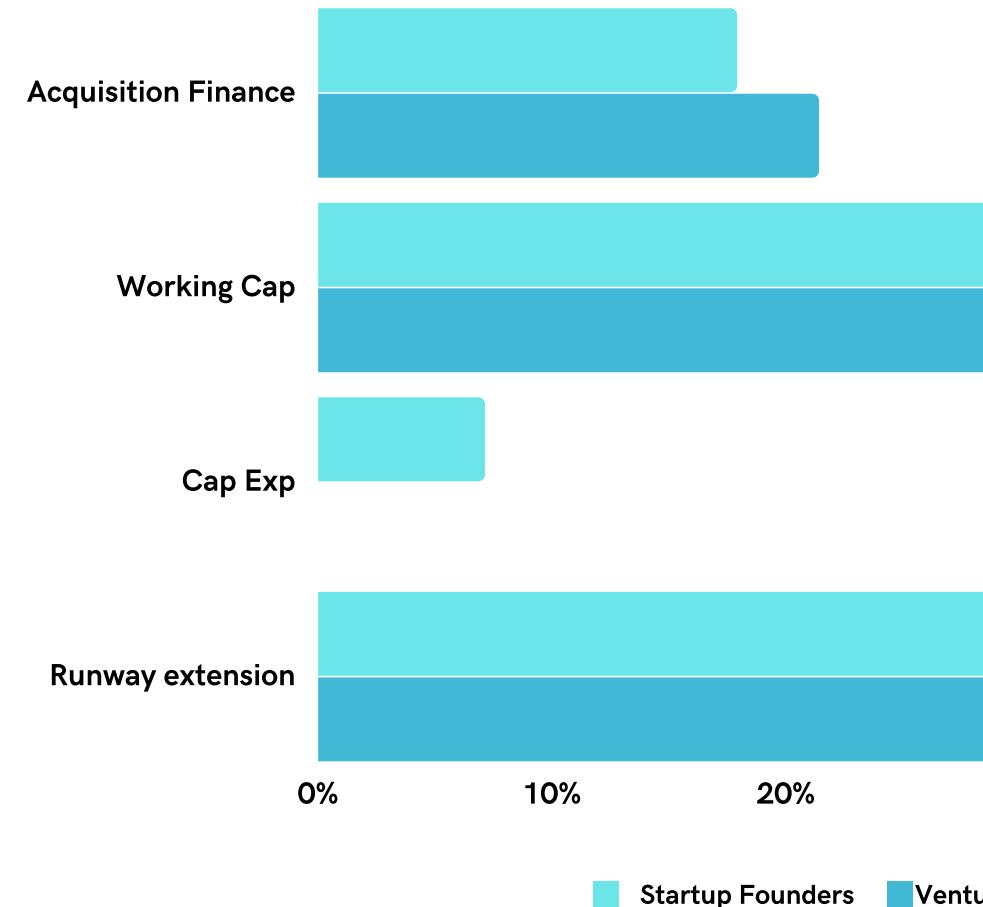


■ Yes
■ Not Sure

- Our findings from a survey revealed that 71.4% of VCs would recommend their portfolio companies to take on Venture Debt in 2022.
- However, 28.6% of VCs responded that they were unsure of recommending VD in 2022.
- None of the VCs responded a "No" to this question.

VD Perspective : Founders v/s VCs

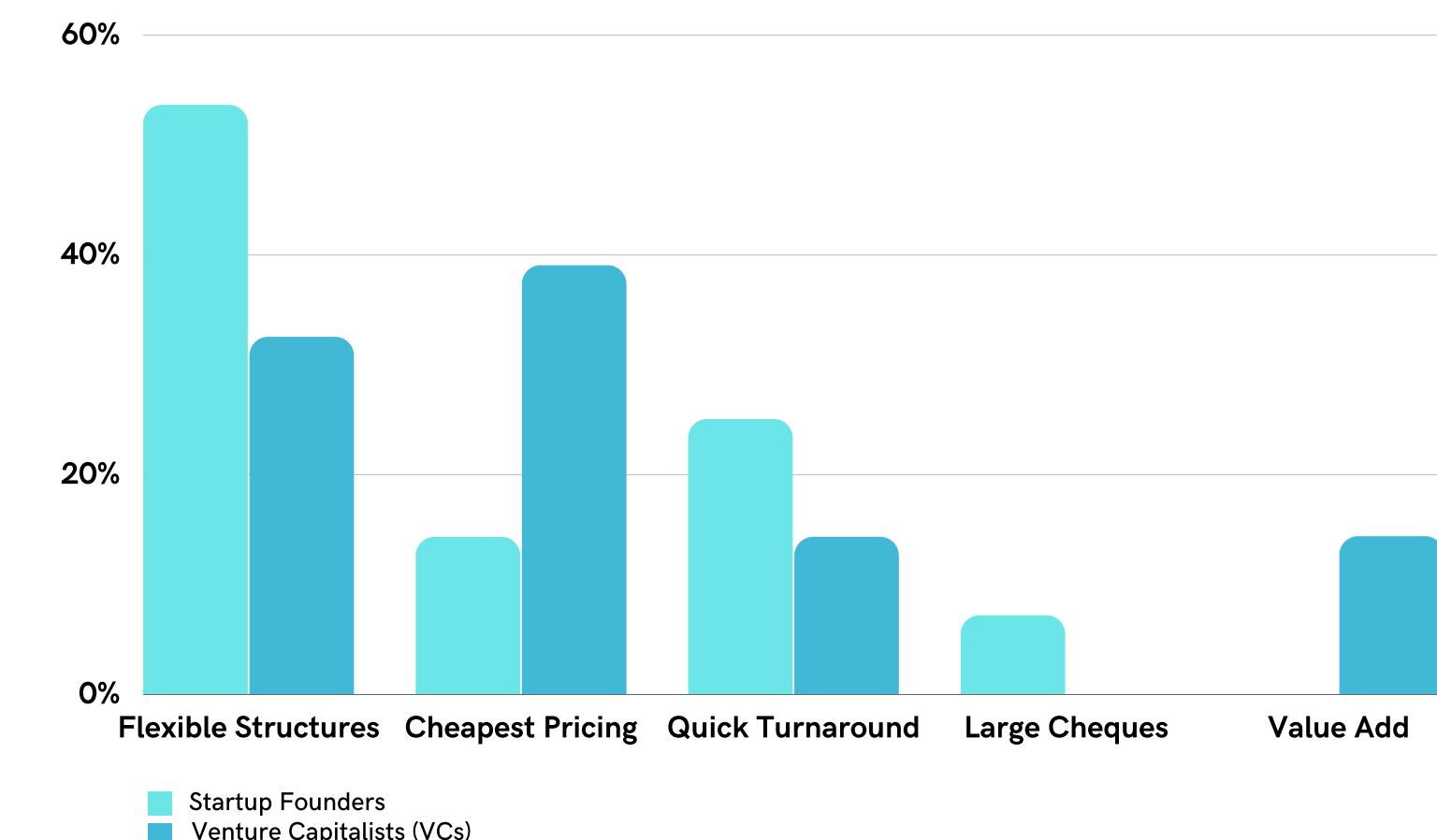
Use Case of Venture Debt



- 42.9% of the founders believe that Working Capital is the leading use of venture debt
- Coincidentally 42.9% VCs also believe that Working Cap is the best use of Venture debt in India followed by Runway Extension (35.7%)

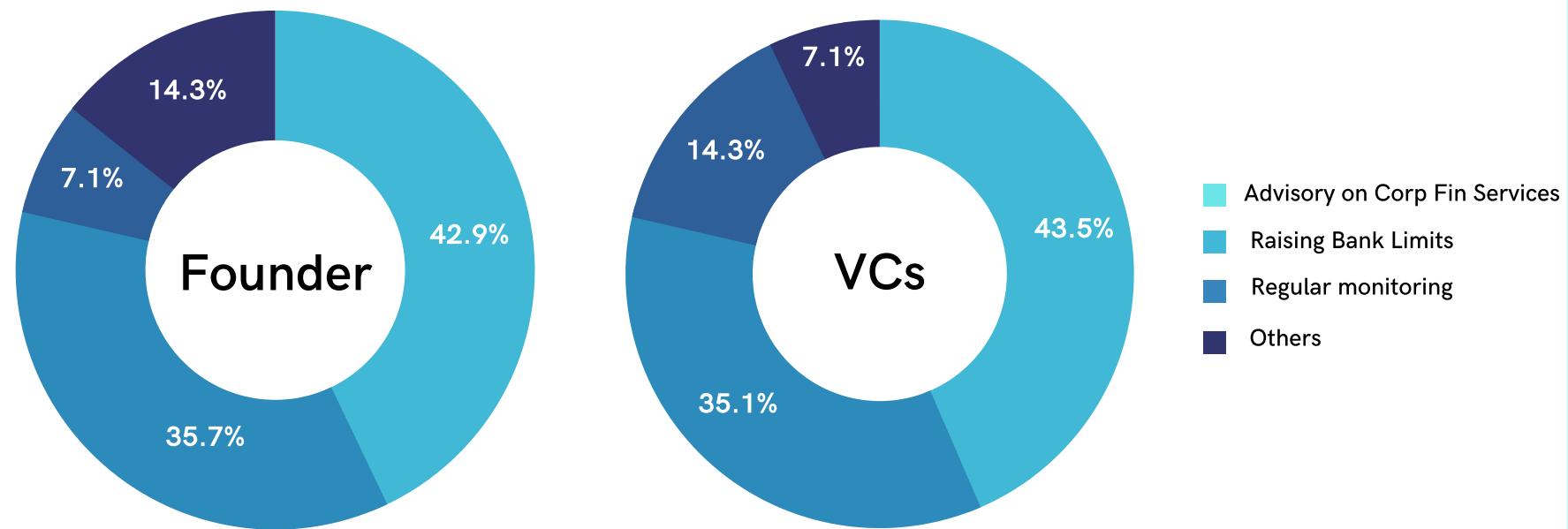
- 53.6% of the founders believe that Flexible Structures is the leading factor while choosing a venture debt partner followed by ability Quick Turnaround Time (25%).
- 39% of the VC's believe that Cheapest Pricing is the most important aspect in choosing a venture debt partner.

Most important factors while selecting a VD Partner



VD Perspective : Founders v/s VCs

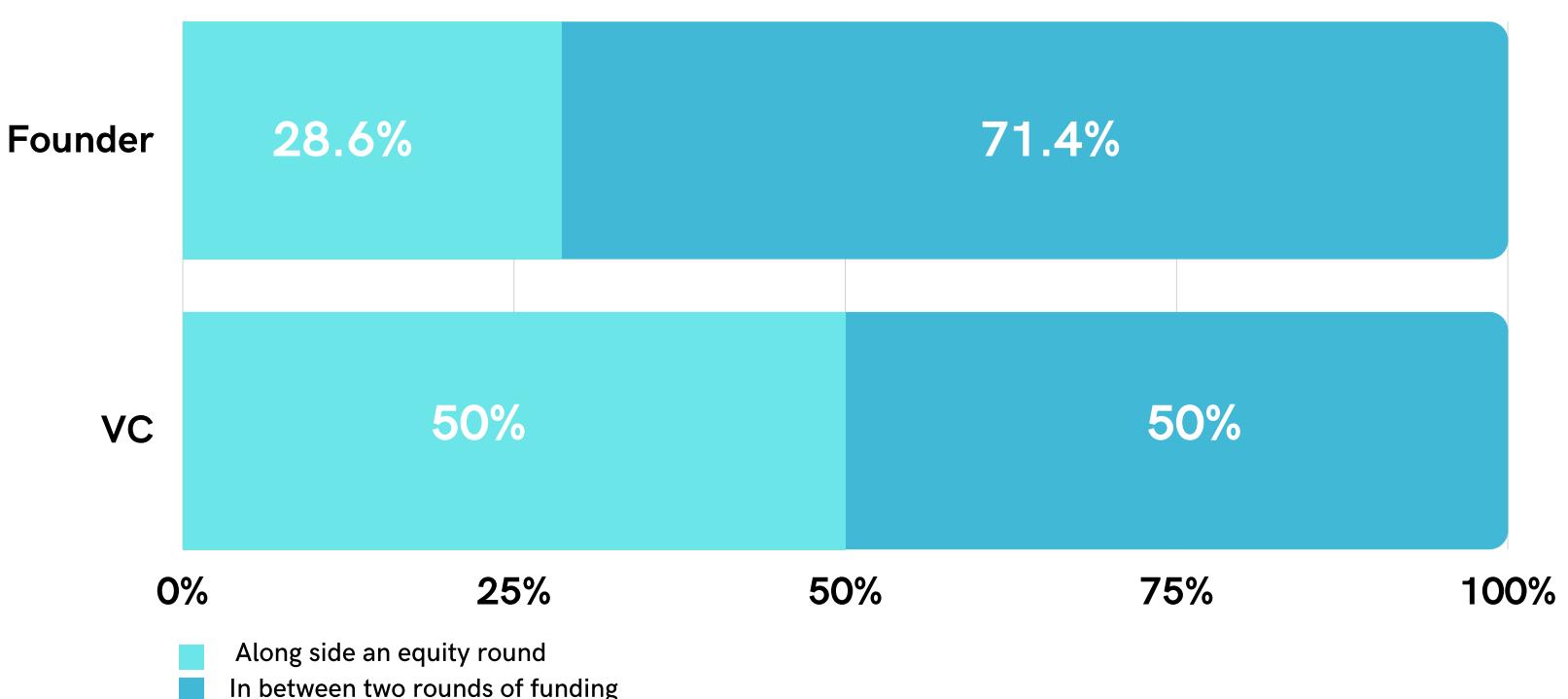
Which are the most important Value added services offered by VDs?



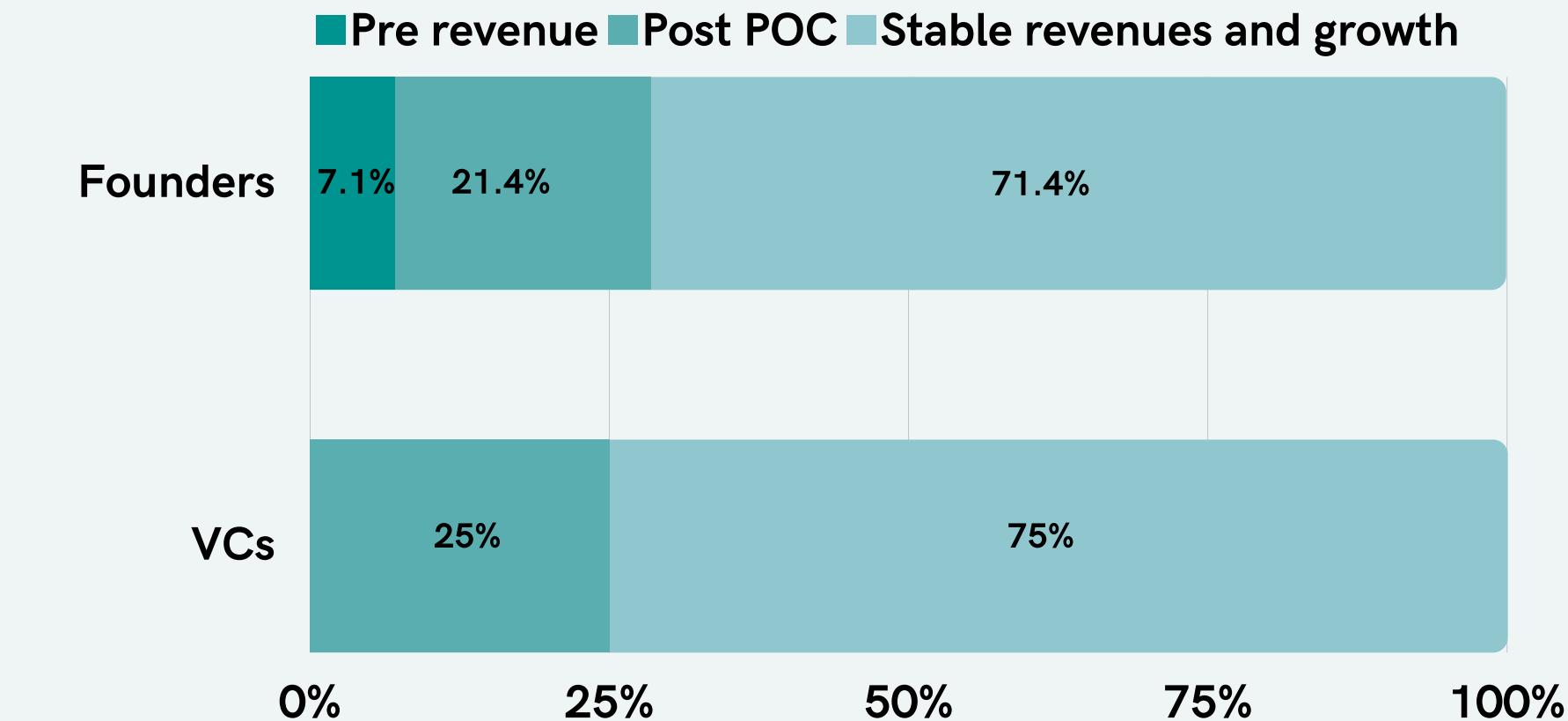
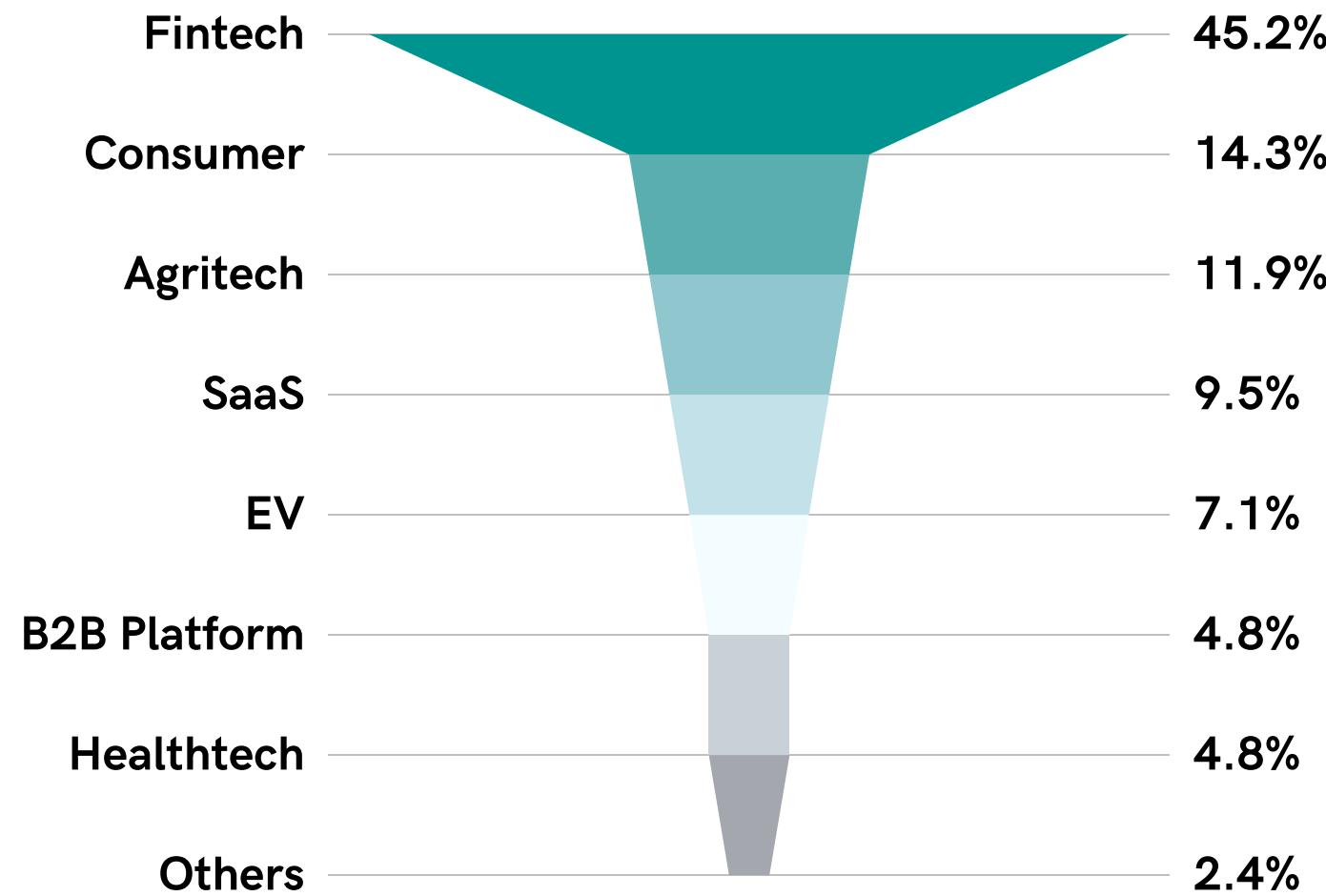
- Around 43% of the founders felt that Advisory on Corporate Financial Services is the most important Value added service offered by a VD fund.
- 43.5% VC's believe that Advisory on Corporate Financial Services is the most important Value Added service followed by Raising Bank Limits (35.1%)

When is the best time to take Venture Debt?

- Information gathered from the survey indicated almost 72% of founders to be of the opinion that VD is most preferably raised in between two rounds of funding.
- On the other hand, VCs were evenly divided between along side an equity round and in-between equity rounds as the best time raise VD.



Stage and Sector - Trending in 2022



Sectors most likely to raise VD in 2022

- According to founders and VCs, Fintech is going to be the most trending sector for VD in 2022, followed by Consumer and Agritech.
- Other sectors which received lesser VD prospects were - EV, Healthtech, B2B Platform and SaaS.

Stage at which VD should be raised

- Majority of the founders(71.4%) feel that stable revenue and growth is needed before raising VD, however some are also open to raising VD at a Pre-Revenue stage (7.1%)
- VCs are not open to recommending VD at a Pre-Revenue stage at all, with most of them voting for Stable revenues and growth stage(75%) as the apt time to raise VD.

About the Report

The India Venture Debt Report 2021, 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 and Global startup ecosystem and the public at large for knowledge and reference point on Venture Debt in India.

This report is published in Feb'22. For any further information or 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 2021, 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!

Feel free to reach out to us if you have any questions

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