

# Reimagining Venture Debt

Fueling sustainable growth with robust structure



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## ABOUT VARANIUM

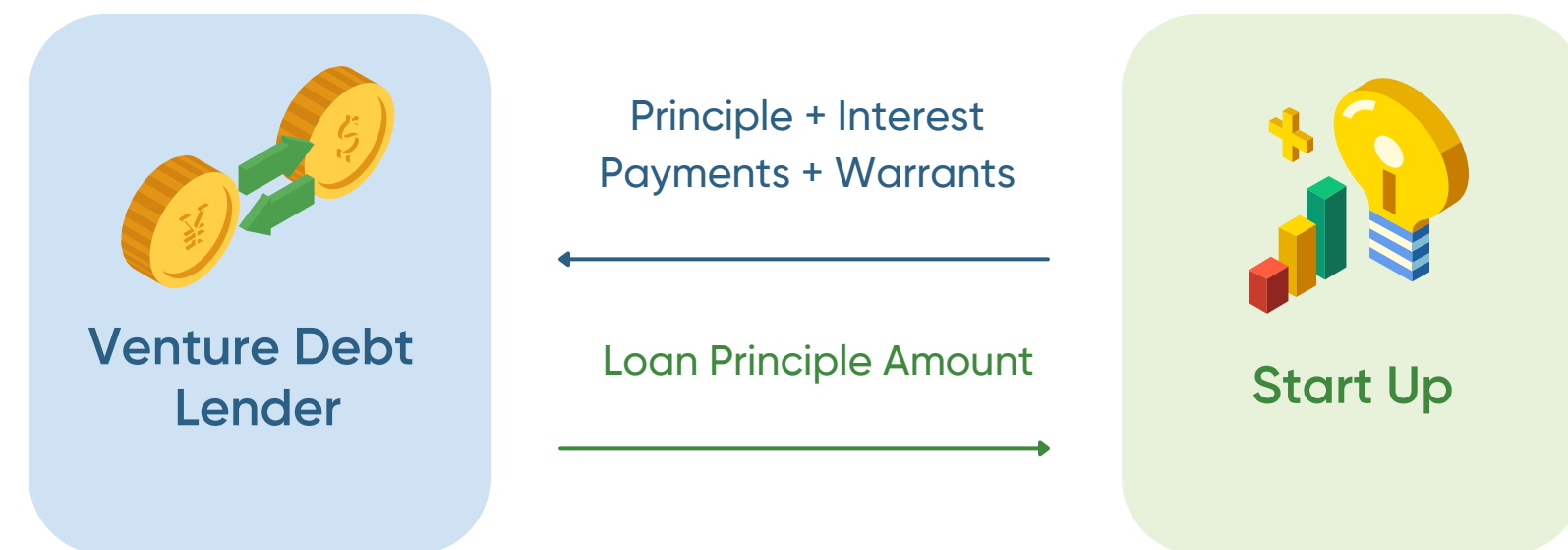
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## DISCLAIMER

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# Venture Debt

Venture debt is a type of debt financing obtained by early stage, high growth startups. This type of debt financing is typically used as a complementary method to equity financing. Venture debt can be provided either by banks/ non-bank lenders specializing in venture lending or dedicated venture debt funds.



## Why Startups opt for Venture Debt

-  Low cost Runway extension
-  Lower Equity Dilution
-  Quick Turn Around Time
-  Performance Insurance
-  No covenants and flexible structure – structured according to the company's needs
-  Value addition

# Things to look for

## When to opt for VD

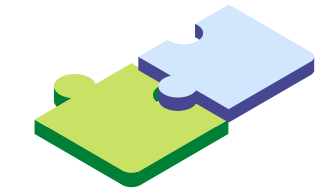
To fund growth without heavy dilution



Already raised fund from VC or reputed angel investors



Want more structuring flexibility



Want to Extend Runway



## What to avoid in VD

Check for hidden costs



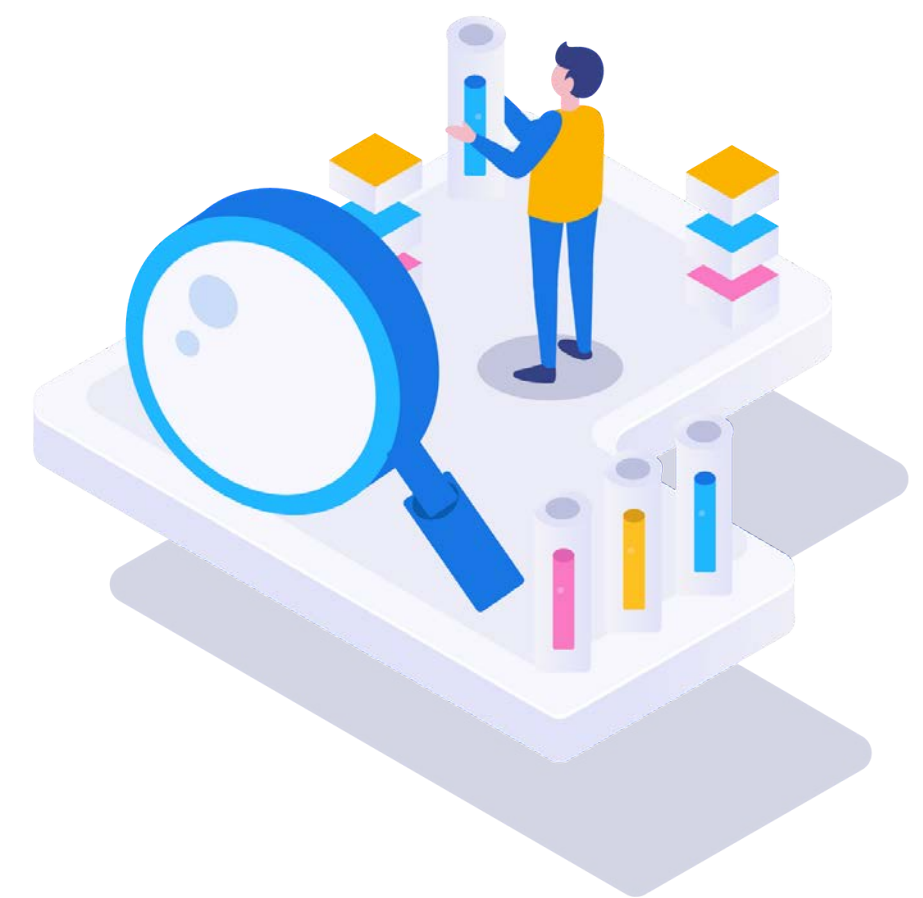
Unfavorable Covenants



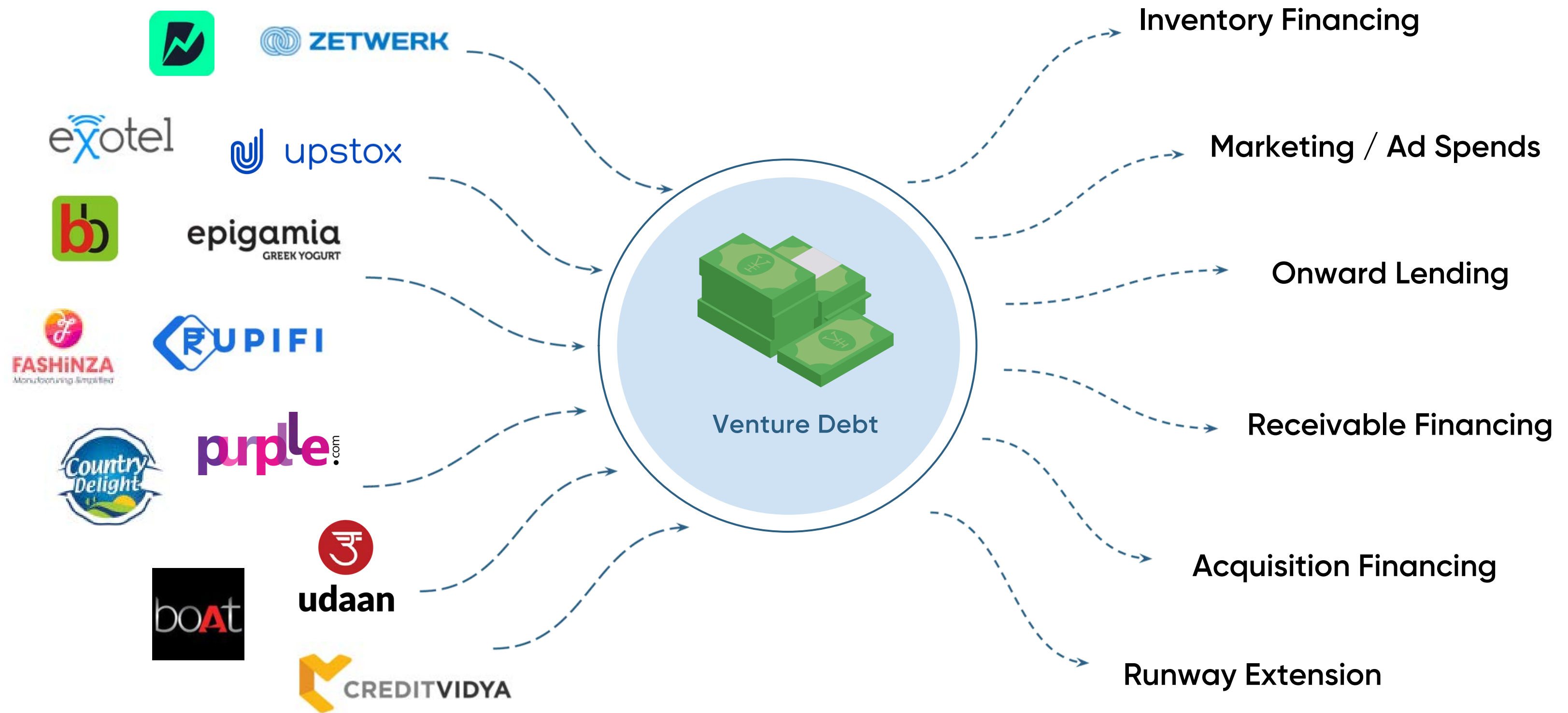
Personal Guarantees



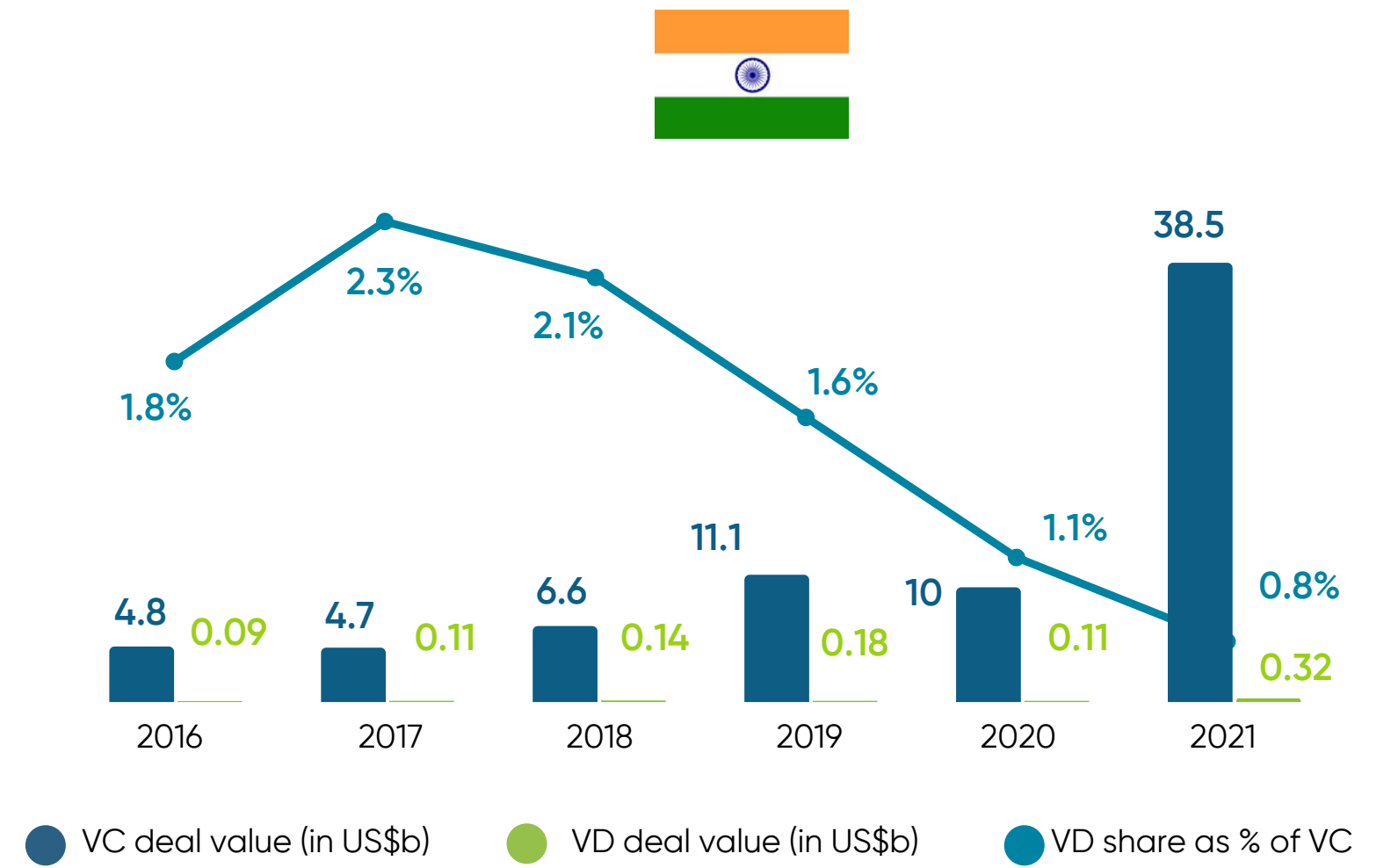
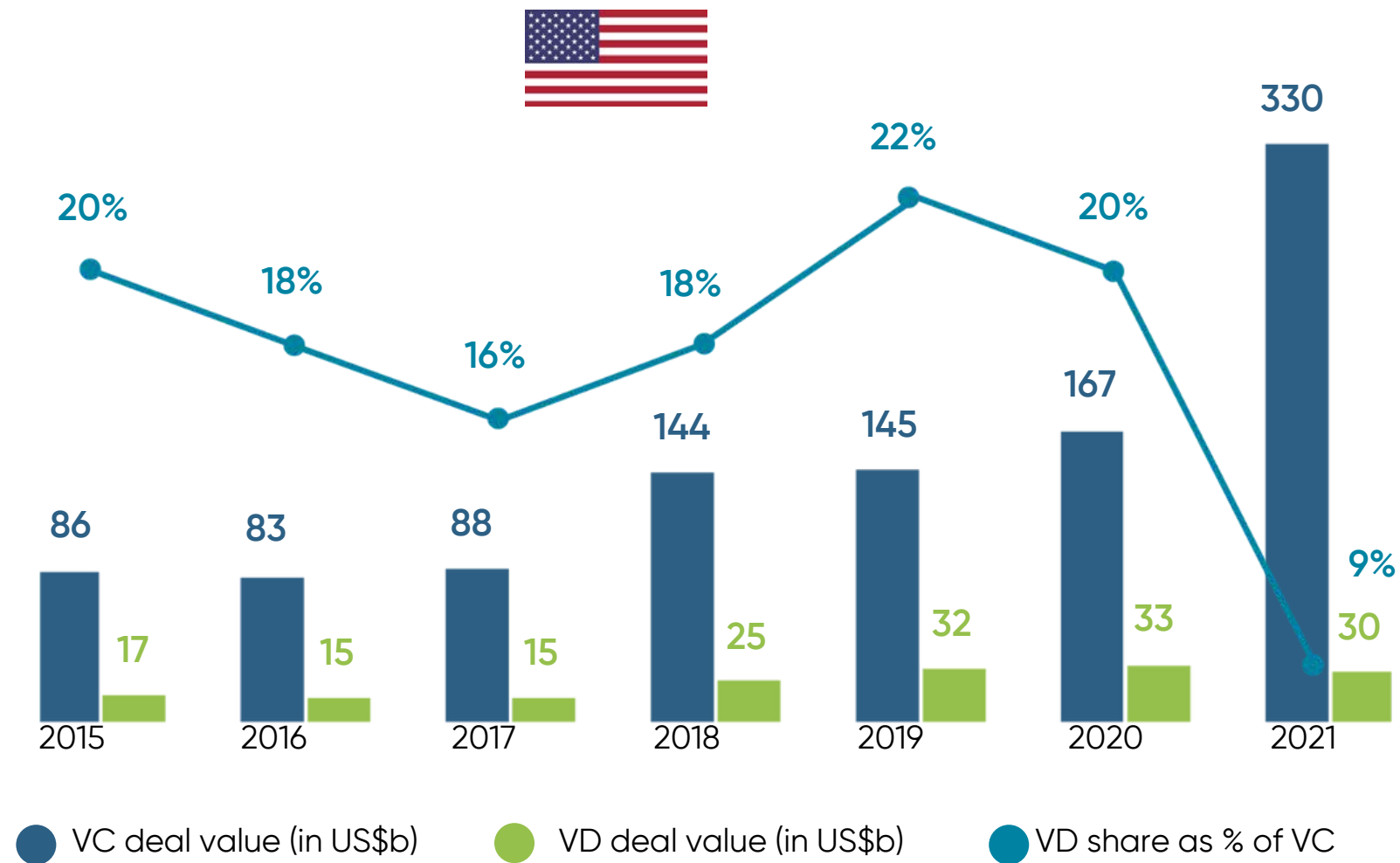
Giving Board Seat



# Venture Debt: Use Cases



# Funding Landscape



The global venture debt funding hit an all-time high of \$58 billion in 2021, a five-fold jump in the past eight years.

Due to heavy VC funding in 2021, we see a decline in the VD share as a percentage of VC.

## India Startup Funds Launched in 2022

90

Number of funds

\$16Bn

Total Fund Size

63

Venture Capital (VC)#

4

Debt Funds#

# Indian Venture Debt Ecosystem Snapshot

Venture Debt Ecosystem in India (2015-2022)



**207**  
No. of unique companies

**311**  
No. of VD deals

**1.19 Bn+**  
Total VD Funded

**97.6 Bn+**  
Total Funding by VC

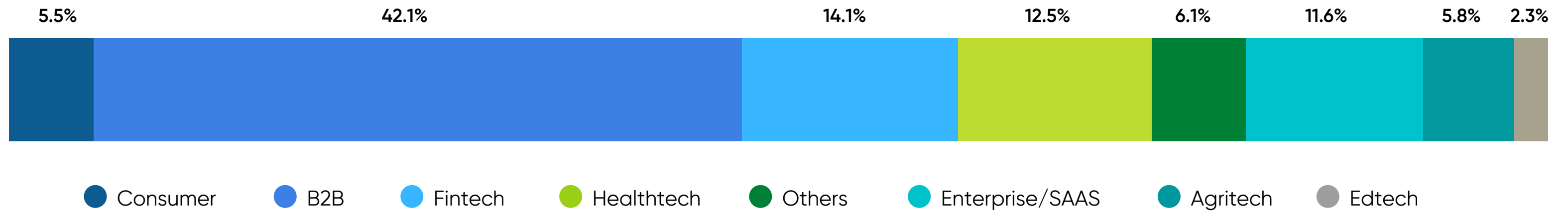
India		Global
<b>3.8 Mn</b>	Average VD Funding	<b>19 Mn+</b>
<b>1.93%*</b>	Dead pooled companies	<b>2.7%</b>
<b>3.5%</b>	VD Raised/ Total Equity funding of same company	<b>28%</b>

\*As per industry experts, the number of deadpool companies in India is estimated to be 3-4%.

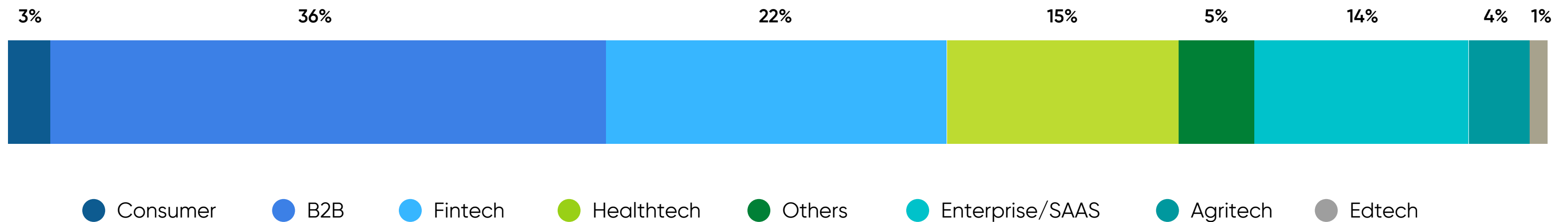
We have noted that industry reports from other sources indicate a higher number i.e., no. of unique companies 420+, no. of VD deals 620+ and total VD funding 1.5 Bn+. The numbers shown above are from Tracxn, which may not cover data of all the deals.

# India Venture Debt: Sectoral Breakdown

## Venture Debt By Deals (2015-2022)



## Venture Debt By Amount (2015-2022)



# Different VD Structures: Globally



## Non-Convertible Debentures/Notes + Equity Warrants

- ✓ Non-convertible debentures (NCD) are debt instruments with a fixed tenure and installments. As the name suggests, these instruments cannot be converted into shares or equities. Globally, it has been observed that in case of Venture debt, NCD is typically issued for 25% to 30% of VC funding.
- ✓ Equity warrants are instruments that bestow upon the holder of the instrument the right to buy a particular stock at a predetermined price (valuation pegged either to last round or concurrent round of financing) within a stipulated time frame. VD deals typically include 10-15% of Equity Warrants
- ✓ It is the most common structure used by Venture Debt funds in India.



## Principal Protected Step-up Note (PPSN)

- ✓ A principal protected note is a structured finance product that guarantees a minimum return equal to the investor's initial investment. Typically, PPNs guarantee 100% of invested capital, as long as the note is held to maturity.
- ✓ A stepup feature ensures that rate increases occur at periodic intervals. The rate generally increases as the time period passes by.
- ✓ Typically, startups which can't afford high interest initially go for such structure.



## Revenue Sharing Note (RSN)

- ✓ It is a debt-based investment vehicle, where a company borrows money from investors and agrees to repay a certain percentage of their revenue (for a particular period of time) until the total amount is recovered.
- ✓ Unlike a term note, revenue sharing notes aren't tied to an interest rate. Instead, they are based on something called an "investment multiple."
- ✓ In case the entire amount is not repaid until the end of maturity then the company would be required to pay the remaining amount at the maturity date.
- ✓ In India, RBF is becoming more popular where the entire facilitation fee (cost of loans) is deducted upfront and the principal amount is recovered over a period. It is offered in the form of loan to startups rather than as a debt instrument.

# Venture Debt Terms: India



## Maturity

- ✓ Generally around 3-5 years; most common is 3 years

## Collateral

- ✓ Hypothecation charges against Current Assets, Fixed Assets and IPs

## Interest

- ✓ Generally, the interest rate ranges between 13-17% p.a.
- ✓ Fixed EMIs payable during the life of loan; sometimes changes depending upon the cash flow of the company
- ✓ In case of default, there is a penal interest of around 1-2% p.m.

## Upfront Fees

- ✓ Generally around 0.75-1% of the principal amount

## Warrants

- ✓ Typically 10-15% of the principal amount
- ✓ Valuation is typically pegged to last VC round (or the concurrent VC Round)

## Covenants

- ✓ Doesn't have negative/hard covenants; includes general covenants such as seniority, notifying on the occurrence of certain events etc.

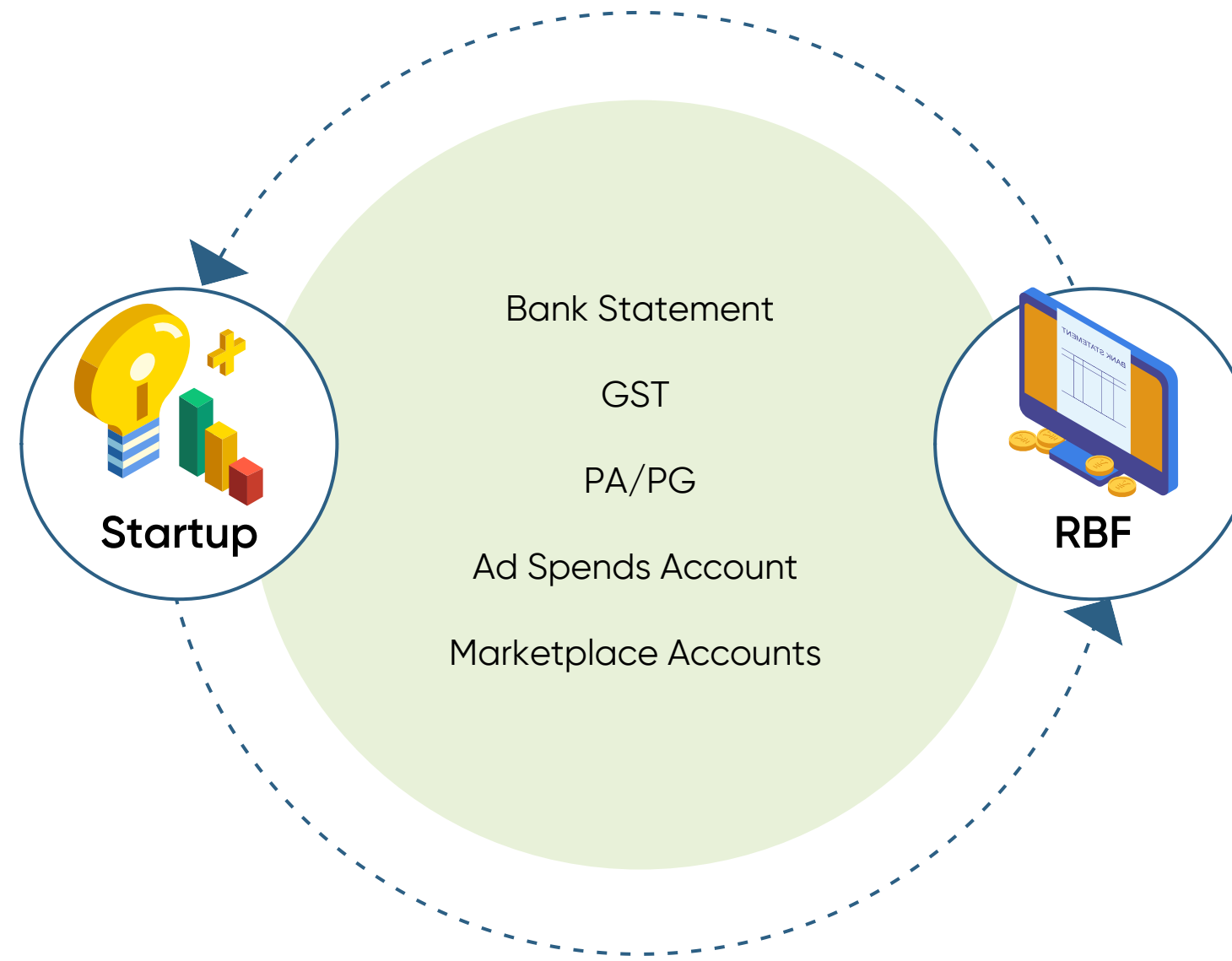


# Revenue Based Financing: Funding Without Friction

# Revenue Based Financing

Growth Capital Against Revenue

Revenue based financing ('RBF') is a method of raising growth capital by pledging a percentage of future ongoing revenues in exchange for money borrowed.



Automated Repayment (% of Periodic Collections)

## Additional offerings provided by RBFs to startups:



Real time business and industry insights



Provides host of rewards to portfolio companies

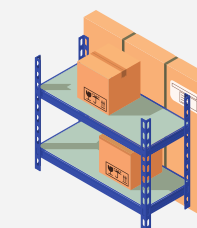
## Why Startups opt for Venture Debt



Marketing & Ad spends



Logistics Bill



Inventory



Vendor Payments

# RBF has attracted heavy funding globally

Indicative list of RBF companies

## USA & Canada

Total Funding: \$1.2 billion



## Latin America

Combined Funding: \$8.4 million



## Europe

Total Funding: \$1.5 billion



## Japan

Combined Funding: \$1 million



## India

Total Funding: \$76 million



# Typical RBF Terms

## Recovery Period

- ✓ Generally around 6-18 months
- ✓ Average recovery period is around 6 months

## Repayment

- ✓ Flexible, linked to percentage of revenue.
- ✓ Collections generally happen on a daily/ fortnightly/ monthly basis

## Facilitation Fees

- ✓ Upfront deduction of facilitation fees
- ✓ IRR ranges between 22-28% p.a.
- ✓ In case of default, 1-2% pm on the outstanding amount

## Processing Fees

- ✓ Generally around 0.75-1% of the principal amount

## Moratorium period

- ✓ Given in most cases; generally around 1 month

## Purpose driven lending

- ✓ End use case-specific growth capital is provided, i.e. loan is provided towards ad spends, direct payment to supplier for inventory, logistics, etc.

## Security

- ✓ No collateral; generally e-NACH mandate/post dated cheques are taken





# Startup Financing Avenues

# Different Forms of Financing available to Startups

Parameter	Venture Capital	Venture Debt	Revenue Based Financing
Nature of instrument	Equity (typically convertible preference shares)	Debt - loans or NCDs	Debt - loans or NCDs
Capital rising timelines	Around 3-4 months	Around 1 - 1.5 months	Around 1 - 2 weeks
Tenure	Investors expect an exit in 60-72 months	Generally tenure for repayments is around 3-5 years	Shorter timeline (6-15 months)
Interest on outstanding balance	NA	✔	✘
Due diligence and monitoring	Manual	Manual	Tech and data driven
Collateral requirement	✘	✔	No; security in form of post-dated cheques
Repayment	NA	Generally fixed EMIs; subject to structuring	Flexible, linked to % of revenue; Collections generally happen on a daily or weekly basis
Equity dilution	✔	Lower, warrants may involve dilution at later date	✘
Board seat	Yes (based on deal)	✘	✘

# Comparison of Returns

Income and Expense	Unsecured SME Debt	Venture Debt	Revenue Based Financing
<b>Income</b>			
Interest Income	14-18% p.a.	13-17% pa for structured to general purpose	IRR: 22-28%
Equity Kicker	NA	4-6%	NA
Processing Fees and other fee income	1-1.5%	0.75-1%	0.75-1%
Cross- Sell Income	1-1.5% p.a.	NA	NA
<b>Expense</b>			
Operating Expenses	2.5-3% p.a.	1.5% p.a.	1.5-2% p.a.
Credit Cost	3-3.5% p.a.	1-2% p.a.	1-2% p.a.



# Deal Snapshots



Provider of broking solutions through its property, app, and website. Customers can carry out trades on NSC, BSE, and MCX in equity delivery, intraday, future and options, and commodities for a fixed fee (discount broking) regardless of transaction size. Users pay a brokerage of INR 20 per transaction carried out through the Upstox platform. The company currently has 10 Mn+ users (making it India's largest broking platform by users). The application is available for iOS and Android devices.

Key Investors Includes Tiger Global and Ratan Tata. Previous investors include Kalaari Capital.

Metrics (USD Mn)	2018-19	2019-20	2020 - 2021
Revenue	10.9	19.9	57.8
Growth		82.57%	190.5%
EBITDA	2	-5	-8.5
EBITDA Growth		-250%	-70%
Net Profit	1.8	-5.1	-9.7
Margin	16.51%	-25.63%	-16.78%

Particulars	Amount (in USD)
Total Equity Raised USD	250 Mn
Total Venture Debt Raised USD	30 Mn
Stage of Funding	Series C

## Deal Structure Snippet

- ✔ Venture Debt Fund has issued Non-Convertible Debentures in two tranches between 14-15.5% p.a. The company must pay an upfront fee between 0.75-1.5% of the total debt amount
- ✔ The loan amounts are amortised on a monthly basis in equal principal installments - which commence after a moratorium period
- ✔ To secure the debt, the VD funds have taken a pari - passu charge (along with other lenders) over all fixed and current assets of the company (both present and future)
- ✔ Additionally, the VD fund has taken partly paid CCPS (INR 1) of between 7.5-10% of the debt amount. The fund will have an option (not an obligation), at its sole discretion, to fully pay the CCPS at any time upto 7 years from the date of allotment

# Boat Lifestyle



An internet first brand offering multi-category electronic products. The product catalog includes smartwatches, hair trimmers, earphones, headphones, bluetooth speakers, travel chargers, and rugged cables. The company claims its bluetooth earphones have features like in-ear detection, water & sweat resistance, and more. Its mobile app is available for Android and iOS devices.

Key Investors include FireSide Ventures, South Lake Investment, Qualcomm, Warburg Pincus, etc

Metrics (USD Mn)	2018-19	2019-20	2020 - 2021
Revenue	34	94.9	206.4
Growth		179.12%	117.49%
EBITDA	2.1	10.1	17.2
EBITDA Growth		380.95%	70.30%
Net Profit	1.2	6.7	10.6
Margin	3.53%	7.06%	5.14%

Particulars	Amount (in USD)
Total Equity Raised USD	110 Mn
Total Venture Debt Raised USD	8.64 Mn
Stage of Funding	Series B

## Deal Structure Snippet

- ✓ Venture Debt Fund has issued Non-Convertible Debentures @ 14.75% repayable in fixed EMIs.
- ✓ Borrower needs to pay an upfront fee of fee 0.75% and back end fee of 3.75% on the loan amount.
- ✓ In order to secure the payment, the fund has taken a lien which shall comprise of first and exclusive charge by way of hypothecation of the Hypothecated Goods (the "Collateral"). In addition to the above, the Promoters shall pledge 15% of the shares held by them in the Borrower in terms of and pursuant to the Deed of Pledge as well as other Loan Documents.
- ✓ Hypothecated Goods include: future fixed and non-current assets, current assets, brand IP.

# Dunzo



Provider of multi-category home delivery services. Customers can manage errand services across various categories, including buying, shipping, home repairs, home services, and more, through their platform or app. The company uses its fleet of errand runners or coordinates with local merchants or vendors to deliver the task. Users can pay for the service either directly to the service provider or through the in-app feature. The application is made available for iOS and Android devices.

Key Investors Includes Reliance Retail, Google, Lightbox, Lightrock, Blume Ventures, Aspada, etc.

Metrics (USD Mn)	2018-19	2019-20	2020 - 2021
Revenue	0.5	4.6	6.9
Growth		820%	50%
EBITDA	-23.3	-46.1	-28.6
EBITDA Growth		-97.9%	38.0%
Net Profit	-23.8	-47.7	38.0%
Margin	-4760%	-1137%	-540.6%

## Particulars

## Amount (in USD)

Total Equity Raised USD	401 Mn
Total Venture Debt Raised USD	23.7 Mn
Stage of Funding	Series E

## Deal Structure Snippet

- ✓ VD Fund has issued Non Convertible Debentures ('NCD') in two tranches @14.05% pa. The company needs to pay an upfront fee of 1% on total debt amount.
- ✓ The loan amount needs to be amortized on a monthly basis in equal installments commencing after the moratorium period.
- ✓ To secure payment, the VD fund has taken exclusive hypothecation over all fixed and current assets of the Company in both present and future. Any other debt in the company, excluding existing VD Fund NCDs, will be subordinated to VD Fund NCDs.
- ✓ Additionally, the VD fund has taken partly paid CCPS (INR 1) to tune of 10% of debt amount. The fund will have the option, exercisable at its sole discretion, to fully pay up the CCPS at any time up to 7 years from date of allotment.

# About Varanium

Global Multi-Asset Boutique Asset Manager  
Focused on Emerging Market Strategies, India in particular



**T.S Anantakrishnan**  
Founder & CEO

Ex - GSAM, Shumway, Prime, Religare  
MBA - NYU Stern, BE - IITR, CFA & FRM

**~USD 1 Bn in Assets Under Management (AUM)**

Our offices are in:



**Sajeeve Thomas**  
Principal

Ex - Citibank & Shinsei Bank,  
PDGBA IIMA



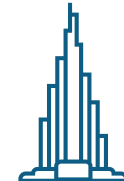
Mumbai



NCR



Singapore



Dubai



**Portfolio Management  
& Advisory**



**Alternate Investment  
Management**



**Offshore  
Products**

## Authors of the report



**Aparajit Bhandarkar**  
Partner, Varanium

---

>19 years of experience in Investment Banking, Investor Relations and Start Up Investments

Ex - CEO Dice Fintech Ace - a fintech venture fund.

Ex-President , Merchant Banking, YES Bank, Head of strategy, JIO Payments Bank.

MBA - NYU Stern, CFA; CA



**Vikram Pandya**  
Head of Research, Varanium

---

>14 years of experience in Banking, Technology and Fintech domain

Currently Director Fintech at SP Jain School of Global Management. Awarded CA 'Educator Of The Year' by ICAI by Hon' Nitin Ghadkari.

Ex - Strategic Advisor at Yes Bank, mentor of various fintech startups, speaker at ICAI

CA, CFA, CISA



**Aman Jain**  
Senior Associate, Varanium

---

> 4 years of experience in the financial services domain ranging across valuations, due diligence, equity research and transaction structuring.

Associated with Varanium Capital for more than 2.5 years.

BFM (Financial Markets), CA, CFA - Level III

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