10 Takeaways From A Decade In Venture Debt

Venture debt, a form of financing used by startups, has evolved significantly over the past decade. In China, the market has scaled from millions to billions. In India, the ecosystem has expanded tenfold, offering founders more financing options. Southeast Asia is also seeing rising adoption.

According to InnoVen Capital SEA's *Startup Outlook Report 2024*, **46% of startup founders** in the region considered venture debt in 2023, nearly double the previous year.

As Asia's leading venture debt provider, InnoVen Capital, backed by Temasek and UOB, has supported over 400 venture-backed startups across Southeast Asia, India and China. As we celebrate our 10th year anniversary, we reflect on the key lessons we've learned along the way. Here are 10 key takeaways from our journey:

01 Venture debt is a strategic funding tool for startups

Venture debt has emerged as an essential financing option for both early-stage and mature companies, with a variety of use cases including runway extension, capital expenditures, working capital, acquisitions or growth initiatives. During times of economic uncertainties, venture debt has provided a critical alternative source of financing.

02 Venture debt vs equity: Debunking the myths

Though venture debt is gaining traction in the region, misconceptions persist. Some founders see it as more expensive than equity due to interest payments and fees, or as a last resort during financial distress. Others mistakenly see it as a substitute for equity or just a form of bridge financing. In reality, venture debt complements equity funding — helping startups maximise growth while minimising dilution.

03 Timing matters: Raising debt at the right time is critical

The ideal time to raise venture debt is typically with or shortly after an equity round, when a startup has momentum and a clear roadmap. It is most effective after a startup achieves Product-Market Fit (PMF). Raising debt too late or when the company is in urgent need of cash can limit options, lead to unfavourable terms, and lowers the likelihood of a successful outcome.

04 Venture debt accelerates startup success

Venture debt plays a strategic role at various stages of a startup's growth, helping to optimise its capital structure. Our portfolio companies in India have raised over US$20 billion in private capital, with more than 35 scaling to unicorn status and four successfully listing on public markets. In China, one portfolio company used venture debt to finance an acquisition that helped it capture 80 to 90% of the domestic market—an excellent example of how venture debt can fuel a successful M&A transaction.

05 Industry-specific trends shape venture debt usage

In tech and SaaS, venture debt is often used for customer acquisition, product development, and international expansion. For e-commerce and consumer brands, it supports inventory financing and working capital needs. In fintech and digital banking, venture debt funds regulatory capital, loan book financing, and scaling initiatives. For deep tech and artificial intelligence, it bridges long R&D cycles and helps secure subsequent equity rounds.

06 Venture debt terms have become more dynamic

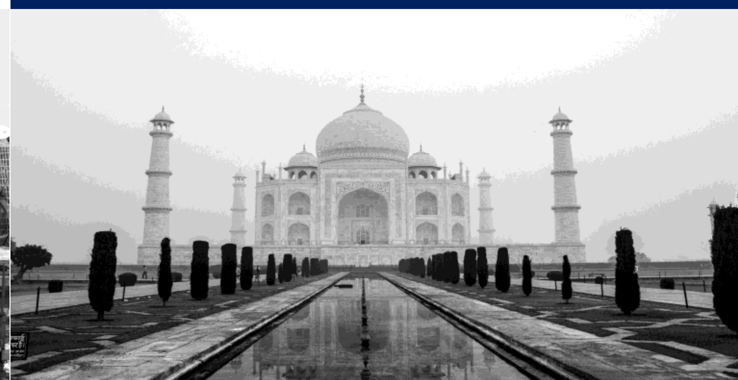
Venture debt typically spans a term of under three years, with loan sizes often set at 20-25% of the latest equity round. Warrants are often attached to provide lenders with an incentive aligned with the company's growth. In Southeast Asia, loan tenors are increasingly tailored to reflect the evolving market landscape, offering greater flexibility for both founders and lenders.

07 Misalignment between lenders and founders can be costly

Misunderstanding repayment terms or covenants can create financial strain. Unlike equity investors, lenders expect timely repayment, making cash flow planning essential. Startups may also mistakenly assume lenders operate like VCs, but expectations around returns and milestones differ significantly. At InnoVen Capital, we structure founder-friendly terms and avoid requiring personal guarantees—something often mandated by banks or other lenders.

08 Investing with insight

Through our close work with VCs, founders and other ecosystem partners, we've developed a deep understanding of emerging business models. This helps us look beyond financials, considering factors like founder vision, product-market fit, and long-term potential when partnering with startups.



09 Mainstream momentum is transforming the venture debt landscape

Venture debt in China has grown from a niche financial product to a dynamic market attracting a growing number of participants. The most notable shift is in the participants: what was once a niche led by Silicon Valley Bank and a few venture-focused funds now includes active participation from mainstream financial institutions.

This trend is spreading to India and Southeast Asia, where venture debt is increasingly seen as a mainstream financing option.

10 The venture debt market is poised for further growth

The next decade will bring significant developments in venture debt as a long-term funding strategy, with more tailored solutions designed to meet the unique needs of startups at various stages of growth. This will allow companies to secure capital that aligns with their evolving needs, from early-stage to more mature phases.

Additionally, we expect to see greater collaboration between debt and equity investors, leading to optimised funding structures that offer startups with more flexibility and strategic options. As the funding ecosystem continues to evolve, venture debt will continue to play a crucial role in ensuring that startups have the capital they need to scale.

Venture debt is transforming how startups in the region scale, and we're here to help you leverage its full potential. Reach out to us to unlock new growth opportunities and explore how venture debt can accelerate your business.

For more information, visit **www.innovencapital.com**