# Are Equity Investors Crowding out Debt investors?

# Who are we?

*Leading lender to impact enterprises in India*

I represent Caspian Debt

We provide Customised Collateral Free Debt to Start-ups
We have disbursed over $375 Mn in loans to over 235 high impact companies in last 9 years.

We have provided loans to over 60 companies in climate smart sector since 2018

# Why Equity?

***Equity provides soft cushion to entrepreneurs to make mistakes, fall, scrape their knees and get back again***

FUND INNOVATION

FIND PRODUCT MARKET FIT

CAPTURE MARKET SHARE

LEVERAGE MORE FUNDS

DERISK DEBT INVESTORS AND SUPPLIERS

# 2 companies different trajectories

# Timeline of Climate Tech company X

*Equity fuels innovation and growth*

2016 Company set up by two engineering graduates from premier college to solve for air quality challenge

→ 2019 First Cheque received

→ During April 2020 and March 2021 the company made an annual revenue of $100K (greater than 200% revenue growth, clock gross margins of 43% and are close to break even)

→ The company takes a first working capital loan

→ In 2022 the company raises another round of equity – 2.75Mn, promptly pre-pays the loan with penalty has a cash runway of 22 months.

→ By 2023 the revenues rise by 38% ( $2.5M)costs by 62%, gross margins fall to 23% and company is left with cash runway of 5 months and approaches us again for a loan

# Timeline of Climate Tech company Y

*Debt helps in scaling and profitability*

2009 Company set up by renowned scientists to address climate change risk in agriculture

Professional CEO on boarded in 2015

Continue to grow steadily and run profitable operations since 2017

Take first working capital loan from Caspian in 2019 at Revenue of 300K and running profitable operations

Added two new lenders

2021 Revenues grew by 160%, repurpose technology for other B2B customers

2023 reached revenues of over $1.8M, with gross margin of 28% and EBIDTA of 10%

# Which path is preferable?

*Holy Trinity of Scale, Profitability and Impact*

Both the companies reached around 2Mn revenues

Company X with capital raise of $4.6M reached the milestone in 8 years and Company Y with capital raise of 250K reached the milestone in 12 years.

Company X is yet to make profits and continues to raise further equity

Company Y has been profitable since inception but has achieved slower growth

# Why does it matter?

*Holy Trinity of Scale, Profitability and Impact*

Capital is scarce resource.

It can fly out sooner than it flies in

Founders time/management bandwidth is precious

Climate tech is still evolving

Frugal innovation and cash management discipline has never hurt anyone

# Finally

Not preaching to the choir – just emphasizing climate crisis need long term sustained action and hence requires more investments

Market principles apply to all investments – investments have to make money and be capital efficient

Each source of capital has its unique uses though money is fungible.

Each source is required and need to coexist and complement

# Possible Paradigms of climate investing

*Equity and Debt at two different ends of technology*

caspian debt

## Companies which Develop Technology

- Battery and storage technologies
- Green materials
- Green hydrogen technology
- Pollution control equipment
- Data and AI based systems

**Financed Mainly by Equity**

**Upside : Rapid technology adoption and product Development**

## Companies which Deploy Technology

- EV fleet
- Clean energy projects
- Productive load deployment
- Energy storge projects
- Direct carbon capture projects
- Nature based adaptation

**Financed Mainly by Debt**

**Security: Secured by customer contracts of proven technology**

# For this paradigm to succeed

*Collaboration, governance and transparency*

Equity and debt investors will have to collaborate closely

The deployment vehicle will have to be protected against possible parent company bankruptcy

Customer contracts in the deployment vehicle will have to be “bankable”

Debt providers will have to provide project finance