

# Venture Debt Vs Equity Financing: A Comparative Study of Innovative Financial Strategies for Unicorn

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**Abstract:** Over the last ten years, India has become one of the biggest places in the world for start-ups, with more than 100 unicorns in the technology, finance, EdTech, and consumer markets. Equity funding has historically fueled rapid growth, but issues of dilution and valuation volatility are increasingly apparent. In contrast, venture debt offers a notable alternative, providing non-dilutive financing that helps companies extend their financial runways and stabilise growth. This study examines how Indian unicorns navigate financing options, including equity, debt, and hybrid models. The research employs a qualitative-dominant mixed-methods methodology, using semi-structured interviews with founders, venture capitalists, and analysts, along with secondary data from relevant sources and industry studies. Thematic coding documented leadership views on financing trade-offs, subsequently corroborated by comparative case studies and sectoral funding trends. Findings reveal that equity-heavy firms scale rapidly, but experience valuation volatility and governance dilution; debt-heavy firms preserve ownership but face repayment risks; and hybrid models offer a balanced pathway, particularly for IPO readiness. Sectoral variations show Fintech and SaaS as debt-ready, EdTech and E-commerce as equity-dependent, and logistics as hybrid adopters. The research finds that financing choices depend on the stage and sector. Implications encompass pragmatic tactics for founders in capital structuring, directives for investors to harmonize governance procedures, and policy recommendations to enhance India's venture debt ecosystem through regulatory and institutional support.

**Keywords:** Venture Debt; Equity Financing; Financial Risk; Debt-Equity Ratio; Hybrid Financing Models; Policy Implications; Capital Structuring; Investor Governance; Sectoral Variations.

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## 1. Introduction

Unicorn companies, privately held businesses valued at more than a billion dollars, are a symbol of the emerging entrepreneurial economy. These entities exemplify the intersection of technology innovation and market disruption, as well as the significant

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impact of financial structures on business scalability and long-term viability. The rise of unicorns worldwide has drawn the attention of scholars, as they can grow at an incredible rate while also changing how entrepreneurs raise capital [39]. The growth trajectory is especially impressive in India. India is now the third-largest start-up ecosystem in the world, with more than 50,000 businesses. The funding choices of unicorns have a significant impact on economic growth, innovation-driven competitiveness, and global capital flow [8]. Equity-based investment, especially through venture capital and private equity, has long been the main way to finance high-growth companies. This technique has enabled unicorns to raise substantial capital while also gaining strategic advice, networks, and market signaling from equity investors [28]. However, equity financing has its drawbacks. The erosion of founder ownership, the implementation of investor-driven governance structures, and the demand for expedited development and exit-focused results have sparked discourse over the viability of equity-centric growth models [10]. Scholars have observed that excessive focus on equity-driven valuation might skew entrepreneurial priorities, prioritising quick financial growth above sustainable value creation [23]. At the same time, venture debt has become a strategic financing option that gives high-growth companies access to cash without immediately losing ownership [11]. Debt comes with the responsibility to pay it back and the risk of losing money. Still, it also gives you the freedom to stretch your financial runway between equity rounds, stabilise your business, and pursue expansion while retaining less control.

Research on financing strategies indicates that the decision between debt and equity is shaped by financial considerations, growth anticipations, governance choices, and the development stage of capital markets [41]. Venture debt is becoming increasingly important in global entrepreneurial ecosystems, yet there is insufficient research in the academic literature, especially regarding unicorns in emerging countries [13]. Indian unicorns, due to their rapid growth and susceptibility to volatile funding environments, offer an advantageous context for analysing the relative advantages and disadvantages of loan versus equity financing. The viewpoints of founders, finance executives, and investors are particularly significant, as they elucidate the trade-offs among risk, ownership, and scalability. Additionally, examining both thriving and failing unicorns provides significant insights for formulating best practices that can guide entrepreneurs, investors, and governments. This study aims to analyse venture debt and equity financing as innovative financing strategies for Indian unicorns.

The aims of this investigation are fourfold: Firstly, to examine the financing decisions of Indian unicorns in their growth strategies; secondly, to comprehend the perspectives of founders and financial executives concerning ownership, scalability, and risk; thirdly, to gather investor insights on preferred funding models and their strategic justifications; and lastly, to delineate lessons and best practices derived from unicorn case studies. By addressing these objectives, the study seeks to enhance academic understanding of entrepreneurial finance in high-growth companies and to offer practical insights for both market participants and policymakers navigating India's dynamic start-up sector.

## 2. Literature Review

The funding of entrepreneurial endeavors has historically centered on the debt–equity trade-off; however, recent academic discourse underscores a growing diversification of financing approaches. Stevenson and McMahon [40] examine this transition through equity crowdfunding (ECF), illustrating that businesses face a dilemma between “smart money” from traditional equity and “fast money” from ECF. Their research underscores that capital is not fungible; instead, financing decisions incorporate trade-offs among efficiency, ownership, and strategic resources. In the Indian context, Ghosh et al. [16] assert that both debt and equity financing are effective, though their appropriateness depends on firm-specific requirements, liquidity, and risk exposure. This aligns with Kumar [24], who shows that how a company is run can affect its capital structure decisions. For example, companies with inadequate governance systems tend to rely too much on debt. Similarly, Akash et al. [2] show that macroeconomic factors, particularly interest rates, significantly affect financing decisions. This further shows how the environment affects debt-equity dynamics. Variations in sectors and institutions also affect financing results. Afriadi et al. [1] and Al-Banna et al. [3] demonstrate that in Indonesian Islamic banks, debt financing expands outreach while equity financing increases profitability; nonetheless, debt-laden structures pose a danger of mission drift.

Ali [4], Sadique [34], and Mohamed [26] further this conversation by situating debt-equity issues within the context of Islamic finance, highlighting systemic obstacles to implementing equity-based contracts due to elevated risk, asymmetric information, and insufficient awareness. These findings are consistent with the assertions of Sha'ari et al. [35] who contend that an overreliance on debt exacerbates systemic fragility, whereas equity financing enhances financial sustainability across many sectors. The enduring presence of bias in the distribution of funds introduces an additional layer of complexity. Mohaghegh et al. [30] reveal gender discrepancies in equity funding for social initiatives, indicating that, while debt is limiting, it may be more accessible for marginalised entrepreneurs. García-Sánchez [15] states that Spanish small and medium-sized enterprises (SMEs) prefer owner equity because they have difficulty obtaining financing and cannot provide physical collateral. This is comparable to the problems faced by innovation-driven unicorns. Tax policy is also seen as a major factor that affects how people get money. Haliček and Karfíková [18] and Cao and Whyte [7] illustrate that tax asymmetries between debt and equity generate undercapitalization risks.

At the same time, measures such as the Allowance for Corporate Equity (ACE) incentivise enterprises to strengthen their equity bases. Apply this reasoning on a global scale, demonstrating how variations in tax rates influence the debt-equity compositions of multinational companies. New financing methods are making the situation even more difficult. Cao [6] demonstrates that blockchain-based businesses often prefer token issuance over equity to meet liquidity requirements. Still, Lerner and Leamon [25] underline the persistent preeminences of venture capital in the expansion of creative enterprises [33]. Incorporate frugal innovation into this discussion, discovering that both equity and debt diminish its beneficial effects on business performance. Empirical studies in India have examined venture loans as an alternative to equity financing. Dugar et al. [12] demonstrate that although venture loan investors prefer more robust enterprises, their influence on performance outcomes is minimal, albeit they enable expedited exits. This finding aligns with the extensive literature, which highlights that funding strategies cannot be reduced to straightforward cost-benefit analyses; rather, they must be understood as contextualised, strategic choices that balance ownership, growth, and resilience. Unicorn enterprises' financial plans are a complex mix of new ideas, growth needs, and investor expectations. Meek and Cowden [28] say that unicorns are in a strategic middle ground between early-stage startups and established businesses. They have to balance their revolutionary goals with the financial performance demands of venture funders.

This balancing act shows that unicorns are positively deviant outliers in entrepreneurial ecosystems since they need to disrupt the market while also keeping investors happy. Kampmann [21] enhances this study by demonstrating that venture capital-backed unicorns frequently depend on the creation of intangible assets—such as data and algorithmic systems—for financial valuation. However, the case of a failed digital health unicorn highlights the vulnerability of equity-driven models when profit realisation is delayed, revealing inherent contradictions in venture capital financing. In addition, Simon and Ramesh [38] talk about the fintech unicorn OPEN TECH. They show how hard it is to value new-age businesses when traditional financial criteria don't work, and qualitative judgments of disruption and scalability become more important. Sharma and Nayak [36] and Mishra [29] show that there are still problems with getting sustainable finance in India's startup ecosystem. These problems include limited access to funding sources, regulatory issues, and founders who are not very financially literate. Both studies emphasise the need for creative funding channels and enhanced financial discipline, corroborating prior findings that identified insufficient finance, revenue volatility, and compliance expenses as significant factors jeopardising survival. Consequently, whereas current research underscores the various factors influencing unicorn financing, there is a significant need to investigate how Indian unicorns strategically combine venture loans and equity as synergistic instruments to balance growth, ownership, and enduring stability.

### **3. Research Gaps**

Despite the rapid rise of Indian unicorns, there is limited understanding of how these ventures strategically choose between venture debt and equity to fuel growth. Existing research isolates debt or equity, rarely offering comparative insights into their trade-offs in ownership dilution, risk, and scalability. Unicorn-specific perspectives are missing, with most studies focusing on generic start-ups, SMEs, or global contexts that overlook India's unique regulatory, sectoral, and macroeconomic realities. Further, the voices of key stakeholders—founders, executives, investors, and analysts—remain underexplored, leaving little clarity on how financing decisions are perceived, negotiated, and executed in practice. Finally, research has concentrated on short-term funding outcomes while neglecting long-term implications for survival, governance, and exit strategies. These gaps necessitate a qualitative, multi-method inquiry to uncover how venture debt and equity financing shape the strategic trajectories of Indian unicorns.

### **4. Aim and Objectives**

This study aims to conduct a comparative analysis of venture debt and equity financing as innovative financing strategies for Indian unicorns, focusing on their impact on growth, ownership, risk, and long-term scalability, drawing on multi-stakeholder perspectives and case-based insights. With these aims and extracted gaps, the following objectives have been listed out:

- Examine how Indian unicorns strategically use venture debt and equity financing to drive growth.
- Capture and analyse leadership perspectives on ownership, risk, and scalability in financing decisions.
- Investigate how venture capitalists and financial analysts evaluate and compare venture debt and equity financing models.
- Develop comparative case-based insights into successful and struggling Indian unicorns.

### **5. Research Methodology**

This study adopts a qualitative, multi-method research design to investigate how Indian unicorns navigate the trade-offs between venture debt and equity financing. The multi-method design—combining semi-structured interviews, expert consultations, and comparative case studies—ensures triangulation, depth, and contextual richness. Data for this study will be

drawn from both primary and secondary sources. The primary data will be collected through semi-structured interviews with 20 unicorn founders and senior financial leaders across technology, FinTech, and manufacturing sectors, supplemented by interviews with 15 venture capitalists and 15 financial analysts. An interview protocol will be developed based on prior entrepreneurial finance literature and validated through expert consultation to ensure content reliability. The secondary data will include company annual reports, SEBI filings, RBI publications, and sectoral funding databases such as Tracxn, Crunchbase India, and Venture Intelligence, which provide systematic records of funding rounds, deal structures, and valuation trends.

Additionally, industry white papers, consultancy reports (e.g., Bain and Company, PwC, NASSCOM), and credible media sources such as Inc42 and The Economic Times will be used to contextualise financing patterns and validate interview findings. The data will be analysed using thematic analysis, following the six-step framework of Braun and Clarke [5], and supported by NVivo software to ensure systematic coding and pattern recognition. Themes such as “ownership dilution,” “risk–reward calculus,” and “investor pressure” will be inductively derived and refined through iterative analysis. To complement interview insights, comparative case studies of selected unicorns will be developed, covering distinct financing strategies: Equity-heavy, debt-inclusive, and hybrid. These cases will integrate primary insights with secondary data to trace financing pathways, strategic decisions, and outcomes. Finally, a narrative synthesis will consolidate findings across interviews and cases, generating sector-specific frameworks and best-practice recommendations. The use of multiple data sources, validated instruments, and rigorous analytic procedures enhances reliability. It ensures that the study makes both scholarly and practical contributions to understanding the role of venture debt versus equity in shaping unicorn trajectories in India.

## 6. Analysis and Result

The study's analysis employs a systematic qualitative approach, including thematic examination of interview data, comparative case studies, and corroboration with secondary finance records. During the initial phase, interview transcripts are thematically coded to correlate insights with the analytical aspects of ownership, risk, scalability, investor impact, and sectoral variance [5]. The second step creates thorough case studies of a few unicorns to show how they secured funding and the choices they made [42]. Lastly, the results are compared with secondary datasets to ensure consistency and trustworthiness. This lets the results show both sector-level patterns and financing strategies at the firm level.

### 6.1. Analytical Framework

Factors beyond mere financing shape the funding decisions of Indian unicorns. This study formulates an analytical framework based on four interconnected themes:

- The decision-making processes through which unicorns adopt different financing structures.
- The trade-offs inherent in these financing choices.
- The influence of external stakeholders, including venture capitalists, private equity firms, and financial analysts.
- sector-specific variations in financing practices and their implications for long-term sustainability.

These themes are supported by a collection of interconnected theoretical viewpoints that offer interpretive depth [27]. The Pecking Order Theory asserts that companies favour internal financing, then debt, and utilise equity only when essential, due to concerns about information asymmetry and ownership dilution [31]. This viewpoint is especially useful for understanding why late-stage unicorns are increasingly relying on venture financing to extend their financial runway while still retaining control of the company. The Trade-Off Theory extends this theory by positing that companies evaluate the tax advantages of debt against the risks of financial difficulty, a consideration particularly relevant for startups with significant growth potential and unpredictable revenue streams [22]. The Resource Dependency Theory adds to these ideas by focusing on the strategic significance of external equity investors who provide not just money but also access to networks, markets, and legitimacy, all important resources for growing entrepreneurial businesses [32]. Lastly, Agency Theory explains the conflicts between founders and investors. Equity funding often strengthens external oversight and control, whereas debt financing maintains ownership but puts pressure on repayment [20] (Table 1).

**Table 1:** Comparative matrix of financing strategies

Dimension	Venture Debt	Equity Financing	Hybrid Financing
Ownership and Control	Non-dilutive; founders retain equity control; limited creditor covenants.	High dilution; ownership shifts toward investors; significant board oversight.	Moderate dilution; balance between founder control and investor involvement.

Risk Exposure	Creates repayment obligations; liquidity strain possible; suited to firms with stable cash flows.	Reduces repayment risk; investors absorb growth/valuation risk; long-term governance conflicts possible.	Spreads risk by combining repayment discipline with investor risk-sharing.
Scalability Potential	Extends runway without dilution; constrained by debt ceilings and repayment schedules.	Enables rapid scaling and aggressive market expansion; increases capital availability.	Supports scaling while controlling dilution; increasingly relevant for pre-IPO stages.
Investor Influence	Creditors exercise limited governance rights; minimal strategic input.	High investor involvement; strategic direction and exit pressures are significant.	Balanced influence: Investors provide guidance, while creditors enforce financial discipline.
Sectoral Context	Favoured in sectors with predictable revenues (FinTech, SaaS, logistics).	Favoured in high-burn sectors with volatile revenues (EdTech, E-commerce).	Increasingly adopted by mature unicorns preparing for IPOs; cross-sector applicability.

The analytical framework is based on four themes, all interconnected and of both theoretical and practical importance. The emphasis on decision-making in financing structures is crucial, as the selection among venture loan, equity, or hybrid models influences unicorns' growth trajectories and capital strategies [17]; [31]. Second, examining the trade-offs among ownership, risk, and scalability reveals conflicts between dilution and repayment requirements, consistent with theories of capital structure [20]; [22]. Third, the participation of external stakeholders is important, as venture capitalists and analysts not only provide capital but also influence governance and long-term performance [9]; [19]. Lastly, identifying sectoral differences shows how financing processes change throughout businesses. For example, FinTech companies generally use debt financing because their revenues are steady, while EdTech and E-commerce startups use equity financing more [37]. The framework offers a comprehensive lens for examining the financing strategies of Indian unicorns by integrating these theoretical viewpoints with the four previously mentioned thematic characteristics. It helps us compare venture debt, equity financing, and hybrid models across several aspects, as shown in the following matrix.

## 6.2. Thematic Analysis

To analyse the qualitative evidence, this study adopts a thematic analysis approach, enabling the systematic identification and interpretation of recurring patterns in interview transcripts and case materials. Following Braun and Clarke's [5] framework, the analysis involves coding to ensure consistency and rigour. The qualitative data were analyzed using a systematic thematic coding method, following the six-phase paradigm outlined by Braun and Clarke [5]. Table 2 shows an NVivo coding output. It shows how raw data extracts were systematically turned into codes, sub-themes, and thematic indicators. For instance, comments from the founder about "avoiding dilution" were grouped under ownership issues and later became a sub-theme: fear of dilution. Comments from analysts regarding "valuation markdowns" were put under risk perceptions. In the same way, industry publications that discussed how FinTech used venture debt because it had steady income were coded as sectoral pressures that indicated predictable revenue streams. To ensure the analysis was thorough, the coding was applied consistently across all data sources. This process enabled the cross-validation of narratives with documentary data, resulting in a strong framework that encompassed both shared characteristics and sector-specific variations in financing techniques. Table 2 shows how thematic coding transformed raw data extracts into organised insights into five main themes. The reasons behind financing choices show the two sides of unicorns: Equity is seen as necessary for fast growth and market capture, while debt is seen as a method to extend the runway without giving up control. Hybrid financing is seen as a stage before going public.

**Table 2:** Evidence of thematic coding application

Representative Raw Data Excerpts	Theme	Sub-Themes	Illustrative Indicators	Data Sources
"Equity was the only way to scale fast and capture the market." (Founder, EdTech unicorn) "Debt helped us extend our runway without giving away equity."	Motivations for Financing Choice	Growth acceleration through equity	"Scaling rapidly" and "market capture" (equity)	Founder interviews; VC/analyst interviews; Sheth et al. [37] and Afriadi et al. [1] reports
		Runway extension via debt	"Avoiding dilution" and "extending runway" (debt)	
		IPO readiness through hybrid models	"Balanced strategy" before public listing (hybrid)	
"Every equity round took away a piece of our		Fear of equity dilution	Loss of board control in equity-heavy rounds	Founder interviews;

decision-making.” (Founder, E-commerce unicorn) “Investors expect board seats and influence over growth direction.”	Ownership and Control Concerns	Loss of strategic independence	Investor pressure for early exits	SEBI filings; Agency Theory [20]
		Retaining founder decision-making power	Preference for debt to preserve voting rights	
“Debt is great until cash flows tighten and repayments hit hard.” (Founder, SaaS unicorn). “Downrounds in 2023 highlighted equity-driven valuation volatility.”	Perceptions of Risk and Obligations	Repayment strain from debt	Liquidity risks in downturns (debt)	Analyst interviews; company filings; Trade-Off Theory [22]
		Valuation pressure from equity	Valuation markdowns in equity-heavy models	
		Risk diversification through hybrid financing	Hybrid strategies as a balance	
“Investors expect board seats and influence over growth direction.”	Investor Influence	Strategic guidance and networks	Vcs drive professionalisation	VC/analyst interviews; Hellmann and Puri [19] and Chemmanur et al. [9]
		Governance and oversight	Board seat requirements	
		Valuation shaping through funding rounds	Pressure for IPO readiness	
“FinTech unicorns accounted for the largest share of venture debt due to recurring revenues.” “Without equity, it was impossible to survive our burn rate.” (Founder, EdTech unicorn)	Sector-Specific Pressures	Fintech: Predictable revenues → debt adoption	Fintech debt adoption for recurring revenues	Sectoral case studies: Afriadi et al. [1] and Sheth et al. [37]; Tracxn databases
		EdTech and E-commerce: Equity dependence due to high burn	Equity intensity in EdTech/E-commerce	
		Logistics/SaaS: Hybrid adoption, asset-light models	Hybrid balancing in logistics/SaaS	

This shows that financial choices are strategically linked with market needs and growth stages. The issue of ownership and control concerns illustrates founders' fears of equity dilution and the loss of strategic independence, juxtaposed with their inclination towards debt to preserve voting rights. This aligns with Agency Theory, which highlights the conflict between entrepreneurs and investors. In the same way, perceptions of risk and responsibility show that debt makes liquidity tight during downturns, while equity makes enterprises vulnerable to changes in their value. Thus, hybrid models work as a way to balance risk. The issue of investor influence shows how important VCs are in altering governance by giving them board seats, strategic advice, and pressure to go public, which supports Resource Dependency views. Finally, pressures specific to each industry differ. For example, FinTech stable revenues support debt financing, whereas EdTech and E-commerce rely on equity financing because of their high burn rates. SaaS and logistics, on the other hand, use hybrid models.

### 6.3. Comparative Case Analysis

To deepen the thematic insights, a comparative case study approach was applied, focusing on five unicorns representing diverse financing trajectories. Each case was analysed through financing timelines, turning points, and implications for governance and growth.

**BYJU’S (Equity-Heavy Model):** BYJU’S mostly used equity funding, raising more than \$4.5 billion from major investors like Sequoia, General Atlantic, and Tencent in several rounds. Its financing chronology shows that it acquired increasing amounts of stock, enabling it to make rapid global purchases from 2017 to 2021. In 2023–24, a major turning point occurred when value corrections (downrounds) and governance disagreements arose, showing the dangers of relying on equity. Equity helped the company grow quickly, but it also made it harder for the founders to retain control and made the company more open to close investor scrutiny, contributing to strategic instability.

**Pine Labs (Hybrid Financing Trajectory):** It adopted a hybrid approach, raising capital from both equity investments and large venture rounds. It raised more than USD 1.3 billion between 2018 and 2024, using structured lending arrangements to balance equity from Sequoia and Temasek. Its financing timeline shows that the company used debt primarily for working capital and technology development, while equity was used for strategic growth. When debt was used to maintain liquidity during IPO preparations, it was a significant turning point. This mixed strategy allowed Pine Labs to grow gradually without diluting its stock too much, but it also put pressure on the company to balance loan repayments with growth investments.

**Zepto (Debt-Complemented Growth Financing):** Zepto, a unicorn in the quick-commerce space, is an example of equity-dominant funding with venture loans. Between 2021 and 2024, it raised significant equity capital (USD 665 million in Series E-commerce at a USD 3.6 billion valuation), but also used debt to keep its operations going in a high-burn environment. The decision to add debt financing in 2023 to keep logistics and storage running was a major turning point. Equity helped Zepto quickly take over the market, but debt enabled the company to defer dilution. However, the strain on its liquidity highlighted the risks of borrowing in a low-margin field.

**Razorpay (Equity with Late-Stage Stability Debt):** Its growth shows it prioritises equity. It has raised multiple rounds of funding totalling more than USD 830 million, and by 2024, it will be worth USD 7.5 billion. Razorpay used equity to grow in its early phases, but in its later stages, it judiciously added loan instruments to stabilise liquidity and support product diversification. Using structured finance in 2023–24 to prepare for global growth was a major turning point. This mixed trend shows how fintech companies with steady cash flows can use debt wisely without hurting governance stability.

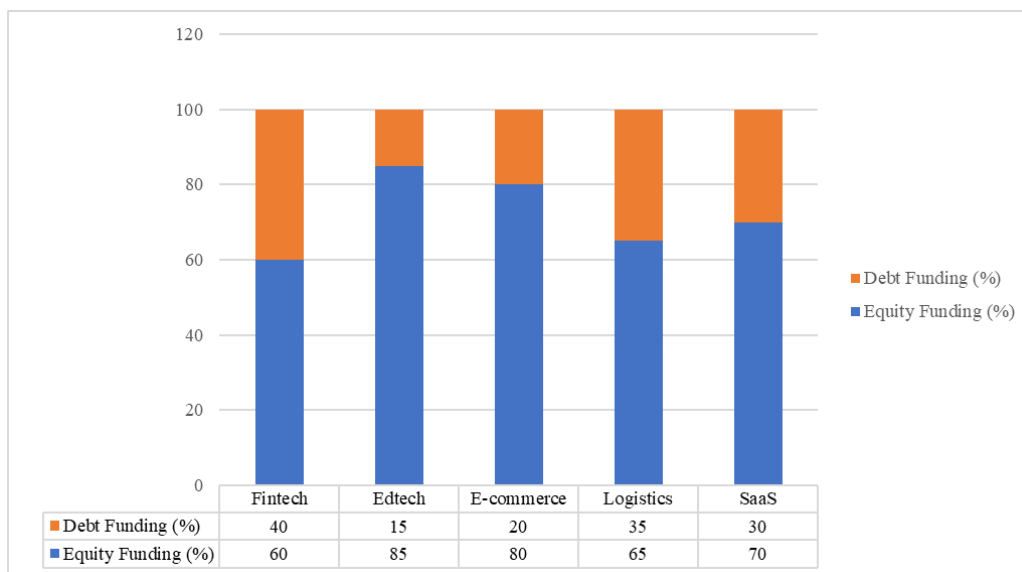
**OYO (Equity-Focused with Debt Stress):** OYO aggressively expanded, raising more than \$3.3 billion from investors such as SoftBank, Lightspeed, and Sequoia. But its funding timetable also carried significant debt, especially during its restructuring from 2019 to 2021. The turning point came in 2020–21, when the global economy slowed, and debt repayment pressures rose as revenue fell. This forced companies to cut costs and change their plans. Governance problems, unstable valuations, and delayed IPO aspirations were all caused by the company's excessive reliance on outside financing. The comparative analysis highlights distinct financing patterns:

- Equity-heavy firms (BYJU’S, OYO) achieved rapid scaling but were more vulnerable to valuation volatility, investor-driven governance conflicts, and downturn risks.
- Hybrid adopters (Pine Labs, Razorpay) balanced growth with capital efficiency, using debt to extend runways or prepare for IPOs while limiting equity dilution.
- Equity-dominant but debt-complemented models (Zepto) show that debt can provide temporary relief in high-burn sectors, though liquidity strain persists.

Equity accelerated growth but increased vulnerability to external pressures, while debt preserved ownership but introduced repayment risks. Hybrid strategies emerged as the most sustainable for firms approaching an IPO, offering a balance among scalability, governance stability, and capital efficiency.

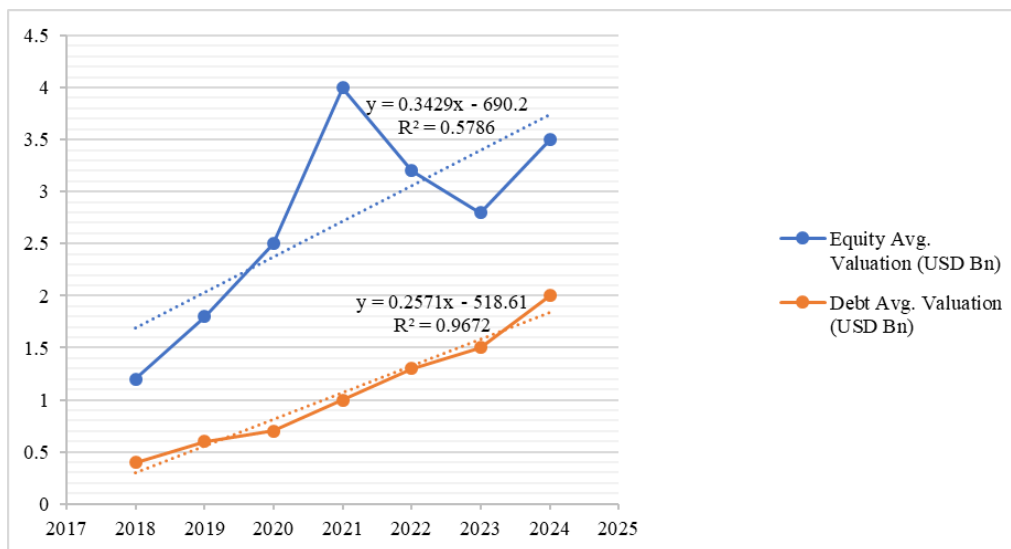
#### 6.4. Integration Quantitative Insights

Even though the study is based on qualitative data, secondary quantitative data were used to put the thematic findings in context and strengthen the interpretation (Figure 1).



**Figure 1:** Debt-to-equity financing for important sectors

Descriptive statistics were obtained from venture investment databases (Tracxn, Crunchbase India, Inc42), SEBI filings, and industry reports. These data were utilised not for predictive modelling but to provide baseline comparisons for contextualising case narratives and interview findings. The debt-to-equity financing ratio was calculated for key sectors. Initial patterns showed that FinTech unicorns made up about 40% of all recorded venture finance deals in India. On the other hand, equity financing was the most common type of financing for EdTech and E-commerce because these businesses had high-burning, capital-intensive models. Logistics and SaaS companies maintained a good balance of dependencies and often used hybrid structures. Timeline charts showed the average valuations by funding type. The following charts show that equity-heavy financing occurred during periods of rapid valuation growth (2019–2021), while debt adoption rose sharply during the funding downturn of 2022–2023, acting as a stabilising force. Equity-financed unicorns saw sharp valuation growth between 2018 and 2021, peaking during the 2021 funding boom. However, valuations declined in 2022–2023 amid global market corrections and down rounds. Debt-financed unicorns show a steadier upward trajectory, with adoption increasing notably in 2022–2023, when equity markets tightened. By 2024, debt-financed valuations nearly doubled from 2020, reflecting venture debt’s growing role as a stabilising mechanism (Figure 2).



**Figure 2:** Trends in average equity and debt valuations (2018–2024)

The divergence highlights a clear pattern: Equity drives rapid valuation spikes but is vulnerable to volatility, while debt supports slower yet more resilient growth. These quantitative snapshots supported qualitative themes, showing, for instance, that stock made it easier to grow quickly but made companies more vulnerable to changes in their value. On the other hand, debt was used only when needed to maintain ownership and give companies more time to recover during downturns.

### 6.5. Triangulation Analysis

To enhance the validity of the findings, the study employed triangulation, cross-validating primary interview data with secondary financial and industrial information. This technique ensured that thematic interpretations were grounded not just in people's opinions, but also in visible patterns of financing. For example, founder stories often say, “Venture debt helps us extend runway without dilution.” Researchers examined the financing timelines to determine whether this allegation was true. Researchers found that debt financing often occurred when the equity market was slowing, especially in 2022–2023, when venture equity flows were down. The agreement between subjective accounts and secondary data shows how debt finance can be used to protect something. In the same way, when experts said that “equity investors prefer high-burn sectors like EdTech and E-commerce,” this was supported by reports from Sheth et al. [37], which showed that these sectors received significantly more equity than other sectors. On the other hand, Fintech and SaaS, which analysts said were better for debt due to recurring revenue, had higher debt funding percentages in sectoral datasets (Table 3).

**Table 3:** Triangulation of findings

Interview Insight (What was said)	Secondary Data Source (What was checked)	Cross-Validation Evidence (What was found)	Triangulated Finding (Final integrated interpretation)

Venture debt helps us extend our runway without diluting our ownership.	Funding timelines; Tracxn; Inc42	Debt rounds in 2022–23 coincided with a slowdown in equity inflows.	Debt adoption operates as a strategic buffer during equity contractions.
Equity investors prefer high-burn sectors such as EdTech and E-commerce.	[14]; [37] sectoral reports	Disproportionate equity inflows are documented in EdTech/E-commerce vs FinTech/logistics.	Equity dominates in high-burn sectors; debt is concentrated in predictable revenue models.
Every equity round took away a piece of our decision-making.	SEBI filings; Agency Theory literature	Equity-heavy firms reported greater board restructuring and investor oversight.	Equity financing increases dilution and governance pressures, consistent with Agency Theory.
Debt is great until cash flows tighten and repayments hit hard.	Company filings; Trade-Off Theory [22]	SaaS firms with predictable revenues manage debt, but downturns reveal liquidity strain.	Debt provides ownership preservation but creates repayment vulnerabilities.
Investors push firms towards IPO readiness.	Analyst reports; IPO case timelines	Firms preparing IPOs (e.g., Pine Labs, Razorpay) show a mix of equity + debt for stability.	Hybrid financing is strategically aligned with IPO-stage capital efficiency.

This corroboration from multiple sources made the work more credible and thorough. The study ensured that the results were not based on personal experiences but were firmly grounded in the structural realities of India's unicorn financing ecosystem, carefully integrating interview insights, case timelines, and industry-level statistics.

### 6.5.1. Decision Framework for Financing

Grounded in Pecking-Order and Trade-Off theories and informed by resource-dependency and agency perspectives, the framework presents a lifecycle-based financing path: Early → Mid → Late. It matches financing instruments to firm needs, governance trade-offs, and sectoral revenue characteristics to balance scalability, control, and resilience (Table 4).

**Table 4:** Stage-wise financing matrix

Stage	Primary Objective	Recommended Financing Mix	Trigger / Selection Criteria
Early (Seed → Series A)	Rapid market capture; product-market fit	Equity-dominant (VC/angel)	High burn, uncertain cash flows; need for network/strategic support. Equity accepted despite dilution.
Mid (Series B → C)	Scale operations; extend runway; professionalise governance	Hybrid (Equity + Selective Venture Debt)	Emerging recurring revenue; equity market still accessible, but founder control valued. Use debt for working capital and capex to limit dilution.
Late (Pre-IPO / Pre-Exit)	IPO readiness; reduce dilution; investor exits	Debt + IPO / Growth Equity	Predictable cash flows, audited financials, and governance maturity. Debt used for interim capital without further major dilution.

Sectoral circumstances have a big impact on how unicorns like to get money. Because they generate regular transaction revenue, FinTech and payments companies are usually better positioned for financing. This makes them good candidates for venture debt. These kinds of businesses commonly use debt to fund merchant credit lines or manage receivables, using steady income streams to make their payments. On the other hand, EdTech and consumer E-commerce startups still rely a lot on equity. Their business models have high burn rates and unclear unit economics; therefore, equity is better for maintaining operational runways and gaining market share. At the same time, SaaS and logistics unicorns have hybrid potential. SaaS companies get money from subscriptions, and logistics companies usually follow set routes. Both industries can efficiently combine debt for working capital needs with equity for strategic growth. These trends are congruent with empirical findings from recent Sheth et al. [37] and Afriadi et al. [1] papers on sectoral finance.

### 6.5.2. Key Findings of the Study

- Equity dominates early-stage growth, enabling rapid scaling, acquisitions, and market capture. Venture debt is strategically adopted in mid-to-late stages to extend runway and preserve founder control.
- Hybrid financing models are increasingly used during IPO preparation to balance risk, liquidity, and dilution.

- Founders view equity as necessary for scalability but express concerns about dilution and loss of strategic independence. Debt is perceived as “non-dilutive” capital that preserves ownership, though repayment pressures create liquidity risks.
- Sectoral context strongly influences leadership choices: EdTech and E-commerce lean on equity, FinTech and SaaS on debt.
- VCs prefer equity in high-burn, high-growth industries (EdTech, E-commerce). Venture debt is favoured for firms with stable, predictable revenue streams (FinTech, SaaS).
- Hybrid models are increasingly evaluated as effective tools for IPO readiness and valuation stability.
- Equity-heavy firms achieved rapid growth but faced valuation volatility and governance conflicts.
- Hybrid adopters (Pine Labs, Razorpay) showed steadier growth and stronger capital efficiency.
- Equity-dominant but debt-complemented firms (Zepto) gained short-term runway but encountered repayment strain in thin-margin sectors.

The Discussion framework says that the best way to finance something depends on the stage and the sector. Equity supports early growth and strategic planning; debt maintains ownership and stabilises the capital structure at later stages; and hybrid models help strike a practical balance throughout scaling and IPO readiness. By following these criteria and having clear governance and supportive policies, you can make capital more efficient, keep entrepreneurs in charge, and make unicorns more resilient.

## 7. Discussion

The results of this analysis show that the financing choices of Indian unicorns are heavily influenced by the kind of businesses they are in and their business models. Fintech and payments companies are more likely to pursue venture financing because they generate recurring transaction revenue, which makes repayment easier. Debt is typically used to fund merchant credit lines and receivables, indicating that this industry is a good place to obtain non-dilutive financing. On the other hand, EdTech and consumer E-commerce unicorns still rely heavily on equity financing. Because of their high burn rates and unclear unit economics, equity is better for maintaining operational runways and gaining market share, even though it entails dilution risks. SaaS and logistics startups are examples of hybrid potential, as their subscription-based revenues and stable business models enable a balanced mix of debt for operating capital and equity for strategic growth. These trends align with broader assessments of sectors conducted by Sheth et al. [37]. This shows how important it is to adapt finance strategies to the way sectors work. Leadership perspectives also indicate that financing decisions ought to be informed by systematic evaluations of income predictability and financial runway projections. Founders and CFOs stressed that during equity market slowdowns, if runways drop below 12 months, debt should be paid off first, as long as covenants remain feasible. On the other hand, equity is better when growing up means making investments in products, forming alliances, or making smart acquisitions. For companies that are not yet public, debt is a useful way to prevent dilution while ensuring they are ready for compliance and oversight.

This systematic, stage-sensitive decision-making shows that finance is not just about getting money; it's also about maintaining control and ensuring that long-term growth goals are aligned. The data also shows how important governance is in making financial decisions. To avoid restrictive commitments that limit operational freedom, it is important to negotiate covenants and warrant conditions well. Keeping a healthy cap Table protects future fundraising opportunities, while hybrid financing models allow dilution to occur in stages through small equity tranches and targeted lending facilities. Also, establishing communication channels and board structures early can help reduce conflicts of interest between founders and investors, thereby aligning incentives with long-term growth. From a policy standpoint, the results indicate an immediate necessity to enhance India's venture debt ecosystem. Increasing the role of non-bank lenders and specialised debt funds by clarifying rules and providing incentives will make it easier for growth-stage companies to obtain loans. Partial guarantees or first-loss facilities are two complementary credit enhancement strategies that could further minimise risk and borrowing costs. Standardised reporting frameworks for private companies would make information more transparent, increase lenders' confidence, and ensure everyone had the same information. Also, ensuring there is no tax difference between debt and equity would prevent financing decisions from being skewed and make the playing field more equitable.

## 8. Conclusion

This study demonstrates that financing strategies among Indian unicorns are both stage-contingent and sector-sensitive. Equity financing dominates the early stages, fueling rapid scaling but often at the cost of ownership dilution and governance tensions. Venture debt emerges as a stabilising instrument in later phases, enabling firms to extend runways and preserve control. At the same time, hybrid models balance liquidity, valuation stability, and strategic flexibility, particularly in IPO preparation. Sectoral dynamics reinforce these choices: Fintech and SaaS are better suited to debt financing due to predictable revenue streams, whereas EdTech and E-commerce remain equity-reliant given their high burn rates. By integrating thematic analysis,

comparative case studies, and secondary quantitative insights, the study advances a decision framework that is both empirically grounded and practically applicable. Future research could expand the scope by examining post-IPO financing strategies, cross-country comparisons of unicorn financing ecosystems, or longitudinal analyses that track how financing choices influence long-term sustainability and exit outcomes. Such extensions would further enrich the understanding of how financing structures shape entrepreneurial resilience in emerging markets.

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