

Understanding grants, equity and debt

How the three funding routes differ, what each one costs you, and when each one fits.

Overview

The three routes differ in what they cost, how long they take and what they demand in return. Most companies eventually use more than one.

Grants

- Cost: no equity, no repayment. Cost is time and reporting.
- Typical sources in India: state startup missions, DPIIT-linked schemes, sector-specific programmes.
- Timeline: often three to nine months from application to disbursement.
- Constraints: funds are usually milestone-linked, reimbursement-based and restricted in how they can be spent.
- Fits: deeptech, hardware, R&D-heavy work and early prototypes.

Equity

- Cost: permanent dilution plus governance obligations.
- Timeline: eight to twenty weeks for an early round.
- Constraints: investor rights, reporting cadence, board or observer seats, and pressure toward a growth trajectory.
- Fits: businesses where capital compounds — scalable software, network effects, large addressable markets.

Debt

- Cost: interest and repayment obligations that begin regardless of performance.
- Forms: venture debt, working-capital lines, revenue-based financing, invoice discounting.
- Constraints: usually requires existing revenue, and often a prior equity round or collateral.
- Fits: funding predictable, short-cycle needs such as inventory, receivables or a known-return marketing spend.

Choosing between them

Ask what the capital is buying. If it funds a search for a business model, equity is usually the only honest option. If it funds a known, repeatable conversion of rupees into revenue, debt is cheaper. If it funds research whose commercial outcome is uncertain, grants exist precisely for that.

Sequencing matters: grants and revenue extend runway before a priced round, which usually improves terms. Debt taken before product-market fit converts a temporary slowdown into an existential one.

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