



Future Prospects and challenges faced out in startup India

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Abstracts : *Startup India looks beyond the argument that it is a better packaging of existing institutional support. The complexities of managing the diversity of thoughts, processes and people of India are very well known. The plan of Startup Indians is to flourish under an ocean of changes in mindset and thinking. It is giving feather to wings of the unstoppable Indian. The world is struggling to avoid another meltdown. The slowdown in China, the human crisis in the Middle East and the current dynamics in US and Europe are having their impact on the Indian economy. Despite two successive droughts and many challenges faced, the startup initiative promises to take growth beyond 7.5 percent as projected by Moody's. The world has dispelled the gloom of recession of 2008 and marched forward. Indian business community needs to participate in the environment of exploration and innovation not only in technology and products, but in every tenet of business. The next leg of growth would not come out of incremental capital, but from using intellectual capital to its fullest. In recent years the self-employment consciousness among college students are increasing and the students are less likely to rely on parents or schools or wait for opportunities. Instead, they tend to take initiative to look for new chances for themselves. This research aims to investigate the challenges of financing startups in India. This paper is intent to explore the main difficulties faced by startups in India, and discuss the financing resources of startups in India by Using a literature-based analysis.*

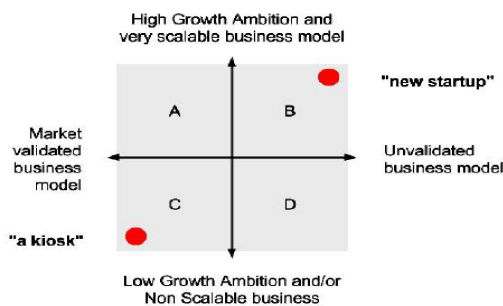
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Introduction : Start ups have played and continue to play significant roles in the growth, development and industrialization of many economics all over the world. Startup is flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation. Startup will drive sustainable economics growth and generate large scale employment opportunities and minimize unemployment.

Start-up companies are newly founded companies or entrepreneurial ventures that are in the initial phase of development. They are most commonly associated with high-tech projects, development and production, distribution of new products, processes or services. The Ministry of Commerce and Industry released a notification on April 1, 2015 to define a startup. According to it, "an entity will be identified as a startup.

1. Till up to five years from the date of incorporation.
2. If its turnover does not exceed 25 crores in the last five financial years.
3. It is working towards innovation, development, deployment, and commercialization of new products, processes, or **Simplified method for identifying a potential startup company from just a new company**

"New Startup"



A survey by the British Council has shown that 51% of companies hire only from the top 20 Indian institutions, and less than a quarter of these firms hire only from the top 10 in any discipline.”(Economic Times). While about 39 per cent of the graduates from foreign universities are considered ready for the job, only about 14 per cent students from Indian universities are considered suitable for jobs.” (Published on Deccan Chronicle) (<http://www.deccanchronicle.com>).

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Unemployment Rate in India decreased to 4.90 percent in 2013 from 5.20 percent in 2012. Unemployment Rate in India averaged 7.32 percent from 1983 until 2013, reaching an all time high of 9.40 percent in 2009 and a record low of 4.90 percent in 2013. Unemployment Rate in India is reported by the Ministry of Labour and Employment, India. One out of every three persons in the age group 15 to 29 years who have completed at least their graduation has been found to be unemployed in the report on „Youth employment- unemployment scenario,2012-13 which is based on a survey by the Labour Bureau in Chandigarh. Moreover,the survey found that the unemployment rate among the persons who cannot read and write any languages or are considered illiterate was the lowest with 3.7 per cent without work in the 15-29 age group. Under such circumstances, some graduates try to find a way out for themselves and choose to start their own business, thus to reduce the employment pressure. In recent years the self-employment consciousness among college students are increasing and the students are less likely to rely on parents or schools or wait for opportunities. Instead, they tend to take initiative to look for new chances for themselves.

Literature Review:

The Prime Minister unveiled a 19-point agenda to take forward the startup culture. The action plan included tax sops, ease-of-doing business, innovation to help entrepreneurs to startup and grow their business(Forbes India, Startup India, January 18, 2016).

Startup India has been promised an initial capital of 10K crore over a period of four years from the government. This seed capital is capable of attracting tenfold investment by 2022. Credit guarantee for startup lending is another booster. Startup plan unfolded on January 16, 2016 in front of domestic and international entrepreneurs. Internet-based businesses from food to fashion, health to education, and travel to payment platforms- all have taken Centre stage recently. Industry expectation from the Government is reciprocal. Few industry leaders who are championing Startup India want high bandwidth, tax breaks on budget smartphones supporting vernacular languages, simpler KYC norms, and improved access to electricity and credits.

Paul Graham[1] says that “A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of “exit”. The only essential thing is growth. Everything else we associate with startups follows from growth.”

Thomas Hillmann and ManjuPuri (2000) examine the empirical evidences on the impact that the venture capitalists can have on the development path of new firms. Their study suggests that there is soft facet to venture capitalists in terms of supporting companies to build up their human resources within the organization.

Christopher A Pissarides (2001) in his paper studied that the role of company starts up costs for employment performance. This paper is highly theoretical one. The conclusion is the factors that can explain the differences in Labor Market performance are structural and should be sought in the institutional structures of the countries

Salient Features of Start Up India:

The Government Union Budget allocation of Rs. 1000 core towards self employment and Talent utilisation (SETU) scheme is amajor boast towards promoting start-ups in the country.

1. Encourage entrepreneurship among the youth of India. Each of the 1.25 lakh Bank branches should encourage at least one Dalit or Tribal Entrepreneur and at least one woman entrepreneur.
2. Loans would also be given to help people.
3. Give a new dimension to entrepreneurship and help set up a network of startups in the country.
4. Interview based selection for low skilled Government Jobs.
5. Recruitment will be done only on merit basis, must be transparent and through onlineprocess.
6. As a part of Skill India & Digital India Initiative , incentive packages will be given to manufacturing unit for generation of jobs.

Growth of Start-ups In India:

1. India has declared 2010-20 as the Decade of Innovation. The Government has stressed the need to vocalize a policy to synergies science, technology & innovation and has also established the National Innovation Council(NIC). India is the 4th largest eco-system in the world for startups after US, UK & Israel driven by an extremely young diverse and inclusive entrepreneurship. India will reach the 2nd spot after the US as the growth rate of Startups is at high alamring rate.
2. According to NASSCOM around 11,500 start-ups will come in the country by 2020, creating over

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- 2.5 lakhs jobs approx. As a result the rate of Unemployment will also decrease. Angel investors and venture capital funding in India has hit its highest marks.
3. At Present there are 50 most innovative companies.
4. The TATA are the only Indian company to find place in the top 50 ranking. State owned bank have been asked to ensure that each of the 125000 odd branches gives atleast
5. one loan to a start up. Venture proposal by a dabit or aInbal enterprise.
6. Move in India forms shift to small Enterprises.
7. 85% India's GDP is accounted for by small enterprises.
8. 45% of India's total manufacturing output comes from these companies.

Action Plan for Startup India:

Prime Minister Narendra Modi announces Action Plan for encouraging Startups on 16 Jan 2016.

1. Funding support through Fund-of Funds with corpus of Rs. 10000 core.
2. Entrepreneurs should register a company in one day , against 15-20 days as row.
3. No tax on Profit, inspection for 3 years Capital Gain Tax exemption.
4. Credit Gurantee Scheme.
5. Easy & Faster Exit Policy.
6. No Capital Gain if money is invested in another start up.
7. Self certification based compliance for Labour & Environment laws.
8. Set up of start up India hub for clearance.
9. Mobile apps, portal for registration.
10. Holding with Govt acting as a friend and colleague.
11. New intellectual property rights protection. 80% reduction in patent free and fast Tracking patent examination.
12. Encourage start ups in Government purchase.
13. Special Scheme for women entrepreneurs.
14. Programme to encourage innovation among students in 5 lakhs Schools.
15. Building innovation centers at National Institues.

Startup Initiative in India:

1. **E-BIZ Portal:** To boost young entrepreneurs and too make it easy to start your business. Budget 2015 has pitched for the white speed usage of the recently launched e-biz portal. The portal integrates the regulatory permission at one source. The use of this portal helps entrepreneurs for faster clearance for setting up of business.
2. **Mudra Bank:** Several entrepreneurs in the MSME Sector have often complained about lack of difficulty in getting finances to run their business. So this bank have been set up for providing finance for Microfinance to the required individuals.
3. **Atal Innovation Mission:** Finance Minister in the Budget 2015 have launched the Atal Innovation Fund. (AIM). AIM will be an innovators promotion platform involving academics, entrepreneurs, and researches.

Main Problems Faced by Startups in India

1. India lacks enough angel investors to fund start-ups

Unlike the West, India does not have an adequate number of angel investors who can fuel the growth of the country's thriving start-up ecosystem, industry body Nasscom has said. "For a successful start-up ecosystem there is a need for enough angel investors who can support budding entrepreneurs from an early stage. But this is not happening in India and there is a serious lack of it," Nasscom Vice-President Rajat Tandon told PTI. "High net-worth individuals and corporate executives, among others, should come forward and participate in this growth story," he said. A recent report by Nasscom had said India ranks third among global start-up ecosystems, with more than 4,200 new-age companies.

Tandon said, "The case is very different in countries like the US. People are just waiting to invest in good companies. We should also have something like that." "Mainly, investors (in India) are afraid because there is a high risk of failure in these investments and also there is a lack of policy on such investments," he added. "Why will investors put money in such companies? They need tax benefits and a number of other things to put



in their money. We have already written about these things to the Government and I am sure we can expect something by the year-end,” he said. In his Independence Day speech, Prime Minister Narendra Modi had announced a new campaign „Start-up India; Stand up India to promote bank financing for start-ups and offer incentives to boost entrepreneurship and job creation in the country.

“At Nasscom, we are not only encouraging investors but also asking people to mentor start-ups. Like someone has a design business, they can help start-ups develop UIs and guide them in the process. In return they take some equity,” he said. “And there are people like Ratan Tata and Azim Premji, who are making a slew of investments and helping these young entrepreneurs. They are the inspiration,” he said. Ratan Tata has invested in a number of companies including Ola, Snapdeal, Paytm, Urban Ladder, and Bluestone. Wipro boss Azim Premji has funded companies such as Myntra and Amagi, among others, through his investment arm Premji Invest.

2. Problems of Indian Venture Capital

VCF is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimisation of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment.

The financing firms expect a sound, experienced, mature and capable management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5 - 7 years). The various problems/ queries can be outlined as follows :

- a. Requirement of an experienced management team.
- b. Requirement of an above average rate of return on investment.
- c. Longer payback period.
- d. Uncertainty regarding the success of the product in the market.
- e. Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
- f. The category of potential customers and hence the packaging and pricing details of the product.
- g. The size of the market .
- h. Major competitors and their market share.
- i. Skills and Training required and the cost of training.
- j. Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.

3. FINANCING DIFFICULTIES OF SMES IN INDIA

The small and medium sized enterprise has weak credit concept and low credit performance. Generally small and medium sized enterprise credit rating is not high in India. Data shows that, in India, more than half of small and medium sized enterprise financial is of poor management, in which some Unreasonable phenomenon commonly exists such as “off balance- sheet business” and “check by cash”. Banks are difficult to get the real situation of the corporate finance, which affects the bank loans and decision making. A case in point is that some small and medium enterprises have tax evasion, which resulting in the loss of credit funds, and further damage to the credit level.

Poor ability to resist risk and slow development. Compared with large enterprises, the ability to resist risk of small and medium sized enterprises is significantly weaker. The main reason for small and medium sized enterprises have slow development pace is their financing difficulties. This means that they tend to lack of enough funding for enterprises to further expand production, improve research and development ability, product quality and competitiveness. Furthermore, according to, the current situation of financing difficulties are caused by the variability of small and medium sized enterprises and large business risk, in the money supply tension, under the condition of asymmetric information, and in a vicious circle. Limited profits make banks reluctant to lend to small and medium-sized enterprises. The first principle of commercial bank management is profitability.



The character of Small and medium-sized enterprise loan from the bank is small amount, but high frequency. In a short period of time, the management costs are relatively high for banks to loan to small and medium enterprises. At the same time, some small and medium sized enterprise have internal problems, which makes the bank loan to them have difficulties in tracking supervision and mortgage security maintenance. High risk, high cost and limited profits, makes it is difficult for small and medium enterprises to apply for a loan from the bank.

CONCLUSION: Entrepreneurs provide the energy for the economics growth but it is also true that vibrant economics have large number of young ideas, business striving to get a foothold in the market. Startup needs support and encouragement from various perspectives in initial phase and subsequently the growth phase till establishment on firm footing. Technology based startup have a significant importance in India. In whole it can be said that Startup India is a collaborative

approach for Young Entrepreneurs & Youth Empowerment. The limitation of this study is that it is a detailed conceptual analysis about startup India based on secondary data. More Research can be done about its prospects and benefits of startup to entrepreneurs by using primary data and other statistical tools.

Although challenges are a part of every startup, the determination to overcome these challenges even in times of distress and doom is what makes a successful startup. Startups that succeed are the ones that are always in search of business opportunities, they are diligent in grabbing and exploiting them besides finding innovative ways to tackle the challenges that are faced by all Startups & learn from their own mistakes and stay focused on their vision. With the current startup ecosystem in India on a move, there is no major reason why a great idea shouldn't succeed with the right ingredients of running Startup businesses.

Many businesses start with a dream, but it takes more than just a dream for them to grow into successful businesses—including the tenacity to overcome the many challenges facing startups today. Startups take time, effort, and energy. Funding is a major concern for startups and small businesses. When the economy tanked, it made it harder to convince investors and banks alike to part with the cash that is essential for growth in the early days of a business.

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