

A study on growth and effects of startup ecosystems in India

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Abstract

India is a fast developing south Asian and seventh largest country by area. Large population of the country implies a large prospective market in India and puts more pressure for employment in the country. With the gen-next cool trend to start working on new ideas, India is all set to outperform all other nations on the world stage in the years to come. Setting up of small businesses by these young entrepreneurs is definitely going to boost the India economy in the near future. In the present decade, India is undertaking an essential shift towards startup welcoming policies and a business friendly environment. India is a populated country having increasing demand which is putting a competitive environment forcing to create innovative systems. One of these systems is a Startup ecosystem. This paper aims to study about the growth, prospects and effects of Startup systems in India.

Keywords: Startups, Innovation, Technological Business Incubator, Ecosystem etc.

INTRODUCTION

In recent years, Indian youth motivates towards self-employment instead of rely on parents or government or opportunities. Rather, they start to take initiative to look for new challenges. This encourages and promoting self-employment environment creates the startup systems in India. A startup is a young company that is beginning to develop and grow, is in the first stages of operation, and is usually financed by an individual or small group of individuals. It is a young company that searches for an unknown business model in order to disrupt existing markets or create new ones. A startup is a young, dynamic company built on technology and

innovation wherein the founders attempt to capitalize on developing a product or service for which they believe there is a demand.

Startup India – A clamor that is being heard across the world like never before. Everywhere you go today, you can't miss hearing or reading about how India is the next big startup nation! On 15th August 2015, our honorable Prime Minister Mr. Narendra Modi stood at the Red Fort and made a call to "Startup India, Stand up India". His words were echoing the sentiments of today's India- the flame had already been ignited in the minds of our youth to create awesome products and companies which will change the world. Never before in the history of the country have so many powerful forces come together to enable the Indian startup ecosystem. The gods have made their will known, the oracle has spoken! The time is here when India is becoming a startup nation.

Objectives of the Study

1. To study the growth and prospects of startups in India.
2. To know the effect of "Start up India campaign" in startup ecosystem.
3. To study the status of start ups in India.

RESEARCH METHODOLOGY

This research paper is mainly based on the secondary data. These data are collected from various websites, journals, and newspaper articles. The study is explanatory and conceptual in nature.

GROWTH AND PROSPECTS OF START UPS IN INDIA

The startup ecosystem is getting a substantial backing from the government which is proving to be a huge motivation for the ecosystem! Indian Prime Minister Mr. Narendra Modi has announced the Start-Up India initiative in his Independence Day address in August 2015. The Department of Industrial Policy and Promotion (DIPP) is spearheading the initiative and is expected to start working closely with banks to kick-start the government's Start-Up India initiative in both rural and urban India. Under the initiative, DIPP is expected to start working with banks across the country, especially in rural areas. "If each of these (bank) branches gives

tribal or Dalit population something to start up with, it would take the whole startup and innovate India (initiative) thought to district level,” Ms Nirmala Sitharaman has said.

DIPP is also working on ways to reach out to the urban educated and the deprived section of the society to build entrepreneurship. “All over the country, youngsters are coming up with ideas of entrepreneurship ... They don’t have time to wait, we don’t have time to lose,” Sitharaman said. The commerce minister said there is a need for greater participation of industry in driving ahead the movement of Skill India.

1) SETU Fund

The setting up of the SETU (Self-Employment and Talent Utilization) fund has been hugely welcomed by the startup community. Under this fund, the government will be launching an incubation center in order to create opportunities for self-employment and new jobs particularly in technology-driven areas. The center has allocated Rs 1000 crore for this purpose.

2) e-biz portal

To boot entrepreneurship and to make it easy to start your business, Budget 2015 has pitched for the widespread usage of the recently launched e-biz portal. The portal integrates 14 regulatory permissions at one source. Widespread use of this portal is expected to help enable faster clearances for setting up businesses.

3) MUDRA Bank

Several entrepreneurs in the MSME sector have often complained about lack of or difficulty in getting finances to run their business. Often, while applying for loans, these companies are asked for large collaterals by the banks, which made their business unsustainable. The 2015 Budget addressed this problem by setting up of the Microfinance Unit Development Refinance (MUDRA) bank.

4) Atal Innovation Mission (AIM)

During the Budget 2015, Mr Arun Jaitley launched the Atal Innovation Fund (AIM). AIM will be an innovation promotion platform involving academics, entrepreneurs and researchers.

5) Royalty Tax

In a bid to allow greater access to new technology for their business, Finance Minister Arun Jaitley has slashed royalty tax paid by entrepreneurs from 25% to 10%.

6) Startup Network

The Modi government is creating an ecosystem for supporting young entrepreneurs through a formal network of incubators, accelerators and mentors that would help set up, grow and stabilize new businesses, with an emphasis on social enterprises and commercial adaptation of grass-root level innovations. The network that would include institutions like the IIMs, IITs, Indian Institute of Science, research parks and industry bodies, is being steered by the Ministry of Skill Development and Entrepreneurship as a 'high-impact scheme' to spur job creation.

The new startup network would also bring on board existing entrepreneurship promotion initiatives such as the National Science & Technology Entrepreneurship Development Board (set up in 1982 under the Ministry of Science and Technology) and the National Institute for Entrepreneurship and Small Business Development under the aegis of the Ministry of Micro, Small & Medium Enterprises.

7) Government Funds

There are various government and semi-governmental funds, grants and other initiatives to help startups viz., Market Entry Funds, Funds for Patent Protection, Technology Development Funds, Technology Scale-up/Validation/De-risking Funds, Technology in-licensing Funds, Expansion Funds.

8) Smart Cities and Digital India Opportunity

The Smart Cities Initiative by the current Narendra Modi led government is expected to create a huge opportunity for companies to provide services. The plan which aims to create about 100 smart cities in India is expected to require services in waste management, clean energy, traffic management, internet availability, transport solutions, smart grids, education, e-governance, healthcare and sanitation and more. The smart cities initiative by the Modi government is attracting huge interest within and outside the country.

The Prime minister also recently launched the India Smart Cities Challenge which invites citizens to contribute to creating a vision for their city. The Digital India Initiative by The Modi Government which includes plan to connect rural areas with high-speed internet networks is also expected to open up huge opportunities for SMEs in India.

Prime Minister NarendraModi announces Action Plan for encouraging Startups on 16 Jan2016:

- Funding support through Fund-of Funds with corpus of Rs.10,000 core.
- Entrepreneurs should register a company in one day, against 15-20 days as row.
- No tax on Profit, inspection for 3 years
- Capital Gain Tax exemption.
- Credit Guarantee Scheme.
- Easy & Faster Exit Policy.
- No Capital Gain if money is invested in another start up.
- Self-certification based compliance for Labour & Environment laws.
- Set up of startup India hub for clearance Mobile apps, portal for registration.
- Holding with Govt. acting as a friend and colleague.
- New intellectual property rights protection.
- 80% reduction in patent free and fast tracking
- Patent examination.
- Encourage startups in Government purchase.
- Special Scheme for women entrepreneurs.
- Support bio-technology startups Programme to encourage innovation among students in 5 lakhs Schools.
- Building innovation centers at National Institutes.
- Setting up Research Park

EFFECTS OF STARTUP INDIA CAMPAIGN IN STARTUP ECOSYSTEM

The startup India campaign is bound to have a large impact on the startup ecosystem in the country through all the new policies that have been introduced and the changes that have been made. India is a country with over 800 million young minds and a large number of those are English speaking. This gives India an upper edge over many other young nations. Now, since this campaign has been launched to facilitate the young minds, it is going to affect a large chunk of Indian population and hence the economy. We all understand how all the new policies are going to impact the startup ecosystem. However, there are other ways too in which this campaign is going to attract the youth towards startups.

⇒Providing employment

The NASSCOM report for the year 2015 reveals that startups provided employment to around 80000 to 85000 people. With the launch of startup India, which is expected to further boost the startup ecosystem in India, this number will definitely raise exponentially in the coming years. Curbing unemployment has always been a challenge for governments across the planet but this move indirectly contributes to the cause.

Let us consider the example of a terracotta jewelry startup ‘Color D Earth’. It is a startup which employs a large number of terracotta artisans across south India. Terracotta used to be a dying art once because these artisans did not have a proper channel where they could showcase their talent and get adequately paid for it. This startup brought these people together to form a community which can thrive together and earn thus providing them employment and a better respectful living. With the launch of startup India, more startups like this are expected to come up.

⇒ Growth through FDIs

One of the very important contributions this campaign will have is towards bringing in FDIs in India. This move has made eyes roll from many foreign investors all across the world. It is important to note that the chain involving the FDIs and the startups is a cycle which got a huge boost by the launch of startup India event. As the startup ecosystem in India grows, it will attract more FDIs, further enable growth of startups and the cycle continues.

Multinational Corporations like Google fund Indian startups by providing funds through the incubators. Not only Google, but many other companies such as Qualcomm etc. have shown interest in investing in startups across the nation. This definitely is very significant towards the growth of Indian economy.

STATUS OF STARTUPS

According to the NASSCOM Startup Report 2014, India is the 4th largest startup ecosystem globally after USA, UK, Israel and Canada. The technology product startups inception rate in India is growing at 14% Y-o-Y. In 2014, the country had 3100 startups and is expected to see 11500+ startups by the year 2020. In 2014, startup ecosystem employed about 65000+ people. This number is expected to rise to 250,000 in 2020.

59% of startups in India are in the B2C space, 37% are in the B2B space whereas the remaining 4% are a combination of B2B and B2C. India is expected to see more than 11500 startups by 2020 and is expected to employ over 2.5 lakh people. 90% of the startup activity in India seems to be happening in top 6 cities of Bangalore (28 per cent), Delhi-NCR (24 per cent), Mumbai (15 per cent), Hyderabad (8 per cent), Pune (6 per cent) and Chennai (6 per cent). Kolkata, Ahmedabad, Kochi, Jaipur and Thiruvananthapuram are dominant as the next emerging startup locations.

Founder Profile

73% entrepreneurs in India are young founders falling under the age of 36 years (53% founders in the age group of 26 to 35 years, 22% in the age group of 36 to 45 years, 20% entrepreneurs younger than 25 years and about 5 % entrepreneurs more than 45 years in age) 52 % founders come with a post graduate degree.

Funding

VCS/ PEs

In 2014, India saw 70+ active investors who carried out more than 100 deals. The year 2014 saw investment of about USD 1818 million made in the Indian startups (For 2014, investment commitment in startups excluding e-commerce was USD 743 million). The overall average deal size of USD 7.7 million (Average deal size in B2B segment is USD 5.7 million whereas average deal size in B2C segment is USD 9.4 million).

More and more VC/ PE investments are happening in the expansion stage. In 2014 about 186 million USD was invested in startups who were less than 2 years old whereas 1632 million USD was invested in startups who are 2-5 years old. About 63% investments were made in the B2C segment, 32% in the B2B segment and 5% in b2B / B2C segment. Companies in NCR and Bengaluru attracted a large part of VC/ PE investments followed by Mumbai , Chennai, Pune and then others.

Angel Investment

2014 saw 90+ Angel investors investing in the Indian market. More than 73 angel investment deals happened in 2014 in which investments worth more than 32.2 million USD

were made. The year saw more than 10.6 USD invested in startups that were less than 2 years old and more than 21.7 USD invested in startups who were 2-5 years in age. 60% investment was made in B2C segment, 34% in B2B segment and 6% in B2B / B2C

SUGGESTIONS

According to the report, over 1,000 start-ups have been added to the list of tech start-ups in India, making way for an overall growth of seven per cent. With this, India continues to be the third largest start-up market in India, only after the US and UK. Bengaluru, NCR and Mumbai are still dominating the ecosystem as the major startup hubs in the country. However, according to the report, another major development has been noticed in the Tier II and Tier III cities in India which now account to 20 per cent of start-ups in the country. With India holding the 60th rank in the global innovation index, the year 2017 also saw non-US investors foraying into India and expanding their investment portfolio.

Startup systems require a combination of friendly operational, regulatory and taxation issues that affects the working of business environment very much. For building an entrepreneurial environment, the government, big corporate, educational institutions should come forward to provide a culture for startups in India through Mentor programmes, innovative essay competitions, workshops and seminars should be organized by the government and universities.

CONCLUSION

India declared 2010-20 as the Decade of Innovation. Innovation is the key for startup ecosystems and results for more industrialization. That increases the per capita income of a country. The indigenous startups will not only make the lives of people easier through their affordable and convenient services but also will act as a major booster for the development and progress of the Indian economy. Almost every other corporate has woken up to the need of the hour that is innovation. They have been partnering and acquiring start-ups or even taking part in their growth by forming accelerators. Corporatism brings their stability to the agility of start-ups. A report states a growth of more than 30 per cent in the country's accelerators. The number of mergers and acquisitions has also significantly risen in 2017 with many non-tech Indian companies acquiring start-ups. From an

overall viewing, India had a very high scope for growth of startup ecosystems. India offers the largest pie of venture prospect that the world is eyeing.

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