

# Growth and the challenges of start-up entrepreneurs in India – an analysis

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## Abstract

A startup is a young company that is just beginning to develop. Startups are usually small and initially financed and operated by a handful of founders or one individual. These companies offer a product or service. It is not currently being offered in a different place in the market. In the early stages, startup companies' expenses tend to exceed their revenues as they work on developing, testing and marketing their idea. As such, they often require financing. Startups may be funded by traditional small business loans from banks or credit unions, by government sponsored Small Business Administration loans from local banks, or by grants from nonprofit organizations and state governments. Incubators can provide startups with both capital and advice, while friends and family may also provide loans or gifts. A startup that can prove its potential may be able to attract venture capital financing in exchange for giving up some control and a percentage of company ownership. Over 58 percent of the rural households depend on agriculture as their principal means of livelihood. The Indian food and grocery market is the world's sixth largest, with retail contributing 70 percent of the sales. The Indian food processing industry accounts for 32 percent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. The online food delivery industry grew at 150 percent year on year with an estimated gross merchandise value of 300 million in 2016. The study focuses on empowerment of startups through innovation and design and to accelerate distribution of the startup movement.

**Keywords:** Startup, Compliance, Economic Growth, Innovation, Opportunities, Challenges.

## INTRODUCTION

On 69<sup>th</sup> Independence Day of India, standing at the historic Red Fort, Mr. Narendra Modi announced the much needed „Start-up India, Stand up India“ campaign which is being welcomed by conglomerates like Soft Bank by identifying it as the beginning of Big Bang for Indian Start-up ecosystem. With the intention to build a strong eco-system for nurturing innovation and Startups in the country, the Hon<sup>“</sup>ble Prime Minister launched Startup India Action Plan on January 16, 2016 in New Delhi. Primarily, „Startup India“ campaign is based on an action plan aimed at promoting bank financing for start-up ventures to promote entrepreneurship and encourage start-ups with jobs creation whereas „Stand up India“ initiative is aimed at promoting entrepreneurship among SC/STs, women communities. There was no such climate for a startup ecosystem to thrive. Even after the establishment of National Science and Technology Entrepreneurship Development Board (NSTEBD) in 1982, there was no such ecosystem even in a far sight. It was only in 1995-1996, that the startup ecosystem started to develop. It was possible because India started gaining a lot of experience and expertise in IT sector as more and more young boys and girls started moving to U.S and Europe as IT professionals. That<sup>“</sup>s how sometimes the evil of „brain drain“ helps in disguise. The Government through this initiative aims to empower Startups to grow through innovation and design and to accelerate spreading of the startup movement.



### Start-up India & Stand up India

**Startup India** is a Government of India flagship initiative to build Startups and nurture innovation. Through this initiative, the Government plans to empower Startup ventures to boost entrepreneurship, economic growth and employment across India. The Government<sup>“</sup>s Action Plan will help accelerate the growth of Startups throughout India, across all important sectors – in Tier 1, 2 and 3 cities, including semi-urban and rural areas – and includes promoting entrepreneurship among SCs/STs and women communities.

- ✓ Simplification and Handholding
- ✓ Funding Support and Incentives
- ✓ Industry-Academia Partnership and Incubation

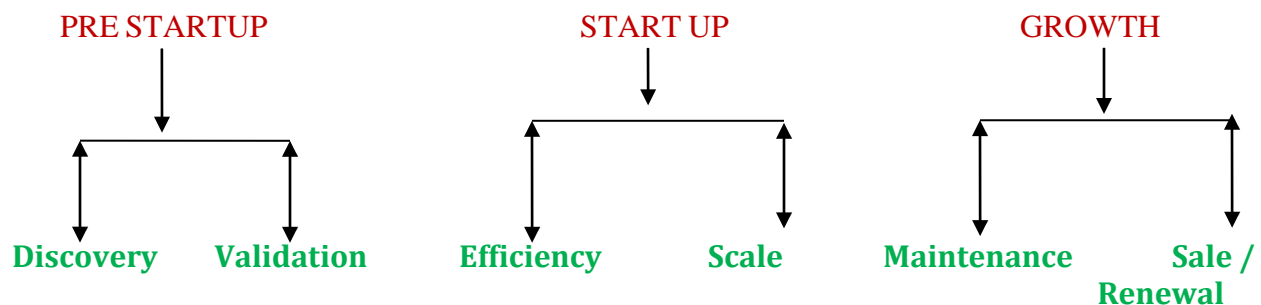
## Why Startup India

Startup India is about creating prosperity in India. Many enterprising people who dream of starting their own business lack the resources to do so. As a result, their ideas, talent and capabilities remain untapped and the country loses out on wealth creation, economic growth and employment. Startup India will help boost entrepreneurship and economic development – by ensuring that people who have the potential to innovate and start their own business are encouraged with proactive support and incentives at multiple levels. A start-up ecosystem comprises of entrepreneurs, different kinds of financial support such as debt financing, equity investments, grants, and non-financial support including incubation, acceleration support, mentoring and technical experts. It also includes the government policies and programmes relevant to start-ups, academia and other organisations and firms that in different ways interact with or support start-ups.



The event that witnessed the inauguration of this scheme by Mr. Arun Jaitley on 16 January 2016 was attended by top notch 40 CEOs, start-up founders and investors from Silicon Valley, including Masayoshi Son, CEO of Soft Bank, Sachin Bansal, founder of Flipkart and many others. The event was a huge success as it was for the first time when two lakh passes were sought to attend the Start-up India workshop at Vigyan Bhavan, New Delhi which has a total seating capacity of only 1,350 individuals. According to the scheme that is announced, a start-up is an entity that is headquartered in India, which was opened less than 5 years ago and have an annual turnover less than Rs. 25 Crore (US \$ 3.7million).

### THREE STAGES OF STARTUP LIFECYCLE



- ✓ **Discovery:** Identify a potential scalable product/service idea for a big enough target market
- ✓ **Validation:** The service or product discovered hits the market, looking for the first clients ready to pay for it.
- ✓ **Efficiency:** The entrepreneur begins to define his/her business model and looks for ways to increase customer base
- ✓ **Scale:** Pushing the growth of the business aggressively while increasing its capacity to grow in a sustainable manner
- ✓ **Maintenance:** Maximising benefits and facing problems derived from the global dimension that the business has achieved
- ✓ **Sale or Renewal:** The decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing.

**States with Startup Policies:** 15 States like, Gujarat, Madhya Pradesh, Karnataka, Telangana, Jharkhand, Uttar Pradesh, Odisha, Chhattisgarh, Bihar, West Bengal, Uttarakhand, Andhra Pradesh, Rajasthan, Kerala, Goa have formulated Startup Policies since October 2014.

## **Prime Minister - Mr. Narendra Modi - Major Action Plan**

While addressing the first conference of start-up entrepreneurs introduced the action plan to foster the new start-ups. Here are the major key points of that action plan aimed at reviving the ecosystem of Indian Start-ups:

- ❖ To reduce the regulatory burden on start-ups, self-certification option will be provided, and it will apply to laws like payment of gratuity, contract labour, and employee's provident fund, water and air pollution acts.
- ❖ Creation of start - up India hub for easy access to knowledge and funding at one spot.
- ❖ Ease of registration by filling up a short form through a mobile app.
- ❖ Legal Support for fast-track patent examinations at lower costs. ( 80 % rebate in fees for filing patent applications)
- ❖ In order to provide the infant start-ups with funding, the government will set up a fund with an initial corpus of Rs. 2500 crore and a total corpus of Rs.10000 crore over four years. This credit guarantee fund for start-ups would help the flow of venture debt from the banking system to start-ups by standing guarantee against risks.
- ❖ Exemption from Capital Gains Tax on investments made by incubators in start-ups.
- ❖ Income tax exemption for first three years.
- ❖ Innovation core programmes for students in 5 lakh schools
- ❖ The launch of Atal Innovation Scheme for encouraging innovation among people.
- ❖ Establishment of 35 incubators and 31 innovation centres at national institutes on PPP model.
- ❖ Establishment of 7 new research parks with an investment of Rs.100 crore each.
- ❖ Promotion of entrepreneurship in biotechnology by establishing 50 bio-incubators, 150 technology transfer offices and 20 - bio connect offices.
- ❖ Faster exit option for start-ups in the case of bankruptcy or closure (within a period of 90 days).

**STARTUP INDIA HUB:** Startup India hub was operationalised on 1st April, 2016 to resolve queries and provide handholding support to Startups. The hub has handled more than **69,000** queries from Startups through telephone, email and Twitter. To seek clarifications pertaining to Certificate of Recognition as a "Startup", Certificate of Eligibility to avail tax benefits, seeking information on incubators or funding, one can get in touch with the Hub. The

hub has mentored more than **450** Startups for incubation, funding support, on business plans, pitching support, etc. A **Startup India Online Hub** launched on 19th June, 2017 will serve as an online platform where all the stakeholders of the Startup ecosystem can collaborate and synergize their efforts. Already, **10,000** users have registered.

2017: Key Themes that defined the Indian Startup Ecosystem	
1	1000+ startup new additions in 2017. Overall base growing at 7%, India continues to be the 3 <sup>rd</sup> largest start-up hub, though other competitors are catching up.
2	Bangalore, NCR and Mumbai - key startup hubs; tier 2/tier 3 cities account for 20% of the startups.
3	Unicorn funding took centre stage with big deals announced in the year; <b>Non-US investors</b> expanded their investments in Indian startups.
4	Almost 50% of 2017 new addition startups were in the <b>B2B segment</b> (up from 34% last year); Fin-tech and Health-tech were the key verticals
5	<b>Corporate innovation</b> , with more than 50 corporates offering programs across co-innovation, corporate accelerators and venture funds
6	Advanced tech startups growing at a <b>5-year CAGR of 30%</b> – Artificial Intelligence and Analytics being the key growth segments
7	Build solutions for India becoming a strong focus area, with <b>300+ start-ups</b> solving challenges in Healthcare, Education Inclusion, Financial Inclusion, Clean Energy, Agriculture etc.

## TAX BENEFITS

- **Tax Exemption:** The Finance Act, 2016 had made provision for Startups to get income tax exemption for 3 years in a block of 5 years, if they are incorporated between 1st April 2016 and 31st March 2019. In the Union Budget 2017-18, the Government has increased this period of profit-linked deductions available to the eligible startups to 7 years. To avail these benefits one must get a Certificate of Eligibility from the Inter-Ministerial Board of DIPP.
- **Tax Exemption on Capital Gains:** Section 54 EE has been introduced under the Finance Act, 2016 which provides for exemption of capital gain up to INR 50 lakhs arising out of transfer of long term capital asset invested in a fund notified by Central Government. Also, Section 54 GB of Income-Tax Act, 1961 has been amended to provide exemption from tax on capital gains arising out of sale of residential house or a residential plot of land if the amount of net consideration is invested in equity shares of eligible Startup for utilizing the same for purchase of specified asset.
- **Removal of Angel Tax:** Tax exemptions on investments above Fair Market Value have been introduced on 14 June 2016 for investments made in Startups.

## COMPLIANCE REGIME BASED ON SELF-CERTIFICATION

Compliance norms have been eased in order to reduce the regulatory burden on Startups thereby allowing them to focus on their core business.

- ✓ Startups falling under the list of 36 “white” category industries will not require Environment clearance under 3 Environment related Acts viz. The Water (Prevention & Control of Pollution) Act, 1974; the Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003 and the Air (Prevention & Control of Pollution) Act, 1981.
- ✓ Ministry of Skill Development and Entrepreneurship (MSDE) have issued advisory to states to allow startups to self-certify compliance for a period of 1 year with the Apprenticeship Rules, 1992 of Apprenticeship Act 1961.
- ✓ As per the advisory issued by Ministry of Labour & Employment (MoLE) on 12.01.2016, Startups may self-certify compliance under six Labour Laws, twenty four states like Andhra Pradesh, Assam, Chhattisgarh, Chandigarh, Daman & Diu, Delhi, Gujarat, Himachal Pradesh, Mizoram, Odisha, Punjab, Tripura, West Bengal, Uttar Pradesh, Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Tamil Nadu, Telangana, Uttarakhand, Rajasthan, Karnataka and Bihar have confirmed compliance.
- ✓ Ministry of Skill Development and Entrepreneurship has now increased the tenure of compliance of self-certification under 6 Labour laws from 3 to 5 years. Further, nine states like Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Tamilnadu, Telangana, Uttarakhand, Rajasthan and Karnataka have confirmed compliance with new advisory.

### PATENT BENEFITS:

A Panel of 423 facilitators for patent and design applications and 596 facilitators for Trademarks applications has been constituted for assistance in filing Intellectual Property (IP) applications and to fast track the process of patent filing and acquisition. DIPP bears the facilitation cost on behalf of Startups and also provides rebate in the statutory fee for filing application. Under the scheme for Startups Intellectual Property Protection, Patent applicants have received the benefit of up to 80% rebate in patent fees and free legal assistance. Startups have also availed benefit of fees rebate in expedited examination filing fees (Form 18(A)). Trademark Rules, 2017 has been recently amended to provide 50% rebate in Trademarks filing fee to Startups. Overall, **826** Startup cases have been facilitated under the scheme.

## STARTUPS- COMPARISON IN INDIA

Particulars	India	China	Israel	Singapore	Japan	US
Total No of Startups	10000	10000	4750	NA	NA	83000
Tech-Based Startup	4300	3400	4000	NA	NA	48500
Non-Tech-Based Startup	5700	6600	750	NA	NA	34500
Setup New Business	30-60	30	13	2	10	4
Corporate Tax Rate	34%	25%	26%	17%	34%	39%
No. of Tax Payment by Business	33	9	TBD	TBD	TBD	11
Bank Lending Rate	10.3%	5.6%	3.9%	5.4%	1.2%	3.3%
R&D Spending % of GDP	0.85%	1.90%	4.20%	NA	3.40%	2.80%

Source: <http://www.airdberlis.com>

## GOVERNANCE AND REGULATORY ENVIRONMENT

**Atal Innovation Mission:** The Atal Innovation Mission (AIM) is being set up under NITI. AIM will be an Innovation Promotion Platform involving academics, entrepreneurs, and researchers drawing upon national and international experiences to foster a culture of innovation, R&D in India.

The proposed objectives of AIM are:

- ✓ To study and suggest best and novel practices to be adopted by different stakeholders in the innovations chain.
- ✓ To provide policy inputs to NITI Aayog's and various other government departments.
- ✓ To develop new programmes and policies for fostering innovation in different sectors of the economy
- ✓ To create awareness and provide knowledge inputs in creating innovation challenges and funding mechanism to the government.





## SCHEMES

**Ucchatar Aavishkar Yojana (UAY):** The objective of UAY is to promote industry and outcome-oriented research projects by students. INR 475 crore for 2016-18 has been earmarked under UAY and 92 research proposals from IITs have been approved. Under this scheme, INR 75 crore has been disbursed for research proposals from IITs under 6 domains.

**Million Minds Augmenting National Aspirations and Knowledge (MANAK) Scheme:** INSPIRE Awards scheme has been rechristened as INSPIRE Awards-MANAK. 10 lakh ideas will be targeted from 5 lakh schools of all boards across the country in a Financial Year. Over 1 lakh INSPIRE Awardees competed at District & State Level out of which 588 were selected to participate in the 6th National Level Exhibition and Project Competition, Delhi. Top 60 projects were showcased at the Annual Festival of Innovations in Rashtrapati Bhavan from 4th -10th March 2017.

**Smart India Hackathon 2017:** Smart India Hackathon, under MHRD was conducted on 1st April 2017. About 7500 teams from tier 2-3 cities including 40,000 students, 29 Government Departments participated in the 36 hour non-stop digital programming event.

**Faster Exit for Startups:** The Insolvency and Bankruptcy Board of India has been constituted and the provisions regarding corporate insolvency resolution have been implemented on 1st December, 2016. The provisions related to liquidation have been notified on 9th December, 2016. On 16th June 2017, Ministry of Corporate Affairs (MCA) notified the relevant sections 55 to 58 of Insolvency and Bankruptcy Code, 2016 pertaining to the Fast Track process and also notified that the process shall apply to Startup (other than the partnership firm) as defined by

DIPP. With this notification, Startups shall now be able to wind up their business within a period of 90 days from making an application for the same as compared to the 180 day period for other firms.

### OPPORTUNITIES AND CHALLENGES

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1.	4750 startups, India continues to be the third largest, marginally behind the united kingdom.	Funding slowdown, lesser number of big ticket investments
2.	20-25% YoY growth in exits, 95% of the deals by Indian organisations – startups, unicorns and corporates.	Quick cash burning to scale fast lead to high mortality in few B2C startups.
3.	350+active angles, up 20% from 2015, new breed of angels with domain experts on the rise.	Lesser uptake in hardware start-ups, though the ecosystem is developing
4.	5% increase in number of deals, more investment in B2B, investors from china and APAC looking at Indian start-ups.	Size of M&A deals is muted
5.	8-10% of startups from tier 2/3 cities – broad basing the start-up ecosystem	Need for faster adoption in corporates to fund and nurture tech startups.
6.	Expanding beyond the unicorns, category leaders maturing	Ease of doing business for startups improving, but needs quicker implementation.
7.	Huge push from government (startup India), Media, Industry and Academia.	Heightened concerns on cyber security due to increased digital footprint

**Source:** <http://www.financialexpress.com>

### STARTUP- POSSIBILITY OF GROWTH

**Policy initiatives:** Indian government aims to build an ecosystem that promotes entrepreneurship at the startup level and has taken a number of initiatives to ensure that the startup businesses get appropriate support.

**Make in India:** In September 2014, Prime Minister Narendra Modi introduced a big initiative “Make in India” to promote the manufacturing sector by promoting companies to invest in the sector. The intent of the campaign is to attract foreign investments and encourage domestic companies to participate in the manufacturing thereby contributing to the growth story.

1. The government increases the foreign Direct Investment limits for most of the sectors

2. Protection of the intellectual property rights of innovators and creators by upgrading infrastructure, and using state-of-the-art technology

**Standup India:** The Prime Minister also aims to build systems for enabling startups and wants to make the country as a number one destination for startups. In August 2015, he announced a new campaign “**Standup India**” to help startups with bank funding and encourage entrepreneurship among the young Indians. He also requested all 1.25 lakh bank branches to fund at least one startup founded by tribals and dalits.

**Standup India:** On 6th January 2016, the Union Cabinet has given approval to Standup India campaign which aimed at promoting entrepreneurship among women and scheduled castes and tribes. Some of the salient features include:

- ❖ Loans under the scheme would be given for green field projects in the non-farm sector,
- ❖ Intention of the scheme is to facilitate at least two such projects per bank branch,
- ❖ The scheme is expected to benefit at least 250,000 borrowers in 36 months from the launch of the Scheme.
- ❖ It also plans to ease out the existing regulatory regime for startups and is considering extending tax incentives to them. The Department of Industrial Policy and Promotion (DIPP) is currently working around a clear definition for startups to ensure that the regime is available to businesses

**Digital India:** This is an initiative led by the Indian government to ensure that government services are made available to every citizen through online platform. In July 2015, the PM announced the Digital India initiative that aims to connect rural areas by developing their digital infrastructure. This translates into a huge business opportunity for startups. E-Commerce companies in India are planning to break into India’s rural market as a part of the government’s Digital India initiative. In September 2015, PM Modi visited Silicon Valley, US and had meetings with a number of founders of technology firms and industry leaders such as Satya Nadella and Sundar Pichai to talk about his ambitions of developing a better startup ecosystem. According to startup report 2015, every year more than 800 tech startups are being set up in India. By 2020, a projected 11,500 tech-startups are going to emerge and will employ around 250,000 people.

**India target Fund:** The finance minister also announced the India Aspiration Fund to encourage the startup ecosystem and allocated INR 400 cr. to various venture funds. He also launched

another program called SMILE (SIDBI Make in India Loan for Small Enterprises) with an allocation of INR 10,000 cr. The objective of the scheme is to offer soft loans in the form of quasi-equity and term loans on soft terms to MSMEs.

**Startup Exchange:** The SEBI announced a new set of listing norms for startups, including e-Commerce ventures, planning to raise funding from listing on stock exchanges. These new norms will provide relaxations in disclosure related requirements, takeover and Alternative Investment Fund regulations for IT, data analytics, and intellectual property, bio-technology or nano-technology companies.

**Self-utilisation and Talent Utilisation (SETU):** The government is planning to set up a mechanism called SETU, under the newly formed NITI Aayog, to provide technical assistance and incubation to startups. In 2015 Union Budget, Finance Minister, Arun Jaitley, has set aside INR 1,000 crore for support startups.

#### **START- UPS INDIA – ECONOMIC GROWTH BY 2025**

<b>Particulars</b>	<b>2015</b>		<b>2025</b>
Total No. of Startup	10,000		1,00,000
Employment	N.A		3500
Expected Contribution	N.A		500
Global Startup Ranking	3 <sup>rd</sup> (behind the US and the UK)		Aim to be Number one
Driving Factors	An Emergency Economy Young Population Easing FDI Norms	Growing Middle Class Rise In Discretionary Spending Focus on Standard on Living	increase internet users urbanizations increase domestic consumptions
Challenges For Startups	Lack of awareness Multiple clearance requirement Multi-tax existence	Unorganised market Infrastructure in Tier II & III cities Lack of early stage	Stringent Exit policies Ease of doing business Corruption/red tape Technological risk

	(Octroi, VAT, Excise, Sales Tax etc.)	funding Lack of mentoring		
Government Initiatives (Including Upcoming)	Startup Ecosystem Digital India Online clearance portal	Tax exemption MUDRA Bank India Aspiration Fund	Easing fund raising Other funding initiatives Setting of SETU	Focused sectors Awareness initiatives Setting up incubators

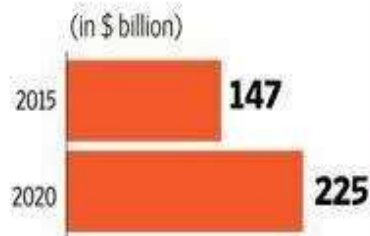
Source: <https://www.google.co.in>

# NEW YEAR EXPECTATIONS

India's IT spending is expected to reach \$71 billion in 2016, a 6% rise from 2015, according to Gartner Inc.

## REVENUE GROWTH OF IT INDUSTRY

(11-12% CAGR)



CAGR: Compound annual growth rate

Source: Nasscom

● In 2015, 1,200 new tech start-ups were born in the country taking the total to 4,200, making India the third largest tech start-up ecosystem behind the US and the UK but ahead of Israel and China, according to Nasscom.

## DEALS IN THE LAST THREE YEARS

Year-to-date (Jan-Nov)	IT & ITES		M&A		PE/VC	
	Value \$ mn	Volume	Value \$ mn	Volume	Value \$ mn	Volume
2013	1,144	84	1,909	132		
2014	6,247	121	4,419	228		
2015	5,079	172	6,640	592		

Source: Grant Thornton

Source: <https://www.google.co.in>

## CONCLUSION

Indian government aims to build an ecosystem that promotes entrepreneurship at the startup level and has taken a number of initiatives to ensure that the startup businesses get appropriate support. Technology and online communication reduce the cost of replication to zero and allow developers to work and collaborate from anywhere at any time in the environment that they exclusively create, greatly boosting their motivation and productivity.

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