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Startups India Campaign: An overview

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Abstract: India has the largest population in the world but when the term employment is concerned, the job availability as well as job creation in India is limited even when cheap manpower is available in India on large scale. To counter this situation new jobs should be created. Some cities have abundance job opportunity but the same is lacking in the other cities. To take advantage of demographic dividend, Government of India launched a Scheme "Start Ups India" on 16th January 2016 to build a strong eco system for nurturing innovation and startups in the country which will boost economic growth and large scale employment opportunity.

Keywords: Economy, Employment and Startups, demographic dividend, investment

Introduction:A start-up technically is any enterprise that is working on the growth, commercialization, and the creation of brand-new products, services, or mechanisms that are driven by intellectual property or new technology. Over the last two decades, the Indian startup ecosystem has grown rapidly, and more support has become available in all dimensions. Government of India decided to boost startups ecosystem to make the country job creators rather than job seekers. The campaign was first announced by Indian Prime Minister, Narendra Modi during his speech on 15 August 2015 as a part of Make in India campaign. This scheme was launched by former finance minister Mr. Arun Jaitley on 16th January 2016.

The larger goal is to help new businesses with bank financing, energise entrepreneurial spirit among youth, build frameworks for boosting startups, and make the country the best destination for tech businesses. In one of ASSOCHAM'S report, it is stated that in the coming years these startups will produce more rich figures and tycoons will be primarily driven by innovation.

Definition: *On February 19, 2019, the DPIIT amended the definition, as per which an entity will be considered a 'start-up' up to a period of 10 years from the date of incorporation/registration and if its turnover for any of the financial years since incorporation/registration does not exceed Rs 100 crore.*

Objective: In this research paper, researcher wants to light upon the stages of startup fundings .

Review of literature: India’s startup ecosystem is not a recent phenomenon. It has been prevalent for over four decades. It has given riseto several industries and bolstered the Indian economy in its varied phases of evolution. In recent times, however, thestartup ecosystem has garnered significant attention, not only because of the sheer number of entrepreneurial initiatives, but also given its strong angel investor network. With nearly $20 bn of capital inflows and about 100,000 people, the Indian startup ecosystem today ranks amongst the top five in the world.

Benefits of Study: This paper helps in understanding the various stages of funding for any startups.

Material and Methods: This research paper is based on secondary data collected from various magazines, websites, journals etc.

Schemes ofStartups India:
Startup India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design.
Key Pillars of Support for Startups
In order to meet the objectives of the initiative, Government of India has announced the Action Plan with key pillars of this flagship program that addresses all aspects of the Startup ecosystem. With this Action Plan the Governmenthopes to accelerate spreading of the startup

(Fig 1)

movement:
• From digital/ technology sector to a wide array of sectors including agriculture,manufacturing, social sector, healthcare, education, etc.; and
• From existing tier 1 cities to tier 2 and tier 3 cities including semi-urban and rural areas.
The Key Pillars are shown in **Fig 1**

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

An overview of funding:
Funding refers to the money required to start and run a business. It is a financial investment in a company for product development, manufacturing, expansion, sales and marketing, office spaces, and inventory. Many startups choose to not raise funding from third parties and are funded by their founders only (to prevent debts and equity dilution). However, most startups do raise funding, especially as they grow larger and scale their operations.

Types of Startup Funding

There are three types of startups fundings (Fig 2)

1. Equity Financing
2. Debt Financing
3. Grants

Working Capital Type	Equity Financing	Debt Financing	Grants
Description	Equity financing involves selling a portion of a company's equity in return for capital.	Debt financing involves the borrowing of money and paying it back with interest.	A grant is an award, usually financial, given by an entity to a company to facilitate a goal or incentivize performance.

Fig 2

Stages of Startups and Source of Funding:

There are multiple sources of funding available for startups. However, the source of funding should typically match the stage of operations of the startup (Fig 3). Please note that raising funds from external sources is a time-consuming process and can easily take over 6 months to convert.

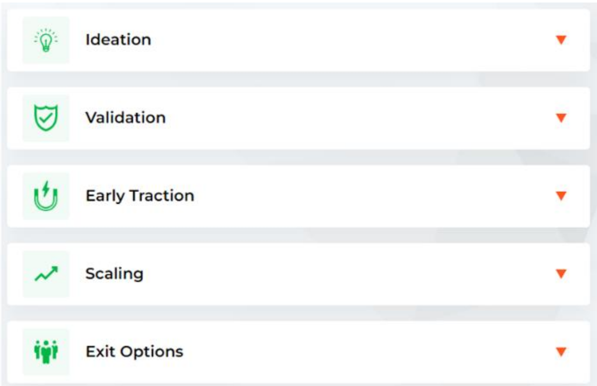

Fig 3

Ideation

This is the stage where the entrepreneur has an idea and is working on bringing it to life. At this stage, the amount of funds needed is usually small. Additionally, at the initial stage in the startup lifecycle, there are very limited and mostly informal channels available for raising funds.

Pre-Seed Stage

Bootstrapping/Self-financing: Bootstrapping a startup means growing the business with little or no venture capital or outside investment. It means relying on your savings and revenue to operate and expand. This is the first recourse for most entrepreneurs as there is no pressure to pay back the funds or dilute control of your startup.

Friends & Family: This is also a commonly utilized channel of funding by entrepreneurs still in the early stages. The major benefit of this source of investment is that there is an inherent level of trust between the entrepreneurs and the investors

Business Plan/Pitching Events: This is the prize money/grants/financial benefits that are provided by institutes or organizations that conduct business plan competitions and challenges. Even though the quantum of money is not generally large, it is usually enough at the idea stage. What makes the difference at these events is having a good business plan.

Validation

At this stage, a startup has a prototype ready and needs to validate the potential demand of the startup's product/service. This is called conducting a 'Proof of Concept (POC)', after which comesthe big market launch.

Seed Stage

A startup will need to conduct field trials, test the product on a few potential customers, onboard mentors, and build a formal team for which it can explore the following funding sources:

Incubators: Incubators are organizations set up with the specific goal of assisting entrepreneurs with building and launching their startups. Not only do incubators offer a lot of value-added services (office space, utilities, admin & legal assistance, etc.), they often also make grants/debt/equity investments.

Government Loan Schemes: The government has initiated a few loan schemes to provide collateral-free debt to aspiring entrepreneurs and help them gain access to low-cost capital such as the Startup India Seed Fund Scheme and SIDBI Fund of Funds.

Angel Investors: Angel investors are individuals who invest their money into high-potential startups in return for equity. Reach out to angel networks such as Indian Angel Network, Mumbai Angels, Lead Angels, Chennai Angels, etc., or relevant industrialists for this.

Crowdfunding: Crowdfunding refers to raising money from a large number of people who each contribute a relatively small amount. This is typically done via online crowdfunding platforms.

Early traction

At the Early Traction stage startup's products or services have been launched in the market. Key performance indicators such as customer base, revenue, app downloads, etc. become important at this stage.

Series A Stage

Funds are raised at this stage to further grow the user base, product offerings, expand to new geographies, etc. Common funding sources utilized by startups in this stage are:

Venture Capital Funds: Venture capital (VC) funds are professionally managed investment funds that invest exclusively in high-growth startups. Each VC fund has its investment thesis – preferred sectors, stage of the startup, and funding amount – which should align with your startup. VCs take startup equity in return for their investments and actively engage in the mentorship of their investee startups.

Banks/Non-Banking Financial Companies (NBFCs): Formal debt can be raised from banks and NBFCs at this stage as the startup can show market traction and revenue to validate its ability to finance interest payment obligations. This is especially applicable for working capital. Some entrepreneurs might prefer debt over equity as debt funding does not dilute equity stake.

Venture Debt Funds: Venture Debt funds are private investment funds that invest money in startups primarily in the form of debt. Debt funds typically invest along with an angel or VC round.

Scaling

At this stage, the startup is experiencing a fast rate of market growth and increasing revenues.

Series B, C, D & E
Common funding sources utilized by startups in this stage are:
Venture Capital Funds:VC funds with larger ticket sizes in their investment thesis provide funding for late-stage startups. It is recommended to approach these funds only after the startup has generated significant market traction. A pool of VCs may come together and fund a startup as well.
Private Equity/Investment Firms: Private equity/Investment firms generally do not fund startups however, lately some private equity and investment firms have been providing funds for fast-growing late-stage startups who have maintained a consistent growth record

Exit Option

Mergers & Acquisitions: The investor may decide to sell the portfolio company to another company in the market. In essence, it entails one company combining with another, either by acquiring it (or part of it) or by being acquired (in whole or in part).
Initial Public Offering (IPO):IPO refers to the event where a startup lists on the stock market for the first time. Since the public listing process is elaborate and replete with statutory formalities, it is generally undertaken by startups with an impressive track record of profits and who are growing at a steady pace.
Selling Shares: Investors may sell their equity or shares to other venture capital or private equity firms.
Buybacks: Founders of the startup may also buy back their shares from the fund/investors if they have liquid assets to make the purchase and wish to regain control of their company.

Startup India Funding Support

SIDBI Fund of Funds Scheme: The Government of India formed a fund of INR 10,000 CR to increase capital availability as well as to catalyze private investments and thereby accelerate the growth of the Indian startup ecosystem. The Fund was set up as a Fund of Funds for Startups (FFS), approved by the Cabinet and established by the Department for Promotion of Industry and Internal Trade (DPIIT) in June 2016. FFS does not invest in startups directly but provides capital to SEBI-registered Alternate Investment Funds (AIFs), known as daughter funds, who in turn invest money in high-potential Indian startups. SIDBI has been given the mandate of managing the FFS through the selection of daughter funds and overseeing the disbursal of committed capital. The fund of funds makes downstream investments in venture capital and alternative investment funds that in turn invest in startups. The fund has been formed in a way that creates a catalyzing effect. Funding is provided to startups across different life cycles.

As of 28th February 2023, SIDBI has committed INR 8294.95 crores to 103 AIFs further INR 3,654.89 crores has been distributed to 74 AIFs. A total of INR 14,828 crores has been injected to boost 818 startups.

Department for Promotion of Industry and Internal Trade (DPIIT) has created Startup India Seed Fund Scheme (SISFS) with an outlay of Rs. 945 CR, which aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market-entry, and commercialization. This would enable these startups to graduate to a level where they will be able to raise investments from angel investors or venture capitalists or seek loans from commercial banks or financial institutions. The scheme will support an estimated 3,600 entrepreneurs through 300 incubators in the next 4 years. The Seed Fund will be disbursed to eligible startups through eligible incubators across India.

Challenges:

Funding issues: Due to a lack of access to capital, Indian startups frequently encounter funding issues.In addition, it is challenging for investors to fund new businesses in India due to the high risk of investing in startups and the difficulties posed by regulations.

Skilled Talent: Finding and employing skilled workers is frequently a challenge for Indian startups. Because the country's education system does not always provide startups with the necessary skills and training, there is a shortage of skilled professionals in certain fields. Startups also struggle to attract and keep talented employees due to established competitors and the lure of high-paying jobs abroad.

Competitive Startups: There are thousands of startups competing for funding, talent, and customers in India's startup ecosystem. From e-commerce and fintech to healthcare and education, the competition is fierce.

Regulatory and Compliance: High taxes, stringent labor laws, and bureaucratic delays in obtaining licenses and permits are just a few of the regulatory obstaclesstartups in India must overcome. Startups have a difficult time expanding and scaling their businesses because of these obstacles, which can take time and money.

Infrastructure Support:A society's or economy's inadequate or insufficient physical and organizational structures, systems, and facilities are referred to as poor infrastructure. Poor infrastructure includes inadequate healthcare and educational facilities, insufficient power supply, inadequate water and sanitation, and inadequate transportation networks.

Market Research: Startups in India frequently struggle to identify target markets, assess customer needs, and develop effective marketing strategies due to a lack of market understanding. Problems with product-market fit and difficulties scaling their businesses can result from this.

Management and Leadership Issues: Limited resources, rapid expansion, and a highly competitive market present challenges to management and leadership for new businesses in India. While maintaining a strong company culture and retaining talent, founders may struggle to delegate responsibilities, establish productive teams, and develop long-term strategies.

Economic and Political Instability: New companies in India face monetary and political shakiness difficulties, for example, cash variances, strategy changes, and international dangers. Operations, investor uncertainty, and growth opportunities can all be hampered by these factors. To lessen the impact of these difficulties, startups may need to implement proactive risk management strategies.

Conclusion:

Startups in India face a variety of obstacles, including regulatory obstacles, inadequate infrastructure, and a lack of market knowledge. However, successful startups have demonstrated that proactive strategies, such as conducting in-depth research, establishing strong relationships with stakeholders, utilizing technology, and seeking mentorship and advice from seasoned entrepreneurs, can overcome these obstacles. Indian startups have the potential to achieve significant success and contribute to the economic expansion of the nation, thanks to a market that is expanding and a supportive ecosystem.

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