

Start-Up India: Opportunities and Challenges

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INTRODUCTION

Startup is defined as an entity, registered or incorporated in India not prior to five years, with annual turnover limit INR 25crore in any following financial year, working towards innovation, development, deployment or commercialisation of new outcomes, steered by technology or intellectual property services provided that such entity is not formed by splitting, or renovation, or a business which is already exists.

The ‘*Start up India, Stand-up India*’ initiative was launched by honourable Prime Minister on 15th August, 2015 for providing a boost for entrepreneurial landscape of India. The main purpose of this initiative is to promote Bank Financing for startups and offer incentives to boost entrepreneurship and employment construction. MSMEs (Micro, Small and Medium Enterprises) have been considered as the fuel of entrepreneurship for India’s economic developmental process. In the budget speech of 2014-15, Finance minister stated MSME sector as the backbone of our economy. This sector has a crucial role to play in the overall growth of the economy with an estimated 4crores of enterprises employing over 10crore, accounting for 37% of total industrial production and 35% of total exports. For the development of a business ecosystem to promote and realize ‘*Make in India*’, MSMEs are useful.

To overcome challenges in promoting entrepreneurship in India, the Indian government has taken initiatives. The government has founded some schemes to ease the ideation and funding stages of setting up a business, give aid for the ‘Start-up India, Stand-up India’ program. In order to meet the objectives of the initiative, Government of India had notified this Action Plan which addresses all characteristics of the Startup ecosystem. With this Action Plan the Government desired to speed-up the expanding of the Startup movement:

- From digital and technology sector to a wide array of sectors including healthcare, education, agriculture, manufacturing, social sector, etc.
- From extending tier-1 cities to tier-2 and tier-3 cities comprising rural and semi-urban areas.

The Government of India has taken various measures to improve the ease of doing business and is also constructing a motivating and enabling environment for these Startups, with the launch of the “Startup India” program. Startup India Hub will be an important form factor in this intense ecosystem and will:

- Work in a center and spoke model and in association with Central & State governments, Indian and foreign VCs, banks, legal partners, incubators, consultants, universities and R&D institutions, angel networks.
- Assist Startups throughout their lifespan with particular focus on primary aspects like obtaining financing, feasibility testing and enhancement of marketing skills, business modeling advisory and technology commercialization and management evaluation.
- Organizing consultant programs in association with government organizations, incubation centers, educational institutions and private organizations which desire to foster innovation.

THE ELIGIBILITY FOR START-UPS

To become eligible as a startup and get permission from the Inter-Ministerial Board, an entity must be the one which aims to develop and commercialise, a new outcome or service or process or outstandingly improved existing product or service or process that will create or add significance for customers or workflow. Services or process or products, which do not have potential for commercialisation or is unique or have no or limited cumulative value, will not be considered under the Scheme. To consider as eligible for a startup firm, it should be supported by following documents/events:

- A recommendation (with regard to innovative nature of business), in a format stated by DIPP, from an Incubator established in a post-graduate college in India
- An incubator, which is financed (in accordance to the project) from GoI as part of any specified scheme to promote innovation
- A recommendation (in the view of innovative nature of business), in a format specified by DIPP, from an Incubator recognized by GoI or be financed by an Angel Fund or Private Equity Fund or Incubation Fund or Accelerator or Angel Network duly registered with SEBI that upholds innovative nature of the business or be financed by GoI as part of any mentioned scheme to encourage innovation or hold a patent issued by the Indian Patent and Trademark Office in areas allied with the essence of business being promoted.

THE PROPOSED SCHEMES AND INCENTIVES UNDER ACTION PLAN

It is divided across the following areas:

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

The following are various schemes and initiatives taken by the government to boost start-ups in India.

Compliance Regime based on Self-Certification: The purpose of this scheme is to curtail the regulatory pressure on Startups thereby permitting them to focus on their root business and preserve conformity cost low.

Startup India Hub: The objective is to create a single point of contact for the whole Startup ecosystem, enabling exchange of knowledge and access to funding.

Rolling-out of Mobile App and Portal: The Objective is to serve as the lone stage for Startups for interacting with Government and Regulatory Institutions for all business requirements and exchange information across various stakeholders.

Legal Support and Fast-tracking Patent Examination at Lower Costs: The objective is to promote awareness and adoption of IPRS by Startups and facilitate them in protecting and make profitable IPRS by offering entry in to high quality Intellectual Property services and resources, including fast paced enquiry of patent applications and reduction in fees.

Relaxed Norms of Public Procurement for Startups Faster Exit for Startups: The objective is to make it easier for Startups to wind up operations.

Funding Support and Incentives: The objective is to provide funding support for expansion and advancement of innovation driven enterprises.

Credit Guarantee Fund for Startups: The objective is to marshal the entrepreneurship by offering credit to innovators across all sections of society.

Tax Exemption on Capital Gains: The objective is to promote investments into Startups by mobilizing the capital gains increasing from sale of capital properties.

Tax Exemption to Startups for 3 years: The objective is to promote the growth of Startups and address working capital requirements.

Tax Exemption on Investments over Fair Market Value: objective is to encourage seed-capital investment in Startups.

Organizing Startup Fests for Showcasing Innovation and Offering a Collaboration Platform: The objective is to galvanize the Startup environment and to serve national and international visibility to the Startup ecosystem in India.

Launch of Atal Innovation Mission (AIM) with SETU (Self-Employment and Talent Utilization) Program: The objective is to serve as a stage for elevation of Grand Challenges, top-class Innovation Hubs, Startup Businesses and other self-employment actions, significantly in technology enforced areas. The Atal Innovation Mission (AIM) shall have two core functions:

- Promotion of Entrepreneurship via Self-Employment and Talent Utilization (SETU), where Innovators would be encouraged and guided to become successful entrepreneurs.
- Innovation promotion for staging a platform where innovative ideas are developed.

The primary components planned to be initiated as part of the mission include:

Entrepreneurship promotion:

- Inception of sector precise Incubators together with PPP Establishment of 500 Tinkering Labs.
- Pre-incubation training to flair entrepreneurs in different technology areas in collaboration with various academic institutions having proficiency in the field.
- Reinforcing of incubation facilities in existing incubators and mentoring of Startups.
- Seed financing to potentially efficient and highly expanding Startups.

Innovation promotion:

- 3 National level awards and Institution of Innovation Awards (3 per state/UT).
- Providing support to State Innovation Councils for awareness creation and organizing state level workshops and conferences.
- Inauguration of Grand Innovation Challenge Awards for finding ultra-low cost solutions to India's critical and uncontrollable problems.

Harnessing Private Sector Expertise for Incubator Setup: The objective is to ensure professional management of Government sponsored or funded incubators, Government will create a scheme and structure for establishment of incubators across the country in public private partnership

Building Innovation Centres at National Institutes: The purpose is to launch successful innovation through augmentation of incubation and R&D efforts. In order to extend the evolution and R&D efforts in the country, the Government will set up/ scale up to 31centres (to offer facilities over 1,200 new Startups) of innovation and entrepreneurship at National institutes, compromising:

- Establish 13 Startup innovative centers: Funding support of INR 50 lakhs (shared 50:50 by DST and MHRD) for every year and for three years for encouraging student driven Startups from the Host institute.
- Setting-up or expanding the 18 Technology Business Incubators (tbis) at iits/nits/iims etc. As per funding model of DST with MHRD providing smooth approvals for TBI to have individual society and development space.

Startup Centres		Technology Business Incubators		
RGIM Shillong	NIT Goa	MANIT Bhopal	IISER Bhopal	NIT Warangal
NIT Delhi	NIT Agartala	NIT Rourkela	IIM Rohtak	MNIT Jaipur
MNIT Allahabad	NIT Silchar	NIT Jalandhar	IIT Mandi	NIT Tiruchirappalli
VNIT Nagpur	IIT Bhubaneswar	IIM Udaipur	IISER Mohali	IIT Patna
IITDM Kancheepuram	NIT Patna	NIT Calicut	IIT Roorkee	
PDPM-IITDM Jabalpur	NIT Arunachal Pradesh	IIT Ropar	IIM Kazhikode	
ABVIITM Gwalior		IISER Thiruvananthapuram	IIM Raipur	

Figure 1: Innovation centers

Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras:

The objective is to propel successful innovation through incubation and joint R&D efforts between academia and industry.

Setting up of 7 New Research Parks Modeled on the Research Park Promoting Startups in the Biotechnology Sector: The objective is to foster and facilitate bio-entrepreneurship.

Launching of Innovation Focused Programs for Students: The objective is to foster a culture of innovation in the field of Science and Technology amongst students.

Annual Incubator Grand Challenge: The objective is to support creation of successful world class incubators in India.

As many as 2.5 lakh jobs are expected to be created by tech start-ups in the next five years, commensurate with IT industry influence The National Association of Software and Services Companies (NASSCOM). With more than 3,000 digital or tech oriented start-ups, India is the fourth largest platform for new companies, the trade body said. Nasscom stated that if the scenery continues to emerge at this speed, by the end of 2020, more than 11,500 start-ups are expected to get established in India producing employment opportunities for 2,50,000 people . Over 800 start-ups established in India in 2014 alone, the study said. Bengaluru and the Delhi-NCR are the top two start-up landing places and the two places jointly account for more than 50% of new companies. Nasscom said, the major growth factors like mentors, whitespace opportunities, huge domestic market, access to capital, and increased M&A (merger and acquisition) actions are speeding the start-ups growth. Young entrepreneurs are in command in the start-up landscape with more than 73% founders under the age of 36 years. Nasscom stated that Start-ups today have access to multiple sources of funding from angel investors, venture capitalists (VC)/ private equity (PE), banks and financial institutions as well as incubators. From 2010 to 2014, an approximate of Rs.18,900crore have been invested in start-ups, it said.

STARTUPS INNOVATION AND GROWTH IN INDIA

The government, which wants to raise the share of the manufacturing sector to 25% of GDP by 2025, is viewing startups as creating jobs for over 15 million people who joined the workforce every year. There are 30mn of small, micro and medium enterprises in India. India is the 4th largest ecosystem in the World for Starts-Ups, after the UK, Israel and US with speedily emerging ecosystem, driven by an extremely young, diverse and containing entrepreneurial platform. It is estimated that if the current trend continues, within 1-2 years India will be in 2nd spot next to US and will be one of the top Asian Start-Up ecosystems, along with South East Countries and China. As specified by NASSCOM about 11,500 Start-ups will come up in the Country by 2020, creating over 2.5 lakh jobs, compared to the current 75,000 jobs. The top 30 software start-ups in India are now valued US\$10.25 Billion, which is 20% increase from October 2014-these starts-ups employ 21,200 people and have 80% of their customer base abroad state by a report of iSpirit.

Startup India Hub was operationalized on 1st April 2016 to resolve queries and provide handholding support to Startups. The hub has been able to resolve 19,566 queries received from Startups through telephone, email and Twitter.

Recognition

A total of 1010 applications have been received for out of which 327 had the required documents and have been recognized as Startups by DIPP. Other applicants will be offered guidance and support to submit the relevant documents by the Startup India Hub. Among total applications obtained, 77 applications can be considered for tax benefits as only these Startups were been included after April 1, 2016. Out of the 77 applications, all have been considered by the IMB and 6 Startups have been approved for availing tax benefits.

Recommendation by Incubators

A maximum fee of Rs.5,000 is charged by the setups for catering Letter of Recommendation to Startups. Incubators charge a fee of Rs.10,000 , if there is a case of external expert(s) is/are required to evaluate the creation of a product or service or process, maximum.

Augmenting Incubators

Concerning to augment the current list of incubators, a module to identify the incubators has been launched. This enables incubators to get recognition from the Government of India that will permit them to give recommendation letters to Startups.

Nasscom became as the India's largest platform for very early stage techno startups with an initiative of 10,000 startups. It organized 8 events nationwide which provide high impact on product based startups. India ranks third globally with more than 4,200 startups, stated in 2015 NASSCOM report. Startups in India are hoping to go to the further side of 10,000 by 2020. The auspicious startup verticals are analytics, IOTs, health tech and hyper local e-commerce. Based on the report, India received \$5 billion in financing in 2015, a development of 125% progress year-on-year. The government has also realised the need for startups as a significant growth engine for economy boost and society. In order to build a more conducive business ecosystem, and for facileness for doing business, the Government of India recently launched the "Startup India" campaign.

Indian tech startups to witness hyper-growth

Information Technology (IT) and IT-enabled Services (ITeS) make up the great benefactor to Indian services exports buisness. The survey says the IT and ITeS sector, inclusive of BPM (Business Process Management) proceeded as one of the highest employers in the country, directly providing job for nearly 35 lakh people. The revenue of the IT-BPM industry at US\$ 119 billion grew by 12% in 2014-15 with export market alone making up nearly \$100 billion. Year 2014-15 witnessed rapid growth in the technology startup and software product landscape; India as the fourth biggest startup center in the world with over 3,100 startups in the country. Software products and services income for 2015-16 are expected to increase at 12-14%. According to a recent study by Nasscom , India has nearly 4400 startups that provide employment for 85,000 employees. Total funding till 2015 in startups is \$6.5 billion. This eliminates funding in startups incorporated before 2010, such as Flipkart, Quickr, Practo, Inmobi and Zomoto which, if we consider, will additionally inflate the investment figure. The ecosystem for both technology and regular startups has been developing at a rapid speed.

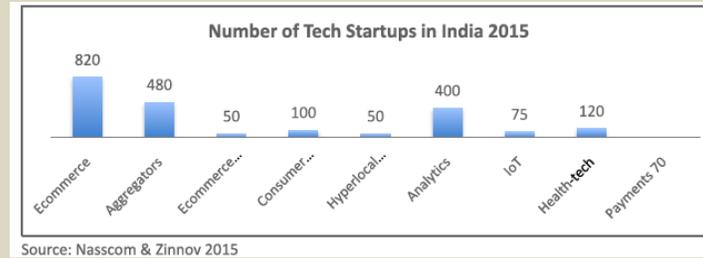


Figure 2 Tech startups in India

These startups have put India on the world map by making it the third- ranked Global Start-up Ecosystem 2015. However, most of the startups as well as their backers and financiers are located in, Delhi, Bangalore and Mumbai. Additionally, their focus tends to be on information technology enabled services including aggregators, analytics, IoTs, e-commerce, online payments and health techs.

WOMEN & STARTUPS

Number of female tech-entrepreneurs is doubled in the last five years; still the percentage of female founders is only 9%. A study that look over 200 female entrepreneurs in Bangalore reveled that half of the companies were knowledge thorough and located in office spaces while only 14% concentrating on manufacturing and 18% were located in industrial areas.

CHALLENGES

Total funding in technology startups were USD 2.2 billion in 2014 and it is US\$4.9 billion in 2015 commensurate with a NASSCOM study. At the same time, the number of funds investing in India expanded 40% from 2013 to 2014, and half of that money was expending in India for the first time.

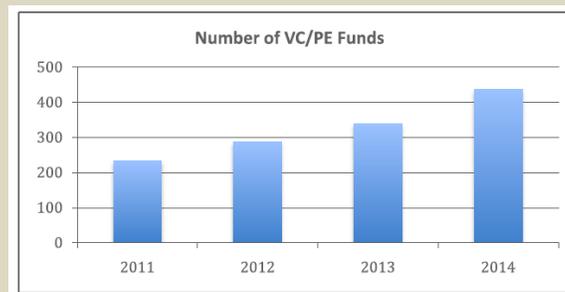


Figure 3 Number of VC/PE Funds till 2015

However, while there is clearly a great deal of capital flowing into the startup environment, only a very less amount attained by startups. Two major issues are the deficiency of early stage financing—angel and seed funding - and the current concentration of funding towards technology and e-commerce. Venture capital funds in India generally invest in firms that are already triggering revenues, therefore investing relatively late in the startup cycle. A series of regulatory and tax-related revives and sakes have been proposed under the program for incubating growing startups. However, to further promote startups and create an environment for ease of doing business, improvements also required to be introduced from an Indirect Tax outlook. GST (Goods and Services Tax) is one such measure.

Practical challenges with GST

While the government has brought over many affirmative changes in legislative plans, the ground-level realities are very different. There are practical challenges in approaching several tax authorities in terms of trying to explain the functioning of the new business prototypes. Seen that the lower cadre officers lack the understanding of new business models, which is radically different from conventional businesses, both regarding what these new commercial dealings are, and also how they are managed. This is creating business hindrance and barriers to the advancement and development of startups. It is expected that the present state tax boundaries would be diluted to a large extent under the GST regime.

Financing is not a major barrier faced by Indian companies as there are umpteen VCs and angel funds, in addition to thousands of individual entrepreneurs. The major striking was the announcement of a mobile app for startup registration. Catching the young is a smart move and the thought of teaching innovation at the grassroots level to school kids is interesting. But there is lack of teachers in 5 lac schools across the country. Getting quality mentors with real entrepreneurship surroundings and experience to monitor is a big issue. We must announce the ideas that can be very nearly implemented and not just stop with good aspirations. The , including at leading business schools, many of entrepreneurship courses taught at several campuses, use outdated material put together and taught by faculty who have never been entrepreneurs. This is a major problem and requires a combined effort by the HRD ministry. It is also important for the government to approve two major pending bills in parliament without any further delay – the GST and the bankruptcy bill, both of which can positively impact startup activity.

CONCLUSION

Although Government has been taken several initiatives funding was the major problems for sever startups. Most startups start in a garage with borrowed money, which often has to be returned irrespective of the final outcome. The situation in India is very different. Especially for students from leading institutes, a lot of financing is available. There are many kinds of angel investors in the market. To make Indian startups actually trade, it is mandatory to add additional constraints to the money supply. An unbridled supply of capital is not precisely the best way to move ahead. Founders should know that the purpose of a business is to earn profit, and provide value to customers. Startups should solve customer problems, and then only investment will follows. In this paper we conclude that startup India is a great initiative taken by the government to encourage young entrepreneurs, researchers, students and small brininess firms. There are challenges like lack of right mentors, financial problems and longevity of startup, we can easily overcome these by with knowledge and correct mentorship who have experience in entrepreneurship and with the help of initiatives taken by the government.

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