STARTUPS IN INDIA – ISSUES AND CHALLENGES

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Abstract

India is the second largest populous country in the world with 1.2 billion population strength. To cover up this large population there exist large potentiality of job market in India. To this extent, the Government of India has initiated to promote Bank financing for start ups and offer incentives to boast entrepreneurship and job creation. Startups have been the flavor of the season in the Indian markets over the last few years. This has resulted into the emergence of a number of home grown startups across in India. One of the major contributors leading to this development has been the mega funding. It has been ploughed into most of the firms between the period 2007 and 2015. This has been accrued in line with the global trend which is the dominating the space. Even the aspiring firms have had a decent run during this period, where managing to find investors is usually considered a huge task. Making big bets on Indian innovation has become a global point of interest. The Prime Minister, Narendra Modi, launched an ambitious program called Startup India Standup India. This was aimed at revolutionizing and accelerating the startup revolution in India, which is already witnessing strong traction. However the road to success is not as smooth as it appears to be. The Indian businesses are suffering from various problems such as the unorganized and fragmented Indian market, lack of clear and transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure, complications in doing business, etc. the least now being identified as issues that need to be addressed. The framework and course of regulations need to be updated and adopted as per the changing times. It is the duty of the policy makers for right policy announcement to bring and brought up startups in India

Keywords: Global Point, Bank financing, Venture Capital and revolution.

I. INTRODUCTION

Startup India aims at promoting bank financing for startup ventures to boost entrepreneurship with jobs creation. Prime Minister Narendra Modi while addressing at Red-Fort in his 15th August 2015 focused on to restrict state role in policy domain and to get rid of license raj and obstacles like in land permissions, foreign investment proposals, environmental clearance. A startup is an entity that is a head quartered in India for opened less and seven years ago. It has annual turnover less Rs.25 crores. The Government launched I-MADE, an app development platform aimed at producing 1,000,000 apps and PMYMM, the Mudra Bank. The Startup India is also aimed at promoting entrepreneurship among women and SC, STs.

“The Startup India initiative is also aimed at promoting entrepreneurship among SCs/STs, women communities. Rural India's version of
Startup India was named the Deen Dayal Upadhyay Swaniyojan Yojana. To endorse the campaign, the first magazine for start ups in India, The Cofounder, was launched in 2016.

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. 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.

II. OBJECTIVES

1. To review the benefits of startups India.
2. To analyse the opportunities for Startup in India in the economy.
3. To identify the challenges and issues faced by Startups in India.

Research Methodology

The study is a humble beginning. It is mainly based on secondary data. The researcher is interested to set up a startup, hence the study has been carried out by referring various news papers, books, reports, magazines, journals etc.

Benefits under Startups India

To promote growth and help Indian economy, many benefits are being given to entrepreneurs establishing startups by the Government of India.

Simple process: Government of India has launched a mobile app and a website for easy registration for startups. Any entrepreneur is interested in setting up a startup can fill up a simple form on the website and upload certain documents. The entire process has been completely online.

Reduction in cost: The government also provides lists of facilitators of patents and trademarks. They will provide high quality Intellectual Property Right Services including fast examination of patents at lower fees. The government will bear all facilitator fees and the startup will bear only the statutory fees. As a result, the entrepreneurs will enjoy 80% reduction in cost of filing patents.

Easy access to Funds: In order to bring startup culture in India a 10,000 crore rupees fund is set-up by government to provide funds to the startups as venture capital. The government is also giving guarantee to the lenders to encourage banks and other financial institutions for providing venture capital.

Tax holiday: Startups will be exempted from income tax for 3 years provided they get a certification from Inter-Ministerial Board (IMB).

Application for tenders: Startups can apply for government tenders. They are exempted from the “prior experience/turnover” criteria applicable for normal companies answering to government tenders.

Research & Development facilities: Seven new Research Parks will be set up to provide facilities to startups in the R&D sector, so has to promote startups culture in India.

No time-consuming compliances: Various compliances have been simplified for startups to save time and money. Startups shall be allowed to self-certify compliance (through the Startup mobile app) with 9 labour and 3 environment laws for list of white industries which are eligible under self-compliance.

Tax saving for investors: People investing their capital gains in the venture funds setup by government will get exemption from capital gains tax, thereby helping startups to attract more investors.

Right to choose your investor: After this plan, the startups will have an option to choose between the VCs, giving them the liberty to choose their investors.
Easy exit: In case of exit – A startup can close its business within 90 days from the date of application of winding up.

Opportunity to meet other entrepreneurs: Government has proposed to hold 2 startup fests annually both nationally and internationally to enable the various stakeholders of a startup to meet. This will provide huge networking opportunities.

**Opportunities**

There will be great opportunities for Indian startups because India has been transformed into big multi cultural society rather than its yester years.

Large Population: For startups, it is not essential to go elsewhere including overseas since India having population over a billion is a huge home market for any goods and services. Rising disposable income among middle class and their growing aspirations, have a large appetite for brands. The huge population of India has also led to a consumer expenditure growth, thereby it has propped up supply and production. Startups that aim at service and cater to the large population in providing a utility in consumer markets stands to do well.

Spread of Mobile Penetration: India's tele-density reached 76.55 percent with a subscriber base of 95.76 crore according to TRAI. Wireless subscriber base also touched 95.76 crore significantly. High mobile penetration in rural India has been reshaping the economy part from the urban. It has led efficiencies and increased productivity for movement of goods and services. Mobile penetration has led for businesses profits through faster decision making, better logistics and even something like access to bank accounts. It is has also led to increased financial inclusion and flow of credit to the rural people. The mobile penetration growth has been transforming the way traders and consumers communicate and work.

Mobile Phoen penetration transformed the nature of startup and businesses in a significant manner since the startup can develop mobile apps and have ever increasing market to cater the needs of people in India. Existing frameworks in India can prove to be inadequate and there is a need to leverage a billion minds thereby becoming a global power. Entrepreneurship and Startups can be instrumental for India in becoming a knowledge superpower.

Demographic Dividend: India with a 300 million 10-24 year olds have the largest concentration of youth population. This augurs well for the country has a health care and right education can see the economy soar. Youth can be a driving force behind innovation, creation, and future leaders of India by aiming at demand and consumption pattern in India. Further, youth can make up the workforce for startup.

India has a unique set of problems – health, education, infrastructure, sanitation etc. and solutions of western world cannot be applied to solve above problems. With the help of these startup can solve these problems because each problems is an opportunity for their entering into the form of startup. Indian startups to acquire even bigger scale and at the same time make a meaningful impact around the world.

**Challenges**

Indian startups are facing their own set of challenges irrespective of their kind. These are classified as under:

Culture: Startups and Entrepreneurship are recent phenomenon in India. People of India have moved from job to job creators a decade and half years ago. Doing a startup is tough and every startup have the problem of failures rather than success. An entrepreneur needs to be prepared to face failures and unprecedented hardship. Indians are not groomed to fail culturally. A startup failure
will teach the entrepreneur what to do and what not to do in future. People will look down upon failure which is conditioned by our culture. To overcome from failures, the encouragement is not done as and when it happens. Entrepreneurship is often about failing and learning from those failures and starting all over again. It can be suggested that the people need to start accepting failures and allow for second chances.

Mentorship: Doing a startup is a lonely journey and perilous job. The startup can have co-founders but one may not necessarily possess the business characteristics to succeed. One may have a brilliant idea but cannot transform that idea into a big business success. It is very important to have mentors who have been through a similar process of starting or have business experience for any startup. A great mentorship is often what separates success from failure by providing valuable inputs. However, there is a lack of formal mechanism for mentorship in India. Often mentoring that happens on an ad-hoc basis. A startup that has raised funds can count the investors for some form of mentoring, but honest, unbiased. For startups finding a good mentor is often an uphill task. The government should think for grooming and developing for a good mentorship system thereby can aim at a large number of startups which provide large job opportunities.

Policies: Another issue is issues related to legalities and requirements such as clearances, licenses, approvals required as well as issues related to resource availability including finances, technology and manpower supply. Government is the single largest enabler for the entrepreneurial ecosystem since the Government's role is making ease of doing business and helping companies start is vital to ensuring success. India ranked at 142 out of 189 economies with regard to ease of doing business according to the World Bank Report where starting a business rank for the country is even lower at 158. India has been ranked 155th in case of starting a business. Indian businesses need to make 33 tax payments annually with around 243 hours spent to prepare and pay taxes in a year on an averagely.

The multiple laws and regulations in India take about 30 days to comply when compared to just 9 days in OECD countries. The government has been encouraging the startups by giving out the grants and loans. However, it has to focus on implementation by having an effective mechanism and good environment. The government’s role in making polices should be “Teaching people how to fish rather than giving fish to them for their dinner”.

Hiring: The days of high growth are long gone both in Indian and world economy. It is particularly difficult to make correct estimates on the number of employees needed for a startup and it is very difficult for the new comer in the business to go for a better demand forecasting and forecasting for workforce. Even if the entrepreneur forecast for workforce, findings killed manpower is a difficult task. As a part of startup programme, the government has established National Skill Development Corporation (NSDC) which has been mandated to skill 150 million Indians by 2022. A startup often cannot match the salaries drawn at larger companies nor is a job at a startup seen as a steady one. This means startups face severe hiring challenges and at times have to settle for the next best option.

Funding: The Capital and access to capital has been a inherent problem for startups in India. A large number of startups still face problems to raise funds from institutional setup apart from the participation of angel investors, venture capital and private equity. Startups do not get funding from banks in the initial phase of operations. In addition,
credit rating firms are also a limited number of for small and medium sized enterprise. Startups struggle to survive the competition despite having raised good investments.

The following table explains the venture capital funding in startups in India which is main channel for growth and development of the startups.

Venture Capital Funding in Startup During 2015 and 2016

<table>
<thead>
<tr>
<th>Month</th>
<th>2015 No. of Deals</th>
<th>Amount Invested</th>
<th>Growth rate (%)</th>
<th>2016 No. of Deals</th>
<th>Amount Invested</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>99</td>
<td>473.05</td>
<td>--</td>
<td>118</td>
<td>275.88</td>
<td>--</td>
</tr>
<tr>
<td>February</td>
<td>94</td>
<td>385.81</td>
<td>81.56</td>
<td>116</td>
<td>199.41</td>
<td>72.28</td>
</tr>
<tr>
<td>March</td>
<td>127</td>
<td>967.36</td>
<td>250.73</td>
<td>109</td>
<td>295.34</td>
<td>148.11</td>
</tr>
<tr>
<td>April</td>
<td>99</td>
<td>385.96</td>
<td>39.99</td>
<td>90</td>
<td>139.68</td>
<td>47.29</td>
</tr>
<tr>
<td>May</td>
<td>126</td>
<td>465.29</td>
<td>120.55</td>
<td>83</td>
<td>134.38</td>
<td>96.21</td>
</tr>
<tr>
<td>June</td>
<td>111</td>
<td>335.94</td>
<td>72.20</td>
<td>85</td>
<td>305.38</td>
<td>227.25</td>
</tr>
<tr>
<td>July</td>
<td>134</td>
<td>589.12</td>
<td>175.36</td>
<td>86</td>
<td>265.74</td>
<td>87.02</td>
</tr>
<tr>
<td>August</td>
<td>140</td>
<td>1114.68</td>
<td>189.21</td>
<td>85</td>
<td>340.90</td>
<td>128.28</td>
</tr>
<tr>
<td>September</td>
<td>129</td>
<td>314.23</td>
<td>28.19</td>
<td>65</td>
<td>310.12</td>
<td>90.97</td>
</tr>
<tr>
<td>October</td>
<td>115</td>
<td>934.13</td>
<td>297.67</td>
<td>78</td>
<td>216.01</td>
<td>69.65</td>
</tr>
<tr>
<td>November</td>
<td>142</td>
<td>486.23</td>
<td>52.05</td>
<td>72</td>
<td>255.02</td>
<td>118.16</td>
</tr>
<tr>
<td>December</td>
<td>137</td>
<td>468.08</td>
<td>96.67</td>
<td>12</td>
<td>24.27</td>
<td>9.52</td>
</tr>
<tr>
<td>Total</td>
<td>1453</td>
<td>6919.88</td>
<td></td>
<td>999</td>
<td>2762.13</td>
<td></td>
</tr>
</tbody>
</table>

Source: NEWS Corp VCC edge

The table reveals that there were 1453 deals accounting for USD 6919.88 and the number of deals with few variations has touched more than hundred deals during 2015. There were 999 deals accounting for USD 2762.13 and the number of deals large variations has touched to a minimum of twelve accounting for USD 24.27. It appears that the Government of India did not impress the venture capitalist for funding in startups in India.

It difficult to maintain records both financial and operational for the most startups which are self/family funded with limited workforce. Startups suffer from the problem of Capital and access to capital. Government and private sector investors have set aside funds through investment channels however those funds are not sufficient for all the forms of business. The biggest problem for such organizations has been to attract investors and gain their trust with regard to their mode of operations. The startups in India also suffer from effective cash management. Cash is still a preferred option for payments owing to the fact that electronic payment has not achieved complete penetration to Tier 2 and Tier 3 cities in India.

Social issues: Mentorship/Guidance: Lack of proper guidance and mentorship is a major reason for most startups in India behind their failure. An important factor behind failures and slow growth of some organizations is the lack of quality mentorship, especially in terms of industry knowledge/support.

Indian Consumer Behaviour changes in every 30-50km which makes difficult for a startup to create business or market strategy for their products or services. As a result, most startups were failed and gradually shut down. An important problem faced by startups is related to location of their business. India is a place of varied culture and taste and thus every product might not be suitable and welcomed equally in every region in India.

Technology infrastructure issues: Appropriate IT has become a need for Indian businesses which a transformed consumers to go online for demanding the products. It is very important for new startups to train their employees.
for handling critical customer information such as credit card numbers etc.

Most startups have a B2B business model. Thus the cyber risk may rise as they are not aware of potential risks. No back-up plan to keep the startup company running when an accident destroys some key equipment in their data centre.

Sustainability Issues: The level of knowledge that business advisers have about ecological issues and their willingness to discuss this with their clients is important in creating business ventures. Provision of more information directly to business founders could help in the adoption of more sustainable business practices. Most entrepreneurs are not aware of potential that might exist for their startup business. Further, role of public funding in promoting sustainable enterprises is often overlooked.

Regulatory Issues: Multi window clearances: Budding entrepreneurs have to make multiple trips to government offices to register and seek clearances. There is urgent need to scrap multiple regulatory clearances.

Taxation Issue: The Government of India has enacted GST Act with a aim One Tax One Nation with w.e.f July 1st 2017 the GST filed returns filing is a barrier for technology adoption and proves to be an immense hurdle for budding entrepreneurs.

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