A STUDY OF STARTUP POLICY IN INDIA

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ABSTRACT

India accounts for four percent of global GDP today. Startup India is the flagship initiative of the Government amidst fanfare and euphoria. The strategies of the Central Government takes into account the collective aspirations and enterprise of the risk taking Indian. The success of the Silicon Valley startups has many indomitable and resolute Indians in the heart of it. India aspires to contribute to 15-20 percent global GDP. It happens when Startup movement attains critical mass.

This research paper revolves around the concept of Start-up India Campaign which was started on 15th august, 2015. The basic purpose of this article is to put some light on the challenges to be countered and opportunities to be capitalised upon by the start-ups entrepreneurs and the initiative taken by the Indian govt. The start-ups are the kind of companies which are innovative in their course of development, analysis, evaluation, research for the target segment. In this paper various govt. policies, plans, schemes, startup life cycle,financial and operational strategies related to start-ups will be discussed. Startup is one of the scorching events this era which everyone is talking about. This campaign is particularly based on enhancing the bank financing for the start-ups to encourage the entrepreneurship andcreating skilled job availability towards the strengthening of economy at large.

I INTRODUCTION

What is a start up?

Currently a clear definition of a Startup does not exist in the Indian context due to the subjectivity and complexity involved. Considering various parameters pertaining to any business such as the stage of their lifecycle, the amount and level of funding achieved, the amount of revenue generated, the area of operations, etc. some conceptual definitions are available in the public domain. These have been sourced and enumerated below to provide an indicative understanding on the space to the reader. The Department of Industrial Policy and Promotion (DIPP) is also working around a clear definition for startups and is expected to make it public in due course.

In india Startup India Scheme is an initiative by the Government of India for generation of employment and wealth creation. The goal of Startup India is the development and innovation of products and services and increasing the employment rate in India. Benefits of Startup India Scheme is Simplification of Work, Finance support, Government tenders, Networking opportunities. Startup India was launched by Prime Minister Shri. Narendra Modi on 16th January 2016. Let us learn more about Benefits and Eligibility of Startup India.

The action plan of Startup India is based on the following factors:

1. Simplification of Work :-

• Firstly, the government has set-up Startup India hubs where all the works related to incorporation, registration, grievance handling, etc.

• Secondly, an application and an online portal is set-up by the government to facilitate registration from anywhere and anytime.

• Thirdly, the patent acquisition and registration is now fast for the startups.

• Lastly, according to the Insolvency and Bankruptcy Bill, 2015 facilitates fast winding up of the startups. A new startup can wind-up itself within 90 days of the incorporation.

2. **Finance Support :-**

• The government has set up a corpus of Rs.10,000 crores for 4 years (Rs.2500 crore each year). From such fund, the government invests in various startups.

• Special funds are provided, investment in which leads to exemption from the income tax on the Capital Gain.

• Income tax exemption is available for the startups for the first 3 years after the incorporation.

3. **Venture Capital Fund :-**

• Under The Income Tax Act, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value of the shares, such excess consideration is taxable in the hands of the recipient as Income from Other Sources.

• Investment by venture capital funds in Startups is exempted from the application of this provision. The same extends to the investment made by incubators in the Startups.

Bridge Financing :- Your startup is now expanding and attempting to scale significantly with a commercially accessible product. Even if the firm isn't always profitable, revenue must be pouring in on a regular basis. The funds raised at this time could be used to expand into new areas, make mergers and acquisitions, or prepare for an IPO. At this level of investment, investors expect to see a clear path to profits immediately. Mezzanine financing, for example, might cover the costs associated with an IPO. The mezzanine investor gets paid back with interest using the proceeds from the IPO.

Initial Public Offering :- This isn't always the reason for a startup's failure. If you've raised money via each of the preceding degrees, though, going public is a viable option for additional expansion. Traders who have traded their money for stock up to this stage will ideally repay their funds while also making a profit. Some investors may hold their stocks, but don't be surprised if many of them sell early to reap the benefits of being in on the ground floor. Following the IPO, a growing commercial firm can use stock options to attract top-notch skills, and the expedited access to finance can supply assets to help your business keep moving forward.

Seed Funding :- Seed capital is the first round of funding for your firm. Sources will include channels used to account for that adolescent, such as the Bank of F&F (friends and family), crowd investment, credit cards, or

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your personal savings. There is no free money, and interest on their investment for your start-ups must be clearly disclosed, regardless of who you get money from. Make an effort to provide concrete deliverables and milestones, and keep them up to current on your progress. The money you're raising at this point is usually for research and development of a preliminary product, or an MVP if you don't already have one.

Angel Investor Capital :- When your startup's needs grow and you need to scale or grow investment in product development, advertising and marketing, or simply to amplify your staff to keep the momentum going, you can turn to angel investors for help. If your startup is at this stage of fundraising, your enterprise model canvas should be displayed. As defined by Atherton (2012), the finance supply of startups (formal or informal) is influenced by a variety of factors, with a significant gap between well capitalized and undercapitalized businesses.

Validation –

In order for an application to be valid the applicant must:

• paid the relevant fee for this type of application

• provided their biometrics

• paid the Immigration Health Charge for the relevant period (this will normally be full 2 years, unless they have already spent time in the Start-up or Tier 1 (Graduate Entrepreneur) routes)

• have provided a passport or other document that establishes their identity and nationality.

• have been issued with an endorsement letter from an endorsing body for the Start-up route, dated no more than 3 months before the date of the application student.

All applicants must be aged 18 or over at the time of application. If the applicant held permission as a student and was sponsored for their fees and living costs in the UK by a government or international scholarship agency, and the sponsorship is ongoing or was last awarded less than 12 months before the date of application the applicant must.

Easy Winding up of Company

This is to ease the shut down or wind up operations of the startups. This will allow the entrepreneurs to reallocate capital and resources to more productive avenues faster.To encourage entrepreneurs to experiment with new and innovative ideas without facing complex exit processes where their capital stuck in case of business failure.

As per the Insolvency and Bankruptcy Code, 2016, startups with simple debt structures, it can be wound up in 90 days of filing the application for insolvency. An insolvency professional can be appointed for the Startup who can be in charge of the company including liquidation of its assets and paying its creditors within six months of such appointment.

It is responsibility of the insolvency professional to the closure of the business, sale of assets and repayment of creditors in accordance with the distribution waterfall set out in the IBC.

Patent Application and IPR Application

The objective is to reduce the cost and time taken for a startup to acquire a patent, making it financially viable for them to protect their innovations and encouraging them to innovate further.

Fast-tracking of Startup Patent Applications – The applications will be fast-tracked so that the value can be realised sooner.

Panel of facilitators to assist in the filing of IP applications – The facilitators will be assisting in the filing of applications.

Government to bear facilitation cost – Under this scheme, the Central Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Startup may file, and the Startups shall bear the cost of only the statutory fees payable.

Rebate on the filing of application – Startups shall be provided with an 80% rebate in filing of patents vis-a-vis other companies. This will help them pare costs in the crucial formative years.

NEW AMENDMENTS

• REVAMPING THE INCORPORATION PROCESS

Government of India has revamped the incorporation process in February 2020 wherein the number of procedures to incorporate a company in India has reduced to 3 as against 10 earlier.

The time taken to incorporate a company has also been reduced to 4 days as against 18 days earlier for starting a Business in India.

• DEFERRING TDS OR TAX PAYMENT IN RESPECT OF INCOME PERTAINING TO EMPLOYEE

STOCK OPTION PLAN (ESOP) OF STARTUPS

In order to ease the burden of payment of taxes by the employees of the eligible start-ups or TDS by the start-up employer, TDS or tax payment has been deferred by five years or till the employee leave the company or sell their shares, whichever is earliest.

II LITRETURE REVIEW

Industry expectation from the Government is reciprocal. Few industry leaders who are championing Startup India want high bandwidth, tax breaks on budget smartphones supporting vernacular languages, simpler KYC norms, and improved access to electricity and credits.

Startup India has been promised an initial capital of 10K crore over a period of four years from the government. This seed capital is capable of attracting tenfold investment by 2022. Credit guarantee for startup lending is another booster. Startup plan unfolded on January 16, 2016 in front of domestic and international entrepreneurs. Internet-based businesses from food to fashion, health to education, and travel to payment platforms- all have taken Centre stage recently.

The Prime Minister unveiled a 19-point agenda to take forward the startup culture. The action plan included tax sops, ease-of-doing business, innovation to help entrepreneurs to startup and grow their business (Forbes India, Startup India, January 18, 2016).

Brown, Hamilton and Medoff (1991): found positive relationship between employee compensation and firm size. It means lower levels of compensation for employees in small business.

Weiss (1981): made a study in US and concluded that small businesses are generally less efficient when compared to large administrative companies and concluded that on an average, about half of total shipments in the industries covered are from suboptimal plants.

They are interacting with policy makers to weed out regulations which act as a brake to investments. Crisp documentation is a pipedream for the young, technology savvy, smart entrepreneur. The developed countries have worked hard to make startup operations simple. It is this backdrop which makes policy making challenging and interesting enough for the government of the day.

Zhou and Wit (2009) suggested seven determinants of firm's growth – growth motivation, specific skills, need for achievement, a firm's age, financial performance and extra finance.

Sanyal and Mann (2010) and Cosh et al. (2009) concluded that due to more tangible assets in the startups debt financing can be increased.

The role of information asymmetry and its relationship with venture financing structure has been theoretically addressed by **Myers and Majluf's (1984)** through POT. According to such theory, only owners and managers know the real value of the firm and its opportunities of investments. Investors, at opposite, do not know the real distribution of the incomes of the company; this fact influences the market value of the company, which can be over- or under-estimated, depending on the information available on market.

Narayan et al. (2019) report trends in investment in the Indian startup ecosystem between 2015-16 and 2018-19. Their analysis is based on annual funding reports published by a blog Trak.in. They find no significant relationship between the stage of funding and the level of development of a startup.

Rao and Kumar (2016) describe trends in angel investment from 2011 to 2015. Their results show that angel investment had substantially increased over the years. They found that angel investors are important as they fund early-stage startups contrary to venture capitalists, and also invest in a variety of sectors.

The most comprehensive paper describing investment trends in the Indian startup ecosystem is by David et al (2020). The paper analyzed trends in investment in the Indian startup ecosystem from 2015 – 2019, exhibiting stage-wise, sector-wise and geographic distribution of investment. Describing different schemes under which startups can avail benefits in India, they estimated a regression model to understand factors influencing startup investment in India. They found startups are clustered in the large cities and that small startups are located beyond the metros.

III OBJECTIVES

- To study the awareness about Startup in the light of recent changes announced by the Government.
- To find about respondents expectations from the initiative.
- To understand the initiative for startup India.

IV RESEARCH METHODOLOGY

The first step in the analysis was to define a startup. Usually, criteria such as the mode of operation (digital/online) of the firm, type of technology used, kind of product/service offered, size in terms of employment or investment, nature of funding, or their time of setting up, are taken into account while defining startups. For this study, a startup has been defined as one of the below:

1. An entity that principally operates online i.e., either selling products or services online or facilitating exchange between buyers and sellers online (functioning in two-sided markets).

2. An entity making use of proprietary technology (Nasscom, 2016) in the conduct of its business.

3. A company making use of new-age technology namely cloud, Internet of Things, artificial intelligence, big data and analytics and blockchain in its business operations (technologyoriented businesses).

Among manufacturing startups, we considered only those who primarily reach their consumers through the internet. We could not classify other manufacturing companies as startups as we had no data on whether they use proprietary technology or whether they have developed any prototype, which is indeed considered as a distinguishing characteristic of startups.

In addition to the above, a firm is considered to be a startup if it:

1. Is established post-2007 (those in the second and the third wave of the digital revolution).

2. Is a business not formed by splitting or reconstruction of an already existing business (specified in the Startup India hub portal).

3. Can be a venture set up by corporates, but providing services different from those offered by the parent company.

4. Is not a company that was initially operating offline but later launched a website to seek orders to increase customer base.

5. Is of Indian origin i.e., headquartered in India.

6. Is a pre-IPO company.

As there is no formal data set on investment among startups in India, the authors had to create a data set of funded startups and therefore, had to rely on convenience sampling, along with the associated caveats. The authors obtained a list of 1,321 funded startups from Trak.in4. Trak.in provides information on investment in Indian startups from 2015 to 2018. Therefore, our sample included thestartups which were funded between 2015 and 2018. We verified funding data from Tracxn, a private data-gathering company that researches global startups. As Tracxn is a formal data source for investment information, we relied on Tracxn for aggregating investment information of startups. Wherever the information could not be obtained, Crunchbase5 was used to fill in the data set.

Apart from filtering data according to the definition, we removed those startups from the list whose investment information was not available on Tracxn and Crunchbase and those whose investment stages were not defined. We also removed those startups which were functioning in the sectors that require huge investment like dealing in gold jewellery and producing solar energy. After the filtration of data, we got a sample of 928 funded startups for our analysis. This sample not only included startups that were acquired by other big startups but also those which have shut down which constituted 18.6% of the data set.

Descriptive statistics were used for explaining investment distribution among startups. The information on investment in startups in the data set is current as of February 2019.The findings of this paper are divided into two parts. The first part summarises the investment analysis of the Indian startup ecosystem, and the second part assesses the performance of government programmes.

Opportunities

Demographic Advantage:- Despite having a lower population than China, India has the biggest concentration of children, according to a new UN report, with 356 million youngsters aged 10 to 24. This is critical information for the country since high levels of education and healthcare may benefit the economy. Young people are the catalysts for innovation, invention, and the development of the country's future leaders. The demand and consumption patterns of a rustic are also determined by their age. The demand and consumption habits of a country are influenced by the youth.

Large Population:- Global expansion is not necessarily essential for local enterprises. The almost one billion inhabitants of India create a big domestic market for any goods or services. Manufacturers have a big advantage because to growing discretionary spending and rising expectations of mushrooming center magnificence. As a result of the growing population, more consumer spending has boosted supply and output.

Innovative Society:- India boasts the world's best children, who are the most vital source of innovation, expertise, and future leaders. India's issues include education, health, infrastructure, and the widening disparity between individuals

V DATA ANALYSIS & INTEPRETATION

1. Majority of the respondents felt that setting up of 10,000 crore startup fund is the best initiative of the government to encourage the flagship program.

2. The respondents felt that an exemption from capital gain tax and a three year tax holiday are the two key responsibilities of the Government.

3. Respondents felt that tax exemption on incubation and seed funding is critical for Startup India. It is one of the key concerns of entrepreneurs, which the Government is keen to address.

4. Easier exit clause for Startups is critical to the success of the initiative. It provides protection to the risk taking businessperson, who is very concerned about what happens when the business fails.

5. An overwhelming number of respondents felt that the role of the family and society are of key importance in the new startup regime.

6. There has to be ease of patent filing to encourage those who chose a higher risk path of venturing into startup. Respondents placed high importance of protecting startup ventures.

7. Majority felt the need to get access to bank finance and easy term of credit. It was felt that deprived sections of society and underprivileged should be protected against any possible discrimination. One view emerged that banks and other financial institutions should encourage economically disadvantaged sections to participate in the mainstream.

VI Limitations of the Study and Areas for Future Research

Although this study has identified loopholes in the government programmes meant for startups, interviews with key public officials would have added value in understanding the reasons behind the poor performance of such programmes. Exploring the factors behind the poor performance is an important area for future research. Secondly, this study has exhibited the dominance of the platform business model in the startup ecosystem but has not delved into the factors causing it. Although platform startups are growing in prominence, they incur huge losses. Identifying factors that determine the profitability and losses of such startups is again a significant area for future research.

VII CONCLUSION

The success of Startup India campaign hinges on initiatives like faster and easier registration of Companies, self-certification for many legal requirements, zero inspection for three years, funding for patents, and speed of patent protection. It is important to add provisions which aid theclosure of dead companies within 90 days. Indian lawmakers could do this under the new bankruptcy bill. The central theme is that ease of starting and ending is critical in the context high rate of startup mortality.This research paper found that respondents supported the idea of funding for incubation centers. The Government proposal do so, across Universities, innovation movements, research parks and industry parks is on similar lines. The promise of an initial capital of ten thousand crores over a period of four years from the government is capable of attracting tenfold investment by 2022. Credit guarantee for startup lending is the booster dose required to galvanize Indian industry.Incentives in the form of tax holiday for three years are a benefit worth considering. It is also apt to considerequating capital gains with the regime in the listed market. Most importantly, foreign exchange regulations are to be in tune with investor needs, so that the best do not register outside India. Global investors demand a benign tax certainty regime so that they remained invested for the long term.

This study has found that investment is heavily concentrated in platform and aggregator startups which comprise 30% of the sample and attract more than two-thirds of the total investment. Investment is also concentrated in the e-commerce sector and in terms of spatial concentration, Bengaluru, Delhi NCR and Mumbai contain around 90% of the investment. The performance of public programmes introduced for the encouragement of startups is not promising. The acceptance rate under the flagship programme of the government, ‘Startup India’ is around 5% to 7%. Many of the centrally-sponsored schemes listed on the Startup India hub explicitly exclude startups from their ambit. Given the state of government programs meant for startups, private angel investors and venture capitalists are the only resort for Indian startups, except if government programs are scaled up significantly.

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