Financing Patterns of Indian Startups

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Abstract

The purpose of this paper is to identify the determinants of financing patterns of startups which influence its business performance. This research paper designed a conceptual framework for financing patterns of startups by suggesting various traditional and modern sources of financing, stages of development as seed, early, growth and later stage. The financing patterns of startups are playing an important role to attract the outsider investors although most of the startups like PayTm, Ola, Snapdeal, Shopclues and others are in the loss after it, they are able to raise the fund and become unicorn startups. So, this paper setout the determinants of financing pattern which can impact on business performance of startups in India.

Keywords:- Tax Benefits, Exemptions, Deductions, Net Worth, Financial Ratios.

1.Introduction

In India, there was a period when working for the government was highly respected. Increased pay scales and other incentives given by a range of non-profit organizations and worldwide corporations motivated people to join. A lot of causes have contributed to the increase of entrepreneurship in India, including globalization and the expansion of the IT industry in the 1990s.

The Indian economy is experiencing a substantial transformation, with new strategies focusing on and strengthening marketers' role and contribution. Startups are predicted to govern the Indian market in 2016, especially in the online commerce and service areas, where large corporations formerly thrived. Furthermore, India is expected to generate around 11,500 startups by 2022, with the objective of revolutionizing how marketplaces work today. India today is ready to follow in the footsteps of business moguls Steve Jobs and Mark Zuckerberg and trust their gut impulses.There are two types of new companies. Someone who creates something from the ground up, something no one has ever conceived before, and is consistently revolutionary. This sort of company is tough to start, but once established, it grows rapidly. The second sort of startup we're seeing is one that isn't interested in reinventing the wheel. They're akin to repurposing an old sauce in a new dish to come up with something unique.

A startup helps and contributes to a country's competitiveness by introducing new items or services to the market. Because of the rapid expansion of start-ups, India's Prime Minister presented the Start-up Action Plan 2016, which includes a start-up portal and mobile app, on January 16, 2016. In the motion plan, they stated, "I regard start-ups, generation, and innovation to be exciting and powerful instruments for India's progress." Starting a business in the future is as simple as registering your company now, which will take roughly 15-20 days. As a result, and because tax is an issue, there will be no profit tax for the next three years. It also features tax-free capital gains, credit guarantees, and coverage for simpler and speedier exits.

Background

It would be tough to survive without money these days, but prior to the commercial revolution, most people had live inventory and farmed the food they consumed. They also frequently resided in extended family homes that had been passed down through the generations. As communities developed in size, the general public was given money to spend on necessities such as food and lodging.

Clients in today's capitalist society have the option of gaining a baffling desire for both vital and non-critical products. Physical currency, digital money, and legally enforceable contracts are all examples of fee methods (such as mortgages). Previously, only the wealthy were interested in investing money; however, money is now treated as a commodity (instead of sheep and goats in rural cultures hundreds of years ago), and it is necessary for all inhabitants to understand it.

What the Dutch East India Company did ?

The Dutch East India Company was one of the earliest groups to compete for the exports from the spice and slave exchange. It turned into a joint-inventory enterprise and could provide shares to traders who might bankroll the voyages. Financiers required a safe and regulated region where buy and promote shares of these early international organizations takes area.

Because it became granted a royal constitution from the crown, it became bestowed with incredible powers that had been enjoyed through a small series of service provider ships that previously competed with each other within the spice marketplace. These merchants might later shape restricted liability agencies, with which traders might fund voyages in go back for a percentage of the earnings. But these investments have been speculative because of the unpredictability of the spice supply, and there was consequently no warranty that any given voyage could generate earnings.

In the words of Baxter(2007), the economic success of startups demonstrated how a firm employed its assets as well as how it created money for its business. Assets tells us the quality of any business, even, while calculating the net worth of business, we subtracts external liabilities from all assets owned by the firm. Higher the assets, higher will be the net worth.

As mentioned by Cosh et al. (2009), in a similar vein, create a highly informative piece of research on the role of POT in SMEs' financial methods. The authors discovered that the ratio Capex / earnings was the most important indicator of outside loan applications, lending support to the classic pecking order theory, in which companies finance new projects internally before seeking outside funding.

According to Harris et al. (1991), the proportion of property is taken into account as the primary component of the debt-equity ratio. Debt-Equity Ratio is the most important ratio that tells us about the business whether it is a debt free or not or how much is the debt on a company as compared to its own capital. This is the ratio between loan funds and own funds. An ideal debt-equity ratio should be 2:1.

In the words of Berger et al. (2007), monetary performance was a tool for analyzing the financial health of any business over a period of time and for making decisions after comparing to similar industries or sectors. However, there are 5 stages through which a company can borrow funds:

- **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 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.
- **Finance through Venture Capitalist :-**Venture capital financing can be used to expand a business into new business channels or customer categories, or to increase marketing activities for more client acquisition. At this point, your startup is either profitable or would benefit from offsetting the negative cash flow with this fresh round of financing as the company continues to expand. At this stage, multiple rounds of investment may occur, and investors may also offer to work inside the company and provide more insight.

- **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.

Startups that entered the unicorn club in 2021

i. Meesho
ii. PharmEasy
iii. CRED
iv. Groww
v. ChargeBee
vi. BrowserStack
vii. Droom
viii. BharatPe etc.

2.Literature Review

According to Baxter (2007), the economic success of startups demonstrated how a firm employed its assets as well as how it created money for its business.

According to Berger et al. (2007), monetary performance was a tool for analyzing the financial health of any business over a period of time and for making decisions after comparing to similar industries or sectors.

According to Brush et al. (2000), economic overall performance will be judged in terms of profitability, revenue from operations, or sales. The age of the company, profitability, boom, and the dimensions of the company, asset structure, and leverage are among the firm-specific elements or features.

The factors of the firm's boom, according to Davidson et al. (2005), were sales, income, and staff.

Increased motivation, distinctive qualities, desire for success, a company's age, financial overall performance, and additional financing are seven factors of corporate growth, according to Zhou and Wit (2009).

According to Porter (1998), a company's performance is influenced by its image.

Firm size and growth are now positively associated, according to Mateev and Anastasov (2010), Liu and Hsu (2006), and Singh and Whittington (1975). Finally, it can be argued that several variables may be used to assess a company's growth. Many proxies, such as assets, income, and employee range, have been used to determine the longevity of a company (Sheikh and Wang, 2011; Berger and Bonaccorsi di Patti, 2006; Majumdar and Chhibber, 1999).

The herbal logarithm of the firm's sales e book fee was utilized by scholars like Dawar (2014) and Yazdanfar and Ohman (2015) to calculate the company length.

Ojah and Manrique (2005) calculated a firm's length as a stage of debt and observed a strong link between the two.

According to researchers like Harris and Raviv (1991) and Scott (1977), the proportion of property is taken into account as the primary component of the debt-equity ratio.

Sogorb (2002) and Hall et al. (2004) revealed a negative relationship between asset shape and short-term debt, but a positive relationship between asset structure and long-term debt. As a result, the form of possessions may have an impact on startup financing patterns.

Because startups have more tangible assets, Sanyal and Mann (2010) and Cosh et al. (2009) suggested that loan funding may be increased.

Researchers such as Dawar (2014) and Eriotis et al. (2007)employed a fast ratio to gauge liquidity since this ratio is capable of covering short-term obligations.

According to Molinari et al. (2008), the majority of startups have poor coin glide, which is why liquidity is no longer assessed by the cash float-to-sales ratio.

Using Myers and Majluf's (1984) through POT, the role of facts asymmetry and its relationship with task financing form has been theoretically examined. According to this idea, the most effective owners and managers realize the company's genuine cost and investment opportunities. Investors, on the other hand, are unaware of the company's true earnings distribution; this fact effects the company's market value, which may be over- or under-estimated based on the information available on the market.

3.Research Methodology

Research technique refers to the practical "how" of any specific piece of research. It's more particularly about how a researcher constructs a study in a methodical manner to ensure accurate and reliable results that fit the study's aims and objectives.

Primary statistics series is quite high-priced and time consuming in comparison to secondary data collection. Notwithstanding, number one information series may be the handiest suitable approach for some kinds of research.

Secondary sources of data are those data on which research have been taken place. My research paper consists of secondary source of data.

Objective of my paper is :

a. To determine the lacking propensity of Indian startups.
b. To determine the factors inflicting loss of funding for startups.

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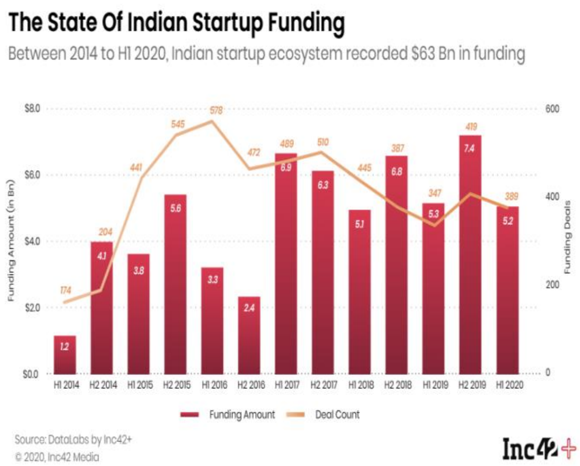
4.Analysis and Interpretation



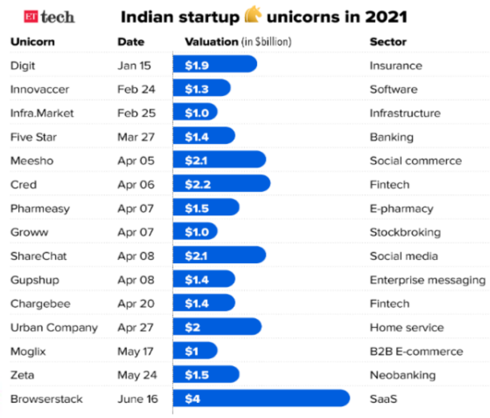


Fig. (i) Fig. (ii)

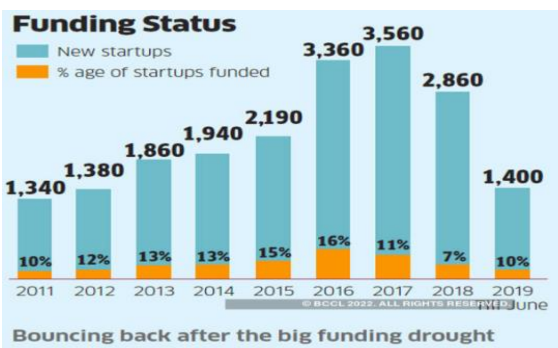


Fig. (iii) Fig. (iv)

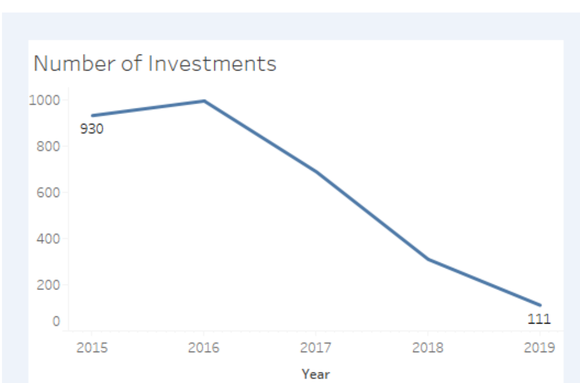


Fig. (v)

a. As we know that Financial Crisis 2008, made a negative impact on the startups. People afraid to invest in the startups after the bubble burst. As shown in fig. (i) funding amounts to the startups between 2014 to 2020 fluctuating continuously, highest of which was in 2019 i.e. 419 billion dollars.
b. Every startup becomes a unicorn once it completes the millennium of 1 billion dollars. In fig. (ii), we have seen that companies from a particular sector achieved the status of unicorn with particular valuation. There are so many approaches defined for the valuation of a company.
c. Bubble Burst and Financial Crisis 2008 brought a drought to the startup funding, but fig. (iii) shows the bounce back of funding for the startups. The highest number of startups was in 2017 with a huge number of 3,560 with 11% of startup funding.
d. However, being starting a startup anywhere doesn't means that your startup is going to successful. A startup should be in market intensive state so that it can grow. Fig. (iv) shows that Bangalore is the most effective state for starting a business with 34.78% and most unattractive state for starting a business is Pune with the rate of 1.9%.
e. No startup can grow without the investment, investment is the backbone for any startup. In fig. (v) we have seen that number of investments in year 2015 was high as compared to the year 2019 which was 930 and 111 respectively.

However, all the startups have some challenges and opportunities which are described here below;

Challenges

Cultural Challenges:-In our country, entrepreneurship and startups are a fantastically new phenomena. People in the country have transitioned from job searchers to employment producers during the previous 15 years. Starting a business is tough, and there are more failures than successes in every country.

Scarcity of Financial Resources:-India's startup climate has become a global issue of debate. In recent years, the business world has seen an explosion of ground-breaking startups giving big-scale solutions to real-world issues, leading to a huge number of energized young people choosing entrepreneurship over working for multinational businesses or government agencies.

Unrealistic Expectations:-Success does not happen by accident. It comes with a list of expectations. Most of the time, those expectations look acceptable, but they may be entirely absurd in the real world. The same principle applies to start-up enterprises. Startups typically experience troubles when they establish "unrealistic expectations" during a period of fast expansion.

Mentorship:-Starting a business is a dangerous and sometimes lonely venture. Even if you have co-founders, you may not have the requisite business abilities to thrive. It's one thing to have a brilliant idea; it's another to turn that idea into a successful business. Mentors that have gone through a comparable startup process or have business expertise are essential for a startup. By giving crucial insight, a great mentor may frequently make the difference between success and failure. However, none of the country's regions have organized mentorship programs.

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.

5.Findings and Suggestions

From this observe, we came to recognize that:-

a) Start-ups are the maximum critical part of the country. As they make contributions closer to such a lot of causes:
    i. GDP of the country
    ii. Generates employment
    iii. Ease of availability
    iv. Generation of alternatives

b) There are also such a lot of challenges even as beginning a begin-up due to the fact begin-up is something that starts off evolved from the very scratch. So there are such a lot of demanding situations while a toddler is born.
    i. Lack of investment
    ii. Lack of felony expertise
    iii. Lack of purchaser base

iv. High Competition

c) We additionally saw that quantity of startups have been multiplied inside the current years as compared to beyond years. This is due to the fact that government of India is supporting start-ups.Thoughts with a purpose to make contributions closer to the GDP of the country and also closer to the employment era.

d) People have invested less within the latest years compared to previous years due to the amount of growing scams in India or happening of fraudulent sports.

e) But, whilst there comes a task, there additionally comes the possibility. Start-ups being very tough have a few opportunities.

i. Demographic Advantage
ii. Large Population
iii. Perception of operating elegance
iv. Innovative Society

f) With the assist of this have a look at, we want to indicate all of the new entrepreneurs that:

i. Get element orientated information approximately your start-up. The investment thing, the capital shape element etc.
ii. Does a systematic observe on needs of human beings.

6.Conclusion

India's financial situation is currently one of fast expansion. With the implementation of liberal policies and initiatives for enterprises such as "Make in India," "Startup India," MUDRA, and others, the Indian government is slowly displaying greater excitement to boost the GDP rate of development from the ground up. For Indian start-ups, 'Make in India' is a tremendous opportunity. If the government concentrates only on fostering entrepreneurship, it may be able to reverse brain drain and increase the availability of local talent for fledgling enterprises to recruit.From capital to human resources, and from launch to sustained development, the startup sector faces various hurdles. With such a huge population, entrepreneurs have a wide range of products and services to choose from, including food, shopping, and sanitation, as well as solar and IT solutions for everyday issues that can be added at a low cost. It's worth noting that if such businesses extend into other developing and underdeveloped nations, they may become unicorns and globally recognized businesses.

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