

## Start-ups in India: Challenges and government support

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### Abstract

In our growing economy, the seeds of tomorrow's trees are being sown by young hands of the country. The generation is more attracted towards creation of jobs than in getting a job. Today many of the young hearts have a dream of starting their own business; in short they want to hire and not to be hired. Indian Economy is one of the most preferred destinations for foreign investors and has always been considered as the pool of opportunities. Government is also in many ways helping the newly born enterprises in surviving and to convert them into profitable ones. It has been witnessed that most of the start-ups fail in acquiring a status of well-established business due to lack of funding, competition from experienced players which makes the environment unsuitable for the growth of such ventures. This paper talks about the challenges and opportunities of starting a startup in India and what the government is doing in this regard. Various government initiatives like Make in India scheme, Startup India, standup India, MUDRA scheme, changes in Budget 2017 that raises the exemption period of income tax from 3 out of 5 years to 3 out of 7 years etc. are the proof that government is serious about the growth of this sector and is doing all it can to make it a success.

**Keywords:** MUDRA, Make in India, Startup India Stand up India, Income Tax, Start up

### Introduction

From the days of stones to the world of highly advanced touch screens, the new ideas always attracted the minds. From the discovery of Wheel to the Invention of LED, the upgradation is the need of the hour of this business era. If you do not follow the dynamics of environment, you will be soon on your knees. The new and young minds are coming up with the innovative ideas in the business, which are known as startup if converted into a feasible business project.

### What Is A Startup?

The American Heritage Dictionary suggests it is "a business or undertaking that has recently begun its operation. But does it mean that 3 years old company is classified as Startup or 5 years old? Or what if I say, even a 10 years old company is a startup yet. In actual, the age of a company does not define its startup-hood. So in simple words a firm which becomes profitable and the founders of the company have grown enough in the market that they are in a position to acquire the market of others; it is likely to be moving away from the age of its startup-hood. (forbes.com)

### Startup in Legal Terms

Although in many countries, startups are not defined, but as the Government of India initiated StartUp India StandUp India Scheme, thus it provided a clear definition of startup in the proposed notification. "A startup is an incorporated legal Entity of not more than 7 years, which uniquely uses technology to deliver products, services or solution across India, and in any Financial Year it has, an annual profit of less than Rs. 5 crore with Annual Revenues of less than Rs. 100 crore having Less than 100 employees on its roll and a Market Capitalization of less than 100 Cr." (livelaw.in, 2016)

[2]

Startup can be categorized into two main ways on the basis of origin of Idea: One is Invention based and other is Innovation based.

Invention is when you come up with the very original idea of which no one has thought. For example, Washing Machines, Televisions etc. are the inventions. But Innovation is just an upgraded version of already existing idea or technology. Like Led tubes and bulb, LCD Screen Televisions are Innovation.

### Challenges Faced By Startups

In the very competitive environment, The Indian startups faces many difficulties in the form of their competition with large corporations, imitation and copying of their original ideas, registration delays and the of course the financing the business idea.

**Culture:** It is indeed clear that the number of startup failing is much more than the number of startup succeeding in their plans. Among a lots of new tries one ball hits the wicket, the same way among the numberless endeavors very few comes up with a growing market capitalization. An infant entrepreneur should always be prepared for the failures and hardships in the dynamic business environment. But our culture doesn't teach us how to face a failure and rise again. Many of the startups fail because of hesitation in a second try.

**Mentoring:** Lack of proper mentorship and guidance is another reason of failure of startups. Most often people have a brilliant idea but fail to convert it into a successful business. However the government of India has initiated the concept of incubators under Startup India Scheme, which is helpful to many infant babies of industry.

**Hiring:** It is very obvious that it is very tough job for a startup to attract talented and skilled labour. Most of the times they end up outsourcing the job to the contractors which costs them a lot more. Also, the startups cannot match the salary offered by the large well established organizations and hence it's a tough task to attract well qualified and skilled persons in start-ups

**The Govt. Policies and regulating laws:** The lengthy registration process, changing govt. policies demotivate the young entrepreneurs. The ideas are not able to take the shape of business because of bureaucracy and lengthy registration process that is required to be followed to start a business. Also India ranks 130 out of 190 as per World Bank report of ease of doing business in India in 2017, which shows that it takes a lot of time and effort to start a business in India. Moreover they have to comply with many laws: such as Environment Protection Laws, Finance Laws, Employment and Labour Laws, Intellectual Property laws, Privacy laws, Online Business Laws, Sebi laws if the company wants to get listed, Information Technology laws, Contract laws. etc. (doingbusiness.org)

**Raising Finance:** This is one of the most common problems that every small business entrepreneur faces. Raising adequate amount of finance for a startup is the biggest challenge. In India, we lack angel investors, and the ones who are available, are generally conservative. A loan from the bank is the solution that is left, but this involves lots of documentary work.

**Marketing Research:** The startups generally start with a small amount of capital and most of them are not aware of the Marketing Research Methodologies. They are not in a position to conduct market research/survey fully on their own as they lack funds to conduct research or to outsource it to outsiders.

**Competition with the highly sophisticated technology based corporate giants:** The Company which starts with a new concept with a small scale of capital but with a profitable idea, have to face the large corporates that imitate their way of doing business and come up with the better version of the same products with the help of their technological advancement.

**Lack of proper Managerial Guidance:** Because of the lack of funds the promoters of the startup organizations cannot hire the professionals for the management of the business. And this becomes one of the core reasons why startup ends up closing their operations in this competitive business environment. (economictimes.indiatimes.com, 2014) <sup>[1]</sup>

**20 Big Startup Failures in India During 2016**

Out of the lakhs of startup ideas that comes up for the registration, very few find a space in the market. More than 1000 startups failed during the year 2016 alone. Few of them namely are:

Table 1

S.N.	Name of the Startup	Business Segment	Reasons for failure
1	PepperTap, Gurgaon	Grocery Delivery Startup	Cash burn, Low Cash Inflow, also failed to understand the customer needs.
2	GrocShop, IIT Bombay Alumini	Grocery Delivery Startup	Competitive Environment
3	Edtech	Education	The business model didn't work out because of free education material available on internet
4	Zoomo, Bangalore	Used Car Sales	Failed to form a successful business model where people prefer discount over quality.
5	iProf, Delhi	Education	Competitiveness
6	Doormint, Mumbai	Laundry	Cost of processing the clothes, delivery and pick up were more than the Price Model.
7	Tiny Owl, Mumbai	Food Delivery	High cost of logistics and oversaturated market
8	ZuperMeal	Food Industry	Competitiveness even after good amount of seed funding.
9	Fashionara, Banglore	Online Shopping Portal	Unable to raise funds and make customers.
10	Ask Me Bazar. com	Consumer Internet Search	Cash Crunch
11	Lady Blush, Gurgaon	E- Commerce Clothing Portal	Fierce Competition and lack of consumer loyalty
12	Klozee, Bengaluru	Fashion Portal, Apparel Renting	Slow demand
13	Auto N Cab	Transportation Mobile App	High Competition due to large rivals.
14	Frankly Me	Information Technology App	Fierce Competition due to heavily funded rivals.
15	Zeppery, Delhi	Food Delivery	Too Early to enter into the Indian Market.
16	Tiffin	Meal Delivery	Poor Business Model
17	Local Baniya	Grocery Delivery	Paucity of funds.
18	Parcelled.in	Online Courier Booking	Poor Profit Margin and Cash Burn.
19	TruckMandi	Truck Booking	The Business Model couldn't work out to keep balance between the interest of fleet owners and shippers.
20	Jewelskart	E – Commerce for Jewellery and Watches	Fund Raising and less cash inflows.

(mydigitalstartup.net) (technasia.com)

The above table reflects only one sample of whole population. Most of the startups in above table are the ones who were big enough to operate and even then they had to be wound up. We can imagine with this table that the difficulties and challenges faced by small and medium level startups, are many fold as compare to the above 20 companies. From the above table it can be said that the most common reason why startups fail are:

1. Cash Burn and going out of cash in near future.
2. Lack of proper Cash Flow Management.
3. Poor or inadequate Market Analysis.
4. Unable to raise the Enough Funds.
5. Fierce Competition Level.
6. Poor Pricing Model.

To overcome the above said challenges and reasons of failure, the Government of India is working on many such campaigns and schemes that are focused on hustle free and easy operation of startups in the competitive environment.

### Government Initiatives to Enhance the Current Scenario

The Government has set up various targets under many schemes such as Startup India Standup India, Mudra Yojna- to finance the small entrepreneurs, Free from Tax burdens. The Following are the steps taken by the Govt. to provide an easy procedure for the newly born ventures.

1. The Startup India Standup India Scheme: The Hon'ble Prime Minister of India Mr. Narendra Modi, launched the startup India campaign on 16<sup>th</sup> January 2016, with the objective to build strong eco-system nurturing innovations and inventions in the form of startups in the country. Until now 1333 start application have been recognized by DIPP as per the "Startup India Status Report". The scheme provides many benefits to the startup organization in the country.
  - a. The tax benefit: Every startup is eligible for the exemption from the tax burden for the period of 3 year from the block of 5 years as per the scheme. This block has been increased by the GOI to 7 years in the Union Budget 2017-18. To avail this benefit the startup must get a Certificate of Eligibility from the DIPP.
  - b. The Tax benefit on Capital Gain: The Section 54EE of Finance Act have been introduced according to which organisations are provided with a tax exemption on Capital Gain arising out of the Transfer or sale of long term asset upto Rs. 50 lakhs. The Section 54 GB of income tax have been amended to provide a tax exemption on Capital Gain Arising out of the sale of residential house or plot of land if the amount of net consideration is invested in equity shares of the concerned startup.
  - c. Removal of Angel Tax: The tax on investments above Fair Market Value is exempted to promote the seed funding for the startups.
  - d. A Fund of Fund by the government is established by the govt to support innovative startups. The quantum of the fund is Rs. 10000 Cr. And 65 startups have already been funded under the scheme.
  - e. The scheme also initiated an online learning and development program to educate the startups and potential entrepreneurs.

2. Establishment of Incubators: Under the Atal Innovation Mission there are several incubation centers will be established. The concept of incubator is very helpful for the infant startups. The incubators will be the large corporates who will be providing assistance and help to the startups in their early age of growth.
3. Establishment of Research Parks, with the objective to motivate the innovation through incubation and joint Research and Development efforts of various industry giants.
4. Establishment of NIDHI (National Initiative for Development and Harnessing Innovations) which will provide funding support to the startups from the idea to the market. There will be an ignition grant cum award provided at the time of starting the startup of Rs. 10 Lakhs.
5. Faster Exit from the startup: It is well said that entering into a new business is easy but at the same time winding the same up is difficult. The Insolvency and Bankruptcy Board of India has been constituted which provides a fast track process for an easy exit. Startups, other than the partnership firms now will be able to wind up their business operations within 90 days. ([startupindia.gov.in](http://startupindia.gov.in))
6. The Benefits under the Union budget 2017: The Hon'ble Finance Minister declared many updates in the Union budget 2017 which raised the hopes for the young startups few of them are:
  - a. The exemption period for income tax on profit earned by a startup have been increased form 3 out of 5 years to 3 out of 7 years.
  - b. The Finance Minister Arun Jaitely announced to carry forward Minimum Alternative Tax (MAT) to 15 years from the present period of 5 years.
  - c. The Govt. have allowed the carry forward of the losses incurred by the startup businesses. ([economictimes.indiatimes.com](http://economictimes.indiatimes.com), 2017) <sup>[3]</sup>
  7. The time taking incorporation process which was 15-30 days earlier for any business has been drastically reduced to 1 Day by using an application in the Mobile phones.
  8. The Skilling India Mission under Kaushal Vikas Yojana set the target to skill 1 Crore youth by the next three years. The Finance Minister declared that it will provide the entrepreneurship education and training in 2200 Colleges, 300 Schools and 50 vocational institutes through online courses.
  9. Ucchatar Aavishkar Yojna (UAY): UAY was initiated with the objective to promote industry and to appreciate the research projects by the students. For the time period of 2016-18, Rs. 475 Cr have been earmarked under UAY and 92 research proposal by IITs have been approved. Status report.
  10. Million Minds Augmented National Aspiration and Knowledge (MANAK) Scheme: Under this scheme 10 lakh ideas are to be targeted from 5 lakhs schools across the country in a financial year.
  11. Benefits under Mudra Scheme: The scheme to some extent solved the problem of financing a startup/small scale business. The scheme provides loans to the startup business as per their requirement of business ranging from Rs. 50,000 to Rs. 1,000,000 at the reasonable rate of interest. However, no fixed rate of interest is declared

under the scheme but it is ensured that it will be a concessional rate. The loan taken should be repaid in a period of 5 to 7 years.

**Table 2**

S.N.	Stage	Max. Loan /amount	Description.
1.	Shishu	Upto Rs. 50,000.	It is provided at the initial stage of the business set up to start their business.
2.	Kishor	Upto Rs. 5, 00,000.	This is for those entrepreneurs who have either started their business and now need more funds to grow further or to those who need higher amount of funds to start their business.
3.	Tarun	Upto Rs. 10, 00,000.	This is the highest amount that can one avail with the fulfillment of conditions under the policy.

(pmjandhanyojana.co.in)

**Conclusion**

Gone are the days when getting a job used to satisfy the youth, because now the young generation is more interested in creation of jobs. This statement itself explains how important it is to have a healthy business operating environment in an economy. More number of businesses will create more numbers of jobs in the economy. And in India where unemployment is one of the core economic problems, it is also advisable to the government to take care of these small babies/infants of the industry so that they can create wealth in the near future for the economy.

From the above analysis, it is clear that the present Government is serious for the growth of startups, small and medium enterprises as it can be seen from various national and state level initiatives and steps taken by the center and state, which focus directly on the growth of these new entities. The Government is taking care of every stage involved for a startup business, from the setting up of the operations to the winding up of the whole business. From financing through MUDRA scheme to the seed funding and incubators it is because of the government efforts such as startup India stand up India, Make in India, MANAK initiative, schemes to promote MSMEs and many more that India now ranks 130 in the index of Ease of Doing Business published by the World Bank, which promotes the foreign investors to invest in Indian startups in the form of Seed Funding, Venture Capital and other ways. The startup industry of our country is growing at a slow pace but it is continuously growing, which will be a backbone of our future economy in both commerce and e-commerce, technical and non-technical industries.

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