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Start-Ups and their Funding in India

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Abstract

This paper transactions with Startups and its funding progress in India. The start –up scheme is threw by the Indian Government on 16th of January in 2016. This campaign is planned to bring new occasions for the capable citizens of the operation will create new jobs for the people in India. This scheme will afford employment in long run. The success of this program may occur with overcoming some blockades like the shortage of finance, lack of obligatory skill, rigid licensing system, lack of banks support, etc. Startup India is the leading inventiveness of the Government. The strategies of the Central Government take into account the collective aspirations and enterprise of the risk taking Indian. India aspires to contribute to 15-20 percent global GDP. It happens when Startup movement attains critical mass. Startup India looks beyond the disagreement that it is a better packaging of predominant established support. The complexities of managing the diversity of thoughts, processes and people of India are very well known. The plan of Startup Indians is to embellishment under an ocean of changes in mindset and thoughtful. It is giving feather to wings of the overwhelming Indian. Despite the pandemic of Covid-19 and other successive natural disasters and many challenges faced, the startup creativity promises to take growth beyond the expectation. Startup India is about interesting conventions and spurs a revolution of unique and definite business reproductions. The study decided with the eligibility, product range and obviously the financial assistance that can be availed in this scheme. that making capital more available and cheaper, easier patent filing, giving research and development credits, and easier entry and exits are serious to the achievement of Startup India.

Keywords: Startup India, Entrepreneur, Financial assistance, eligibility, Finance.

INTRODUCTION

A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families. Startups typically begin by a founder (solo-founder) or co-founders who have a way to solve a problem. The founder of a startup will begin market validation by problem interview, solution interview, and building a minimum viable product (MVP), i.e. a prototype, to develop and validate their business models. The startup process can take a long period of time (by some estimates, three years or longer), and hence sustaining effort is required. Over the long term, sustaining effort is especially challenging because of the high failure rates and uncertain outcomes. Having a business plan in place outlines what to do and how to plan and achieve an idea in the future.

Typically, these plans outline the first 3 to 5 years of your business strategy. Startup Company or startup or start-up is an entrepreneurial venture or a new business in the form of a company, a temporary organization designed to search for a repeatable and business model. These companies, generally newly created, are innovative in a process of development, validation, and research for target growth. The term became worldwide because of this history, startups are often assumed to be solely technology-based companies, but this is not necessarily true: the essence of startups is generally related to the concepts of ambition, innovation, scalability, and growth. Startup companies can come in all forms. Some of the critical tasks are to build a co-founder team to secure key skills and resources to be able to conduct research and build a first Minimal Viable Product (MVP) in order to validate, assess and develop the ideas or business concepts in addition to opportunities to establish further and deeper understanding on the ideas or business concepts as well as their commercial potential. Business models for startups are generally found via a bottom-up or top down approach.

A company may cease to be a startup as it passes various targets, such as becoming publicly traded in an IPO or ceasing to exist as an independent entity. Companies may also fail and cease to operate altogether. The size and maturity of the startup ecosystem where the startup is born and grow have a clear impact on the volume and success of the startups. Investors are generally most attracted to those new companies distinguished by their strong co-founding team, risk/return profile, and scalability. That is, they have lower bootstrapping costs, higher risk, and higher potential return on investment. Successful startups are typically more scalable than an established business, in the sense that they have the potential to grow rapidly with limited investment of capital, labor or land.

Finance/ Funding:

Finance can be termed as the management of money and includes activities such as investing, borrowing, lending, budgeting, saving, forecasting with related to money management 'Funding' refers to the money required to start and run a business. It is a financial investment in a company for product development, manufacturing, expansion, sales and marketing, office spaces, and inventory. The startup needs to assess why the funding is required, and the right amount to be raised. The startup should develop a milestone-based plan with clear timelines regarding what the startup wishes to do in the next 2, 4, and 10 years. A financial forecast is a carefully constructed projection of company development over a given time period, taking into consideration projected sales data, as well as market and economic indicators. The cost of Production, Prototype Development, Research, Manufacturing, etc should be planned well. Basis this, the startup can decide what the next round of investment will be for. Many startups choose to not raise funding from third parties and are funded by their founders only (to prevent debts and equity dilution). However, most startups do raise funding, especially as they grow larger and scale their operations

Types of Funding:

Bootstrapping/Self-Funding: is the first source of funding for new businesses. Self-funding your business means that you (the business owners/founders) provide the initial funds to start a business through your own personal resources. ¬

Crowd funding: your startup means to raise funds from more than one person at the same time.

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Angel investors are those individuals that are always on the lookout for promising startups and offer funding in exchange of convertible debt or ownership equity in the startup.

Venture Capital (VC) is a type of startup funding provided to small, early-stage startups that are emerging businesses and are deemed to have high growth potential, or the ones that demonstrate high growth value. High valued startups such as Uber, Airbnb, Flipkart, Xiaomi & Didi Chuxing have raised funding through Venture Capitalists.

Business Incubators & Accelerators: is a system under which startup founder is introduced to various mentors, investors and other growing entrepreneurs that have enrolled for the same program.

Raise Funds Through Bank Loans:

There are two types of business loans that lenders offer for you to choose from –

Term Loans and Working Capital Loans :

Term loans can be used for expansion of business, purchasing machinery, and launching new projects. These loans can be taken for a period ranging between 1 year and 10 years. Working capital loans, on the other hand, are short term loans that have to be repaid within a year and can be used to pay rent, pay employees' salaries, stock up inventories, etc. To avail a startup business loan, your startup should be a new firm or under 5 years old. Also, the firm's yearly turnover should not be more than Rs.25 crores. The maximum amount of loan that can be availed will depend on the lender and other factors such as the annual turnover of the company, your credit history, etc. For example, under the Mudra Loan, up to Rs.10 lakhs can be availed under a startup business loan.

Some of the government loans you can avail are:

- Mudra Loan Scheme
- MSME Business Loans in 59 Minutes
- The Credit Guarantee Scheme (CGS)
- Stand Up India Scheme
- Coir Udyami Yojana
- National Bank for Agriculture and Rural Development (NABARD)
- Credit Link Capital Subsidy Scheme
- National Small Industries Corporation Subsidy

Startup India Seed Fund Scheme: Department for Promotion of Industry and Internal Trade (DPIIT) has created Startup India Seed Fund Scheme (SISFS) with an outlay of Rs. 945.00 CR, which aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market-entry, and commercialization. This would enable the startups to graduate to a level where they will be able to raise investments from angel investors or venture capitalists or seek loans from commercial banks or financial institutions. The scheme will support an estimated 3,600 entrepreneurs through 300 incubators in the next 4 years. The Seed Fund will be disbursed to eligible startups through eligible incubators across India. Today, 30 of the 36 States and Union Territories were developed after the launch of the Startup India initiative in 2016 .

Objectives:

The main objectives of Startup India Seed Fund Scheme is to facilitate the startups with the following

1. A startup, recognized by DPIIT, incorporated not more than 2 years ago at the time of application. The startup must have a business idea to develop a product or a service with a market fit, viable commercialization, and scope of scaling.
2. The startup should be using technology in its core product or service, or business model, or distribution model, or methodology to solve the problem being targeted.
3. Preference would be given to startups creating innovative solutions in sectors such as social impact, waste management, water management, financial inclusion, education, agriculture, food processing, biotechnology, healthcare, energy, mobility, defense, space, railways, oil and gas, textiles, etc.
4. Startup should not have received more than Rs 10 lakh of monetary support under any other Central or State Government scheme. This does not include prize money from competitions and grand challenges, subsidized working space, founder monthly allowance, access to labs, or access to prototyping facility.
5. Shareholding by Indian promoters in the startup should be at least 51% at the time of application to the incubator for the scheme, as per Companies Act, 2013 and SEBI (ICDR) Regulations, 2018.
6. A startup applicant can avail seed support in the form of grant and debt/convertible debentures each once as per the guidelines of the scheme.
7. Startup Policies Exemptions on Income Tax and Capital Gains Tax for eligible startups; a fund of funds to infuse more capital into the startup ecosystem and a credit guarantee scheme.

Apart from the above , this scheme provides various other incentives to encourage the young and capable entrepreneurs to start up their own startups. There is at least one DPIIT-recognized startup present in each of the 36 States and Union Territories The National Startup Awards 2021 seek to recognize and reward outstanding startups and ecosystem enablers that are contributing to economic dynamism by spurring innovation and injecting competition. The measure of success will not only be the financial gains for the investors but also the contribution to the social good. A State's Startup Policy is critical in providing the essential funding, mentorship, and market access support required by startups to grow as important contributors to the State's economy in terms of revenue and job creation. Additionally, it also contains provisions to incentivize key startup stakeholders such as incubators, and institutions of higher education among others so as to promote holistic development for India's startup ecosystem. The Startup India team provides active support to States in formulation and operationalization of their startup policies. A tax break of three years has been given in the scheme. Anyone who has business sense knows that only a few of start-ups will be profitable in the first three years and so this handful can avail them of the tax break. The other option for startups to get tax benefits is to get a patent.

Negative Points/Challenges in Indian Startup:

- Indian startups are often alleged to be copying foreign startups.
- Often don't have a proper scaling plan.
- There is a need for directional efforts to help increase supportive government policies (ease of doing business, tax incentives, participation in Government contracts, availability of risk capital, etc.)

Conclusion:

Start-up India was established to give the nation's business people a very bright future. The processes that were put forth were strongly in favor of making start-ups successful. This paper made an effort to appraise the opportunities and challenges the start-up experienced. We may infer from the research that the government's programme created a deep and enduring positive stratosphere in the nation for everyone, young and old, who wished to pursue their ambitions of founding their own prosperous start-ups. There are frequently many prospects for Indian startups to expand their businesses. Even if they encounter problems and difficulties, they should endeavor to overcome these problems in an effective way. In order to spur innovation and create competition, new entrepreneurs might provide fresh ideas. Key areas of support for all types of entrepreneurs include financial literacy, technological understanding, digital literacy, and the development of an entrepreneurial attitude. India's startup sector holds great promise for generating jobs, money, and stimulating innovation. If efforts are made to encourage growth and are tailored to the various demands of the segments, it can quicken India's growth course and lead to freedom.

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