

Indian Startups – Challenges and Opportunities

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Abstract: Startup is defined as an entity incorporated or registered in India, with an annual turnover not exceeding Rs.25cr in any preceding financial year, and mainly working towards innovation, development of new products, or services driven by technology or intellectual property. Even though there are strong background for large number of startups in India they do face problems and challenges where they lag in progression of their firm, such as building and scaling up of startups, complex regulatory environment, hiring, funding and policies which are stringent for upcoming startups. To overcome and to rectify the challenges faced by the startups, Recently Startup India Initiative launched by the Indian government was especially for the emerging startups and the prevailing startups where eligible companies can get recognized as startups by Department for Promotion of Industry and Internal Trade (DPIIT), through which it can access tax benefits, easier compliance along with intellectual property rights (IPR) and for their development which aims at promoting entrepreneurship among women and scheduled castes and tribes. The scheme is anchored by Department of Financial Services (DFS) and Ministry of Finance. There are various other schemes and skill development programme which government has enacted upon through which the new entrepreneurs can get benefited and the existing startups can avail it. This paper certainly deals with the challenges faced by the startups in India, the new schemes and development programme launched by the government in order to overcome the risk and the impact of the schemes on the startups.

Keywords: Challenges of startups, Government schemes, upcoming programme.

1. Introduction

A start-up is a new business which stands alone. It's not tied to any other or parent organization except for the purpose of normal business activity. The startup itself is a new vehicle to exploit new idea. The existing enterprises, spinoffs (a spinoff is a new company or entity which is derived from a large firm and controlled directly or wholly by the firm) etc. the level of startup varies from zero-risk to a high and such risk is generally borne by the founder or people who are involved has a partner of the founder.

The routes of emergence of startup in India.

2. Evolution of Startups

In the earlier day's startups were cottage industries, which led to diversification of traditional economies from agriculture to industry and service sectors. It also generated non-farm

employment. And the major industrial revolution in Europe gave a setback, and this system was replaced by industrialization. In post-independence period government focused on heavy industries and due importance was given to rural and cottage industries.

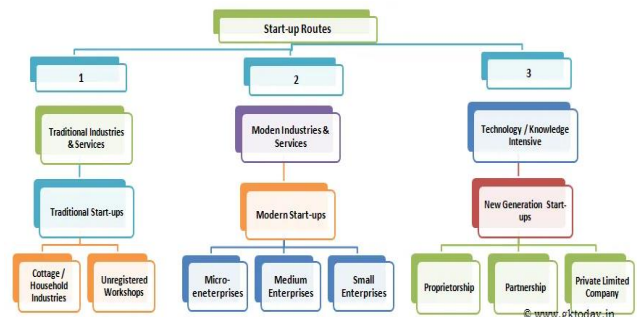


Fig. 1. Routes of emergence of startup in India

The traditional startups emerged in 1970s-80s where the form of livelihood-based entrepreneurship called own account enterprises (OAEs), they are major employment generating segments, and they were exactly unregistered and unorganized. And making them a registered was a big challenge.

From 1950s another form of startups raised, they were MSMEs. Government has established small scale industries board (SSIB) to promote modern small-scale industries and also different boards to promote MSMEs. Today MSME sector contributes significantly in production, employment and exports. The startups have become a new type of venture that started appearing in the new industrial policy.

The startups rose with the IT revolution, globalization which allowed freer movement of labour and capital between countries and new market opportunities. The startups have emerged with multiple sectors such as ICT, R&D, Technology business incubators (TBIs), E-commerce ventures etc. This wave of startups has created a reverse brain drain where people employed in abroad returned back and started these ventures. They are being supported by venture capital, angel investors, private equities.

According to 2015 NAACOM report, India ranks third among global start-up ecosystem with more than 4200 new startups. In recent times, the promotion of startups has attracted attention of government agencies. Formation of technology business incubators, launching of PRISM (promoting

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innovations in individuals, startups and MSMEs) scheme in the twelve five-year plans. To boost up the startups recently startup India action plan and movement was launched.



Fig. 2. Start-up eco-system in India: Key features

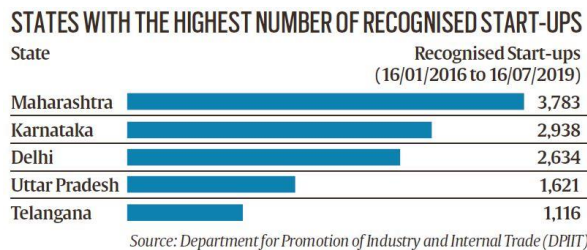


Fig. 3. States with the highest number of recognized start-ups

3. Challenges Faced by Startups

There are three major challenges faced by the Indian start-ups, marketing challenges, financial challenges and other challenges.

Marketing challenges

- Competition from local vendors
- Branding of the company
- Unorganized and fragmented markets
- Create real businesses
- Maintaining CRM
- Unique ideas to attract customers
- Choosing right social media platform
- Other

Financial challenges

- Raising the capital
- Ensuring quality of product while keeping it low cost
- Tougher to get finance and working capital for later stage and Be profitable.
- Budget allocation
- Pricing of the services
- Not choosing the right fund option

Other challenges

- Lack of communications sources
- Major leap in technology
- Technology infrastructure
- Regulatory Issues
- Lack of knowledge and exposure
- Skilled talent is hesitant to join start-ups
- Culture and awareness
- Social issues

Angel tax being a major challenge

- Corruption
- Bureaucratic inefficiencies
- Securing loans
- Funding

Angel tax is one area that falls under corruption and bureaucratic inefficiencies as it takes the focus of entrepreneurs away from building a product or service to responding to tax notices and ling appeals, something that start-ups can clearly do without.

Angel tax continued to be a key pain point for start-ups, where the assessing officers in many cases reject the valuation method used by the start-up and instead treat the capital raised as income from other sources, thereby, raising a tax demand and penalty on the start-up. Several start-ups and angel investors have raised concerns over notices received from the authorities related to taxation of angel funds. The Centre has set up a panel to look into the taxation issues faced by start-ups and angel investors. Angel Tax is a 30% tax that is levied on the funding received by startups from an external investor. However, this 30% tax is levied when startups receive angel funding at a valuation higher than its 'fair market value'. It is counted as income to the company and is taxed

There is no definitive or objective way to measure the 'fair market value' of a startup. Investors pay a premium for the idea and the business potential at the angel funding stage. However, tax officials seem to be assessing the value of the startups based on their net asset value at one point. Several startups say that they find it difficult to justify the higher valuation to tax officials. In a notification dated May 24, 2018, the Central Board of Direct Taxes (CBDT) had exempted angel investors from the Angel Tax clause subject to fulfilment of certain terms and conditions, as specified by the Department of Industrial Policy and Promotion (DIPP). However, despite the exemption notification, there are a host of challenges that startups are still faced with, in order to get this exemption.

4. Government initiatives- Start -Up India Action Plan

- 1) *Self-certification*: The main objective of the govt. is to reduce the load on the startups hence allowing them to concentrate fully on their business and keeping the low cost of adherence. It will include labor laws and environment related laws.
- 2) *Start-up India hub*: A single contact point will be created for the start-ups in India, which will enable them to exchange knowledge and access to funds.
- 3) *Register through app*: An online portal, will be available in the form of a mobile application, which will help entrepreneurs to interact with the govt. and other regulatory officials.
- 4) *Patent protection*: A monitoring system for patent inspection at reduced costs is being created by the central government. It will enhance perception and acquisition of the Intellectual Property Rights (IPRs) by the entrepreneurs
- 5) *Rs 10,000 crore fund*: The government will develop a pool with a starting aggregation of Rs 2,500 crore and a total

aggregation of Rs 10,000 crore over four years, to help new entrepreneurs. The important role will be played by the Life Insurance Corporation of India in blossoming this collection. The fund will be managed by a group of professionals selected from the start-up industry.

- 6) *National Credit Guarantee Trust Company*: A National Credit Guarantee Trust Company (NCGTC) will be created with a budget of Rs 500 crore per year for the next four years to help the drift of funds to entrepreneurs.
- 7) *No Capital Gains Tax*: Investments through venture capital funds are exempted from the Capital Gains Tax. The same policy will be executed on start-ups.
- 8) *No Income Tax for three years*: Start-ups would not pay Income Tax for the first three years.
- 9) *Tax exemption for investments of higher value*: In case of ventures of higher amount than the market price, they will be exempted from paying tax.
- 10) *Building entrepreneurs*: Creative study plans for students will be implemented in over 5 lakh schools. Apart from this, there will also be an annual businessman grand provocation to develop high class businessmen.
- 11) *Atal Innovation Mission*: This Mission will be propelled to revitalize ideas and motivate creative youngsters.
- 12) *Setting up incubators*: A private-public partnership model is being considered for 35 new incubators and 31 innovation centers at national institutes.
- 13) *Research parks*: The government plans to lay seven innovative research parks, including six in the Indian Institute of Technology campuses and one in the Indian Institute of Science campus.
- 14) *Entrepreneurship in biotechnology*: The government plans to construct 5 advanced biotech nests, 50 advanced bio incubators, 150 technology transplant offices and 20 bio-connect offices in the country.
- 15) *Dedicated programs in schools*: The government plans to inculcate transformational programs for scholars in over 5 lakh schools.
- 16) *Legal reinforce*: A committee of moderators will give legal help and reinforcement in complying patent applications and other papers.
- 17) *Rebate*: An exemption value of 80 percent of the total value will be given to the startups on filing the patent applications.
- 18) *Easy rules*: Standards of communal acquisition and mandate of switching have been easier for the entrepreneurs.
- 19) *Faster exit*: If an entrepreneur is unsuccessful than the government will help him to get a particular resolution for their complication.
- 20) *Single online clearance system*: A commendable development in the pipeline is to bring an online approval window which will provide over 200 permits required by different industries from various government divisions. This new system for clearance approval for new entrepreneurs would allow them to apply for and track the status of their applications/license permits online.
- 21) *Simplification of regulatory regime*: To improve India's ranking on the ease of doing business to 50 from the current

ranking of 142 on the World Bank's index, steps are being taken to simplify business processes and regulations. According to a DIPP official, a government panel is working on a policy that proposes exempting startups from a 22 federal rules and regulations such as:

- Proposal includes exemption from company and labour laws until a startup's revenue touches to certain level.
 - Certain tax exemptions for a specified period and
 - Easing norms for raising capital globally.
- 22) *E-BIZ Portal*: To boost young entrepreneurs and too make it easy to start your business. Budget 2015 has pitched for the white spread usage of the recently launched e-biz portal. The portal integrates the regulatory permission at one source. The use of this portal helps entrepreneurs for faster clearance for setting up of business.
 - 23) *Mudra Bank*: Several entrepreneurs in the MSME Sector have often complained about lack of difficulty in getting finances to run their business. So, this bank has been set up for providing finance for Microfinance to the required individuals.
 - 24) *Atal Innovation Mission*: Finance Minister in the Budget 2015 has launched the Atal Innovation Fund. (AIM). AIM will be an innovators promotion platform involving academics, entrepreneurs, and researches.

Proposed Scheme on Entrepreneurship Development- the National Policy on Skill Development and Entrepreneurship 2015.

- Educate and equip potential and early stage entrepreneurs across India.
- Connect entrepreneurs to peers, mentors, incubators.
- Support entrepreneurs through Entrepreneurship Hubs (E-Hubs).
- Catalyze a culture shift to encourage entrepreneurship.
- Encourage entrepreneurship among underrepresented groups.
- Promote Entrepreneurship amongst Women.
- Foster social entrepreneurship and grassroots innovations.

5. Conclusion

Start-ups in India even though has faced a numerous challenge in past the new initiative has created a massive change in the life's of startups. The new schemes and various developmental activities would definitely make a drastic changes and upliftment in the marketing, financing and other form of challenges. And in the upcoming years the startups would be a leading contributor for the GDP.

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