A DESCRIPTIVE STUDY ON RECENT FUNDRAISING PRACTICES ADOPTED BY INDIAN START-Ups

*Dr.Ravi.B. Associate Professor of Commerce, V S K University, Ballari.

**Basavaraja Eliganur. Assistant Professor of Commerce, V S K University, Ballari.

Abstract:

This paper attempted to study the importance of start-ups in post COVID-19 pandemic, in addition to this it focuses on analyse the various funding source for starting in India from early to late stage. And also it focuses on analyse the government support through start-Up India and other initiatives. In order to accomplish the said objectives researcher collected data from the secondary source such as official websites, Newspaper, Financial Magazines and Research Articles. Researcher employed the analytical and descriptive research technique in order to study the importance of start-ups in present scenario, in addition to this analyse the various funding sources for starting in India from early to late stage. According to data, the rise of the start-up ecosystem has generally been concentrated states with financial depth, particularly in IT-enabled industries like ecommerce, transportation, and banking. Small firms outside of metro areas are not fully aware of or incorporated into, programmes that give different government incentives and tax advantages to entrepreneurs. Japan and the US, equity crowd funding has been a good option for start-ups. Pre-order crowd funding allows customers to order products and start-ups advertise their products produced on the internet and raise funds for their operation. This is legal in India though not widely prevalent.

Keywords: Start-up, Fundraising, Digital India, Initiatives.

1. INTRODUCTION

India has an estimated 26,000 businesses, making it the world's third-largest start-up ecosystem, with over $36 billion in consolidated inflows over the last three years and 26 "unicorns" — start-ups valued at more than $1 billion. The Indian start-up ecosystem has grown fast, owing mostly to private investments such as seed, angel, venture capital, and private equity funds, as well as technical assistance from incubators, accelerators, and the government. The start-up should be formed as a private limited company or as a limited liability business. In any preceding financial year, sales should be less than INR 100 Crores. Startup India registration has numerous benefits. It is an easy and quick way to start a company. New start-up registration might be a little distressing but one can avail of the outsourcing service for company registration at a minimal cost. For its part, the government is fostering a conducive environment through its flagship Start-up India programme, which went into effect in 2016. With India attempting to transition to a knowledge-based and digital economy, the government is attempting to deploy ICT infrastructure and provide policy support for enhanced e-governance, investments, and technological innovation through research and higher education in order to support entrepreneurship and spur economic growth.

According to data, the rise of the start-up ecosystem has generally been concentrated states with financial depth, particularly in IT-enabled industries like ecommerce, transportation, and banking. Small firms outside of metro areas are not fully aware of or incorporated into, programmes that give different government incentives and tax advantages to entrepreneurs.

Despite progress, Indian businesses face significant challenges, including the unorganised and fragmented nature of the market in most sectors, a lack of clear and transparent policy initiatives that start-ups can quickly tap into, a lack of infrastructure, a lack of knowledge, and exposure, and complications in doing business. Increasing awareness of government programmes and incentives, loan distribution to key industries, increasing outreach and network advantages to Tier 2 and Tier 3 cities, and simplifying financing and tax exemptions for international and domestic investors might all help start-ups in India.

2. DEFINITION OF START-UPS IN THE INDIAN CONTEXT

Though there is no precise definition, the accepted characteristics of a "start-up" span its age, scale of operations, and mode of funding. It is usually defined as a young company, a few years old, and yet to establish a steady stream of revenue. These firms have a small scale of operations, usually with a working prototype or paid pilot with the potential to grow and scale rapidly. They are initially funded by the founders' own private network of friends and family and actively seek additional funds to sustain themselves and become a viable business.

As an example, the GOI's Start-up India program defines a "start-up" as a company (PIB 2017) that is:

1. Headquartered in India with not more than ten years since incorporation or registration
2. Having an annual turnover of less than INR 1 billion (roughly $14 million) (Start-up India 2019)

Following a revision in 2019, Start-up India has updated its list of benefits (Start-up India 2019) to include income tax exemptions on capital gains and investments above fair market value, options for self-certification on various compliances, fast-tracking of patent applications at a discounted rate, the ability to sell to the government, and the ability to wind up a failed company within 90 days. Registering with Start-up India provides exemptions from Angel Tax, access to a Knowledge Bank, partnered services, online courses, and innovation challenges. The program has recognized nearly 27,000 start-ups (Start-up India 2019).

In 2019, the DPIIT worked with representatives from the start-up ecosystem to do away with problems stemming from what was labelled as the controversial "Angel Tax" (levied at 30% when a privately held company raises funds at a rate higher than its fair valuation) – an anti-money-laundering provision since 2012 that was allegedly being misused. The law was originally introduced to deter high-net-worth individuals

(HNWIs) from investing in bogus start-ups (or shell companies) as a way to launder money. The Angel Tax was criticized for stifling start-ups that had raised equity funding from unregistered foreign investors.

3. IMPORTANCE OF THE START-UPS IN PRESENT SCENARIO

Start-ups are small companies but they play a big role in the economic process. They create more jobs which insinuate more employment, and more employment means an improved economy. Not only that, a start-up contributes to economic development by increasing innovation and inducing competition. New entrepreneurs come up with new ideas, much needed for constant innovation and to generate competition.

Creation of Wealth

Entrepreneurs attract investors to invest their resources, which would benefit society when start-ups grow. Since the benefits are shared with society, wealth is generated in the form of employment. Start-up employees multitask, and therefore the employees could double-up because of the relationship manager. This adds continuity to customer relationships and enables start-ups to retort to emergencies. Most start-ups support learning and have tolerance for mistakes. Both factors enhance the flexibility of start-up employees.

Open New Markets

Start-ups create new markets or completely transform old markets by introducing products, services, and ideas that change the world. New technologies often create new opportunities. Truly start-ups create an enormous value over mature businesses, inspiring competition, and pushing the economy to evolve. However, not all start-ups succeed. According to James Surowiecki of MIT Technology Review, one of the many reasons behind this can be the increased power of established businesses and organizations.

Develop the Ability to Make Something from Nothing

Some people have the ability to form something from absolutely nothing. Maybe you have some crazy idea in your head that you want to bring to reality. Presumably, it exists on some napkins or a Photoshop file right now, but eventually, it'll become reality. There is a good chance it's something that may sway a number of individuals… round the world. But that is something not many can or could have achieved, even 20 years ago. But that does not mean one should not try. Failures teach us more than success ever can. However, it is easier to start something new given the level of technology and access to the internet and information we have now. So try, no matter how stupid you feel the idea is.

Customers of a Start-Up

Fundamentally one begins by identifying a prospective customer and an unmet need or desire that the market has not addressed yet. Finally, the question that needs to be answered is- What is that you can provide that's so meaningful that somebody will gladly pay you for it? Ideally, the customer you identify will represent a market that matches your own needs and talent. If you're well-funded, then it is likely that you are looking at an outsized scalable problem to unravel. Think both in terms of satisfying a necessity and whether this can be the proper marketplace for you to handle.

The Ability to Extract the Most Out Of Limited Resources

One thing that you just can do is offer commissions to people who bring new business opportunities to your company. This is often a pleasant offering, turbocharging the earnings of your employees. Additionally, it helps them learn more about business and makes them want to be a part of the team building a sense of belongingness. Also, it attracts new talent. This will ultimately cut the cost of hiring using a recruiting firm and it gets you young and fresh talent who already have some familiarity with what you are doing.

4. OBJECTIVES OF THE STUDIES

1. To study the importance of start-ups in post present scenario
2. To analyse the various funding source for starting in India from early to late stage.
3. To analyse the government support through start-Up India and other initiatives

5. RESEARCH METHODOLOGY

In order to accomplish the said objectives researcher collected data from the secondary source such as official websites, Newspaper, Financial Magazines and Research Articles. Researcher employed the analytical and descriptive research technique in order to study the importance of start-ups in present scenario, in addition to this analyse the various funding sources for starting in India from early to late stage.

6. DIFFERENT TYPES OF FUNDING FOR STARTUPS IN INDIA FROM EARLY TO LATE STAGE

Financing for start-ups in India has followed the Anglo-Saxon model, which encourages entrepreneurial activity through financing from private and venture capital, as they are considered too risky by banking institutions. Venture capital (VC) and private equity (PE) are not regulated as in Europe. Financing avenues extend from friends and family at the very early stages, and then move to seed/angel investors, and finally VC and PE money. Once the company is well established, it can then take on debt from banks, closed-end funds, and investment banks once they are ready to absorb late-stage investments, and edge towards listing an initial public offering (IPO) (Table 2).

Table 2: Funding Available for Start-ups at Each Stage of Their Development

Funding Type (Avg US$ Value in India)	STARTUP STAGE	INVESTOR TYPE AND NATURE OF FUNDSRAISED
Angel funding (10K–1M)	Early/idea stage: seek funds fordeveloping prototype of product/service	Individual/angel investors who provide mentorship to founders and early access tomarkets
Seed Funding (10K–1M)	Early/idea stage: test and develop theidea and require R&D funding (e.g., for	Individual investors and VCs focused on seed funding to further support startup untilit generates

	patents)	revenue
Pre-Series A (10K–1M)	Early stage: with some market traction looking for individual-bridge round	Bridge between individual and institutional investors focused on smaller cheques
Series A (1M–5M)	Early stage: demonstrated traction ready to expand operations and usesfunds for capex, working capital, expansion	First round of institutional investors with existing individual investors and may include corporate venture arm of large corporations
Series B (3M upwards)	Early stage: established with demonstrated traction and needs toscale after demonstrating product- market fit	Second round led by institutional investors, can include existing individual investors, and venture capital funds
Series C, D (6M upwards)	Growth stage: established and successfully running at scale and poised to expand using funds for capex, organic, or acquisition growth	Institutional investors including large/late- stage VCs, Pes, hedge funds, and banks come in, buy out early investors, often withhandsome returns
Series E, F, and beyond (15M upwards)	Growth stage: well established and successfully running at scale and maybe poised for IPO	Institutional investors including large/late- stage VCs, Pes, hedge funds, and banks fund further expansion or increase valuationbefore IPO

(Source: Compiled by authors from various sources including startups.com and coporatefinanceinstitute.com.)

To raise fund the above methods used elsewhere in the world have not been tried or are not applicable in India. For instance, in Japan and the US, equity crowd funding has been a good option for start-ups. Pre-order crowd funding allows customers to order products and start-ups advertise their products produced on the internet and raise funds for their operation. This is legal in India though not widely prevalent. Another way is to collect small amounts from individuals, as little as $10–$50 for a stake in the company called a "hometown investment trust" (HIT) fund to help riskier borrowers such as startupsto get seed finance (Yoshino and Taghizadeh-Hesary 2014). However, this method, known as "equity crowd funding," has been deemed illegal in India by the country's financial regulator, the Securities and Exchange Board of India (SEBI) (Kaira 2019).

Similarly, many Asian countries have money lenders that provide finance to MSMEs andstartups. These lenders might essentially be loan sharks, who are not regulated and tendto charge high interest rates. While the MSME sector in India does count on loan sharks, early-stage startup funding is dominated by Seed/Angel investors, HNIs, some VC firms,and a growing list of FinTech and nonbanking financial companies (NBFCs).

Besides Seed, VC, and PE funding, accelerators have also helped the startup ecosystemgrow. The big trend in the past 3–5 years has been various accelerator programs – a type of accelerator sponsored by a profitable company in a bid to discover and evaluatenew technologies and solutions by providing grants, paid pilots, or joint go-to-market options, while they charge a flat fee or acquire an equity stake of 6%–8% in the startupsthey help.

Accelerator and incubation programs span the following formats:

1. **Corporate accelerator programs** by multinational companies (MNCs) such as Google and Microsoft, etc. and Indian groups such as Reliance, etc.

2. **Public–private partnerships (PPPs)** such as T-Hub, T-Labs, Start-up Village, etc.

3. **Department of Science and Technology (DST)-approved technology business incubators** (TBIs), often in universities

4. **College/university-based incubators** in the nation's premier institutions such as IIMs and IITs

5. **Industry-led incubator/accelerator programs** such as NASSCOM 10,000 Start-ups

6. **Private accelerator programs**, often led by VCs, such as Axilor Ventures, Sequoia Capital's Surge, and others

7. **Government-sponsored programs** such as iStart Rajasthan and Kerala Start-up Mission

7. GOVERNMENT SUPPORT THROUGH START-UP INDIA AND OTHER INITIATIVES

In 2012, India's market regulator SEBI had introduced new norms for angel investors tobe registered as AIFs as a new class of pooled-in investment vehicle for real estate, private equity (PE), and hedge funds. To prevent abuse of the regulation through moneylaundering, SEBI restricted investment by such funds to INR 5–50 million and only in companies incorporated in India not more than 3 years old, and with no family connections. By 2019, INR 17 billion had been invested in 254 startups through SEBI's AIFs and SIDBI committed a further INR 31 billion, as of July 2019, to 47 AIFs registeredwith SEBI (FE Online 2019).

Table 3: Indian Government Initiatives to Create a Conducive Ecosystemfor Emerging Businesses and Start-ups

TIME LINE	GOVERNMENT PROGRAM	AIMS AND TARGET
2009	Invest India	Creation of an investment promotion and facilitation agency
2009	India Stack and UID	Digital push for cashless, paperless, consent-based scalable architecture to support Aadhaar – Universal Identification project
2013	SEBI's Alternative Investment Fund Regulations	New norms for angel investors, who provide funding tocompanies in their initial stages
2014	Make in India	Flagship initiative of the Government of India (GoI) aimed at making the country a "global design and manufacturing"destination
2015	Digital India	Flagship program of the GoI aimed at expanding e-governance to promote inclusive growth and

		transform India into a "digitally empowered society and knowledge economy"
2015	Skill India initiative	A vocational training and certification program aimed at giving 400 million youth the opportunity for a better livelihood by 2022
2016	Startup India Initiative	Flagship initiative of the GoI to catalyze the startup culture and build an ecosystem for innovation and entrepreneurship
2016	Startup India OnlinePortal	367,171 registered startups, 26,374 recognized startups, 221 I tax exemptions, and 264 were funded by SIDBI FFS (as of 31 December 2019)
2016	Atal Incubation Centres (AICs) under Atal Innovation Mission (AIM)	31 AICs have been funded with INR 1.4 billion (approximately $20.39 million) and INR 576.8 million ($8.12 million) disbursed
2016	SIDBI "Fund of Funds forStartups (FFS)"	INR 100 billion corpus (approximately $1.4 billion) contributing to the Alternate Investment funds (AIFs) for investing in startups
2016	Bharat Interface for Money (BHIM) and UnitedPayment Interface	Mobile payment app developed by the National Payments Corporation on the United Payments Interface to allowseamless and verified payments
2019	Technology Incubation and Development of Entrepreneurs (TIDE) 2.0	MeitY-sponsored program to promote socially relevant tech entrepreneurship through incubators engaged in supporting ICT startups using emerging technologies (IoT, AI, block chain,etc.)

Source: Compiled by authors from multiple sources including DPIIT Annual Report 2018–2019, Press Information Bureau (2020), and NITI Aayog (2016).

When the Startup India program was launched in January 2016, the GoI also announced a Fund of Funds for Startups (FFS) at the Small Industries Development Bank of India (SIDBI) with a corpus of INR 100 billion to be allocated to alternative investment funds (AIFs). In the 4 years since, this FFS has consistently fallen short of its targeted allocations, both in terms of direct investments in startups (only INR 6.02 billion across 142 startups) and in its allocation to AIFs (INR 226.5 million versus a targeted INR 33 billon) (Sen 2019).

A look at the industry-academic-government linkages in patents, for example, shows that India is emerging as a patent hub, especially with newer government initiatives such as the Startup Hub at the Ministry of Electronics and Information Technology (MeitY), which helps strengthen 51 incubation hubs through fast-track patent clearances, with India known to have far fewer international patents filed vis-à-vis other countries like the Republic of Korea and Japan.

8. CONCLUSION

Positioning oneself as a real candidate for funding necessitates a high level of professionalism and a well-thought-out strategy. The documents listed above are nothing more than necessary preparations for you to begin your fundraising adventure. It goes without saying that these documents should be carefully crafted, preferably with the assistance of subject matter specialists. Keep in mind that the delicate drafting of papers is the key to success in the Fundraising for Startups path.

"Capital is still necessary, but what is more crucial is knowing when and how to use it most efficiently in order to get the most out of it. Capital offers Entrepreneurs a huge edge over other competitors since it allows you to grow and grab a large market for yourself in a very short period of time"

9. REFERENCES

- Acs, Z., Armington, C. and Zhang, T. (2007). "The determinants of new-firm survival across regional economies," Discussion Papers on Entrepreneurship, Growthand Public Policy no. 0407, Max Planck Institute for Research into Economic Systems.
- Audretsch, D. B. and Keilbach, M. (2004). "Entrepreneurship capital: determinants and impact on regional economic performance," Discussion Paper 37/2004, Max Planck Institute for Research into Economic Systems.
- DPIIT (2019). Annual Report, Government of India, Ministry of Commerce and Industry, Department for Promotion of Industry & Internal Trade (DPIIT). Retrieved from: https://dipp.gov.in/sites/default/files/annualReport_2018-19_E_0.pdf.
- FE Online (2019). Rs 1,700 crore poured into 254 startups by SEBI's alternative investment funds. FinancialExpress.com – Startup India | Published: 24 July 2019 5:42:32 PM. Retrieved from: https://www.financialexpress.com/industry/ sme/rs-1700-crore-poured-into-254-startups-by-sebis-alternative-investment-funds/1655107/.
- Google, Bain & Company, and Omidyar Network (2019) Unlocking digital for Bharat $50 billion opportunity. Published 9 August 2018. Retrieved from: https://www.omidyar.com/sites/default/files/Unlocking%20Digital%20For%20Bh arat_Final.pdf.
- Grant Thornton and Assocham India (2016). Startups India – An Overview | Reportreleased on 28 January

2016. Retrieved from https://www.grantthornton.in/ globalassets/1.-member-firms/india/assets/pdfs/grant_thornton-startups report.pdf.

- IBM Institute for Business Value and Oxford Economics (2016). Entrepreneurial India: how startups redefine India's economic growth. Published December 2019. Retrieved from: https://d1iydh3qrygeij.cloudfront.net/Media/Default/New% 20release%20images%20and%20reports/Entrepreneurial%20India%20IBV%20 mid%202016.pdf.

- IVCA-EY (2019). Year-to-date PE/VC investments in India at a new all-time high of US$36.7 billion: IVCA-EY Report, Press release on 10 September 2019. Retrieved from: https://www.ey.com/en_in/news/2019/09/year-to-date-pe-vc- investments-in-india-at-new-all-time-high-of-us-dollar-36-7-billion-ivca-ey-report.

- Jha, Lata for Mint (2019). Most of India's Digitally Monetizable Users Want Vernacular Content: Report. Livemint.com. Published 6 August 2019, 07:02 PM. Retrieved from: https://www.livemint.com/industry/media/most-of-india-s-digitally- monetizable-users-want-vernacular-content-report-1565097932712.html.

- Kaira, Aarti (2019). Crowdfunding in India, Invest India. 5 April 2019. https://www.investindia.gov.in/team-india-blogs/crowdfunding-india-0.

- Kantar IMRB (2019). ICUBE Digital adoption & usage trends, 21st edition Highlights.https://imrbint.com/images/common/ICUBE%E2%84%A2_2019_High lights.pdf.