

A Study On Start Up Financing For Entrepreneurs In India

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Abstract

Startup India is a major programme of the Indian government to support startups and innovation. The government intends to support startup businesses through this effort in order to increase employment, economic growth, and entrepreneurship throughout India. The Government's Action Plan includes encouraging entrepreneurship among SCs/STs and women communities, and it will aid in accelerating the growth of startups throughout India, in all significant industries, in Tier 1, 2 and 3 cities, including semi-urban and rural areas. The aim of this research study is to understand various initiatives taken by government for start up financing and to know the level of funds received by the entrepreneurs. The findings of this study will be useful to many people who want to become entrepreneurs.

Keywords: Start up, Start up finance, Entrepreneurs etc.

Introduction

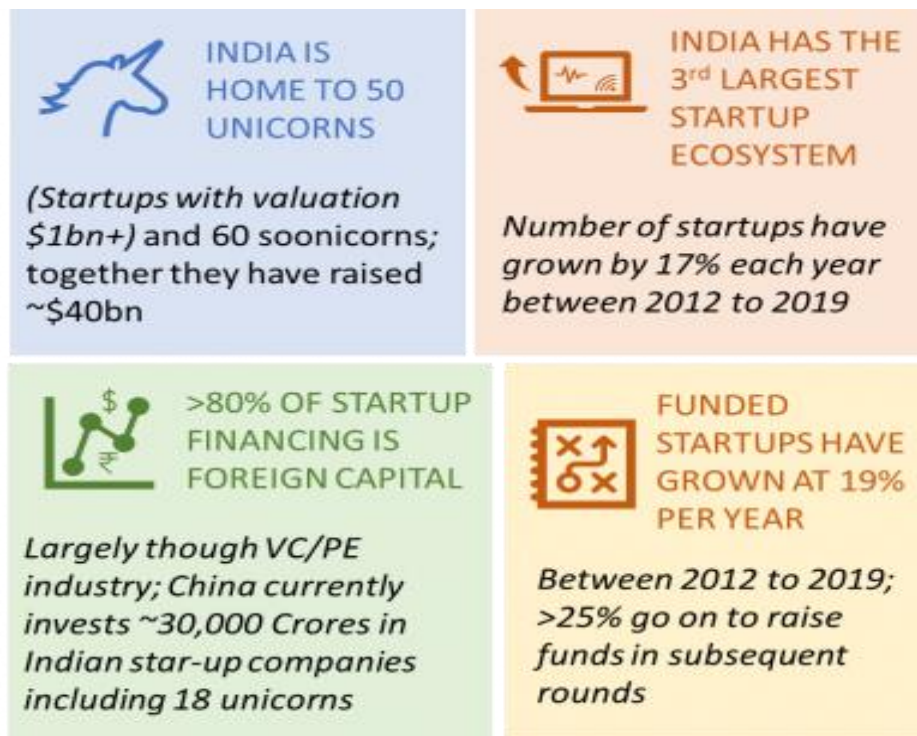
Prior to the recent startup mania, India was mostly well-known as a location for IT outsourcing, offering cheap and simple labour to multinational corporations for carrying out their operations. The dotcom era, the advent of product startups, the rise of the startup ecosystem, and the compilation of the industry's important landmarks led Microsoft Accelerator in India to identify four distinct phases of growth and maturity that have thus far been crossed. Some of the landmarks include the establishment of the famous accounting programme Tally by US-based Texas Instruments in 1985 and the opening of the R&D centre that served as an incubator for many of the present entrepreneurs.

The Indian Prime Minister formally launched the initiative on January 16, 2016 from Vigyan Bhawan, New Delhi, with the goal of encouraging entrepreneurship and promoting innovation by creating an ecosystem that is conducive to the growth of Start-ups, with the objective of assisting India to become a nation of job creators rather than being a nation of job seekers.

Inaugurating Start-up India on August 15, 2015 at the Red Fort, Prime Minister Narendra Modi's programme was formally launched on January 16, 2016, by Finance Minister Arun Jaitley. The government's primary goal is to offer the new, growing firms and ideas the most assistance and support possible. The help will come from the financial, technological, economic, social, and environmental sectors. As is well known, when someone begins a new business or attempts to become self-employed, they encounter several difficulties including money, land permissions, environmental clearance, proposals for foreign investment, family support, etc. It is one of the Indian government's urgently needed initiative plans.

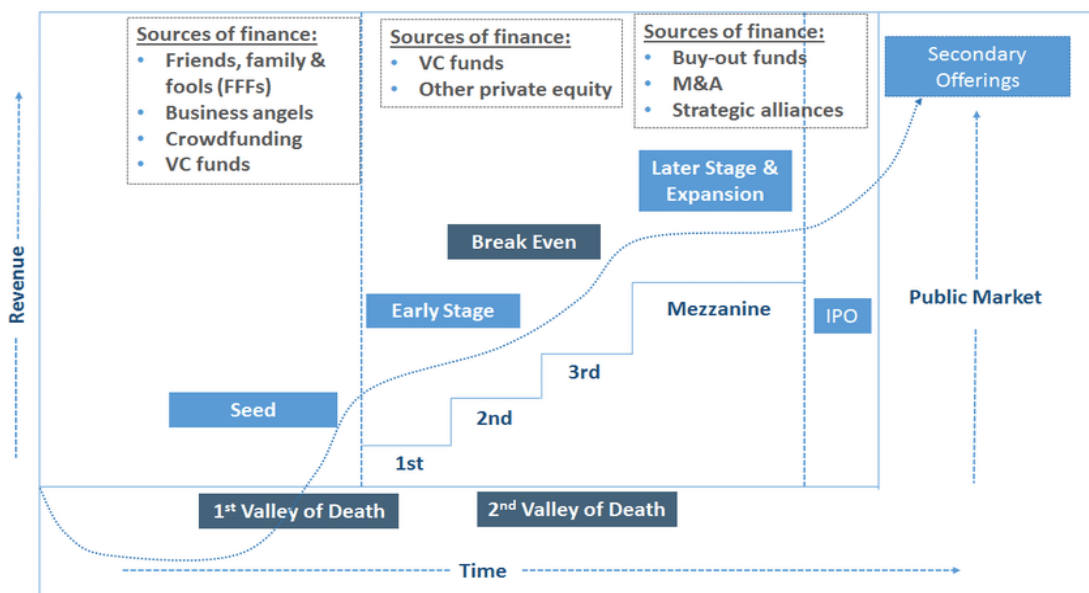
In the last five years since its establishment, banks have approved Rs. 25,586 crore (US\$ 3.41 billion) to be distributed to about 114,322 beneficiaries under the Stand Up India Scheme to encourage entrepreneurship among women and SCs & STs. The programme has assisted 93,094 women business owners as of March 23, 2021, with an outstanding loan balance of Rs. 21,200 crore (US\$ 2.83 billion). 4,970 entrepreneurs from the ST category and about 16,258 entrepreneurs who fall under the SC category have each got loans totaling Rs. 3,335.87 crore (US\$ 445.73 million). Given that the Indian economy is recovering, the extension and increased funding would enable women who lost their jobs during the epidemic year and are looking for alternate means of income.

Financing the tart up Eco system



Source: Parliamentary Standing Committee Report on Financing the Startup Ecosystem

Sources of Start Up Finance



Venture Capital deals in India by Year



VC deals in India by year

Date	No. of deals	Aggregate deal value (\$M)	Average deal size (\$M)
2017	938	10,700	17.9
2018	964	9,900	13.6
2019	1127	14,700	18
2020	1088	11,200	14.6
2021*	1376	36,100	32.9

Note: Excludes add-ons, grants, mergers, secondary stock purchases and venture debt

* As of December 20, 2021 | Source: Preqin Pro

Literature Review

- The notion that venture capitalists should be viewed as financial intermediaries was put out by Amit, Glosten, and Muller in 1993. The primary function of financial intermediaries was to act as a conduit between business owners and investors. Due to the fact that they had funded the new enterprises, venture capitalists in particular had completed this work.
- Veda (2004) explains why banks and venture capitalists are equally important to an economy. This model has provided an explanation for why the venture capital market was more active and offered greater intellectual property protection while also allowing for increased growth, risk, and profitability.
- An empirical study by Puri and Zarat Skie (2010) revealed that venture capital-backed businesses grew more quickly and were larger than non-backed businesses. Scalability was therefore the primary consideration when choosing a company for investment. The primary criterion was not profitability. The number of CEOs had changed as a result of the companies' faster expansion. CEOs rarely stay in their positions for a very long time.
- The effect of Khushhali Bank's microfinance lending programme on the welfare of underprivileged households in Pakistan was objectively investigated by Montgomery in 2005. Using a comparison group of

potential clients (who had not yet accessed loans), the programme was evaluated. In Pakistan, 2881 rural and urban households provided the main data. The research findings demonstrated that participation in the microfinance programme of Khushhali Bank had a favourable influence on both economic and social welfare indices as well as income-generating activities, particularly for the program's lowest members. The initiative allowed the program's poorest borrowers to spend more money on the education and health of their children.

- In their research, Yunus and Jolis (1998) underlined how poor women's lack of access to land rights had contributed to their marginal status. Members of Bangladesh's Grameen Bank were given housing loans with three loan cycles and title rights to the land on which the house was constructed. Due to the fact that women made up the majority of the group, one of the outcomes was that women frequently had their husbands transfer title deeds to them in order to secure these loans. Due to the women's ability to protect their homes as the owners, divorce rates had also decreased as a result.
- Thillai Rajan (2010) studied the effectiveness of venture capital and the companies it invests in. His sample was gathered between 2004 and 2008. He discovered that investment was higher in round I and significantly reduced later.
- Initial investments that support new businesses in growing their operations are also known as seed investments. Due to the nature of their business, start-up enterprises involved in technology development have the potential for quick expansion. Businesses frequently look into seed funding to hasten their growth and the creation of their products (Brezak Brkan, 2010).
- Individuals in individualistic cultures are typically less sensitive to social influence than those in collectivist cultures. According to individualistic culture, people should stick to their own ideals and beliefs rather than group values or ideas (Gorodnichenko and Ronald, 2012).

Research Methodology

Objectives of the study

1. To study the concept of start up and entrepreneurship.
2. To study government initiatives for the development of start-ups.

3. To analyze the start-up deals struck and funding received in different stages of start-ups in India.

Hypothesis of the Study

H1: There is a significant association between the level of development of the startup and stages of funding used by Indian start-ups.

Data Analysis

Governmental Initiatives to boost Start ups in India

There are many formal and informal government programmes to support entrepreneurs.

1. Start-Up India

This plan offers three-year tax and compliance breaks with the goal of reducing bureaucracy and red tape.

2. Mudra Yojna

Through this programme, banks provide loans to startups so they can establish, expand, and stabilise their firms.

3. SETU (Self-Employment and Talent Utilization)

The government has allocated Rs 1,000 crore to the Fund in order to foster chances for new jobs and self-employment, particularly in technology-driven fields.

4. E-Business Portal

To facilitate quicker clearances and increase the convenience of conducting business in India, the government created an e-biz platform that consolidates 14 regulatory permissions and licences into a single source.

5. Royalty Tax

The royalties tax paid by companies and new businesses in India has been lowered from 25% to 10%

Challenges faced by Startups in India

- Culture and awareness
- Lack of information
- Taxation issue
- Market structure
- Technology infrastructure
- Financial Issues
- Sustainability Issues

Sector-wise Start Up Ventures

Technology based	Non-technology Based
E-Commerce - 33%	Engineering- 17%
B2B - 24%	Construction-13%
Internet - 12%	Agri- products- 11%
Mobile apps - 10%	Textile - 8%
SaaS - 8%	Printing & packaging – 8%
Other – 13%	Transport & logistics- 6%
	Outsourcing & support -5%
	Others-32%

Startup Deals Struck by Funding received indifferent Stages

Year	2017-18		2018-19	
Stages of Funding	Deals Struck (%)	Funding Received (%)	Deals Struck (%)	Funding Received (%)
Early Stage	52	9	55	13
Growth Stage	17	27	23	25
Late Stage	25	45	19	38
Bridge Funding	14	9	12	14
Year	2019-20		2020-21	
Stages of Funding	Deals Struck (%)	Funding Received (%)	Deals Struck (%)	Funding Received (%)
Early Stage	46	11	51	23
Growth Stage	19	28	14	15
Late Stage	25	48	33	45
Bridge Funding	17	10	12	18

Hypothesis Testing

Chi Square test

		Levels Development of Startup
Stages of Funding	Chi Square	14.116
	Degree of freedom	30
	Significance	0.854

- Null Hypothesis (H₀): There is no significant association between the level of development of the startup and stages of funding used by Indian start-ups.
- Alternative Hypothesis (H_a): There is a significant association between the level of development of the startup and stages of funding used by Indian start-ups.
- Since, the p-value is greater than our chosen significance level ($\alpha = 0.05$), the null hypothesis is accepted and alternative hypothesis is rejected.

Conclusion

From the present research study it is observed that Government of India have to take more initiative to boost start ups in the country. There is a need to create more awareness about start up financing schemes amongst the people. Government have to also take some initiative to overcome the challenges faced by startups in India. This research will be beneficial to academicians, students, entrepreneurs and industries. There is also scope for further research in this study related to venture capital, seed finance, entrepreneurs perception about start up finance etc.

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