Intl.J.Adv.Res.Comm&Mgmt. December 2019; 5(4): 9-12 ISSN: 2395-0749

Start-up in India: Financing Sources & Its Implications

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Abstract

India is the seventh-largest country by area and the second-most populous country with over 1210.2 million people. Large population implies a large potential market in India; however, it also leads to heavy employment pressure on Indian society. In recent years the self-employment awareness among the students are increasing and the students are trying not relying on parents or schools or waiting for opportunities. Instead, they tend to take initiative to search new chances for themselves for example Ayaan Chawla is founder and CEO of Asian Fox Development, Ritesh Agarwal is founder and CEO of OYO ROOMS and just like this many young entrepreneurs in India. Our present government is also considering on this subject and for this, he launched start-up in India because government also aware about the unemployment that can be not filled by giving only government opportunities. This research aims to investigate the challenges of financing start-ups in India. The aim of this paper is to explore the main difficulties faced by start-ups in India, and discuss the financing resources of start-ups in India by using a literature-based analysis.

Keywords: Start-ups, Financing, SMEs, Venture Capital, Graduates Entrepreneurship

Introduction

A start-up company or start-up or start-up is an entrepreneurial venture which is generally a newly emerged, fast-growing business which aims to meet a marketplace need by developing or offering an innovative product, process and services. A start-up is usually a organization such small business, partnership or company designed to rapid growth scalable business model. Often start-up companies deploy technologies such as Internet, e-commerce, computer, telecommunication or robotics. These companies are involved in designing and implementing of the innovative processes of the envelopment, validation and research for target markets. U.S. Small Business Administration describes as a business that is typically technology oriented and has high growth potential here ‗growth potential may means growth in revenue, number of employees, or both, or to the scaling up of a business to offer its goods or services to a wider or larger market. Paul Graham states that - a start-up is a company designed to grow fast. Being newly founded does not in itself make a company a start-up. Nor is it necessary for a start-up to work on technology, or take venture funding, or have some sort of exit. The only essential things are growth. Everything else we associate with the start-up follows from growth. Aswath Damodaran states that the values of start-up firm ―rest entirely on its future growth potential. His definition stresses on the stage of development rather than the structure of the company or its respective industry. Some other which is based on only purpose of government scheme is Startup means an entity incorporated or registered in India should not older than five years. The annual turnover does not exceeding INR 25 crore in any preceding financial year. Working under the start-up should be as innovation, development, or commercialization of new products, processes or services driven by the technology or intellectual property.

Startup Development Phase

In addition to innovation process, from idea to value generating product and business model Startup Company also require to build a sound and committed founding team and develop the both of these together into a real growing business and organization that capture the value being created. While there are many resources and self education tools available for product side, much less is available for understanding entrepreneurship, team funding and growing and organization challenges. Yet, if asked from the professional investors, they all would agree that team is the more important factor.

Under the formation phase usually mission, vision and strategy are covered and basically raise questions like what, to whom, why and how. Another phase validation refers to feasibility of idea and then establishment and strength the business.

Startup Ecosystem

A start-up ecosystem is formed by people, start-up in their various stages and various types of organizations in a location, interacting as a system to create a new start-up company. These organizations can be further divided into categories: universities, funding organizations, service providers (like legal and financial services), research organizations and support organizations (incubators, accelerators, co-working spaces etc.) and large corporations. Different organizations generally focus on specific part of ecosystem functions or start-up at their specific development.

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Composition of the Start-up Ecosystem

- ✓ Ideas, invention and researching
- ✓ Startup at various stage
- ✓ Angel investors
- ✓ Startup mentor
- ✓ Startup advisors
- ✓ Entrepreneur
- ✓ Other entrepreneurial minded people
- ✓ The third people from the other organizations with start-up activities
- ✓ Start team member

List of organizations or organized activities with the start-up activities

- ✓ Universities
- ✓ Advisory and mentoring organizations
- ✓ Co- working spaces
- ✓ Service providers
- ✓ Startup competitors
- ✓ Investor networks
- ✓ Startup incubators
- ✓ Venture capital companies
- ✓ Crowd funding portals
- ✓ Startup accelerators
- ✓ Other funding providers (loan and grants etc.)
- ✓ Startup blog and other business media
- ✓ Event organizers
- ✓ Other facilitators

Context of Indian Economy

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country classified as newly industrialized country, one of the G-20 major economies, a member of BRICS and a developing economy with approximately 7% average growth rate for the last two decades. India's economy became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of china

NEW ORDER

Ranking	Country	GDP '18 ($ trillion)
1	US	20.5
2	China	13.6
3	Japan	5.0
4	Germany	4.0
5	UK	2.8
6	France	2.8
7	**India**	**2.7**
8	Italy	2.1
9	Brazil	1.9
10	Canada	1.7
11	Russia	1.7
12	S Korea	1.6
13	Australia	1.4
14	Spain	1.4

Source: World Bank

Graduate Entrepreneurship in India

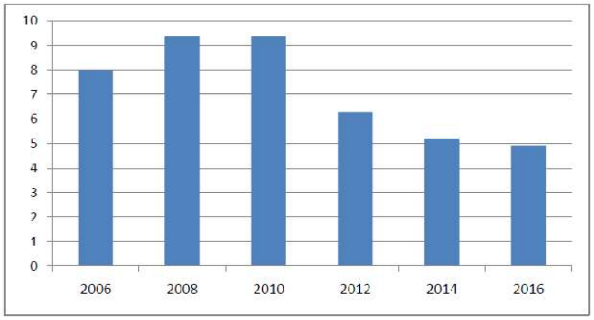
Large population reveals a large potential market in India. However, it also leads to huge employment pressure in India's society. According to statistics, there are approximately 700 universities and more than 35,000 affiliated colleges enrolling more than 20 million students, Indian higher education is a large and complex system. The Framework of degree-granting institutions is awkward primarily due to "affiliation" and funding sources. More than 85% of students are enrolled in bachelor's degree programs with majority enrolling in three year B.A., B.Com and B.Sc. degrees. One-sixth of all Indian students are enrolled in Engineering/Technology degrees. This result in an estimated 26.5 million students enrolled in Indian higher education in 2014-15 and 9 million graduates.

Unemployment Rate in India

According to Trading Economics global macro models and analysts expectations, by the end of September 25, 2016 Unemployment Rate in India is expected to be 5.00 percent. In the long-term, the India employment rate is projected to trend around 4.60 percent in 2020, according to our econometric models.

Forecasting	Actual	Q3/16	Q4/16	Q1/17	Q2/17	2020	unit
Employment Rate	4.9	5	4.8	4.8	4.8	4.6	percent

The Ministry of Labour and Employment has reports that unemployment Rate in India decreased to 4.90 percent in 2013 from 5.20 percent in 2012. Unemployment Rate in India averaged 7.32 percent from 1983 until 2013, reaching an all time high of 9.40 percent in 2009 and a record low of 4.90 percent in 2013.



Significance of the Study

In present, our country is going towards developed country but it has to face many problems. Seeing the present scenario, our prime minister has taken many steps one of them is start-up India'. Startup India campaign is based on an action plan aim at promoting bank financing for start-up venture to boost entrepreneurship and encourage start-up with job creation. The campaign was first announced by the Prime Minister Narendra Modi in his 15 August, 2015 address from the Red Fort. It is focus on to restrict the role of states in policy domain and to get rid of license raj. Startup was opened less than five years ago and has annual turnover less than 25 crore. The Startup India initiative is also aimed at promoting entrepreneurship among SCs/STs, women communities. Hence by this study we want to focus on the point that creates the barrier for Indian start-up financing problems. This can encourage the graduate's entrepreneurship and support to start-up.

Objective of Study

1. To explore the major challenges faced by start-up in India.
2. To identify different resources for start-up in India.
3. To analyses the process of start-up.
4. To short out better condition of start-ups.

The Main Financing Resources of Start-up in India

Venture capital: Venture capital means providing seed, start-up, first stage financing, funding for expansion of companies not having access to public securities. In other words, venture capital is the capital that is invested in a business with the substantial element of risk relating to future creation of profit or cash inflows. Basically it is form of risk capital that is invested as a shares rather than a loan and investor required the higher rate of returns to compensate for his risk. According to SEBI regulation venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for investment in potentially highly profitable enterprises at high risk of loss. In India venture capital fund can be categorized into the following group

i. Promoted by Central Government controlled development finance institutions such as Technology Development and Information Company of India Limited (TDICI), by ICICI, Risk capital and Technology Finance Corporation Limited (RCTFC), Industrial Financial Corporation of India (IFCI), Risk capital Fund by IDBI and SIDBI Venture Capital Limited.
ii. Venture capital funds promoted by the state government controlled finance institutions such as Andhra Pradesh State Finance corporations (APSFC), Andhra Pradesh Venture Capital Limited (APVCL), Gujarat Venture Finance Company Limited (GVCFL), Gujarat Industrial Investment Corporations (GIIC) etc.
iii. Venture capital funds promoted by Public Sector banks such as canfina by Canara Bank and SBI-Cap by State Bank of India.
iv. Venture capital funds promoted by the foreign banks or private sector companies and financial such as Indus Venture Fund, Grindlay's India Development Fund and Credit Capital Venture Fund, Infinity Venture Limited Fund, IL&FS Trust Company Limited (ITCL).

Major Problems of Indian Venture Capital

In present era, due to the emerging scenario of global competitiveness, industrial sectors are under pressure to improve the quality level and minimization of cost of products by making use of latest technological skill. To ensure the sufficient financing along with hi-tech resources to produce an innovative product that causes succeed and grow in present market condition. But our country lacks on both fronts.

In India, venture capital is in beginning stage. Necessary capital can be obtained from the venture capital firms. Since the innovative project involves a higher risk. The various problems can be outlined as follows:

- ✓ Requirement of an experienced management team.
- ✓ Longer payback period
- ✓ Uncertainty regarding the success of the in market
- ✓ Requirement of an above average rate of return on investment
- ✓ Questions regarding the infrastructure details of production like plant location, accessibility, relation with the suppliers and creditors, transportation facilities and labour availability
- ✓ The size of the market.
- ✓ Major competitors and their market share.
- ✓ The category of potential customer and hence the packaging and pricing details of the product.
- ✓ Skill and training required and cost of training
- ✓ Financial considerations like return on capital employed, cost of the project, internal rate of

return, total required funds, ratio of owner investment, borrowed capital mortgage loan etc.

Major financing difficulties of small and medium enterprises in India

1. The small and medium-sized enterprise property right is not clear, which hinder the corporate financing.
2. The small and medium sized enterprise has weak and low credit performance. Typically small and medium sized enterprise credit rating is not high in India. Data shows that, in India, more than half of small and medium sized enterprise having poor management and some undesirable phenomenon generally exists such as off balance- sheet business‖ and check by cash. Banks are not able to get the real situation of the corporate finance, which affects the bank loans and decision making. A case in point is that some small and medium enterprises have tax evasion, which resulting in the loss of credit funds, and further damage to the credit level.
3. In case of sole proprietorship firms, majority of respondents (41.82 %) face the problem as banker‘s non co-operative attitude to this sector and 10.91 % of firms experienced delay in payment while sanctioning the loan. Other problems such as too much paper work and insisted by bank to give collateral security, high interest rate etc.
4. In terms of guarantee, many guarantee agencies adopt membership system, where small and medium sized enterprises need to pay some deposit to become the member. However, the warranty procedures are quite slow, and guarantee fee, valuation fee, asset registration fee are very high, which increase the financial burden and lead to inability to get guarantee for small and medium sized enterprises (Wang, 2004).
5. If the enterprise intent to apply for property mortgage, they generally need to process the multi-channel procedures, including property evaluation, registration, insurance and notary procedures. This required small and medium enterprises to manage with many departments, provide a great amount of materials, which is time-consuming. In addition, the cost of mortgages and evaluation is high while the mortgage rates of bank to enterprise are low, that makes the amount of loans put in by small and medium sized enterprises through mortgage are small.
6. The pace of develop of capital market and private financial market is very slow. At present, the main source of funds is its own accumulation. Since the formal financial system unable to meet the financing needs of small and medium-sized enterprises, some of them turn to private lending market financing, and become the main participants in the private lending market .There is discrimination for small and medium sized enterprises the scale of loan accounts for small and medium-sized enterprise only is about 8% of the total amount of bank credit. National township, private, ―three-capital enterprises short-term loans accounted for only 3.97% of the total. This suggests that the financial institution is very demanding for small and medium-sized enterprises.

Finding and Discussion

People have some ideas starting any business but it is not easy to implement this idea in the successful business. And it can be not said to impossible to stand and running a new business but it take time, effort and energy. When new a business is started is termed as start-up. Funding is major concern for start-up and small business. When the economy is tanked, it made harder to convince investors and banks alike to part with cash that indispensible for business survive, profit and growth of business .today credit is not liberal and it is not clear precisely when it will become much readily available. There is growing trend of smaller pioneer investment in the early stage of start-up. Focusing the challenges of raising funds, major leaps in technology have led to investor to raise the bar in the term of how much legwork entrepreneurs are expected to do before pitching their business.

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