

## **CHALLENGES AND FINANCIAL REQUIREMENTS FACED BY STARTUP INDUSTRIES IN INDIA**

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### **ABSTRACT**

India is currently one of the fastest-growing startup ecosystems in the world. Despite the vast potential for growth, startups in India face numerous challenges, especially when it comes to financial requirements. This paper aims to review the challenges and financial requirements faced by startup industries in India. The research is based on a comprehensive analysis of various reports and studies conducted on the Indian startup ecosystem. The challenges faced by Indian startups include a lack of access to funding, a shortage of skilled manpower, and regulatory challenges. Additionally, the Indian market is highly competitive, making it difficult for startups to stand out and gain traction. The study also highlights the financial requirements of startups in India, including the need for seed funding, venture capital, and support from incubators and accelerators. This paper provides insights for policymakers, investors, and entrepreneurs who wish to understand the challenges and financial requirements faced by startups in India and develop effective strategies to support their growth.

### **INTRODUCTION**

India has emerged as one of the fastest-growing startup ecosystems globally, with over 50,000 startups operating across various sectors. These startups are making significant contributions to the Indian economy by creating jobs, promoting innovation, and boosting economic growth. However, despite the immense potential for growth, Indian startups face several challenges, especially when it comes to financial requirements.

This paper aims to review the challenges and financial requirements faced by startup industries in India. We begin by discussing the challenges faced by Indian startups, including a lack of access to funding, a shortage of skilled manpower, regulatory hurdles, and a highly competitive market. We will then move on to discuss the financial requirements of startups in India, including the need for seed funding, venture capital, support from incubators and accelerators, and government support.

The study is based on a comprehensive analysis of various reports and studies conducted on the Indian startup ecosystem. This paper provides insights for policymakers, investors, and entrepreneurs who wish to understand the challenges and financial requirements faced by startups in India and develop effective strategies to support their growth. While there are challenges and financial requirements, the Indian startup ecosystem offers significant opportunities for growth and innovation. With the right support and policies, startups in India can thrive and contribute significantly to the Indian economy.

### **CONCEPTUAL FRAMEWORK OF STARTUP**

The conceptual framework of startup industries involves understanding the key elements that make up the startup ecosystem and how they interact with each other. A startup is typically defined as a new and innovative business model or technology that seeks to disrupt existing markets or create new ones.

The following are some of the key elements that make up the conceptual framework of startup industries:

**Innovation:** Innovation is at the heart of any startup. Startups seek to develop new products, services, or business models that have the potential to create value for their customers and disrupt existing markets.

**Entrepreneurship:** Entrepreneurship is the process of starting and managing a new business venture. Successful startups require entrepreneurs who have the skills and vision to identify opportunities, develop a business plan, and execute on that plan.

**Funding:** Startups require funding to finance their operations and growth. Funding can come from a variety of sources, including angel investors, venture capitalists, and government grants.

**Talent:** Startups require talented individuals to bring their ideas to life. Finding and retaining skilled talent is essential for startups to succeed.

**Supportive Ecosystem:** A supportive ecosystem is critical for startups to thrive. This includes access to mentorship, networking opportunities, and supportive policies from government and regulatory bodies.

By understanding these key elements, policymakers, investors, and entrepreneurs can work together to create a supportive ecosystem that enables startups to thrive and contribute to economic growth and innovation.

### **GENESIS OF STARTUP INDUSTRIES IN INDIA**

The genesis of startup industries in India can be traced back to the early 2000s when the Indian government launched several initiatives to promote entrepreneurship and innovation. The government recognized that the development of a vibrant startup ecosystem was critical for promoting economic growth and creating jobs. One of the key initiatives launched by the Indian government was the establishment of the National Entrepreneurship Network (NEN) in 2003. The NEN was designed to provide support to entrepreneurs and promote the development of a supportive ecosystem for startups. It offered mentorship, networking opportunities, and access to funding and resources to budding entrepreneurs. Another critical initiative was the launch of the Technology Business Incubator (TBI) program in 2007. The TBI program aimed to support technology-based startups by providing them with incubation facilities, mentorship, and access to funding. In 2010, the Indian government launched the Startup India campaign, which aimed to create a conducive environment for startups by offering them tax incentives, funding, and support for innovation. The campaign also included the establishment of a startup fund and a credit guarantee scheme for startups. The Indian startup ecosystem has also been supported by the growth of the IT industry in the country. The availability of skilled IT professionals and low-cost infrastructure has made India an attractive destination for startups looking to develop technology-based solutions. The advent of mobile technology and the internet has also played a significant role in the growth of the startup industry in India. With the increasing penetration of smartphones and affordable internet access, startups have been able to reach a broader audience and scale their businesses quickly.

### **NEED OF THE STUDY**

The startup industry is crucial for driving economic growth, innovation, and job creation in India. According to a report by NASSCOM, India has the world's third-largest startup ecosystem, with over 50,000 startups. However, despite the growth of the industry, startups in India face various challenges, particularly in terms of financial requirements. One of the significant challenges faced by startups in India is the lack of access to capital. Many startups struggle to secure funding, which affects their ability to grow and scale their business. This problem is further compounded by the regulatory hurdles and talent scarcity, making it difficult for startups to sustain their operations. Understanding the challenges faced by startups and their financial requirements is critical to developing effective strategies to support the industry's growth. The government has taken several initiatives to address these challenges, such as the Startup India program, but more needs to be done. Therefore, this study is necessary to provide insights into the challenges and financial requirements faced by startup industries in India. The study will help policymakers, investors, and entrepreneurs understand the industry's pain points and develop targeted solutions to address them. It will also help startups to navigate the ecosystem more effectively, secure funding, and scale their business.

### **RESEARCH METHODOLOGY**

Every researcher needs a methodology to collect the data needed for their research projects. An approach for methodically resolving the research challenge is called research methodology. It might be thought of as the study of scientific research methodology. The setup, design, and pattern of the research are all displayed in the research technique. This document serves as the research's blueprint and planning sheet. Each researcher needs a methodology in order to gather data for their research projects.

Research Methodology is a way to systematically solve a research problem. It may be understood as a science of studying, how research is done scientifically. It is a study of the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them.

It is necessary to know, not only the research methods and techniques but also the research methodology. It is also very important to understand thoroughly, how to develop certain tests, and how to apply particular research methods / techniques.

All the items under consideration in any field of inquiry constitute a 'Universe' or 'Population'. A complete list of all the items in the 'Population' is known as a census inquiry. It can be presumed that in such an inquiry, when all the items are covered, no element of chance is left, and highest accuracy is obtained. But in practice, this may not be true. Even the slightest element of bias in such an inquiry, will get larger and larger, as the number of observations increases. Besides, this type of inquiry involves a great deal of time, money and energy. Due to such magnitude of problems at hand, quite often, we select only a few items from the universe for our study purposes. The items so selected, constitute what is technically called a 'Sample'.

In dealing with any real-life problem, it is often found that data at hand is inadequate, and hence, it becomes necessary to collect data, that is appropriate. There are several ways of collecting appropriate data, which differ considerably in context of money costs, time and other resources, which are scarce at the disposal of the researcher.

In this study, the methodology is set of various methods to be followed to measure the following research work related to the present study as to analyze the capital requirements of the industries, to study the role of banks in providing financial support to startups industries in India, to evaluate the challenges faced by startup industries and to explore the overall contribution of Startups in providing employment

### **RESEARCH DESIGN**

Research design is a description of procedures followed in testing the hypothesis and specification of operations for testing of a hypothesis under a given set of conditions. It is important that an appropriate testing method should be chosen. The nature of the problem determines which design is most appropriate and how should be tailored to meet the needs of investigation.

In developing a research design, the researcher has to be guided by several factors such as objectives of the study, the hypothesis to be tested and the potentialities of the researchers. The basic purpose of research study is to the survey is a widely used method of research and is used to develop information based on the options and characteristics of individual in a population.

Research Design is the framework of research techniques and research methods chosen by a research scholar. The research design allows the research scholar to improve the research methods that are suitable for the subject matter of research. The design of a research topic explains the type of research (Experimental, Survey, Correlational, Semi-Experimental, Review) and also its sub-type (Experimental Design, Research Problem, Descriptive Case-Study). There are three main types of designs for research:

- (1) Data collection,
- (2) Measurement, and
- (3) Analysis.

The type of research problem an organization is facing will determine the research design and not vice-versa. The design phase of a study determines which tools to use and how they are used. A research design that produces the least margin of error in experimental research is generally considered the desired outcome.

In the present research study researcher used descriptive survey research method which includes presentations of facts, class of events and involves procedure and enumeration of measurements.

**Three Phases of the Present Study:** There were three phases in the present study:

- Desk Research: During the first phase, a comprehensive desk research was undertaken, data and information was collected from various research studies, survey reports and articles related to startups in India.
- Field Survey: In the second phase of the present study, the special attention was paid to the collection of field data. Intensive discussions were held with various bank employees & founders of startups.
- Thesis Writing: The information and data collected during above two phases was tabulated, correlated and analyzed for preparing the research Thesis.

### **SAMPLE DESIGN**

The technique to determine how many items should be included in the sample is determined by the sampling design. In the present study, researcher used convenience sampling to collect the information from different respondents.

### RESULTS AND DISCUSSION

Analysis of capital requirements by the startup industries in national capital region.

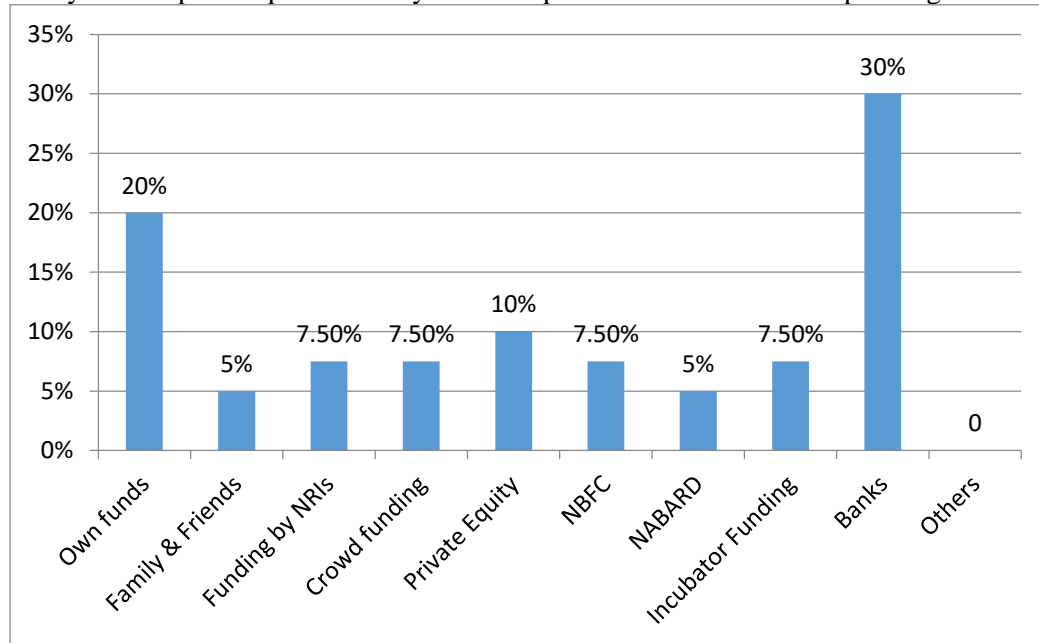


Figure 1: Response to the question "How your Startup is funded mostly"

Analysis: The majority of respondents agreed i.e. 30 per cent that banks have provided them loan for their financial arrangements, 20 per cent arrange the own funds for startups, 10 per cent from private equity, 7.5 per cent from NRI's, crowd funding, NBFC, and Incubator funding, 5 per cent arrange their funds from family, friends and from NABARD.

So, from the above analysis, it is clear that role of banks in providing the financial assistance is very important because 30 per cent respondents agreed that they get the finance from the banks.

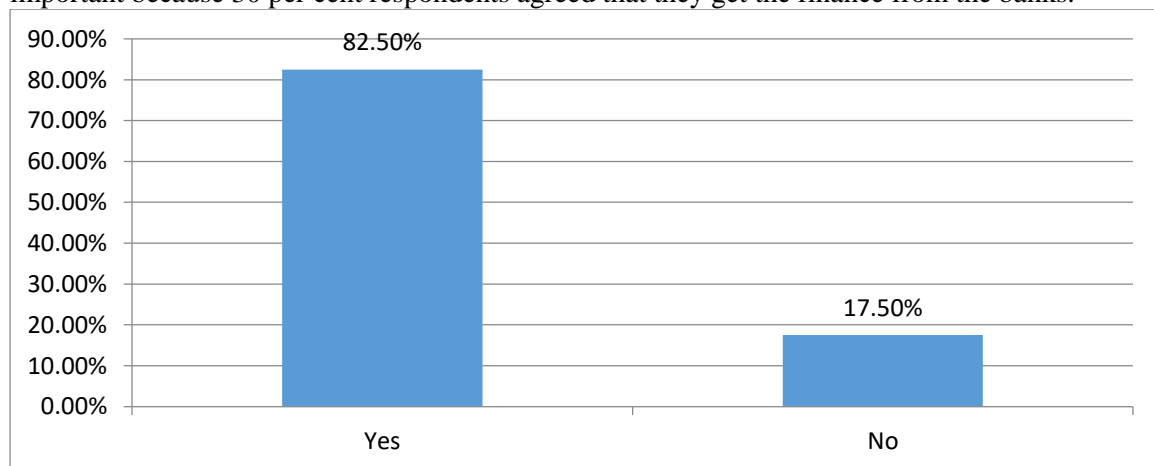


Figure2: Response to the question "Do you get financial concession from government"

Analysis: Very high majority of respondents i.e. 82.5 per cent agreed that they get financial concession from government and only 17.5 per cent respondents disagreed to it. It means government has provided the financial concession to the majority of startups.

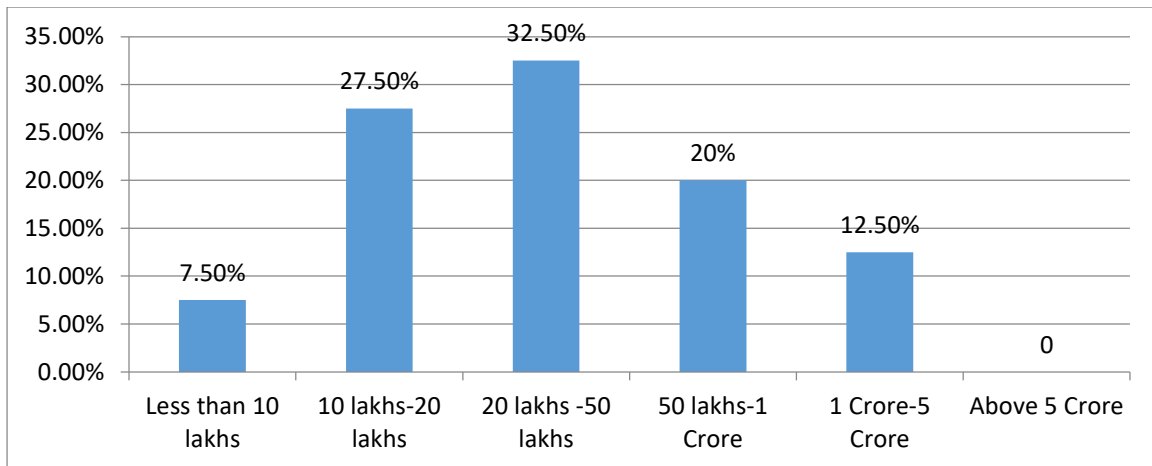


Figure 3: Response to the question “Capital invested in your Startup so far (in Rupees)”

Analysis: Only 7.5 per cent startups have invested less than 10 lakhs, almost one fourth i.e. 27.5 per cent invested between 10 to 20 lakhs, almost one third of startups i.e. 32.5 per cent invested between 20 to 50 lakhs, 20 per cent said that they invested between 50 lakhs to 1 crore and 12.5 have invested between 1 crore to 5 crores. So majority of startups invested between 10 to 50 lakhs.

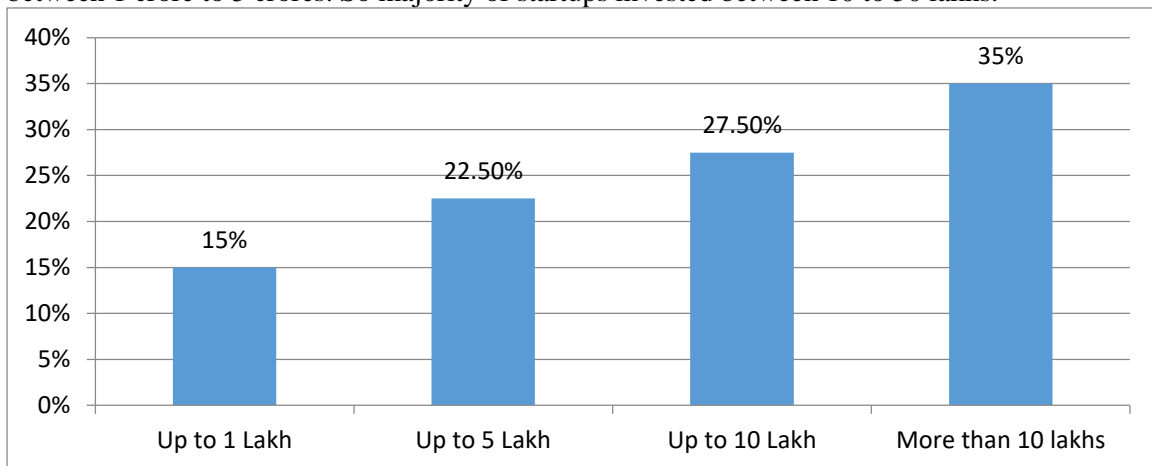


Figure 4: Response to the question “Working capital required for a period of one year (in Rupees)”

Analysis: Among all startups, 15 per cent required working capital up to 1 lakh for 1 year, 22.5 per cent agreed that they required up to 5 lakhs, 27.5 percent required up to 10 lakhs and majority of them i.e. 35 per cent required more than 10 lakhs for working capital per year.

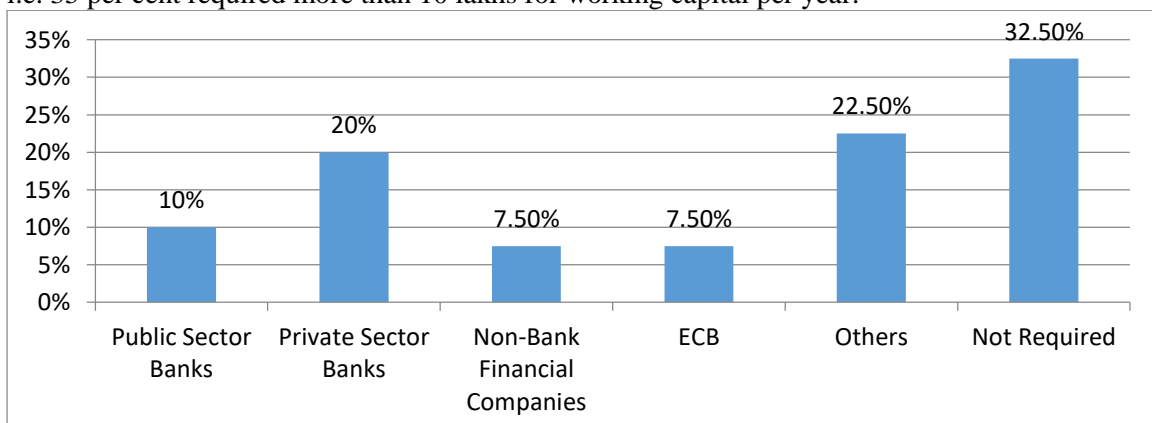


Figure 5: Response to the question “Institution from which you received loan easily”

Analysis: Among all startups, 10 per cent agreed that they get the loan from public sector banks, 20 per cent said that they received loan from private sector banks for their startups, 5 get loan from NBFC, 7.5 from ECB, 22.5 per cent from other sources and almost one third said that they have not required any loan for their startups.

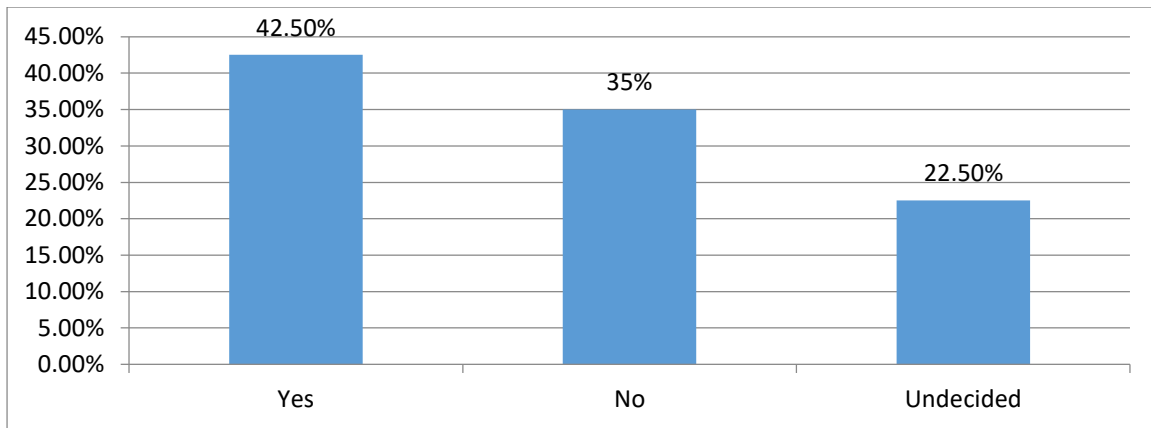


Figure 6: Response to the question “Your willingness to convert your loan to Equity”

Analysis: Majority of respondents i.e. 42.5 per cent willing to convert their loan to equity, 35 per cent are not agreed to it and 22.5 per cent said that they have not decided yet.

## CONCLUSION

The study of financial requirements and challenges for startup industries in India is significant for promoting the growth of startups, addressing the funding gap, improving financial management, streamlining regulatory frameworks, encouraging innovation, and enhancing investor confidence. By understanding the challenges faced by startups, policymakers and investors can develop targeted support mechanisms that can help startups succeed, promoting economic growth and development in the country.

1. According to Annual report 2021-22 of Department for Promotion of Industry and Internal trade “An entity is now considered as a Startup up to ten years from the date of its incorporation/ registration, with an annual turnover not exceeding INR100 crore for any of the financial years since incorporation/ registration”.
2. According to DPPIIT data as on December 2, 2021, the total startups in India are 59,593 located in 633 districts in India. These startups spread across all 36 states and Union Territories and more than 6.4 lakh jobs have been reported by more than 59,000 startups.
3. According to DPPIIT data as on December 2, 2021, 46 per cent startups are having women director.
4. 319+ regulatory reforms have been undertaken by States and UTs eligible startups have been granted exemption under 80-IAC of the Income Tax Act.
5. With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years.
6. To propel successful innovation through incubation and joint R&D efforts between academia and industry. The Government shall set up 7 new Research Parks in institutes indicated below with an initial investment of INR 100 crore each. The Research Parks shall be modeled based on the Research Park setup at IIT Madras.
7. According to DPPIIT achievement data as of Feb 2020, 14,916 SCHOOLS across the country have been selected for Atal Tinkering Laboratories, out of which 4,875 have received RS. 12 LAC grant each and are operational.

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