



REVIEW OF CHALLENGES AND FINANCIAL REQUIREMENTS FACED BY STARTUP INDUSTRIES IN INDIA

Khandelwal Abhishek Sitaram

Dr. More Tarachand Ambar

Department of Commerce, College Name - Malwanchal University, Indore

ABSTRACT

The startup ecosystem in India has been growing at a rapid pace in recent years, attracting significant attention from investors and entrepreneurs. However, despite the growth potential, startups in India face numerous challenges that hinder their growth and sustainability. This review aims to analyze the challenges and financial requirements faced by startup industries in India. One of the significant challenges faced by Indian startups is the lack of access to funding. While there is a considerable amount of venture capital available for startups, most of it is concentrated in a few cities, making it challenging for startups in other regions to secure funding. Additionally, startups in India also face a shortage of skilled manpower, which limits their ability to scale and innovate. Another significant challenge faced by startups in India is regulatory hurdles. The complex regulatory environment in India can make it challenging for startups to comply with the various regulations and laws, adding an additional burden of compliance costs. When it comes to financial requirements, startups in India require seed funding to get off the ground. However, despite the availability of seed funding, startups face a challenging fundraising environment, with investors expecting high returns on their investment. Additionally, startups in India require support from incubators and accelerators to help them navigate the complex business environment and provide access to mentorship and networking opportunities.

INTRODUCTION

India is home to one of the world's largest startup ecosystems, with over 50,000 startups operating across various sectors. These startups are contributing significantly to the Indian economy by creating jobs, promoting innovation, and boosting economic growth. However, despite the immense potential for growth, Indian startups face numerous challenges, especially when it comes to financial requirements.

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

PRESENT STATUS OF STARTUP INDUSTRIES IN INDIA

The startup ecosystem in India has experienced tremendous growth and development in recent years. The country has emerged as one of the top startup destinations in the world, with a vibrant ecosystem of entrepreneurs, investors, and supporting infrastructure.

According to a report by Nasscom, India is home to more than 50,000 startups, making it the third-largest startup ecosystem in the world, after the US and China. These startups are spread across various sectors such as e-commerce, fintech, healthtech, edtech, agritech, and many others.

One of the key factors that have contributed to the growth of the startup industry in India is the government's support for startups. In 2016, the Indian government launched the "Startup India" initiative, which aimed to provide a conducive environment for startups to grow and thrive. The initiative offered a range of benefits, including tax breaks, easier compliance regulations, and funding support.

Additionally, the Indian government has launched several schemes to support startups, such as the Atal Innovation Mission (AIM) and the Atal Tinkering Labs (ATLs) to promote innovation and entrepreneurship among students. These initiatives have created a favorable environment for startups to operate in and have helped to attract investment into the sector.

Another significant development in the Indian startup ecosystem is the rise of venture capital (VC) funding. The availability of funding has been a major catalyst for the growth of startups in India. According to a report by Bain & Company, India's VC industry saw a five-fold increase in funding from 2014 to 2019, with the total value of investments increasing from \$2.3 billion to \$10.6 billion. In 2021, India witnessed a record year in terms of VC funding, with startups raising \$38 billion, up from \$12.7 billion in 2020, as per data by Venture Intelligence. The fintech sector has emerged as one of the fastest-growing segments of the Indian startup industry. Fintech startups in India have disrupted traditional financial services by providing innovative solutions that are more affordable and accessible to consumers. In recent years, the sector has witnessed significant growth, with several unicorns such as Paytm, PhonePe, and Razorpay emerging in the space. The pandemic further accelerated digital payments in India, with UPI transactions crossing 4 billion in March 2021.

Healthtech is another sector that has witnessed significant growth in India. With the rise in chronic diseases and an increasing need for better healthcare facilities, healthtech startups in India have been developing innovative solutions to address these challenges. The sector has attracted significant investment in recent years, with several startups such as Practo, Medlife, and Cure.fit raising substantial amounts of funding.

The edtech sector has also emerged as a significant growth area for startups in India. With a large population of students and a growing demand for online education, edtech startups have disrupted traditional learning models and have been offering more personalized and accessible education solutions. Byju's, India's largest edtech startup, became a unicorn in 2018 and has since raised billions of dollars in funding.

PROBLEM STATEMENT

Startups are considered the backbone of innovation and economic growth in India. They bring fresh ideas, new technologies, and create job opportunities, making a significant contribution

to the country's GDP. Despite this, startups in India face numerous challenges, including lack of funding, regulatory hurdles, talent scarcity, and inadequate infrastructure. These challenges can have significant financial implications for the startups, affecting their growth and sustainability.

This review aims to investigate the challenges faced by startups in India and their financial requirements. The review will start with an overview of the startup ecosystem in India, highlighting the growth of the industry over the years. It will then delve into the common challenges faced by startups in India, including access to capital, regulatory compliance, and talent acquisition.

The financial requirements of startups will also be examined in this review, with a focus on the cost of setting up a startup, sustaining operations, and scaling up. The review will discuss the various financing options available to startups in India, such as venture capital, angel investment, and government schemes.

The review will also analyze the government initiatives and policies aimed at supporting startups in India, such as the Startup India program, and their impact on the industry's growth. Finally, the review will provide recommendations for startups to overcome the challenges they face and secure funding in India, including building a strong business plan, developing a robust team, and leveraging government schemes.

LITERATURE REVIEW

Kandpal, V., & Mehrotra, R. (2019). study analyzed the capital requirements for Indian banks on its exposure to the infrastructure sector's estimated \$1 trillion investment requirement from 2013–2018 with 50% programmed to come from the private sector. Current bank exposure to infrastructure is around 17% of total assets which makes meeting this requirement a challenge. The paper also addressed the implications to Indian banks of this proposed expansion in infrastructure lending given the constrained from the implementation of Basel III requirements as well as the emerging risks due to the slowdown of GDP growth and currency depreciation. The study is divided into two parts, (i) developing a macro econometric model that forecasts bank credit and deposits over 2013–2018 which feeds into a financial model, and (ii) analyzing the implications on bank balance sheets and the challenges in meeting infrastructure financing requirements. The results point to the need for significant capital infusion, at least in public sector banks.

Korreck, S. (2019). Emphasized in their research and stated the various financial challenges faced by the Startups in India. Also depicts the difficulties faced by the Startups at the initial stage. The major findings are major leap in technology have led investors to raise the bar. Keeping in mind the importance of the subject and the research gaps therein, we have undertaken this study with the main aim to address the important issue of understanding the challenges and issues faced by Startup companies in India. The basic point is that Fintech developed more as a necessity out of the developments in the areas of financing services and the rapid growth of the technology that due to the need of such services. The merger of technology with financial service here means that various applications and platforms are being built and developed to provide you with an ease of using financial services including applying for business loans, online personal loans, etc. easily.

Kuschel, K., (2017) in their research concluded that startup action plan is centred on the theme of limiting the role of States in policy domain and to liberate the startup ecosystem from licence

Raj and removing stumble blocks like land permission, foreign investment proposal, and environment clearance. Today the problem lies in the complex and bothersome red tape involved in navigating that framework. Hence, government should act as a facilitator in the entire supply chain and ultimate care should be taken upon using the public money. Moreover transparency and accountability should be maintained between the government and the startups all the way through its cycle. The importance of MSMEs as a major driver of the economy and a critical employment generator cannot be overstated. Moreover, there is a large market of unserved/underserved populations that Fintech can reach out to. This game changer for inclusion has only reached elite customers in Tier-I and Tier-II cities of India so far. The need of the hour is to innovate for the mass market and address challenges such as lack of financial and digital literacy and restrictive regulatory policy.

Mittal, T. & Madan, M. (2020). In her study stated problems in Indian markets are that they are unorganized and fragmented. There is a lack of unambiguous and transparent policy motives, lack of communications sources, lack of knowledge and exposure. Study concluded that India has a large demographically diverse populated country, with numerous youngsters looking for work. The country is on a way to develop its economy, the rate of development has been Moderate. The government has understood the the underlying foundation of the essential issues and made appropriate reforms. Understanding that the innovation led Enterprises improvements holds guarantee for development. The government has taken significant approach activities with a strong development plan. There are difficulties in understanding the objective, the startup India program startup India programme is a step towards the development.

As per Chokhani (2017) on the Challenges Faced by Startup Companies Skilled talent is hesitant to join start-ups, as they have witnessed in the past mass firing and downsizing. Raising the capital has been a long drawn challenge for start-ups. In startups employment is uncertain due to companies reaching scale and then downsizing for better efficiencies, the industry is saturated with such examples. Angel investment and seed investment is easier to find, as the amounts are smaller, it has gotten much tougher to go for later stage rounds, as companies burn too fast and do not look at unit economics. Fintech is financial technology; FinTech is about the introduction of new technologies into the financial services and application of digital technology of the financial sector. The research topics have been studied theoretically. The data has collected by PwS, KPMG, RBI, and SSRN. The paper provides the historical evolution of Fintech and Market size and growth. In addition, the advantages and disadvantages of Fintech, Fintech hub, and Fintech regulation of India.

Harsh Pratap Singh & Satish Kumar (2017) analyzed the effects of various factors like profitability, growth opportunity, financial leverage, assets tangibility, operating cash flows, age and size of firm on working capital requirements (WCR) of manufacturing SMEs in India. The overall results of the study indicated that operating cash flow, financial leverage, profitability, sales growth and asset tangibility are the key drivers of WCR for Indian manufacturing SMEs. Profitability of firm and sales growth are found to be positively related to WCR. Fintech is important for the future of the financial sector, as inclusive finance is strongly national economic growth. Fintech is reshaping of the financial sector. Fintech is innovative ideas for financial services. Fintech has taken the next level of financial services like shopping, transfer; receive funds, save time everything happens in real-time, and user

friendly. Fintech benefits of both consumers and business. The government introduced the UPI and BHIM has attracted millions of users in India to transaction online.

Goel, S. (2018) cited some challenges and issues related to startups in India like culture and awareness, Social issues, Technology infrastructure, Financial Issues, Sustainability Issues, and Regulatory Issues. their study addressed the challenges of HR Tech Startups such as failure to lay groundwork for adoption by employees. While there are diverse products and technologies in the market, the core challenge is to find the right product-market fit. Fintech is financial technology; Fintech provides alternative solutions for banking services and non-banking finance services. Fintech is an emerging concept in the financial industry. The main purpose of this paper accesses the opportunity and challenges in the fintech industry. It explains the evolution of the fintech industry and present financial technology (fintech) in the Indian finance sector. The fintech provide digitalization transaction and more secure for the user. The benefits of fintech services reducing operation costs and friendly user.

Padmaja Peram & Bala Koteswari (2018) Paper revolves around the concept of start-ups in Bangalore. Start-ups are mostly formed based on creative and innovative ideas and grow to get success. Startup companies are newly born companies which struggle for existence due to some challenges. The basic purpose of this paper is to put some light on the challenges faced by those start-ups and challenges are like building team, lack of hiring, lack of customer awareness, less resource availability etc. An attempt is made to review the literature based on Secondary data collected from various websites, journals, newspaper articles etc. and the challenges faced by the start-ups and proposed some suggestions and strategies to cope up those challenges.

M. Sharmila Devi (2019) In her study emphasized that the startups have been the flavor of the season over the last few years for the Indian markets. This has resulted in the born of several homegrown unicorns across the country. One of the major contributors leading to this development has been the mega-funding that has been plowed in most of these unicorns between the period 2007 and 2015. This has been in line with the global trend dominating the space. Even the aspiring unicorns have had a decent run during this period, where managing to find investors is usually considered a complicated task. Making big bets on Indian innovation has become a worldwide point of interest. Prime Minister Narendra Modi launched an ambitious program called Startup India and Standup India. These were aimed at revolutionizing and accelerating the startup revolution in India, which is already witnessing strong adhesive friction.

Čalopa, M. K. (2014). In the study done the survey based on fourteen questions. The report has been closed questions. Numbers of respondents were 38 out of 50. Overwhelmingly the responses have shown a positive attitude to the questions asked. Although SMEs is a higher growth sector along with providing employment opportunities but it lacks in obtaining finance from the Government Departments, Banking Sectors, Financial institutions etc. and also financial planning, limited knowledge, lack of skill labour, Ineffective marketing Credit policy, not adoptability of new technology, continuous modernization. The aim of this study is to provide a comprehensive understanding of both the growth drivers as well as the challenges faced by Indian startups. Further, the study investigates how the startup ecosystem has developed over the years and describes where and which kind of support is available. While the primary focus is on technology-driven startups, the study recognizes that non-tech, social and micro-entrepreneurs have also come up with innovative ideas and solutions.

Carmen Cotei, J. F. (2017). Startup scheme is a great initiative by our honorable prime minister for all the young entrepreneurs who have innovative ideas but lacks platform which provide them to start their business. Now under this scheme they will get Tax exemptions for three years and concessions on capital gains tax. A single point of contact for interactions with the government. Many New Innovation Center, Research Center and Institutes will be established and also in case of Exit – 90 days for a startup to close down its business and many other benefits. SMEs clusters plays a vital role in total production output in selected products of India for example, the Auto Components cluster of Aurangabad. However, the majority of Indian clusters, especially in the handicrafts sector, are very small with no more than hundred workers, so specialized that no other place in the world matches their skills and the quality of their output. But only few clusters are globally competitive.

Sharifi, O. (2015). Focused that in recent years, startups have been receiving increased attention in many parts of the world. In India, the number of startups has increased fast and more support has become available in all dimensions. This paper analyses the current state of the Indian startup ecosystem and has three goals: to provide an understanding of the growth drivers and motivations of Indian startup founders; identify challenges facing these startups; and outline the pillars in place that support them. The analysis uses data collated from semi-structured interviews with startup founders, investors, and representatives of support organisations. In addition, a survey of relevant literature strengthens the robustness of the findings.

Weiss, J. (2013). In her study concluded that startup India initiative is a great initiative for the development of entrepreneurship and that would lead to the development of an economy. The Government of India has taken various initiatives to promote startups. Banks to have major role in the growth of startups, as Long with financial assistance they also provide other services like advisory services, investment, banking etc. Indian banks have taken many startup initiatives which have contributed towards the development of entrepreneurship in India. Still there are some challenges which are faced by startups in India like lots of security to be given as collateral, lack of awareness about various policies. Banks should continue to take initiatives to support startups and should also create awareness for the same especially in rural areas where there are small traders, marginal farmers and small retailers.

David, D (2015) Startups are an effective way of promoting innovation in the software industry. This paper extends the theoretical and practical understanding of the key elements and factors that promote the growth of a successful software startup ecosystem in a certain region, by presenting a conceptual framework, delineating the major forces leading to a fruitful environment for digital entrepreneurship. The framework is systematically derived from a meticulous qualitative research carried out in Israel, which hosts one of the most fruitful software startup ecosystems in the world. Data collection was based on semi structured interviews, observations, and a questionnaire.

According to Herrmann, B.L. (2015) Startups require favourable social conditions to grow. These include support and encouragement, both material and moral, for entrepreneurs to establish them and, once established, to develop them. This is not a task for one institution; rather, a whole system of support is needed. The term “startup ecosystem” has been widely used to describe this concept. The Global Startup Ecosystem Ranking suggests that a startup ecosystem consists of a city or other defined geographic area with a pool of relevant shared

resources and a concentration of funders, investors, incubators, accelerators, and public and private service providers. They predicted that for the decades ahead, countries and regions with thriving startups will enjoy thriving economies. Governments look to entrepreneurship and startups to solve problems of economic growth and to boost employment. They often prioritize the removal of obstacles to startup funding, especially minimizing unfairly burdensome taxation on small companies, attracting investment capital, helping them at sensitive stages of their development, and contributing to and stimulating R&D funding.

STARTUP INDIA – OPPORTUNITIES AND CHALLENGES

Startup India is an initiative launched by the Government of India in 2016 to promote and support entrepreneurship and startups in the country. The initiative aims to create a conducive ecosystem for startups to thrive and drive economic growth and job creation. While the Startup India initiative has created numerous opportunities for startups, it also faces several challenges.

Opportunities

Access to funding: The Startup India initiative provides access to funding through various schemes, including the Fund of Funds for Startups, Credit Guarantee Fund for Startups, and the Startup India Seed Fund Scheme. These funds provide startups with the necessary capital to start and scale their businesses.

Simplified regulatory compliance: The government has simplified the regulatory compliance process for startups, including the Startup India Hub, which acts as a single-window platform for all regulatory and compliance related services.

Tax incentives: The government provides various tax incentives to startups, including a three-year tax holiday and a reduced tax rate of 25% on companies with an annual turnover of up to 250 crore.

Mentorship and incubation: The Startup India initiative provides mentorship and incubation support to startups through various incubation centers, accelerators, and mentorship programs.

Challenges

Access to talent: Startups require skilled human resources to succeed, and the availability of such resources is a significant challenge. The government needs to create programs that upskill the workforce and provide startups with access to skilled human resources.

Infrastructure: Startups require adequate infrastructure, including access to high-speed internet, co-working spaces, and research and development facilities. The government needs to invest in developing such infrastructure to support the growth of startups.

Intellectual property rights: The lack of awareness of intellectual property rights is a significant challenge for startups. The government needs to create awareness and provide support to startups in protecting their intellectual property rights.

Competition: Startups face intense competition from established players in the market. The government needs to create an environment that encourages collaboration and partnerships between startups and established companies to promote innovation.

The Startup India initiative provides numerous opportunities for startups to thrive, including access to funding, simplified regulatory compliance, tax incentives, and mentorship and incubation support. However, startups still face significant challenges, including access to talent, infrastructure, intellectual property rights, and competition. The government needs to address these challenges and create a conducive environment for startups to succeed, promoting innovation, economic growth, and job creation in the country.

CONCLUSION

In conclusion, the startup industry in India plays a crucial role in driving innovation, economic growth, and job creation. However, the industry faces several challenges, particularly in terms of financial requirements. Access to capital remains a significant challenge for startups in India, and many struggle to secure funding. This challenge is compounded by the regulatory hurdles and talent scarcity, making it difficult for startups to sustain their operations.

The financial requirements of startups in India include the cost of setting up a business, sustaining operations, and scaling up. Startups require significant investments in technology, infrastructure, and human resources to succeed in the long run. The government has taken several initiatives, such as the Startup India program, to support the growth of startups. However, more needs to be done to create a conducive environment for startups to thrive. Future work can focus on addressing the challenges faced by startups, including conducting longitudinal studies, regional studies, and comparative studies to identify best practices and policies. Supporting the growth of startups in India requires a multi-pronged approach that addresses the various challenges and financial requirements faced by the industry. By implementing targeted policies and initiatives, India can continue to be a global leader in the startup ecosystem, driving innovation, economic growth, and job creation.

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