

A Report on

The Indian Start-up Ecosystem

(June 1, 2021 – June 30, 2021)

By

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Under

TheRise Internship Programme - TRIP

An online internship programme

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CERTIFICATE

This is to certify that the online internship under TheRise Internship Programme (TRIP) has been completed by Mr. **Devvrat Sharma** on the topic “**The Indian Start-up Ecosystem**” during **01st June 2021 to 30th June 2021**. This report has been prepared on the basis of the work carried out by me under the supervision of Consultant-TRIP.

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Devvrat Sharma

Acknowledgement

The internship opportunity I had with **TheRise.co.in** was a great chance for learning and professional development. Therefore, I consider myself as a very lucky individual as I was provided with an opportunity to be a part of it. And a very special thanks to the editor of **TheRise.co.in** who in spite of being extraordinarily busy with his duties, took time out to hear, guide and keep me on the correct path and allowing me to carry out my project. I express my deepest thanks to Consultant-TRIP for giving necessary advices and guidance. I choose this guidance to acknowledge his contribution gratefully.

I perceive as this opportunity as a big milestone in my career development. I will strive to use gained skills and knowledge in the best possible way, and I will continue to work on their improvement, in order to attain desired career objectives. Hope to continue cooperation with all of you in the future.

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Abstract

Start-ups are vital components of an economy that help promote innovation and competition. After the 2008 global recession, the start-up ecosystem in India began to take shape. With a young tech-savvy population, it was only a matter of time before India's domestic start-ups spurred into action. With a population of more than 1.3 billion, this market has always been so widespread that later even start-ups from entrepreneurs located overseas began increasing.

To understand some of the many dynamics of this massive market, this study digs deeper into how the start-ups are distributed in the nation, how the country's start-ups compare to those located in the United States and China, the only markets with greater number of unicorns than India and the very contemporary issue of the coronavirus pandemic and how these start-ups have once again stood up to help the country.

Work Plan

Weekly work plan for each week started from Monday to Friday was as follows. The guidance was sought on email on a number of times. The intern communicated the progress of work done on each working day by email in a minimum of 25 words by 7.00 PM. There was a weekly discussion with the intern as per the schedule notified on email.

- **Week 1:** Regional and sectoral distribution of start-ups in India along with the country wise distribution of investors in Indian start-ups.
- **Week 2:** Policies implemented by the governments of China and the US to support growth of start-ups and comparison of these those of India. Sectoral spread of start-ups in all these countries along with relevant comparison.
- **Week 3:** Contribution of start-ups in India's GDP and new avenues explored by entrepreneurs and the role of start-ups in providing help during the coronavirus pandemic.
- **Week 4:** Challenges that start-ups face in the Indian ecosystem like exit barriers and how a robust start-up is created. The role of education and training in building successful start-ups was also explored.

Regional Distribution of Start-ups and Corresponding Reasons for their Numbers

Start-up culture has been on the rise in India and the addition of [twelve new unicorn start-ups](#) (businesses that are less than 10 years old with valuation greater than or equal to \$1 billion) in the year 2020 has only made this ecosystem look more lucrative and viable. While the entire country adds more than a thousand start-ups annually, some states contribute more to this list than the others. According to a report by Ministry of Commerce and Industry,¹ 5 Indian states accounted for over 60% of all start-ups in India in 2020. Figure 1 gives an idea of how start-ups are spread in the country.

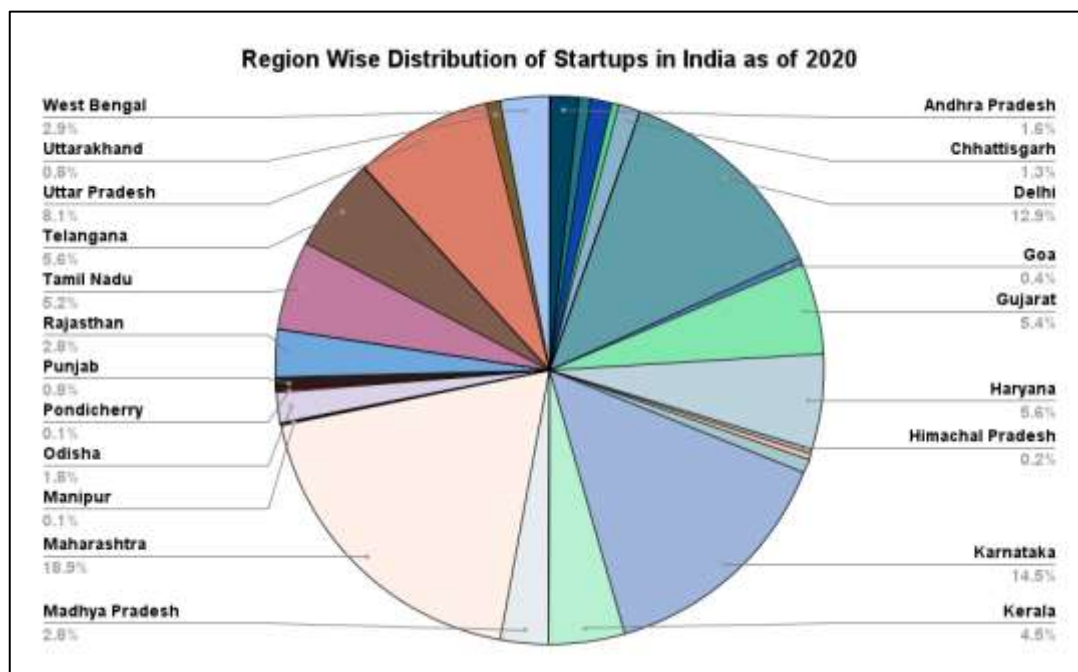


Figure 1 [SOURCE: Report from Department of Promotion of Industry & International Trade]

Some states strive harder to nourish their start-ups and become dream destinations for entrepreneurs to set up their young businesses. The state of Karnataka, for instance, witnessed massive support from the state government in the form of [Karnataka Start-up Policy](#). Launched in 2015 with the aim of creating over 20,000 start-ups in the state by the year 2020, it introduced a Rs.2000 crore credit line to enhance lending to businesses. Similarly, the state of Maharashtra formulated the [Maharashtra State Innovative Start-up Policy](#) in 2018 which

¹ Department of Promotion of Industry and International Trade, Annexure 1, https://dipp.gov.in/sites/default/files/lu2912_0.pdf

promised to provide a platform for its citizens to convert their entrepreneurial aspirations into reality by developing robust infrastructure and easing the regulatory framework. All of this is over and above the benefits of the Start-up India Scheme launched by the central government in January 2016 which outlines benefits in terms of taxes and IP protection for all states in the country.

Infrastructure plays an equally important role in the development of a start-up. Better infrastructure ensures better supply chain and inventory management which businesses heavily rely upon. While infrastructure includes many aspects like renewable energy sources and water, one broad way to get an idea of a state's prosperity is to look at its capital expenditures for the year. By definition, capital expenditures are incurred to create assets like roads, buildings and airports. As per RBI's report of state wise capital expenditure for the year 2018-19,² Uttar Pradesh spent Rs.968.6 billion followed by Maharashtra with Rs.629.4 billion. Unsurprisingly, both of these states constitute 27% of all the start-ups across different states. Figure 2 shows how the variables, capital expenditure and number of start-ups, are positively related for ten states with the most capital expenditure in the country.

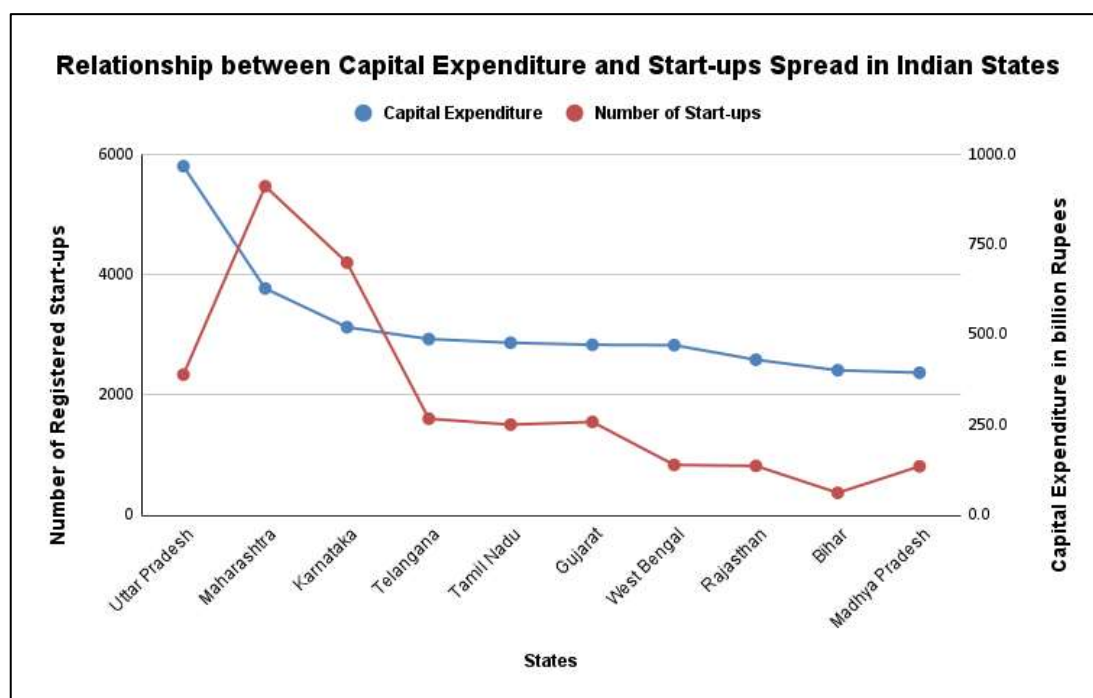


Figure 2 [SOURCE: RBI's report on state-wise capital expenditure 2019]

² RBI Publication dated March 3, 2019 'State-wise Capital Expenditure' Table 138, <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18934>

Another factor that can completely change any business decision is the ease of doing business. Out of 29 states, 20 have their own policies for start-ups where they chalk out different relaxations that start-ups can utilize. They can be either provided relief from excess regulations or can be financially supported by subsidies. The world bank provides ranks to all states in India on the basis of their compliance with action points mentioned in [Business Reforms Action Plan](#) (BRAP) under the Make in India Initiative. According to the 2019 report published by RBI, UP ranked 2 in this index, Delhi 12, Maharashtra 13, Haryana 16 and Karnataka 17. Andhra Pradesh topped the list which makes it a future contender for the best location to base a start-up along with Telangana, Madhya Pradesh, Chhattisgarh and Himachal Pradesh. India was also ranked 63 in the [Doing Business Report](#) of 190 countries by the World Bank in the year 2019, a significant improvement over 142 in the year 2014.

Sectoral Distribution of Start-ups and Corresponding Reasons for their Numbers

It is no surprise that India is one of the most preferred locations for setting up businesses. Highly skilled personnel and low labour costs help start-ups cut expenditures which is crucial in the early years since most start-ups rarely make profits during those times. India was the third largest start-up market in 2020 after US and China. Emphasis on digitalization by the government has led to formulation of an incredible number of IT related start-ups. As a matter of fact, over 18% of all the start-ups in India are related to deep IT services. Figure 3 is a pictorial representation of start-ups distributed in various sectors.

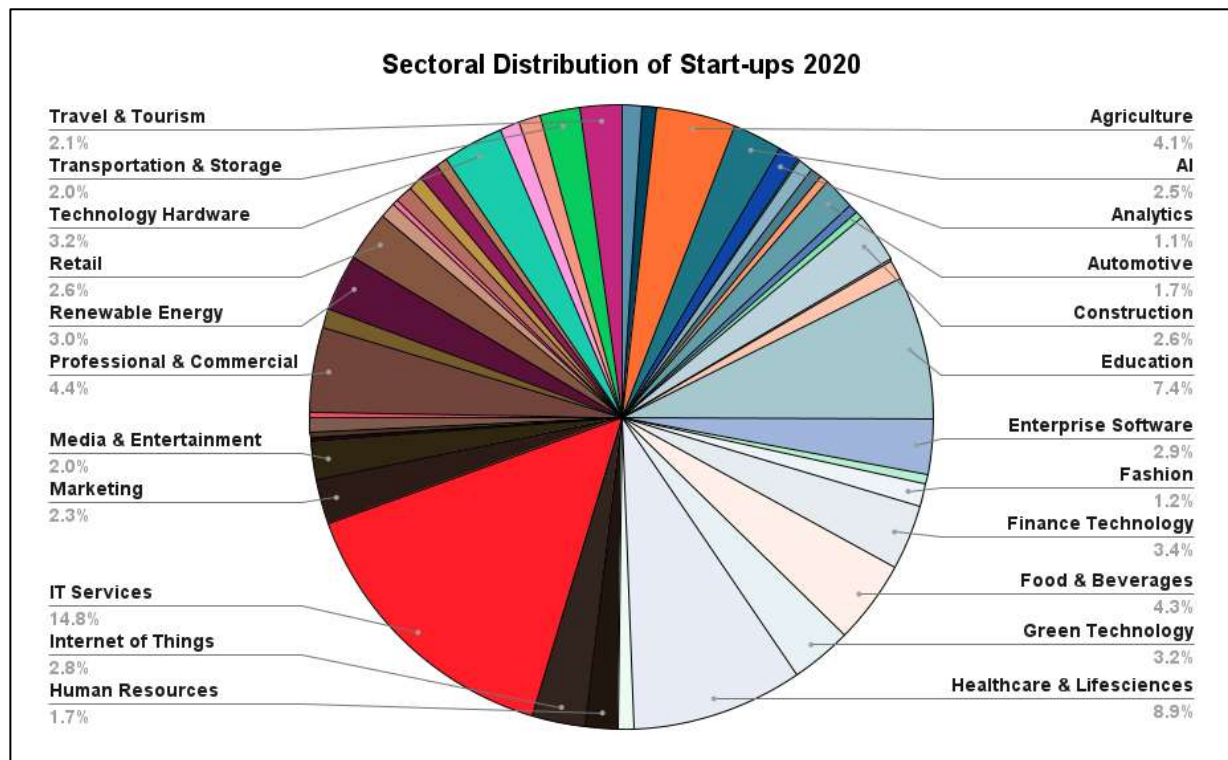


Figure 3 [SOURCE: Report from Department of Promotion of Industry & International Trade]

The Digital India campaign started by the government of India in 2015 envisioned an impressive digital infrastructure for the country with the majority of government services to be provided online to the citizens. As per RBI,³ digital payments have seen a massive growth

³ RBI Publication 'Assessment of the progress of digitisation from cash to electronic', February 24, 2020, <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=19417>

by over 55%. With an outlay of Rs.3958 crores for the year 2020-21, the government is offering tremendous prospects to entrepreneurs to develop business models in the field of technology. The Ministry of Electronics and Information Technology has launched programmes like Technology Incubation and Development of Entrepreneurs (TIDE) and promotion of Electronics System Design and Manufacturing (ESDM) Skill for helping start-ups working in areas like Blockchain, Artificial Intelligence and Robotics.

Further, development of incubators or accelerators has boosted these businesses. Incubators are usually teams of professionals with no motive to earn profits which mentor start-ups by providing them with resources like a workspace, technology and advice so that start-ups can develop their business idea. According to a report by IIM Ahmedabad,⁴ as of 2019, there were 13 central government ministries and departments that were supporting a total of 284 incubators in India at that time, 90% of which were established after the year 2000. 35% of these incubators were set up post 2015 which validates the effects of Startup India scheme launched in 2016.

Technology has also made its way in education with rise in EdTech. This was profoundly seen throughout the pandemic during which India's own Edtech unicorn, Byju's, raised over \$1.3 billion while Unacademy joined the unicorns with a valuation of over \$2 billion. With work and studies having to shift online, people were less hesitant in subscribing to such platforms for their needs as compared to a time when they preferred face to-face conversations. Byju's free users increased from 45 million to 70 million and paid subscribers from 3.5 million to 4.7 million, clearly indicative of people adjusting to this crisis with the help of rising trust in EdTech. Two Indian cities, Bangalore and Delhi, have especially become hubs for EdTech start-ups and figure 4 is a testament to that.

⁴ Supriya Sharma and Neharika Vohra, 'Incubation in India – A Multilevel Analysis', IIM Ahmedabad, March 2020, Page 10

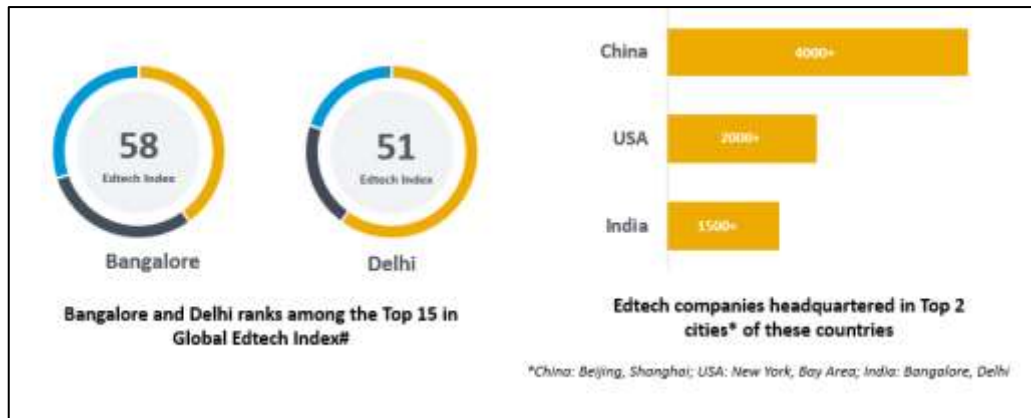


Figure 4 [SOURCE: NASSCOM]

Fintech has also seen a boom in India since 2015. India witnessed a 116% growth in the number of Fintech start-ups from 2014 and currently has over 2200 in total. Two Indian cities, Bangalore and Mumbai, [represent 43% of the total Fintech start-ups](#) in the country followed by Delhi, Chennai and Hyderabad. Experts say that demonetization in 2016 and GST application provided a necessary push to digital money and indirectly helped Fintech companies to extend digital financial services to the public. Led by giants like Paytm, the sector has seen outstanding growth in the year 2020. An increase in Unified Payments Interface (UPI) paved the way for three new unicorns, namely Razorpay, Pine Labs and Digit Insurance. The future also looks very optimistic with sector valuation projected to reach \$160 billion by 2025 from the current \$60 billion.

Investors in Start-ups in India

Over the last decade, funding prospects have improved drastically for start-ups with external funding sources becoming more commonplace. In India, external funding is usually international with domestic investors contributing less as compared to countries like China and Japan where they are much more proactive. Statistically, India's domestic investment ratio is only about 26% as compared to countries like Japan where it is as high as 84%.

One reason behind such a trend is the average investor in India being risk-averse. Since these start-ups do not prove out to be lucrative immediately, majority of Indian investors are hesitant in blocking their money. More importantly, capital required at this stage is enormous and thus many investors just don't have the capacity to invest. There are also government regulations that deter domestic investors like Angel Tax which considers any capital invested into start-ups above their fair market valuation as income from other sources and taxes it. While the government has since made amendments to this system, like exempting start-ups which register with the Department for Promotion of Industry and Internal Trade (DPIIT), there are a lot of loopholes that ultimately cost start-ups dear money.

The Indian start-up ecosystem has also depended heavily upon Chinese investors. The likes of Alibaba and Tencent own shares in 18 Indian unicorns like Flipkart, Zomato and Ola. India is the second most populous country after China and full of young professionals. Chinese investors have estimated their potential correctly in the past and have invested in a plethora of start-ups even in the younger stages as can be seen in figure 5. However, ever since the aggravation of geo-political tensions between the two nations, Chinese investors have slowed the investments. Indian start-ups have also started looking for alternative investors so as to reduce the Chinese involvement in their companies. The government of India has [tightened its FDI norms](#) which now make it mandatory for Chinese investments to go under government scrutiny and approval thereby further deterring these investors.

Consequently, this has opened an avenue for investors from other nations like the United States, UK, and Japan to take advantage of the freed up market. US-based Sequoia Capital has invested heavily along with Google. Softbank, a Japanese conglomerate, is famous for its

investments in Paytm (\$1400 million), OYO (\$100 million) and Flipkart (\$2600 million). In the first 5 months of the year 2021, it injected over an estimated \$2 billion in Indian tech start-ups. One reason cited for Softbank's heightened interest in Indian start-up ecosystem is its massive profit (\$36.99 billion) for the fourth quarter ended March 31, 2021.

Constant improvement in its regulatory framework has also helped India aid its young entrepreneurs. India has been climbing the Global Innovation Index (GII) rankings and was at 48 in 2020 up from 81 in the year 2015.⁵ This further exposes the potential of Indian start-ups alluring more financial help from foreign investors. Cities like Bangalore and Delhi have also made it to the top 40 most favourable ecosystems in the world according to the Global Startup Ecosystem Report (GSER) 2020 by the California based start-up Genome.⁶



Figure 5 [SOURCE: Times of India]

⁵ Global Innovation Index Report 2020, 'Heatmap: GII 2020 ranking overall and by pillar', Page 10
<https://www.globalinnovationindex.org/Home>

⁶ The Global Startup Ecosystem Report – 'Rankings 2020: Top 30+ Runners-up'
<https://startupgenome.com/article/rankings-top-40>

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6. The Global Startup Ecosystem Report – 'Rankings 2020: Top 30+ Runners-up'

Startup Policy of China and USA

China opened its borders for trade in the year 1978, roughly 10 years before India. Today, the East-Asian nation has 206

unicorn companies and estimates suggest presence of over 30 million start-ups. This entrepreneurial prowess did not transpire immediately. The country's biggest financial hub, Shanghai, introduced a master plan for the years 2001-2020. This plan wanted the city to become a global hub for trade and logistics by 2020. As of 2019, the city had over 1000 start-ups, 21 unicorns and 5000 angel investors including Sequoia Capital and GSR Venture. The government also introduced the Made in China 2025 policy under its 13th five-year plan in 2016 with the objective to turn the Chinese economy into a manufacturing superpower, a shift from production of cheaply and mass-produced goods and services. In 2015, State Council of China introduced Startup Ecosystem Development Strategies implementing more than 400 measures in favour of young businesses. Local governments have also actively helped businesses by providing financial support to various entrepreneurs. The most prominent of all policies, however, was Torch.⁷ Launched by the Ministry of Science and Technology in 1988, this program is believed to have kick-started the Chinese start-up ecosystem. It gave rise to innovation clusters, similar to those found on the eastern and western coasts of the US, so as to provide businesses healthy competition and help them cut costs. Under it, Science and Technology Industry Parks (STIPs) were established throughout the country to assist businesses with the latest technology. By the year 2015, China had more than 2000 technology business incubators which further helped inception of various start-ups.

The United States' start-ups can be dated as far back as the 1970s when the term Silicon Valley was first coined in a magazine primarily because companies in California were engaged in the production of semiconductors. Since then, America's start-up ecosystem has grown partly because of government policies and partly because of the nature of entrepreneurship there. In the early 2000s, internet boom helped businesses develop their business ideas. It gave rise to unique customer demands and the risk tolerant American entrepreneur did not hesitate to tap the opportunity. This is one of the most significant reasons why America leads the start-up ecosystem globally. Entrepreneurs there are more open to

⁷ Torchbearer: Igniting Innovation in China's Tech Clusters' by Damien Ma
<https://geip.sg/network/shangha>

new and unconventional business ideas and do not fear the risks that accompany. This can be attributed to the ease in funding for American start-ups. In the year 2020 alone, [investors injected over \\$156 billion](#) into domestic start-ups, an increase from around \$140 billion in 2018 and 2019. The lenient government regulation makes setting up businesses even easier. According to the [Doing Business Report](#) by World Bank, it takes only 4 days for an entrepreneur in the US to start a business. Further government policies like '[Start-up America](#)' from 2011 along with '[Start-up America Partnership](#)' help businesses with their capital requirements, reduce barriers to entrepreneurship and accelerate innovation.

Policy Differences between the US, China and India

India, China and the US account for over [82% of total unicorns worldwide](#).⁸ While the US dominates this tally with a 64% share, China and India are chasing faster than any other nation and it becomes pertinent to compare the policies and ecosystems of these nations.

[According to Forbes](#), 55% of America's unicorns have an immigrant founder. Yet, the American law does not make it easy for entrepreneurs from foreign lands to start up a business. Despite having several visa categories for entrepreneurs, the law does not guarantee a green card to a person on the basis of entrepreneurship. Most entrepreneurs are tethered to their sponsored employers or companies for visa and still end up getting denied a green card. Similarly, an Indian business visa is not start-up friendly and the entire process is plagued by excessive bureaucracy. China, on the other hand, has piloted a 'start-up' visa in districts like Shanghai, Changning and Yangpu which houses even inexperienced individuals and entrepreneurs over 60 who were previously rejected under the traditional business visa norms.

When it comes to nurturing businesses, China provides its entrepreneurs over 11,000 incubators which in 2018 assisted [6,20,000 start-ups](#). These incubators can pay corporate tax as low as 10% depending upon the scale of their operations and are extended loans at low interest rates. In comparison, the US has 1400 incubators and states like New York exempt eligible incubators from state corporate income tax and state sales tax. India has only around 520 and yet incubators in India are taxed like other companies and are obligated to bear several direct and indirect taxes along with a corporate tax of 25% plus surcharge.⁹ This discourages development of more incubators and leads to less private participation.

The US government has [special grants](#) for start-ups like the Small Business Innovation Research (SBIR) program and Small Business Technology Transfer (STTR). These have been designed to help American owned and operated small businesses to engage in research and development needed to commercialize their ideas. The US also receives the most venture capital investments in the world, although concentrated mostly in the West and North-East coasts of the country. China trails the US in number of venture capital investments but has

⁸ USC Marshall School of Business – Startup Index of Nations and Regions
<https://www.marshall.usc.edu/faculty-research/centers-excellence/center-global-innovation/startup-index-nations-regions>

⁹ 'Incubation Systems for Start-ups in China and India: A comparison of the two ecosystems' by Hrishikesh Kayshap
<https://icsin.org/blogs/2020/08/13/incubation-systems-for-start-ups-in-china-and-india-a-comparison-of-the-two-ecosystems/>

lately shown a downward trend. Several reports cite the US-China trade tensions and China's economic slowdown to be the reasons behind lack of interest from investors in the country.

The Indian government has numerous schemes for start-ups like the [Venture Capital Scheme](#) for start-ups related to agriculture and MSME Market Development Assistance which helps businesses expand their operations through international trade fairs and exhibitions. In addition, states like Gujrat, Karnataka, Rajasthan, UP, Bihar and Kerala have their own [venture capital funds](#) established by the state governments to assist local entrepreneurs in funding. The central government also created a [Fund of Funds for Start-ups](#) with a corpus of 10,000 crores in 2016 managed by Small Industries Bank of India (SIDBI).

Sectoral distribution of start-ups in US and China and Comparison with India

The start-up ecosystem in the US is completely integrated with technology. Take artificial intelligence for instance. AI companies [raised \\$33 billion](#) dollars in the year 2020 despite the ongoing pandemic. UiPath, a New York based robotic process automation company, reached a valuation of [\\$35 billion](#) in February 2021. Big data is also expected to witness an increase in compound annual growth rate (CAGR) of 12.5% to \$192 billion dollars by 2023. Cybersecurity has also been seeing an increase in funding lately with [\\$7.8 billion raised](#) in 2020 alone, a 22% increase over investments received in 2019. Experts opine that in a decade, sectors like autonomous transportation, Life Science, Digital health and Cleantech will become the most popular.

Just like the US, AI is also catching pace in China. The country has 1,189 AI firms which is the second most by any country, trailing only the US with more than 2,000. These Chinese firms focus more on speech recognition and synthesis and image and video recognition than other countries.¹⁰ Robotics is another growing field in the country which is heavily supported by the Chinese government. The country has popular start-ups like SenseTime, Reis Robotics and Geek+ along with around 6,000 more companies in this sector. The robot density of the country has been increasing and in 2016, it was the most dynamic in the world as per [International Federation of Robotics](#) (IFR). Apart from this, BioTech has seen a boom in China owing to a rise in number of biotech science parks by 50% from 2016-2020. The country has seen an influx of its own scientists and researchers from abroad due to generous government grants and subsidies. China is also the most lucrative market for gaming related start-ups followed by the US. Housing the world's largest video game publisher Tencent and over 700 gaming start-ups the market was valued at \$58 billion in 2020 and is estimated to reach \$86 billion by 2027.¹¹

Like its counterparts, India has also witnessed substantial rise in these sectors. AI start-ups in the country saw the greatest amount in funding in 2020 in seven years. The robotics market in India is expected to have a CAGR of 14.41% between 2020-2025. In 2018, India was the 11th largest industrial robot installation market in the world, ahead of Canada, Czech Republic and

¹⁰ Harvard Business Review, 'Is China Emerging as the Global Leader in AI?' by Daitian Li, Tony W. Tong and Yangao Xiao

<https://hbr.org/2021/02/is-china-emerging-as-the-global-leader-in-ai>

¹¹ Global Newswire 'China Online Gaming Market Report 2021'

<https://www.globenewswire.com/en/news-release/2021/05/04/2222088/28124/en/China-Online-Gaming-Market-Report-2021-Market-was-Valued-58-Billion-in-2020-and-is-Expected-to-Reach-to-86-Billion-by-2027-Top-Players-are-Tencent-NetEase-Kingsoft-Changyou-Shanda-.html>

Singapore. HR technology industry is expected to reach a valuation \$34 billion by the end of 2021 and \$3.6 billion worth of the business is expected to come from Asia including India. Due to the rise in 5G connections, greater number of internet users every year and advent of technologies like virtual reality and augmented reality, India's gaming market is expected to be valued at \$3.8 billion by 2024. To support this, the Indian government has also decided to set up Animation, Visual Effects, Gaming and Comic ([AVGC](#)) centre for excellence in collaboration with IIT Bombay and states like Karnataka, Telangana and Maharashtra have already implemented this policy.

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The Role of Start-ups in Providing help during the Ongoing Pandemic in India

Over the centuries it has been observed that the economies of countries develop in a particular fashion. Initially, the economy is dependent on small mom and pop shops to provide basic services which develop over time and adjust with the demand and expand their business by investing in infrastructure, opening more branches and of course when you grow, you need manpower to run your operations.

And here we are, back to the basic economic concept of flow of money in the economy. Alongside all this is the government making the support system for the economy and its population to reap the benefits of the growth. Now when the economy grows there is increased capital availability, better infrastructure and most importantly availability of information. This leads to the people who have skills and ideas to jump into entrepreneurial ventures. Indian economy is no different.

Our economy has been majorly driven by mammoth corporates in both industrial and service sectors since the years after liberalization until now when the start-ups have started making a significant contribution. With the population touching 139 crores, we have the 2nd largest population in the world and with this big a base and the yearly growth of about 1.09%, the market size is too big to be served by the existing infrastructure.¹

It was well known to the government that the increasing demands of the population can't be met with the existing corporates and infrastructure. The corporates would always have gone for the safe bet as they obviously have shareholders to be answerable to but we needed something dynamic, more risk taking and we just needed a push and we got this push in 2016.

The government of India launched the Start-up India and Stand-up India Programmes in the First half of the year 2016.² Through these programmes, the government encouraged different segments of the Indian populace to start their own ventures. In addition to this and a slew of other measures like liberal tax regime, easy capital availability from banks and NBFCs, less stringent company law compliances etc., the government created a favourable budding ground for start-ups. The investors overseas had always been willing to invest in a country like us with such a big market and they were just waiting for the doors to open a little more and the guards to go down.

With the flexible policies the start-up system grew and in the past years we have things which we had not even thought of 5 years back. Grocery delivery at home, getting a cab, seeing a doctor, finding a date, people to clean your sofa, working from home, studying from home,

¹ Indian Population- Worldometers, <https://www.worldometers.info/world-population/india-population/>

² Start-up India – Wikipedia
https://en.wikipedia.org/wiki/Start-up_India

thousands of apps and websites to buy from and all this available just with a few clicks on your mobile or laptop!! Isn't that great.

And then we struck the Covid-19 pandemic. Of course, no conversation is complete today without the mention of the pandemic. The infrastructure made by these start-ups and the digitization that Indians went through in the last 5 years helped the people and the Indian economy to navigate through this time. There are companies like Zomato along with Delhivery who rolled out their 'Feeding India' programme to source oxygen concentrators to supply to hospitals. Delhivery has also been chartering planes to import oxygen concentrators. Health tech start-up Blackfrog has been working through the pandemic to improve efficiency of the immunization supply chain. Its portable battery powered refrigeration device Emvolio is a plug & play solution that assists in last-mile transportation of vaccines. While Pharmeasy is using its network of 80,000 retailers and 5,000 distributors to speed up the vaccination drive, Practo with its solutions is helping people consult with doctors without the need to visit the clinics and expose them to the virus. Cultfit is helping people stay healthy by doing exercise and practicing mindfulness at home.

[Spice Money](#) has been helping rural citizens across 18,000 pin codes to register for covid vaccination through its banking correspondents.³ HealthifyMe have also opened their platforms to assist individuals in covid vaccination.

While there are start-ups who are making contributions such as above, there are also start-ups who are making silent contribution by not letting go off their employees and rather managing to stay afloat by just reducing the salaries a little. Start-ups who have got medical insurance cover increased for their employees. Start-ups doing innovation like making drones for delivery of vaccines and medical supplies.

Where we would have been if not for the start-ups!!

³ <https://www.livemint.com/news/india/big-tech-cos-start-ups-boost-nation-s-battle-against-covid-11620234857170.html>

Contribution to GDP and contributing to uncharted territories

While the Start-ups have been helping our country navigate through the pandemic, some by making our lives easy in Covid quashing our need to get out for fetching things and some by creating innovative methodologies to speed up the movement of medicines and vaccines, they have created innovative ways not just to satisfy the existing needs of the Indian consumers but has increased their level of acceptance for subpar products and services. They have created latent demands in the markets which were never heard of before and have made the entire world a local market.

Some companies that have made a mark and changed the Indian market landscape like Ola and Uber who have allowed consumers to book their transport at click of a button. They are competitively priced and have rendered the previously usurping taxi drivers incapable of charging exorbitant and unreasonable charges. They have mixed it with GPS to enable security for the passengers and particularly for the women. So going to home late from office is no more a scary deal. Rapido is another start-up which caters to people who don't mind opting a ride on bike rather than a car like Ola/ Uber and therefore can pay less.

Although Paytm initially as a platform for making payments but see today, it has emerged as one of the small bank licensed by RBI. Paytm has brought on board almost all electricity regulators, DTH Providers, mobile companies and even schools. Also, Paytm has helped even a small Chaiwala by providing him with a free QR code. Not just this, the once payment machine network charging heavy installation charges that was exclusively provided by banks has been shaken by Paytm. It provides small shops with the small payment wipe machines which are easy to operate and are available at much lesser cost.

And there are others like Unacademy, Simplilearn, Udemy, Byjus which have helped students, working professionals and even anyone who has interest in a topic to study it online. They helped say not just Gaurav in understanding the Maths concept of his Class syllabus but also helped say Manju aunty to learn baking cookies at home and start a homemade cookies business.

And not everything is about efficiency and work. They have taken care our comfort and leisure too. From Bigbasket and Grofers making daily chores easy to makemytrip and ixigo making flight and ticket bookings easy to getting us the best hotel deals, from Nykaa catering to our fashion needs to Chaayos and Chai point delivering the perfect blend of teas at our table. From 1 mg and Netmeds delivering our medicines to Urban clap providing home miscellaneous services and salon services right at the comfort of our homes.

It is expected that the India needs more than 100 million jobs a year and India plans to achieve 5 trillion GDP by 2025 that means we require more economic activity. And the start-ups are expected to play a big role in it. With many start-ups now scaling heights towards becoming

unicorns, we need more such to come along to achieve our target of 5 trillion. We need more jobs, more consumer spending, more growth to lure investors and in this entire process we the people of our country are growing.

[According to a report](#) of Inc42 , India received \$ 70 billion as investment in start-ups from 2014-2020.⁴ The bifurcation of the funding in different sectoral start-ups is as:

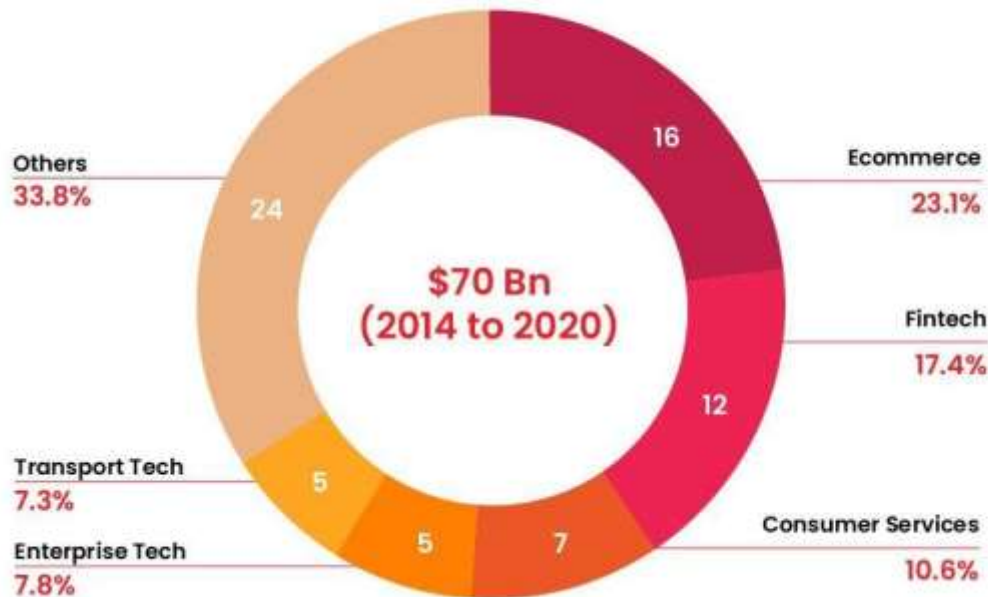


Figure 1: Source: inc42

This \$ 70 billion figure went into our GDP. The GDP is just a measure which denotes income. With the increase in GDP, the infrastructure, services and the facilities in our country will grow which ultimately increase the standard of living of the people and will provide us productive and efficient ways to carry our work. Well, that's a Win!!

Well, it won't be wrong to say that Start-ups are the new engines of growth for India. They are making a significant contribution not just in terms of adding to the GDP numbers but also adding to innovative solutions to problems and they have proved their worth in helping India fight against Covid. With the technology and the support ecosystem improving many folds it won't be long before India will be called the land of Start-up paradise.

⁴ <https://inc42.com/datalab/launching-the-state-of-indian-start-up-ecosystem-report-2021/>

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Building a Robust Start-up in India

For a seed to grow into a plant, a number of internal and external factors are at play. Same is the case of a start-up growing slowly into a viable enterprise and then later growing to a Unicorn or Decacorn.

The external factors for the development of a start-up consist of the support system. In India, the government, although late, has woken up to understand that Indian economic problems need innovative solutions. In the last few years the government has done quite its bit to spur an environment of entrepreneurship and established systems to handhold the budding entrepreneurs.

India's ranking in the list of Ease of doing business was 79 in 2014 and has jumped to [63rd](#) in 2020 among a list of 190 nations.¹² The ease of doing business ranking is based on 10 parameters such as starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, etc. It is the aggressive policy changes of the government that has brought about this change.

Since 2014 steps are being taken in every direction starting from the current requirements of entrepreneurs to fostering an environment and creating innovation and entrepreneurship inclined youngsters for tomorrow.

Umbrella schemes like [Atal Innovation Mission](#), AIM, create a culture of innovation and entrepreneurship across schools, universities, research institutes and various other welfare bodies at national, state and district level. Under this program a number of specialised cells have been created like:

- Atal Tinkering Labs at schools for developing a problem-solving mind-set of the students
- Atal Incubation Centres for supporting start-ups in universities and institutions. Till now our IITs and NIITs have been at the forefront of developing new ventures. These incubation centres aim at developing the same opportunities at every university and institute level by funding the selected start-ups to the tune of 10 crores over a period of 5 years.
- Atal Community Innovation Centre which have been established to develop community centric innovation and ideas in Tier 2 and 3 towns.
- ARISE programme focussed on innovation and research in the MSME industry.
- Mentors of Change Mentor India Network with filed experts from industry and academia to support the start-ups.
- Country Partnerships in various areas to foster innovation in the country.

Another programme like Pradhan Mantri Mudra Yojana with its comparatively flexible lending norms and zero collateral up to 10 lakh rupees has been launched by the Government across the entire banking where enterprises can avail loans from banks depending on their requirement under 3 categories Shishu, Kishor and Tarun loans.

¹² The Economic Times – India jumps to 63rd position in World Bank's Ease of Doing Business 2020
<https://economictimes.indiatimes.com/news/economy/indicators/india-jumps-to-63rd-position-in-world-banks-doing-business-2020-report/articleshow/71731589.cms>

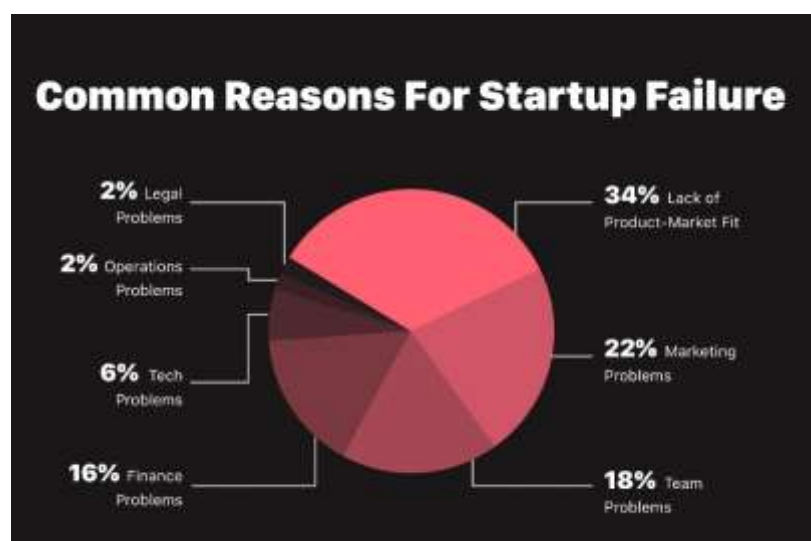
A few other programmes that aim at strengthening the base of Women entrepreneurs and people with humble backgrounds are “The Women Entrepreneurship Platform” (WEP) and Self Employment Lending Schemes Credit Lines (for NGOS and Self-help groups).

Then there are sectoral programmes ranging from NewGEN IEDC programme by Entrepreneurship Development Institute of India promoting knowledge based and technology start-ups to MSME focussed Market development assistance programme, Venture Capital Scheme for Agribusiness Development and Sustainable finance scheme promoting sustainable development projects.¹³

Now despite the efforts of the government, the main question remains why are the start-ups still facing challenges?

We all have heard of Vijay Shekhar Sharma of Paytm, the Bansal brothers of Flipkart but little news flows around the dooms of start-ups like Stayzilla, Overcart, Doodhawala etc. It all looks glorious to start a venture when the adrenaline rush is high but little is known about the focus that successful entrepreneurs develop and the toil they go through.

Although there are a lot of start-ups doing exceptionally good in the country, [IBM](#) states that 90 % Indian start-ups fail within the first five years and the major reason has been lack of innovation.¹⁴ A major factor that has been observed in many studies is that the Indian entrepreneur is risk averse. This is also due to societal concerns of a venture turning to failure or less income prospects in the initial years due to which many times the entrepreneurs get spooked to continue.



Although the government has been trying to push innovation through its various programmes, sadly the key element missing from the implementation of all these schemes is innovation itself. Many start-ups have copied the business models of companies overseas and have tried implementing the same in India even when it didn't suit the Indian landscape. Indian market

¹³ The Better India – Government schemes every entrepreneur should know
<https://www.thebetterindia.com/219696/india-government-schemes-entrepreneurs-start-up-women-ngo-msme-funding-gop94/>

¹⁴ Money Control, July 09, 2018 – 90% Indian start-ups fail within 5 years of inception
<https://www.moneycontrol.com/news/business/90-indian-startups-fail-within-5-years-of-inception-study-2689671.html>

is saturated with common services. What we need is disruption and innovative ways to deliver the same services again.

The basic marketing concept demands evaluation of 4Ps, Product, Place, Price and Promotion. Product i.e. the demand of the product to cater to the market in the long term, the margin viability refers to the price, the target market and distribution channel refers to the place and the marketing strategies refer to the promotional aspect. If one is offering services then he can add people, process and physical components to its offerings.

Although you don't need to essentially go to a business school to learn this as there are tons of people who have made successful business stories without the basic formal education too, but a little careful planning, long term vision, information gathering and assessment will help one to understand the various reasons of failure mentioned above and avoid them. There are tons of marketing companies that specialize in helping the start-ups in developing marketing channels and disrupt the market. However due to the risk averse nature of the entrepreneurs they hesitate spending on such professional services.

Apart from the quantitative factors above, there are qualitative challenges faced by the start-ups in Indian market the first one being that the Indian market is largely unorganized with demands and customer expectations changing after every few hundred kilometres. Thus, the start-ups find it challenging to find a product to cater to a market. Secondly, the concept of entrepreneurship is still not much appreciated in India. The Indian parent would still prefer his child to work for a company than to start a new venture. This also gets applied when Start-ups hire. In the India society, individuals still keep the option of working for a start-up as the last resort. This makes the talent pool available scarce and the one's which are available are too costly to be afforded.

Another challenge is the funding. The banks and other financial institutions are still hesitant to lend to start-ups. Even the institutions set up by the government cater only to a handful of start-ups. Although there are venture capitals and angel investors but the ratio of capital availability to the number of start-ups that require the funds is pessimistically low which has led to a lot of start-ups closing their doors because of funding and when we talk of funding how can we forget about the complexity of taxation, filing patents and the regulatory compliances for any business. According to the report of [World Intellectual Property Indicators 2020](#), India is way behind in filing patents than its Asian counterparts.¹⁵

In short, we are still a long way from providing a favourable environment to start-ups for turning into profitable and successful ventures. The solution lies not in creating more programmes by the government to create more defunct and bureaucratic bodies which do nothing but paperwork but to create an easy working environment for them which creates hassle free funding and mentoring facilities for the start-ups. In addition to this, a stable political environment, support for filing patents and practice of avoiding abrupt policy changes and reversals will instil investor confidence and will attract more foreign investors.

¹⁵ World Intellectual Property Indicators 2020
https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf

Exit problems in India

Investors risk their capital and invest into start-ups expecting some return at the end along with the capital repayment. This is why start-ups need to have an exit strategy. There are multiple ways through which a start-up can exit an ecosystem. It can either sell to a bigger company (Walmart acquiring Flipkart in 2018 for \$16 billion) or can roll out an IPO (Makemytrip getting listed on NASDAQ in 2010). In addition to benefitting the angels and VCs, an exit strategy also makes sure that a circular flow of this capital is maintained in the ecosystem and these investors help newer start-ups grow. In India, however, exits like that of Flipkart or Yatra are outliers because of tedious regulations. According to [Avinash Raghava](#), co-founder of iSpirit, exits through IPOs are very difficult for start-ups which is why so many of them relocate outside the country. Another way to exit like liquidation can take upwards of a year to be carried out along with hefty charges if the start-up possesses large assets. Furthermore, companies without any assets like internet websites cannot conform to any provision since there does not exist any specifically for them. Mandates like a no-objection certificate from vendors and excruciatingly long court hearings only complicate the entire process even further and most entrepreneurs opt to run have their businesses show as running on paper since it is easier than going through the ordeal of closing it down.

But the exit ecosystem is not entirely grim in India. While India's ecosystem may not be as mature and developed as that of the US, constant improvements over the years have helped Indian start-ups exit. In April 2021, Zomato [filed a draft prospectus](#) with SEBI for its IPO. Flipkart is planning to roll out its IPO in the United States in 2022 through a Special Purpose Acquisition Company ([SPAC](#)). Start-ups like Delhivery, Nykaa, Policybazaar are also preparing for going public in 2021. SEBI in 2019 introduced the Innovators Growth Platform (IGP), a separate exchange for new age start-ups and eased the eligibility and listing criteria to boost public start-up funding. It is still a long way for a more fluent market for start-ups but the lawmakers are constantly making the required changes to meet young entrepreneurs' demand.

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Conclusions

The Indian start-up ecosystem is still developing and has a long way to go in order to compete against markets like China and the US. Nevertheless, the progress visible is a very good sign that India will one day reach that spot. With the number of unicorn start-ups rising and VCs heavily investing in innovation, India's funding woes will one day end. With the dominance of engineers in the country, it is no surprise that technology is leading this start-up revolution followed by newer entrants like FinTech and EdTech. The government support has had its fair share of shortcomings but that, too, is slowly improving. The Start-up India Campaign launched in 2016 has helped thousands of entrepreneurs get access to otherwise obscure resources crucial for building their business. Additionally, lawmakers are constantly consulting entrepreneurs to have a better understanding of their needs and are modifying the country's business laws accordingly. While the US and China understood the importance of start-ups long before India did and implemented suitable policies, India is still at a very good place. With unprecedented numbers of start-ups becoming unicorns annually, experts believe that India may soon be a more coveted start-up destination than the US and China.

The importance of start-ups has also been reflected in the way they have assisted the country during the ongoing coronavirus pandemic through vaccination drives for employees, charity and more. Despite this pandemic, Indian start-ups have garnered millions of dollars of investments across hundreds of deals which further proves that global investors clearly see the potential of young Indian entrepreneurs.

While the system is still plagued with market volatilities and bureaucracy, India has constantly improved upon its ease in doing business ranking globally. Cities like Bangalore, Delhi and Mumbai are counted in the top 50 best cities for building start-ups globally and more Indian cities continue to climb these rankings. Angels have become more abundant in the country and the once risk averse Indian businessmen are realising profits that risk-taking brings along. Thus, in general, the Indian start-up ecosystem is brimming with innovation and resources and global players are tracking its progress very closely in order to stumble upon gold.

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