Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.5442, Volume 08, No. 03, July, 2018, pp. 79-83

FUNDING GALORE– ENLIGHTENING THE INDIAN STARTUP FUNDING SCENARIO

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ABSTRACT

This paper presents the burgeoning growth of start-up companies, difficulties raising money because they are unknown and untested, and the probable sources of their financing with the emphasis on venture financing in India. The paper aims to focus on the process of obtaining startup funding/ financing and the requirement for raising capital. It discusses the importance of raising capital from bootstrapping, friends and family as well of personal financing in the early stages of starting up. Further, the paper discusses various forms of creative funding and equity or debt funding that these firms can avail and the ever growing need of preparing to secure these types of financing/funding has been explored. It aims to explore whether our country has enough arrangements to fund the ventures that have the potential for scaling up in the coming times. The paper aims to discern into the profuse funding being arranged for the startups in our country, by that backing any research in this respect. Also, internationally, there is more and more research associated with the importance and ways of financing/funding the startups. Thus, the advances made by India so far and the regulations and incentives formulated by the Government of India have been discussed here under.

KEYWORDS: *Angel, Venture Capital, Bootstrapping, Commercialization, Startup, Equity Funding.*

Introduction

Startups generally have a huge challenge in raising capital for the reason that, they are untested and unknown. The Startup founders try to secure grants, use their own money, and take the help of friends and family. The effort for raising money is often quite taxing for these startups. The startup founders hear "no" plethora of times before they are able to obtain funding. It stresses on the ways and processes of getting funding or financing. Although a startup may need to raise funds for survival, but they generally don't wish push around people who care less about their long term goals.

When our honorable prime minister Narendra Modi declared the $1.5 Bn Fund of Funds for Startup ventures (FFS) in his Startup India Plan, it appeared like paper promise only. But, the aspirations of many young entrepreneurs of India got boosted, when on June 22, 2016, the Union Cabinet literally sanctioned it and made SIDBI responsible for the disbursement. According to October 2017 status report by DIPP, "the Startup India website, about $92 Mn (INR 605.7 Cr) from the fund has been released to SIDBI, and 75 startups got funding from 17 AIFs by far. The Fund has been set aside to get allocated across two finance commission cycles." (2015-2020 & 2021-2025)

According to a notification of The Ministry of Commerce and Industry released a notification on April 1, 2015 defining a startup. According to it, "an entity will be identified as a startup

- Till up to five years from the date of incorporation.

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- If its turnover does not exceed 25 crores in the last five financial years.
- It is working towards innovation, development, deployment, and commercialization of new products, processes, or services driven by technology or intellectual property."

The Significance of Getting Financing or Funding

Startups discovered that operating in absence of any borrowed money or investment capital is more challenging than they anticipated. Due to this reason, it is crucial for startups to understand the role of investment capital in the survival and subsequent success of their firm.

Why Most New Ventures Need Funding

Cash Flow Challenges	Capital Investments	Lengthy Product Development Cycles
Inventory must be purchased, employees must be paid and trained, and advertising must be paid for before cash is generated from sales.	The cost of purchasing building facilities, and equipment most often outruns a firm's ability to provide funds for these needs on it's own.	Some products are under development for years before they muster any earnings. The up-front costs mostly exceed a firm's capacity to fund these activities on it's own.

Figure 1: Three Reasons Start-Ups Need Funding

History of Startups In India

Before the present day Startup burst, our country was majorly known as an IT outsourcing hub. Industry's star landmark, Microsoft Accelerator in India cropped up with four different stages of scaling that have been tracked so far: global delivery model and software services, the dotcom era, growth of product startups and surge of startups. Some breakthroughs comprise the starting of an R&D centre in Bengluru in association with US-based Texas Instruments' which added to an incubator for various current entrepreneurs. Of late, India become a nation of job creators instead of being a nation of job seekers, with the launch of startup India, standup India campaigns.

Stages of Startup And Available Modes Of Finance At Each Stage: Sources of Personal Financing

Mostly, the seed money that takes a venture off the ground is from the pockets of the founders. The major three categories of sources of funding/financing in this area: personal funds, friends and family, and bootstrapping.

Personal Funds	Friends and Family	Bootstrapping
Involves both sweat equity and financial resources. Sweat equity represents the time value and effort that a founder puts into a venture.	Mostly, styled in the form of loans or investments, but may also comprise foregone or delayed compensation, outright gifts, or reduced or free rent.	Figuring ways to avert the requirement for external financing through ingenuity, creativity, cost-cutting, obtaining grants, or any other means.

Figure 2: Sources of Personal Financing

Preparing to Raise Debt or Equity Financing

Once the funding needs of the startups exceed what personal funds, friends and family, and bootstrapping can get, equity and debt are the two most common sources of financing. An extremely common thing a startup founder should do at this point is to mobilize what the startup requirements. A well planned way to raise financing increases a firm's probability of success and can save a lot of entrepreneur's time.

Step 1	Step 2	Step 3
Figure out accurately how much money is required.	Figure out the type of financing or funding that is the most appropriate.	Develop a plan for fetching potential investors or bankers.

Figure 3: Preparation for Debt or Equity Financing

Equity Funding Sources

The primary advantage is access to capital, while it's disadvantage is that the venture owners pull out their ownership partially and may lose some control. Unlike a loan, the money received from an equity investor doesn't have to be paid back. The investor receives a return through dividend payments and by selling the stock. The three most common forms of equity funding are discussed below.

Business Angels

They are entities who put in their own capital directly in ventures. These investors mostly invest between $ 10,000 and $ 500.000 in a venture, that have the potential to grow 30 to 40 % per year before they are acquired or go public.

Example of **Angel Investors:** Some famous Angel Networks like Mumbai Angels or Indian Angel Networks get many HNIs who commit amounts like (around Rs 5.0 – 10.0 lacs each) to the funding round. India. Some other prominent names are Amity Innovation Incubator & Angel Prime, Startup Oasis, Tie, NEN, Incubate IND are financing technological and innovative projects in India.

Venture Capital

These are investments by venture capital firms in the ventures that hold phenomenal growth potential. There are around 150 venture capital organizations in India, of which 75 are the very active. Kalaari Capital, Venture East, 500 Startups, Blume Ventures, Accel Partners, Omnivore Partners, Idg Ventures India, Intel Capital, Helion Venture Parners are the top rated ones to name a few. Year 2000 was the best as far as venture capital financing is concerned, when $ 98.6 billion was invested at the height of the e-commerce craze.

Stages (or Rounds) Of Venture Capital Funding

Stage or Round	Purpose of the Funding
Seed funding	Investment made very early in a venture’s life for prototype and feasibility analysis.
Startup Funding	Investment made to firms axhibiting few if any commercial sales but here product development and market research are almost complete.
First-stage funding	Funding that’s made when the venture has started production and sales but requires financing to scale up the production.
Second-stage funding	Funding done when a venture is successfully selling a product but needs to expand both its capacity and its markets.
Mezzanaine financing	Investment made in a firm to assist for further expansion or to bridge its financing requirements before a buyout or launching an IPO.
Buyout funding	Funding/ Grant to help one company acquire another.

Initial Public Offering

It is also a kind of equity funding to sell stock to the public by giving an Initial public offering (IPO).Commonly, a venture may not go public until it has shown that it has a promising future. The IPO may vary from a private placement, which is direct sale of an issue of securities to a big institutional investor.

Government Programmes

The government has also initiated MUDRA scheme amounting to 20,000 crores to pass loans to startups once they clear the criteria. Such programmes take lower interest rates as compared to the market.

Debt Financing Sources

This ranges from getting a loan or selling corporate bonds. The focuss is on loans at the early stage, which is generally of two types. Firstly, single-purpose loan, where a specified sum of money is given that must be repaid in specified time with interest. Secondly there is a line of credit at their discretion that requires periodic interest payments. Three major categories of debt financing for entrepreneurs are discussed as under:

Commercial Banks

They are not seen as practical sources of startup financing. Banks focus on firms that have a strong cash flow, low leverage, good management, audited financials, and a healthy balance sheet. (Carpenter, Petersen, 2002).

Other Sources of Debt Financing

There exist many other sources that the entrepreneurs can pursue to borrow funds. Vendor credit is credit given by the vendor to buy products or services but delay the payment for a later date. Factoring is a financial agreement in which a venture sells its accounts receivable to a third party, called a factor, at a discount in exchange for cash. A more recent channel for borrowing money is peer-to-peer networks (peer-to-peer lending) like prosper. Another modern day version is Crowd funding where people can pledge funds, in exchange for some perks.

SIBR AND STTR Grant Programmes

The Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs are important for early stage financing of technology startups that provide cash grants for projects in some specified areas. A major difference between the two programmes is that the STTR asks for the active participation of the researchers working at research institutions. The SBIR programme provides $1 billion/year to early and development stage startups.

Strategic Partners

Strategic partners are also amongst the sources of capital for startups, who often play a crucial role in aiding new ventures fund their operations and round ou their business models. Biotechnology companies, for example, heavily depend on their support for the success of their ventures by conducting clinical trials and product launch in the market. Some Biotech firms also licenses a product that is being developed to a pharmaceutical company in exchange for financial support during product development and beyond. Finally several partnerships are made to share the product development cost to get admittance to plant and establish distribution channels, new ventures bring an entrepreneurial spirit and new ideas to these partnerships.

Suggestions

There are many risks that determine a startups success. But, they may be lessened. With the present startup ecosystem in India on the rise, there doesn't exist any big reason why a good idea shouldn't succeed. The investments by Venture Capitalists by India-dedicated funds summed up more than half a billion dollars in the year 2014, which is a maximum in the last three- years. Foreign investors who are interested to invest in our country's VC funds benefit tax exemptions but Indian rupee investors, however, are subjected to capital gains tax which must be reconsidered to improve the startup funding scenario. To give impetus to this job creating investment, some libral tax regulations must be made particularly for the investors point of view, to set things right. The Indian investors also need to be educated appropriately on this front, as India is still not a mature market where individuals of high net worth (HNIs) allocate their savings to VC funds. India will evolve to the next stage of funding when the markets become more approachable. Scalable companies must be given a boost, then even family offices interest towards funding will change. Then they might prefer putting their funds with professional VCs. Till sucha scenario emerges, the venture funds in India will get on with the offshore investors.

Challenges

- The need to create your own product or service (survival) and adverse market;
- It is challenging to spend rationally, remain focused, and coordinate the crucial segments essential for development (back-end , front-end and user validation);
- It is tough to find investors for a start-up which not yet in profit;
- The focus must be on the end users, inspite of investors or that selective start-up industry;
- Marketing/Making your product or service noticeable to the public;
- Gaining market share; assuring early adopters to try the product/service; Finding the right mentor;
- Making a good business plan;
- The greatest challenge is to learn and understand that the solution offered by your own start-up is not the only solution offered in the world.

Managerial Research Implications

The Indian startup scenerio has seen profous growth of startups in several big towns, cities as well as rural areas. As the Startup India campaign, mudra yojna and other such programmes continues more startups and scaling up of startups is expected to be on the rise. The findings of this study will aid in mentoring and handholding them for fetching funding, while it will aid the scalable startups to improve upon their funding as well. The study will also be useful for the government in furthering the policies that would nurture higher spending on more efficient dissipation of funding for the innovative startups and also establishing a more vibrant ecosystem for them, by conducting more awareness programmes at the centre as well as the state level like the Rajasthan startup fest, IT day Hackathon competitions etc.

Policy Prescription
Suggestions for the Government
• Indian 'rupee' investors must be incentivised by tax exepmtions.
• The Incentives may be restricted to some high-risk categories like AIF Category I, Angel Investor Funds and Seed Funds and may not be provided to real estate and other categories.
• Incentives should be made effective from date of fund creation and not later.

Table: Policy Prescription

Conclusion

It is quite plain that only a few start-ups succeed, and go on to develops and makes a profit after the market launch of products and services. Start-ups that are majorly spelled out as newly founded ventures combined with high-tech projects, and are usually diluted from founding the venture to making it successful. The analysis has shown compliance with the ways of financing start-ups in the world, i.e. the Indian start-ups give preference to the informal and traditional funding sources with clear priority to private financing and financial assonance from family and friends. After sailing through the primary phase of experimentation, the startup founders get bounteous motivation to fetch help from other sources of funding, like seed investors, business angels etc. albait the level of venture development and the experience of the startup founders are not cardinally associated with the financing methods.

Limitations of the study and Avenues for future Research

The research is limited to analysis of government and big scale incubation web pages only.

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