

# 1. Opportunities and Drivers of Startups in India

**Dr. Amit Mirji**

Assistant Professor and HOD,  
Department of Management,  
Government First Grade College,  
Sindagi, Karnataka India.

## **Abstract:**

*Startups in India have gained immense attention in the recent period especially since the Covid-19 pandemic hit the country. Today, India proudly ranks 3rd in the global start-up ecosystem worldwide which only looked as a far-fetched dream a few years back. Innovation in India has been at its peak yielding unicorns one after the other. Startups have got the much-needed government support and mentoring which has given way to economic development, job creation, open innovation, easy availability of finance, changing perception towards entrepreneurs and penetration of technology. The main aim of this paper is to analyze the current framework of startup ecosystem in India and also emphasize on the drivers of growth and the kind of support available to promote the startup culture. The data included in the paper are all secondary in nature gathered from Government websites, renowned websites and journals among others.*

**Keywords:** *India, startup, startup ecosystem, innovation, growth, unicorn start-ups.*

## **1.1 Introduction:**

A start-up ecosystem can be described as a set of internal and external entrepreneurial factors, entrepreneurial organizations (such as firms, banks, venture capitalists, business angels etc.), institution including universities, financial institutions, public sector agencies and incubation centers and entrepreneurial processes that govern the local entrepreneurial environment. The Indian start-up ecosystem has evolved over the last two decades. In the 2000s, the ecosystem was still immature lacking active investors and support from Government. The last 10 years has seen a significant rise in the start-ups with support available from all dimensions. In India, Bangalore emerged as the hub for start-up followed by Mumbai and the National Capital Region (NCR) among other cities. B2B has been dominating the share of start-ups with a steady increase in the number of B2C start-ups indicating signs of maturity of the start-up ecosystem in India. India's start-up ecosystem is churning one after another talented entrepreneurs while constantly contributing to the availability of digital skills in India. One can address 2021 as a remarkable year for the start-up ecosystem in India surpassing all projections be it in terms of the number of successful entrepreneurs or the funds raised. In fact, India boasts of having 43 unicorn start-ups only in 2021 adding to a total of 79 with the latest one being Pristyn Care. Not only this, unicorn companies have also gone public this year with Paytm leading as the country's largest IPO ever with an issue size of 18,300 crores followed by companies like Zomato, Nykaa, Policy Bazaar, Pharm Easy, etc.

### **1.1.1 Definition of “Start-up”:**

According to the notification that the Government of India issued (19 February 2019, originally issued on 11 April 2018), when an enterprise meets the following conditions, it will treat it as a start-up:

- It has been incorporated/registered for not more than 10 years (previously seven years, except in the biotechnology sector according to the notification dated 11 April 2018) in any of the following forms:
- A private limited company under the Companies Act, 2013 (including one-person companies);
- A partnership firm under the Partnership Act, 1932;
- A Limited Liability Partnership (LLP) under the LLP Act, 2008.
- Its turnover has not exceeded INR 100 crore (previously INR 25 crores) for any of the financial years since incorporation/registration.
- It is working toward the innovation, development, or improvement of products or processes or services or it is a scalable business model with high potential for employment generation and wealth creation.

### **1.2 Opportunities and Growth Drivers of the Indian Startup Ecosystem:**

There are many growth drivers of the Indian start-up ecosystem.

#### **A. Technological Change:**

India is a country that has been struggling with resource constraints which is why there is a need for cost effective, high impact solutions that benefit a large population. Technology start-ups have the potential of bringing this change. The penetration of digital products in the market is much better with increased access to consumer markets. The market accessibility barriers have been significantly brought down with the improvement of digital connectivity. The technological change has facilitated low infrastructure cost because of which small companies have been able to enter the market in industries that required large investment to set up physical infrastructure for customer interaction leading to high customer acquisition costs.

Market access is the most important element for start-ups followed by the ability to identify and track down customers. With the increasing use of digital payments, it has become essential for companies to verify the identity of the customer. Validation of customer identity has been made easier since the introduction of the Aadhaar Biometric ID system in 2009.

Support from the government has equipped a large part of the population to conduct digital payments and also be a part of the Government’s subsidy programs. Due to various reasons including demonetization in 2016 and increased financial inclusion, fintech start-ups have boomed in the recent years. This brings us to our next point of discussion that is government support.

## **B. Government Support:**

The Modi government that came into power in 2014 put digitalization at the center of its plans. Start-ups have got the recognition and support from the federal and state governments as engines for economic growth. Start-ups also contribute positively by narrowing down unemployment rates and creating jobs.

Some highlights of the government support to start-ups in India are as follows:

- Around INR 2.8 billion has been allocated to the Start-up India Scheme.
- Investment worth INR 2 billion has been made to the Atal Innovation Mission.
- An allocation of INR 7.2 billion has been made to more than 70 technology business incubators for the development of innovation and technology.
- A total sum of INR 878 million has been reserved to boost the development of entrepreneurship scheme in the country.

Schemes that accelerate the start-up revolution in India are discussed in detail below:

### **1.3 Start-Up India:**

Prime Minister Narendra Modi announced the Start-up India scheme during his address on 15 August 2015 from the Red Fort, New Delhi. The main object of this initiative was to provide support to people who have ideas and capabilities and wish to grow it into a start-up. This scheme brought enthusiasm as well as opened doors to immense possibilities which will help India in becoming a better economy and a strong country.

Within a year from the launch of this initiative, India became the third country with the highest number of start-ups standing at 4,600. The efforts of the State Governments are very important for making this scheme a success. With the continuous and sincere efforts, Bangalore and Delhi have been able to establish themselves at the start-up hubs in India. The start-up ecosystem in India is being pushed for several reasons which include its potential to create employment, the young demographic profile of India, the market potential of rural India, monetary benefits, boost to the country's GDP and economic development.

The Start-up India scheme has been launched keeping in mind the following objectives that will effectively help in simplification of the process of setting up a start-up and increase the ease of doing business:

- Compliance based on self-certification
- Easy availability of legal support
- Affordable patent examination
- Credit guarantee for start-ups
- Tax exemption on capital gains
- Opportunity to showcase innovation through start-up fests
- Providing a platform for collaboration

- Atal Innovation Mission (AIM) with Self- Employment Talent Utilization (SETU) program.

#### **1.4 Micro, Small and Medium Enterprises (MSMEs):**

Start-ups easily penetrate in the local area and provide large employment at a low cost of capital and so small-scale industries are an important building block in the economic development of India. It is important for reducing regional imbalances by inducing opportunities for industrialization of rural and backward regions which in turn ensures more equitable distribution of the national income and wealth. This is one of the main reasons why small- scale industries have been a part of the industrial policies in India.

The Ministry of Small-Scale Industries and Ministry of Agro and Rural Industries merged together in May 2007 to form the Ministry of Micro, Small and Medium Enterprises (MSMEs). The ministry creates an ecosystem with policies, projects and schemes that foster MSMEs with the help and support of state governments.

Under the MSMEs, the National Small Industries Corporation Limited (NSIC) has set up 6 business incubators under the “Scheme for Promotion of Innovation, Entrepreneurship & Agro Industry” (ASPIRE) which facilitate hands-on training and education. It also provides support and encourages prospective entrepreneurs and start-up companies to start manufacturing products.

#### **1.5 Make in India Program:**

The Government of India launched “Make in India” program in 2014 with the main objectives as:

- Inspire a sense of confidence in India capabilities and reflect it among citizens, the Indian business community and potential partners abroad.
- Provide a framework for technical information on 25 industry sectors.
- Reach out to a vast local and global audience through social media and keeping them updated with opportunities, reforms, etc.

The Department for Promotion of Industry and Internal Trade (DPIIT) is a pivotal point to run this program. A dedicated investor facilitation cell (IFC) assists investors in seeking regulatory approval and provide support and services throughout the pre-investment stage, execution and after-care support.

This program has positively impacted the perception of foreign investors which has been clearly reflected through the Ease of Doing Business index over the years. The government launched the Standup India scheme with the objective of supporting disadvantaged groups particularly the scheduled castes/tribes (SC/ST) and female entrepreneurs with bank loans from INR1 lakh to INR 1 crore for setting up a start-up which was known as Greenfield enterprise. This Standup India scheme followed by the Start- up India and Make in India initiative boosted the start-up ecosystem in India.

### **1.5.1 Digital India Program:**

The Digital India program is an umbrella program launched by the Government of India in 2015 involving various ministries and departments of the Government. This program aimed at realizing the potential of digitalization in all spheres of life. The Ministry of Electronics and Information Technology coordinates this program. Start-ups are seen to have a natural home in the digital sector and therefore this initiative has been successful in complementing the start-up revolution. Nine growth areas have been recognized by this program including:

- Universal Access to Mobile Connectivity
- Broadband Highways
- Public Internet Access Program
- Reforming Government through Technology
- e-Governance: e-Kranti—Electronic Delivery of Services
- Electronics Manufacturing
- Information for All
- IT for Jobs
- Early Harvest

### **1.5.2 Skill India Program**

If the youth of the country is not skillful enough, the demographic plus point of India will turn into a negative point. Keeping this in mind, the Government of India formed a ministry which came to be known as Ministry for Skill Development and Entrepreneurship (MSDE) in July 2015 to enhance employability of the youth by skill development.

Under the guidance of the Ministry for Skill Development and Entrepreneurship (MSDE), the National Skill Development Corporation (NSDC) introduced the Skill India initiative that allows aspirants to register for skill training and employment using the online portal.

The Skill India Mission created sector skill councils (SSC) to be monitored by the National Skill Development Corporation. 40 sectors have been identified on the basis of skill gap analysis some of which include food industry, healthcare, and banking and finance and so on. The standards of the industry are met by the courses recognized by the National Skill Qualification Framework. The focus of these courses is on the practical delivery of work and to create skilled resources who can be employed by start-ups in the different sectors.

### **1.5.3 National Schemes:**

The kick-start from the Prime Minister himself has inspired various ministries and departments of the Government of India to complement the start-up revolution by introducing more than a hundred schemes. With the help of these schemes, entrepreneurs will be able to measure the scalability of their start-up ideas. The initiatives by the Government of India show the preparation of the central government to make the Start-up India Revolution a success.

However, the overall success of start-up India is only possible if the state governments are effectively able to adapt the schemes enthusiastically. Some of these schemes are The Ministry of Electronics and Information Technology—Support for International Patent Protection in Electronics and Information Technology (SIP-EIT), The Khadi and Village Industries Commission under the Ministry of MSME—Scheme of Funds for Regeneration of Traditional Industries (SFURTI), The National Minorities Development and Finance Corporation (NMDFC)—Virasat—A Credit Scheme for Craft persons, etc.

#### **1.5.4 MUDRA Loans:**

The Government of India has established the Micro- Units Development and Refinance Agency (MUDRA) with the objective to provide business finance to micro-business units such as start-ups. To be eligible for this loan, micro or small businesses including start-ups must be operating in the manufacturing, trading or service sectors and fall under one of the following categories:

- Sishu or infant, eligible for loans up to INR 50,000
- Kishor or adolescent, eligible for loans up to INR 5 lakhs
- Tarun or young, eligible for loans up to INR 10 lakhs

#### **1.5.5 International Linkages:**

India has also been successful in establishing global partnerships to facilitate joint innovation which is referred to as “international bridges”. Some of the successful partnerships have been established with Finland, Netherlands, United Kingdom, United States, the Russian Federation, Portugal, Sweden, Israel, Singapore, and Republic of Korea among others. The State Bank of India and Mahindra are mentors of the start-up grand challenge that will help in channelizing the entrepreneurial capacity between India and Korean start-ups to work together and build solutions for challenges faced by the world including Credit Rating, Predictive Analysis, Fraud Detection, Cyber Security, Primary/ Secondary/ Tertiary Healthcare.

#### **C. Increasing Need to Engage in Open Innovation:**

Large and well-established companies feel the need to innovate now and then to keep their hold on the fast- changing business environment. The challenge for large companies is two-fold. They need to innovate at a steady pace to meet the needs of consumers in the market while maintaining and adapting with the changes in the existing industry with the provision to make innovations. Another problem faced by existing companies is that they cannot simply build everything themselves therefore the need to engage in open innovation arises. This is why existing large companies in India are turning to start-ups to increase their own innovativeness. By collaborating with existing companies, start-ups are able to get hold of various corporate specific resources in exchange for their innovation. There has been a significant change in the attitude and perceptions of corporate managers in the last few years as well-established companies today recognize the benefits of working in partnership with start-ups in terms of pace and passion.

#### **D. Changing Perception towards Entrepreneurs:**

Start-up founders in India are driven by passion, curiosity and motivation to achieve. Their desire to make a difference, willingness to take risk, put ideas to practice, seize opportunities and satisfaction that comes from solving problems is what makes them successful entrepreneurs. Founders of Indian companies have experience of previously working in a corporate setting and despite the stability and high salary they see their jobs as a block to their creativity. They are looking to create something of their own and control it.

From the society's point of view, there has been a change in perception towards entrepreneurs. The stories of success of these entrepreneurs who made remarkable exits and India's first unicorns have been in the talks for quite a while. These founders have come to be known as India's "start-up heroes" and also contributed to the popularity of the hustle culture and the image of an entrepreneur being tagged as "glamorous", "creative", "independent" and "cool".

#### **1.6 Conclusion:**

The launch of the Start-up India initiative has led to the spread of start-ups across 623 districts. Now, each state and union territory has at least one start-up and states have also announced Start-up Policies specific to their state. In the current scenario, Maharashtra, Karnataka, Delhi, Uttar Pradesh and Gujarat have the highest number of start-ups. When the Start-up India initiative was launched it took 808 days to add 10,000 start-ups whereas the latest 10,000 start-ups were added in merely 180 days.

The graph of start-ups has increased exponentially as 743 start-ups were recognized in 2016-17 which was the launch year of the initiative and 16,000 start-ups were recognized in 2020-21. Entrepreneurs also have access to benefits from various laws, regulations, fiscal and infrastructure support.

With an average of 11 employees per start-up, around 549,842 jobs have been reported by 48,093 start-ups of which 1.7 lakh jobs were created in 2020-21 alone. The sectors with maximum registered start-ups were 'Food Processing', 'Product Development', 'Application Development', 'IT consulting' and 'Business Support Services'. Another remarkable development of the start-up ecosystem in India is that nearly 45% had a women entrepreneur in the leadership team which means India is overcoming a major challenge by inspiring more women entrepreneurs to turn their ideas into start-ups. Two major 10,000 crore and INR 945 crores respectively, enhancing funding opportunities for start-ups. Multiple programs implemented by the DPIIT have offered the opportunity to engage with partners and get recognized for their contribution. These programs include National Start-up Awards, State Ranking Framework, and Prarambh: Start-up India International Summit, Global VC Summit, etc.

With a robust start-up ecosystem, India will not only be able to boost the economy but also contribute to sustainable development goals (SDGs) specifically SDG 8 which is related to economic growth and decent work. It is remarkable that new start-ups entering the market this year have turned Covid-19 from crisis to opportunity.

In fact, 2021 has been the most successful year for start-ups in India with as many as 33 start-ups entering the unicorn club. Experts believe this momentum shall continue in 2022 as India is eyeing to add at least 75 start-ups in the unicorn list. Even while the whole world has been facing the pandemic and its successive waves, India has managed to make it into the top 50 in the global innovation index rising from the 76<sup>th</sup> place in 2014 to the 46<sup>th</sup> place in 2021.

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