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Opportunities and Challenges of Indian Startups

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Abstract

A startup is a business that focuses on developing, expanding, and commercializing novel goods, services, or methods powered by new technology or intellectual property. The Indian startup environment has grown significantly over the last 20 years, and more help is now available in all areas. Startups function within a larger corporate ecosystem that places a high priority on the development of meaningful solutions; they are not separate entities. Startups act as catalysts for socioeconomic development and change in this way. This essay aims to understand the challenges faced by Indian startups and the potential that India offers as a market and startup ecosystem. Additionally, an attempt has been made to comprehend the actions taken by the government to support the growth of Indian entrepreneurs. The impact of startups on the growth of the Indian economy is also examined in this study.

Keywords: Opportunities, Challenges, Startups, Entrepreneurs, Ecosystem.

Introduction

The Indian government established the well-known initiative Startup India with the goal of encouraging and developing a startup culture. Its main objective is to establish a strong, comprehensive environment that promotes entrepreneurship and innovation in India. On January 16, 2016, the BJP government launched the "STARTUP INDIA STANDUP INDIA" project, which aims to help India's youth channel their creative and innovative ideas in the right direction. Startup India has put in place a number of programs designed to support business owners and make India a country where people create jobs rather than people looking for work. After the US, India is now the world's second-largest startup ecosystem. India is a booming startup ecosystem that is developing at an exponential rate. These businesses, which span a number of sectors like technology, healthcare, e-commerce, and financial services, show the diversity and high caliber of entrepreneurial talent in India. The constant

emergence of new Indian businesses adds new perspectives and creative ideas, boosting the energy and diversity of this dynamic ecosystem.

Meaning of Startup

Forbes Magazine first used the term "Startup," which refers to a "Budding Company," in a commercial context in 1976, particularly in relation to the unglamorous practice of investing in startups in the electronic data processing industry. In the early 1900s, the word "startup" was first used to refer to recently founded businesses in their infancy. At that time, startups are basically thought of as concepts whose founders think they have the ability to improve society. The original concept was developed into a workable business model and eventually turned into a fully functional commercial enterprise with the help of time, effort, and financial resources. Accelerators and incubators are vital organizations that support businesses as they move from ideation to reality. The potential for innovative company ideas that use technology and the internet to interact with people and provide their services has increased due to the exponential rise in internet users. Additionally, foreign investors in India's economy have been intrigued by the remarkable accomplishments of particular enterprises. These factors have led to the disruption of traditional MSMEs and the emergence of startups, which are technology-focused businesses. Numerous industries, including Fintech, Healthcare, Education and Technology, Healthtech Sector, Agricultural Technology, Financial Services, and Logistics, are home to startups.

Review of Literature

Surabhi Jain (2016) concentrated on the potential and growth of India's start-up ecosystem. Commencing with a thorough examination of the notion of a start-up. The introduction of start-up initiatives in India, the need for start-up ecosystems in the nation, and the various tactics used in 2016 to support Indian start-ups—such as offering financial assistance, tax holidays, the establishment of innovation centers, and research parks—are all covered in this article. In the final portion, Jain articulated the belief that innovation is essential to the growth of a nation's per capita GDP in both large-scale sectors and the startup ecosystem. The difficulties faced by people from India are covered throughout the text. Through initiatives like mentorship programs, workshops, seminars, and other similar activities, government, business, and educational institutions can help prevent this predicament.

According to Chhikara K. (2016), the Start-up Action Plan aims to liberate the startup ecosystem from overbearing government regulations, such as the "license raj" and barriers pertaining to land permissions, foreign investment proposals, and environmental clearances. This is comparable to a catch-22 situation. On the one hand, the Indian government says it supports free markets and wants to do rid of overbearing government intervention. On the other hand, they are requiring approval

from a government agency and enforcing restrictions on the entire start-up ecosystem. For most start-ups, the current regulatory framework is not the main source of concern. The complicated and time-consuming bureaucratic processes needed to operate that system are the root of the problem. As a result, the government should act as a catalyst and facilitator throughout the whole supply chain and should use public monies with caution. Additionally, maintaining accountability and openness throughout the start-up's whole lifecycle is essential to creating a favorable atmosphere between the government and the start-up.

The issues and difficulties experienced by Indian start-ups are highlighted by Mohammed Habeebuddin and D. Sakriya (2017). They also highlight the many advantages and prospects for these startups, including the Indian population and the particular set of issues in sectors like infrastructure, sanitation, health, and education. The substantial transformation potential for Indian start-ups is a result of these elements. Cultural barriers, a lack of mentorship, policy restrictions, hiring and capital acquisition difficulties, societal issues, shifts in consumer behavior, technology infrastructure limitations, sustainability concerns, regulatory obstacles, and tax issues are just a few of the many challenges that Indian startups face, according to the study.

According to Dwivedi R. (2019), startups are financially sensitive and are negatively impacted by any changes made to the tax system, such as the introduction of GST or procedures like demonetization. Many industries have been greatly impacted by the demonetization process, which has slowed the rate of advancement. One of the main reasons why start-up businesses fail is a lack of funding. Most startups eventually close their doors because they are unable to obtain finance. Roughly 90% of new businesses fail to stay competitive. An overabundance of start-ups with similar ideas, lacking creative solutions, and operating in the same sector eventually failed to raise capital and shut down.

Objectives of the Study

- To comprehend the challenges that encountered by startups in India.
- To ascertain the potential opportunities for Indian startups.
- To ascertain the different initiatives proposed by the Indian government to foster and maintain Indian startups.
- To examine the expansion of Indian startups and their advantages inside the Indian ecosystem.

Research Methodology

The study takes a descriptive method and primarily uses secondary data. Journals, periodicals, books, newspapers, articles, and official websites like Statista, the Ministry of Commerce, and The Economic Survey Report were among the many sources from which the data was collected.

Challenges in Startup Environment

- **Income Building:** Inadequate income production during the growth period causes many businesses to fail. Expenses rise and revenues fall as operational activities grow, forcing entrepreneurs to prioritize funding and take their focus away from the essential elements of their business. As a result, making money is essential, which calls for effective burn rate management. The term "burn rate" describes how quickly startups spend money during their initial phase. The problem is not just making enough money, but also growing and sustaining sustainable growth.
- **Financial Resources:** For entrepreneurs hoping to put their profitable concept into action, a lack of funds can be a major barrier. For startups, the availability of financial resources is essential and frequently makes it difficult to secure sufficient capital. It appears that about 85% of recently founded businesses are underfunded, indicating a significant probability of failure. Numerous financial options are available, including grants, loans, venture capitalists, crowd fundraising, and assistance from friends and family. A company's expansion requires an immediate infusion of capital. For startups to succeed, sound financial management is crucial.
- **Market Fragmentation:** Businesses looking to grow nationally may face significant challenges due to India's diverse culture, many languages, and vast range of consumer tastes. Customized marketing and localization efforts are necessary since strategies that work in one area might not work in another.
- **Regulatory Barriers:** The complex and ever-changing regulatory environment poses serious challenges for Indian business owners. The intricate web of laws and regulations may be difficult for young business owners with little funding. Startups often face red tape and bureaucratic roadblocks, from taxation issues to compliance requirements.
- **Supporting Infrastructure:** Throughout the whole startup lifecycle, a variety of support systems, such as business development centers, science and technology parks, and incubators, are essential. Failure is more likely when such support systems are unavailable.

Opportunities for Startups

The large Indian market offers opportunities to address customer issues with suitable solutions, despite the many challenges and barriers faced by startups. Here is a list of various possible prospects that startups are considering:

- **India's Big Population:** With more than 65% of its population under 35, India has a major edge. It is anticipated that the working-age population will surpass the non-working population. For every startup, the unique

demographic advantage will offer a substantial potential. The many infrastructure issues and the unexplored low-income consumer market might be very beneficial to the businesses.

- **Significant Investment in Startups:** Indian and foreign institutional investors are contributing significantly to Indian startups. 652 investment deals totaling \$8.1 billion were made in Indian companies between January and September of 2020. Among the top investors in Indian companies are Sequoia India, Accel, and Mumbai Angels Network. Tiger Global Management, a New York-based investment firm, DST Global, a Russian company, and SoftBank, a massive Japanese telecom company, are some of the market's active participants.
- **Working Class Mentality:** Today's working class mentality is defined by a readiness to take chances and investigate novel career prospects. This works incredibly well for startups to draw in qualified workers and promote expansion. Traditional employment paths are gradually being replaced by Indian startup space. Startups could draw in bright people by providing demanding jobs and attractive compensation packages. Additionally, it has been observed that some well-known leaders are leaving their jobs to start their own businesses.

Government Schemes and Policies

The importance of startups in promoting economic growth and innovation is recognized by the government. Initiatives to provide entrepreneurs with financial, infrastructure, and regulatory support have been put in place by a number of ministries and departments. The government has launched the following programs to support startups:

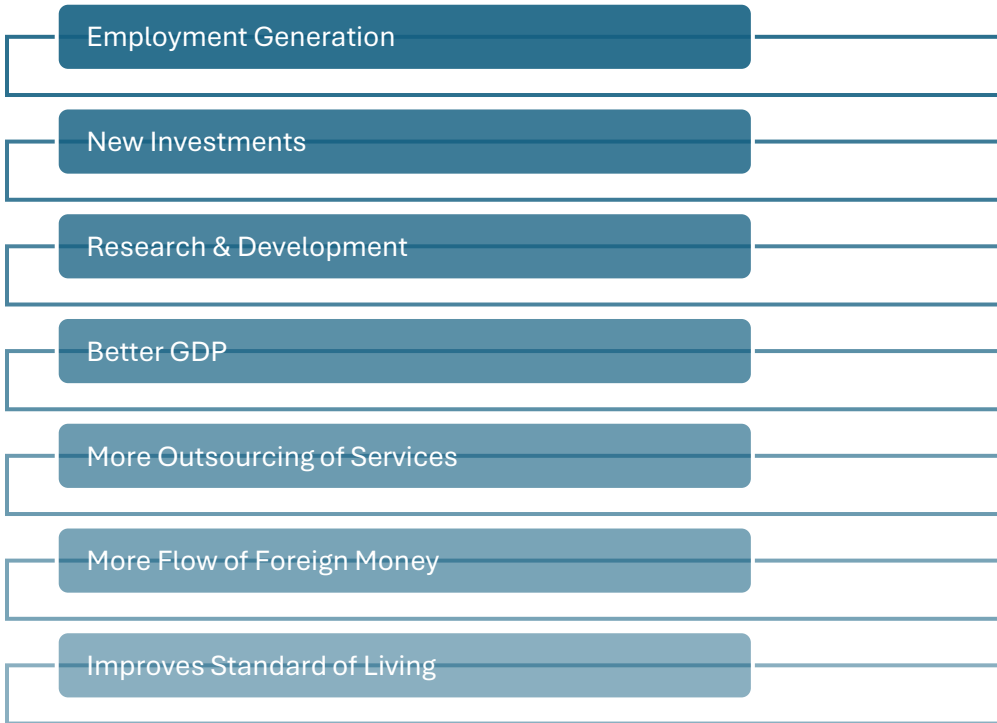
- **Startup India Seed Fund Scheme:** To assist emerging businesses, the Indian government launched the Startup India Seed Fund Scheme in January 2021. As part of this government startup initiative, chosen entrepreneurs would receive financing of up to Rs. 5 crores. Additionally, enterprises would receive grants of up to Rs. 20 lakhs for concept development or demonstration and up to Rs. 50 lakhs for expanding their goods or services.
- **Startup India Initiative:** For a little more than five years, the Startup India Initiative in India offers tax benefits to business owners. It has recognized over 50,000 companies as of June 2021. Additionally, it created 550,000 job opportunities. Most qualifying organizations have a maximum age of seven years, whereas biotechnology corporations have a maximum age of ten years from the date of incorporation.
- **MUDRA Banks:** The Micro Units Development Refinance Agency (MUDRA) promotes the expansion of small businesses in rural areas by offering credit.

This government program's main objective is to support Indian small businesses looking to grow. Small businesses that do not fit within the categories of companies, microenterprises, or farms were given loans up to Rs. 10 lakhs by the MUDRA banks. Kishor, Shishu, and Tarun are the names of the MUDRA loan categories.

- **Atal Innovation Mission (AIM):** In order to foster innovation, the government launched the Atal Innovation Mission (AIM) in 2016. The plan focuses on developing new policies and initiatives to aid in the growth of startups across a range of industries. For a period of five years, the AIM gives financial companies funding of about Rs. 10 crores. All new organizations in fields like health, agriculture, education, transportation, and others can use this strategy.
- **SETU-Self Employment and Talent Utilization:** Under the direction of NITI Ayog, the SETU-Self Employment and Talent Utilization program was started in 2015. With an emphasis on tech-driven industries, the SETU program offers startups and independent contractors extensive Techno-Financial, Incubation, and Facilitation support. The goal is to create about 100,000 jobs by establishing companies.
- **Startup markets:** For businesses looking to generate capital by registering on stock markets, SEBI has implemented a new set of listing requirements. The new recommendations include provisions for loosening disclosure requirements, restrictions pertaining to takeovers, and compliance guidelines for businesses engaged in IT, intellectual property, data analytics, biotechnology, and nanotechnology.

Role of Startup in the Growth of the Indian Economy

In recent years, India's startup environment has undergone a dramatic transformation, making it the world's second-largest startup hub. In addition to changing the nation's technological landscape, this developing sector is essential for promoting job growth. Startups have a profound and wide-ranging effect on India's economy.



Analysis and Interpretation

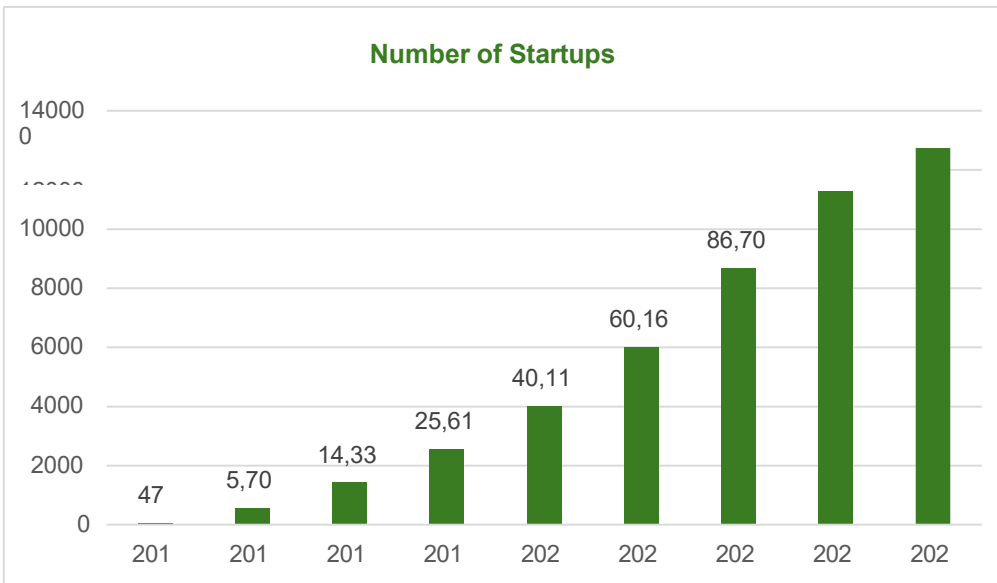


Figure 1: Number of Government Recognised Startups from 2016 to 2024

The number of officially recognized start-ups in India between 2016 and 2024 is shown in Figure 1. Over 127,000 startups had been formally recognized by the Department for Promotion of Industry and Internal Trade (DPIIT) by April 2024. Since 2016, India's startup environment has grown significantly, with companies spreading quickly across the nation.

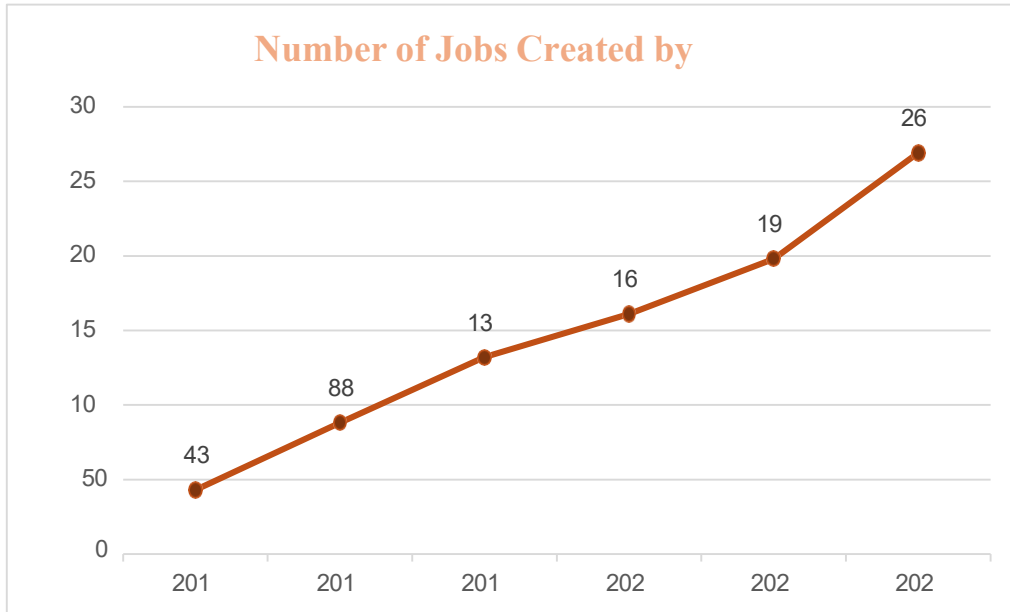


Figure 2: Total Number of Jobs Created by DPIIT Recognised Start-ups

Source: Economic Survey Report 2022-23

An overview of the Department for Promotion of Industry and Internal Trade's overall employment growth from 2017 to 2022 is given in the above figure. Since 2017, around 900,000 direct job opportunities have been created by Indian startups supported by the Department for Promotion of Industry and Internal Trade (DPIIT). According to the survey, domestic startups generated 2.69 lakh jobs in the nation in 2022, a 35.8% rise over the 1.98 lakh jobs generated in 2021.

Conclusion

India's economy is currently expanding and improving. By enacting progressive laws and initiatives like Startup India and MUDRA to assist entrepreneurs, the Indian government is demonstrating a rising determination to improve the GDP growth rate from the most fundamental levels. Financing, human resources, starting, and sustaining development are just a few of the many issues facing the startup industry. The recent study found that by using effective startup methods, companies could have more opportunities to overcome the obstacles and problems faced by Indian entrepreneurs. According to the report, the government

aims to accelerate the growth of the startup movement and empower entrepreneurs by encouraging innovation and design. Additionally, the study shows that startups play a major role in a country's overall strength and economic growth. For the unemployed generation, it creates more employment opportunities.

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