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A STUDY ON SCENARIO OF STARTUP IN INDIA

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Abstract

With many startups entering the financial and banking sectors, India has recently seen a tremendous uptick in entrepreneurial activity. By bringing innovative business strategies, utilising technology, and filling market gaps, startups in the banking sector are transforming the sector. But to ensure their long-term viability and success, these endeavours must carefully consider a wide range of dangers. Understanding the risks particular to startup projects in the banking industry is crucial for a variety of stakeholders, which is the significance of the study. Entrepreneurs and startup founders can establish thorough risk management plans by gaining insightful knowledge about the various difficulties they may face. This study can help financial institutions and regulators better understand startup dynamics, promote efficient risk assessment, and contribute to the development of a positive ecosystem.

Keywords: Startup, Business, Innovation, Risk, Customer.

Introduction

In a cutthroat industry like banking, startups struggle to win their customers' trust and adoption. Customers must be persuaded to migrate from conventional banking practises to cutting-edge startup products through effective marketing, education, and the development of compelling value propositions. The difficulty of drawing in and keeping consumers is further made more difficult by competition from other fintech firms as well as existing banking institutions. For startups in the banking industry, the level of customer uptake and the competitive landscape are crucial considerations. The acceptance and trust of customers are crucial for these enterprises to succeed. In a market dominated by established firms, startups must overcome the problem of obtaining clients.

They must set themselves apart by offering cutting-edge goods, individualised services, and first-rate clientele experiences. Startups must also negotiate the competitive environment, which includes established banks, fintech firms, and other startups. To gain market share and create a solid foundation in the sector, businesses must continually innovate, run smoothly, and employ successful marketing techniques. There are inherent risks associated with the growth of startups in India's banking industry, as well as new dynamics and opportunities. To create effective risk management plans, promote an appropriate regulatory framework, and support the expansion and sustainability of startup projects in the banking industry, it is essential to comprehend and analyse these risks.

Literature Review

David (2020) [2] India is believed to have 26,000 new businesses, which makes it the third-biggest ecosystem for startups in the world. The country has also seen consolidated investments of more than $36 billion over the course of the past three years, and it is home to 26 "unicorns," or businesses with a valuation of more than $1 billion. The ecosystem for new businesses to launch in India has grown rather quickly in recent years, primarily due to private investments such as seed, angel, venture capital, & private equity funds, together with the provision of technical assistance from incubators and accelerators as well as the government. The Indian government, for the most part, is doing its own to create an atmosphere that is conducive to business through its flagship project, Startup India, which went into effect in 2016.

Because India is working towards a knowledge-based as well as digital economy, the government is working to establish ICT infrastructure while offering support for policies for increased e-governance, investments, and technological innovation through studies and higher education. The goals of these efforts are to encourage entrepreneurship and stimulate economic growth. According to the available data, the growth of the startup ecosystem appears to have been predominantly concentrated in large cities and states (Tier 1) that have a significant amount of financial depth, particularly in IT-enabled industries such as online commerce, transportation, and banking. Small firms outside of major metropolitan areas are not fully conscious of programs that offer startups

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access different government incentives including tax benefits, nor are they properly integrated into those programs. Despite the progress that has been made so far, businesses in India continue to face significant obstacles.

These obstacles include the unorganized as well as fragmented the environment of the market in the majority of industries, the absence of straightforward and open policies that startups may swiftly tap into, a lack of infrastructure, an absence of expertise and exposure, as well as complications in conducting business. Opportunities for new businesses to launch in India could be improved by increasing public awareness of government programs and financial incentives, expanding credit availability to high-priority industries, expanding outreach and networking opportunities to Tier 2 as well as Tier 3 cities, and simplifying the financing process and offering tax breaks to both foreign and Indian investors.

Padilla (2021) [1] The most essential thing that this study brings to the table is that it provides a basic taxonomy of the most critical financial variables that are connected with assessing whether or not innovation is there. An ensemble neural network framework is used to predict the existence of innovation within a sample of small and medium-sized firms (SMEs) from Colombia's growing market.

The importance of the variables is estimated based on this model, and the results are shown in the following paragraphs. According to the findings, it appears that the variables related with the sources and applications of financing play a more significant role in the process of innovation than the variables that are associated with the qualities or credit of the organization. The elements that pertain to the management come in a distant second. More than a dozen aspects linked with funding that influence the growth of innovation have been identified and examined separately (or in highly isolated small groups) throughout the body of academic research on the subject.

Other aspects that determine the rate of innovation include theoretical elements related to informational inefficiencies, the cost of capital, asymmetric knowledge and moral hazard, the capital structure, spillovers, as well as transaction, bankruptcy, and adjustment costs. Standard aspects include risk, the interest rate that is currently being offered, and collateral. In addition, as a direct outcome of the work that was accomplished, new concrete models to forecast innovation were presented. These models make use of some of the most cutting-edge and contemporary predictive analysis approaches. Not only do models of this kind represent a new milestone within the body of work pertaining to the topic, but they also serve as a model for authors who come after them.

Analysis

The age of the company, the size of its operations, and the method of finance it receives are generally acknowledged to be characteristics of a "startup," despite the absence of a specific definition. It is typically understood to refer to a business that is only a few years old and has not yet established a reliable flow of revenue. These companies operate on a somewhat modest scale, and typically have a functional prototype or paid pilot program. However, they have the potential to develop and scale quickly. They first receive funding from the founders' own personal network of friends and family, but they are actively seeking further funding in order to become self-sufficient and establish themselves as a successful business. As an illustration, the Government of India's Startup India initiative considers a "startup" to be a company (PIB 2017) that meets all of the following criteria:

1. Having its primary office located in India and having been established there within the past 10 years but not before.

2. Having a yearly revenue of below INR 1 billion, which is equivalent to approximately $14 million. (Startup India 2019).

As a result of a change that took place in 2019, Startup India has updated the list of benefits that it provides (Startup India 2019) to contain income tax deductions on capital gains as well as investments over fair market value, alternatives to self-certification for different compliances, fast-tracking about patent applications during a discounted rate, the capacity to sell to the government, as well as the capacity to wind up a failed company inside ninety days. When a company registers with Startup India, the company is eligible to receive tax breaks known as the Angel Tax, as well as exposure to a Knowledge Bank, partnered services, online courses, & innovation challenges. According to Startup India 2019, the initiative has awarded approximately 27,000 entrepreneurs with recognition.

While a privately held company increases funds at an amount higher than its fair valuation, a controversial tax known as the "Angel Tax" is imposed at a rate of 30%. This tax has been in place since 2012 as an anti-money-laundering provision, but it was allegedly being abused until 2019. In 2019, the DPIIT collaborated with delegates from the startup ecosystem to eliminate the problems caused by this tax. The rule was initially enacted with the intention of discouraging high-net-worth people (HNWIs) from making investments in fake businesses (also known as shell companies) for a means of concealing the origin of their illicit funds. The Angel Tax had been criticized for restricting firms that had secured equity capital from unregistered overseas investors. This was one of the main reasons for the criticism.

In India, the application of methods that are common in other parts of the world has either not been attempted or has been determined to be inappropriate. For instance, equity crowdfunding has proven to be a useful choice for companies in both Japan and the United States. Customers have the ability to place orders for products through a form of crowdsourcing known as pre-order crowdfunding. This enables companies to advertise the things they make online and raise revenue for their operations.

Although it is not extensively practiced, this is not against the law in India. A "hometown investment trust" (HIT) fund is another method that can be used to assist risky borrowers, such as startups, in acquiring seed financing. This fund collects modest sums from private citizens, ranging from ten to fifty dollars, in exchange for ownership in the company.

However, the Securities and Exchange Board of India (SEBI), which is in charge of regulating the financial sector in India, has decided that the practice known as "equity crowdfunding" cannot legally take place in the country. In a similar vein, a number of Asian nations have financial institutions in the form of money lenders that offer funding to MSMEs & startups.

These lenders could very well be loan sharks, which are unregulated financial institutions that have a propensity to charge extremely high interest rates. Although the micro, small, and medium-sized enterprise (MSME) sector in India relies on loan sharks, the early-stage startup funding industry in India has been dominated by Seed/Angel investors, HNIs, select VC firms, & an increasing number of FinTech & nonbanking financial companies (NBFCs). Accelerators, in addition to seed finance, venture capital, and private equity, have been crucial in the development of the startup ecosystem.

Accelerator programs, a type of accelerator that is sponsored via a profitable company in an effort to find and assess novel solutions and technologies through offering grants, paid pilots, as well as joint go-to-market options, and then charge a flat fee as well as gain an equity stake of 6%-8% in the startups they help, have been a major trend over the past three to five years. Accelerator programs have been particularly popular in the United States.

Conclusion

In 2012, India's market regulator SEBI had issued new standards allowing angel investors to become classified as AIFs and an additional kind of pooled-in investment vehicle including real estate, private equity (PE), & hedge funds. These new norms were part of India's move toward a capital market that is more transparent and efficient. In order to prevent misuse of the legislation through the process of money laundering, SEBI limited the amount of investment that such funds may make to between 5 and 50 million Indian Rupees (INR) and only allowed them to invest in Indian companies that were less than three years established and had no family ties. By the end of 2019, SEBI's Alternative Investment Funds (AIFs) had contributed INR 17 billion to a total of 254 new businesses, and SIDBI had, as of July 2019, committed an additional INR 31 billion to 47 AIFs that were registered with SEBI.

At the same time that the Government of India launched the Startup India program in January 2016, they also announced the establishment of a Fund of Funds for Startups (FFS) at the Small Industry Development Bank of India (SIDBI), which would have a capital of INR 100 billion to be distributed among alternative investment funds (AIFs). In the four years that have passed since then, this FFS has fallen short of its projected allocations on a continuous basis.

This is true both in terms of direct investments within startups (only INR 6.02 billion across 142 firms), as well as in terms of its allocation to AIFs (only INR 226.5 million as opposed to a budgeted INR 33 billion). The government has also established a variety of other projects, all of which are connected in some way to the promotion of new businesses and entrepreneurial endeavors. An examination of the industry-academic-government linkages in patents, for instance, reveals that India is developing into a patent hub.

This is especially true in light of more recent government initiatives, like the Startup Hub during the Ministry of Electronics and Information Technology (MEITY), designed to improve 51 incubation hubs through fast-track patent clearances. Despite this, India is recognized for having significantly fewer international patents filed in comparison to other countries, such as the Republic of Korea and Japan.

Conflict of Interest

There is no conflict of interest by the authors in this manuscript.

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