

Startups in India- Financial Challenges

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ABSTRACT: *Indian markets are getting flooded by the startups for the last few years. This has given a hope to the new and budding entrepreneurs to start something of their own. Earlier the startups used to faced the problems of funding even they had the ideas and vision to start a company. Mega funding for the last 10 years or so has solved this problem of theirs and that is the reasons the startups are being mushroomed in Indian market. The trends of investments suggest that investors want to enter as an early investor, even before the start of the firm. The said paper will talk about the startups, their growth and some of the challenges faced by them.*

Keywords- *Startups, Indian Markets, Entrepreneurial Environment, Competitive, Consumer Markets*

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1.1 INTRODUCTION- A startup is a young company that is just beginning to develop. Startups are usually small and initially financed and operated by a handful of founders or one individual. These companies offer a product or service that is not currently being offered elsewhere in the market, or that the founders believe is being offered in an inferior manner.

In the early stages, startup companies' expenses tend to exceed their revenues as they work on developing, testing and marketing their idea. As such, they often require financing. Startups may be funded by traditional small business loans from banks or credit unions, by government-sponsored Small Business Administration loans from local banks, or by grants from nonprofit organizations and state governments. Incubators can provide startups with both capital and advice, while friends and family may also provide loans or gifts. A startup that can prove its potential may be able to attract venture capital financing in exchange for giving up

some control and a percentage of company ownership.

On April 17, 2015, the Ministry of Commerce and Industry released a notification to define 'startups'. According to the government notification, **an entity will be identified as a startup.**

- (a) **Till up to five years from the date of incorporation.**
- (b) **If its turnover does not exceed 25 crores in the last five financial years.**
- (c) **It is working towards innovation, development, deployment, and commercialization of new products, processes, or services driven by technology or intellectual property.**

1.2 LITERATURE REVIEW-

(Au & Kwan, 2009) did a research and found out that education system is a kind of obstacle for startups. Under education system, there is lack of focus on entrepreneurship and most of the students think of becoming budding engineers and managers but not entrepreneurs. Family, society, culture, peer pressure also make it

difficult to think of starting a company as a living instead of a job. As a culture of family remains, family remains skeptical to change and prefer options that are able to provide a steady income rather than engaging risk. This places pressure on the budding entrepreneurs. So it becomes imperative to think as an entrepreneur from the early days of school or college.

Christopher A Pissarides (2001) concluded that there are some factors which can explain the difference in labour market performance and these are structural. He also explained that the role of a company starts up accounts for the performance of the employment.

As per Thomas and I. Bernhardt (2003) there is a negative correlation between bank loan and business survival. It also sums up that if there is a non banking loan then there would be positivity in terms of business. So as per the study done by them there exists a relation between the small business survival and loans taken from the bank.

Thomas Hillmann and Manju Puri (2000) examine the empirical evidences on the impact that the venture capitalists can have on the development path of new firms.

Their study suggests that there is soft facet to venture capitalists in terms of supporting companies to build up their human resources within the organization.

Omid Sharifi, Bentolhoda Karbalaee Hossain (2015) in their paper stated that the various financial challenges faced by the Start-ups in India. It also depicts the difficulties faced by the startups at the initial stage. The major findings are major leap in technology have led investors to raise the bar in terms of how much leg work entrepreneurs are expected to do before even pitching their companies.

1.3 OBJECTIVES OF THE STUDY- The research paper will talk about

- (a) The various difficulties and challenges faced by the Indian startups and
- (b) Various sources of finance available to them.

1.4 RESEARCH METHODOLOGY-

This study is mainly based on the secondary data. These data are collected from various websites, journals, and newspaper articles. The study is descriptive & conceptual in nature.

1.5 STARTUPS FINANCIAL SOURCES IN INDIA-

In India the startups depend on investors in their early days. And sometimes as there is a lack of funds from these investors, they try to invest on their own. These startups also have to face the corporate governance formalities. And sometime the funds also come from the larger institutional fund. Then their strategy and focus comes on the making a great sales team and to make sure that they have a global presence.

On the other hand private equity funds can provide big amounts of money to these startups.

Venture Capital –

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. For startups without access to capital markets, venture capital is an essential source of money. Risk is typically high for investors, but the downside for the startup is that these venture capitalists usually get a say in company decisions.

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1.6 MAIN DIFFICULTIES FOR STARTUPS IN INDIA

Some of the challenges faced by startups in India so as to better prepared and address the situation:

□ **Hiring the right talent**

Hiring the right talent for your startup can be quite an uphill task. To find and hire the right kind of talent for the business with skills to match growing customer expectations is one of the biggest challenges. With low salaries in comparison with other corporate hiring skilled manpower may not be possible and so you may have to settle for the next best option. You may have to convince people to join you. The key is to spread your passion and motivate people to be as passionate. Right talent will ensure rock solid foundation which will help your startup to take the plunge.

□ **Capital**

Investors and startups go hand in hand. Sometimes the investor's response to a startup ecosystem can be sluggish. Scaling is prudent in case of a startup and scaling comes from capital.

The challenge is not to merely generate enough seed capital but also to support in expansion and sustenance and maintenance. It is critical to plan your finances in advance. Factor in all the elements and set a budget, try and maintain this as much as possible to be on track. Set a specific budget for PR, marketing, advertising. In the end, it's important to remember that external capital can only give the necessary push to your business, it cannot run the business, hence focus on creating value and solving the problem of the people

□ **Cultural views and lack of infrastructure support**

There is little tolerance for failure in our country. Our focus is still on getting reputable jobs in a reputable company. In complement to that, infrastructural support such as incubation and funding are not easy to find in India. Irregular power

supply, telephone reception network, etc. can be a hindrance to the growth of any business. Corruption free environment, friendly regulations, good connectivity, healthy environment, efficient logistic support, can help a great deal in attracting investor in the country.

□ Absence of mentor

Young entrepreneurs usually have unique ideas however they lack experience. A brilliant idea works only if executed promptly. Industry insights, market knowledge, business experience is important to materialize the idea. Mere ideas cannot propel startups. Additionally mentors are tagged by a network system that can of great to develop contacts and expand your existing business network.

1.7 CONCLUSION:

Entrepreneurs are the backbones of the industry and the market. They are the ones who provide innovations and new ideas to groom an economy. But the fact it that they need motivation and support from the government and society in terms of funding and manpower who can provide quality to their ideas and can implement and execute their plans.

Conclusion comes out that startups in India in very early days and it bound to

grow only from here. To know more a detailed primary research can be done among the entrepreneurs to know their ideas, limitations and challenges faced by them.

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