



# Indian Startups : Opportunities and Challenges

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## Abstract

A startup is an enterprise focused on the growth, commercialization, and development of innovative products, services, or mechanisms driven by intellectual property or new technology. In the past twenty years, the Indian startup ecosystem has experienced significant growth, with increased support accessible in all aspects. Startups are not isolated entities, but rather operate within a broader corporate ecosystem that prioritizes the creation of significant solutions. In doing so, startups serve as catalysts for socio-economic development and transformation. This article seeks to comprehend the obstacles encountered by Indian startups, as well as the opportunities presented by India as a market and startup ecosystem. An effort has also been made to understand the measures done by the government to foster the development of startups in India. Additionally, this study also examines the impact of startups on the expansion of the Indian economy.

## Introduction

Startup India is a prominent program launched by the Indian government with the aim of promoting and fostering a culture of startups. Its primary goal is to create a robust and all-encompassing environment that encourages innovation and entrepreneurship in India. The BJP government introduced the "STARTUP INDIA STANDUP INDIA" initiative on 16 January 2016, aimed at assisting the youth of India in channelling their novel and inventive ideas in the proper path. Startup India has implemented various initiatives aimed at bolstering entrepreneurs and transitioning India into a nation of individuals who generate employment opportunities rather than individuals who seek employment. India has become the second largest startup ecosystem in the world, following the United States. India is a thriving hub for startups and is rapidly progressing at an exponential pace. These firms demonstrate the wide range and high level of entrepreneurial talent in India, covering several industries including technology, healthcare, e-commerce, and financial services.

As new Indian companies continue to emerge on a regular basis, they contribute fresh views and innovative solutions, enhancing the diversity and vibrancy of this dynamic ecosystem.

## Concept of Startup

The term "Startup," which refers to a "Budding Company", was initially employed in a business context by Forbes Magazine in 1976, specifically in reference to the unglamorous practice of investing in emerging companies in the electronic data processing industry.

The term "Startup" originated in the early 1900s to describe newly established commercial operations in their early stages. During that period, startups are essentially conceptualized as ideas in which the founders believe they have the potential to bring about a positive impact on society. Through the investment of time, dedication, and financial resources, the initial idea was refined into a viable business model and ultimately transformed into a fully operational commercial venture. Incubators and accelerators are essential institutions that play a crucial role in fostering the growth of companies as they progress from conceptualization to actualization. The exponential increase in internet users has expanded the opportunities for pioneering business concepts that leverage technology and the internet to engage with individuals and deliver their services. Moreover, the impressive achievements of certain companies have captivated international investors in India's economy as well. These causes have caused the traditional MSMEs to be disrupted and have led to the creation of technology-focused firms known as Startups. Startups can be found in diverse industries like Fintech, Healthcare, Education and Technology, Healthtech Sector, Agricultural Technology, Financial Services, and Logistics.

## Review of Literature

**Surabhi Jain (2016)** focused on the expansion and potential of the start-up ecosystem in India. Commencing with a thorough examination of the notion of a start-up. This article discusses the introduction of start-up initiatives in India, the necessity of start-up ecosystems in the country, and the several strategies implemented in 2016 to help start-ups in India, such as providing cash support, tax holidays, establishing innovation centres, and research parks. In the concluding section, Jain expressed the view that innovation is crucial in both the start-up ecosystem and large-scale industries, as they contribute to the growth of a country's per capita GDP. The text discusses the challenges encountered by individuals from India. To prevent this situation, government, corporate, and educational institutions can contribute through initiatives such as mentorship programs, workshops, seminars, and other similar activities.

**Chhikara K. (2016)** The author finds that the Start-up Action Plan focuses on reducing the involvement of States in policy-making and freeing the startup ecosystem from excessive government regulations, such as the "license raj" and obstacles related to land permissions, foreign investment proposals, and environmental

clearances. This situation can be likened to a catch-22 scenario. On one hand, the Government of India claims to endorse a free market and aims to eliminate excessive government control. However, on the other hand, they are imposing regulations on the entire start-up ecosystem, requiring clearance from a government organization. The primary concern for the majority of start-ups does not lie with the current regulatory framework per se. The issue stems from the intricate and burdensome bureaucratic procedures required to navigate that system. Therefore, the government should play a role as a facilitator and catalyst along the entire supply chain, and it should exercise careful consideration when employing public funds. Furthermore, it is crucial to uphold transparency and accountability throughout the whole lifecycle of the start-up, fostering a positive environment between the government and the start-up.

**Mohammed Habeebuddin and D. Sakriya (2017)** emphasize the problems and challenges faced by Indian start-ups. They also reveal the numerous benefits and opportunities that exist for these start-ups, such as the Indian demography and the unique set of problems in areas like health, education, sanitation, and infrastructure. These factors contribute to the significant transformation potential for Indian start-ups. The study identifies numerous challenges faced by Indian startups, including cultural barriers, lack of mentorship, policy constraints, difficulties in hiring and securing capital, societal issues, changes in consumer behavior, technology infrastructure limitations, sustainability concerns, regulatory hurdles, and taxes issues.

**Dwivedi R. (2019)** The author finds that Start-ups are financially vulnerable and any changes in the taxation system, such as the implementation of GST or processes like demonetisation, have a negative impact on them. The process of demonetization has had a widespread impact on several industries, resulting in a deceleration of the rate of progress. Inadequate financial resources are a primary factor contributing to the lack of success in start-up ventures. The majority of start-ups fail to secure funding, ultimately resulting in their closure. Approximately 90 percent of start-ups do not succeed in remaining viable in the market. A surplus of start-ups emerged with identical concepts, lacking inventive solutions and operating within the same industry, ultimately failing to secure funding and subsequently closing down.

## Objectives of the Study

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

## Research Methodology

The study mostly relies on secondary data and is descriptive in its approach. The data was gathered from a diverse range of sources including journals, periodicals, articles, newspapers, books, and official websites such as Statista, Ministry of Commerce, and The Economic Survey Report etc.

## Challenges in Startup Environment

- 1. Revenue Building:** Many firms experience failure as a result of inadequate revenue creation throughout their growth phase. As operational activities expand, expenses increase and revenues decrease, compelling entrepreneurs to prioritize finance and divert attention from the core aspects of their firm. Therefore, it is crucial to generate revenue, which necessitates the proper management of burn rate. Burn rate refers to the rate at which startups consume money in the first stage. The issue lies not only in generating sufficient cash, but also in expanding and maintaining sustainable growth.
- 2. Financial Resources:** Insufficient cash can pose a significant obstacle for entrepreneurs looking to implement their economically viable idea. The availability of financial resources is crucial for startups and often poses a challenge in obtaining adequate funding. Approximately 85% of newly established companies are apparently underfunded, which suggests a high likelihood of failure. Various financial possibilities, such as loans, grants, venture capitalists, crowd funding, and support from friends and family members, are accessible. Expanding a business necessitates the prompt injection of funds. Effective financial management is essential for the success of startups.
- 3. Market Fragmentation:** India's heterogeneous culture, multitude of languages, and varied consumer preferences can present a formidable obstacle for companies aiming to expand their operations nationwide. Strategies that are successful in one region may not resonate in another, hence requiring customized marketing and localization endeavours.
- 4. Regulatory Hurdles:** Indian entrepreneurs face significant obstacles due to the intricate and constantly evolving regulatory landscape. Young entrepreneurs with limited resources may find it challenging to navigate the complex network of rules and regulations. Startups frequently encounter bureaucratic obstacles and red tape, ranging from taxation concerns to compliance obligations.
- 5. Supporting Infrastructure:** Supporting Infrastructure: Various support mechanisms, including as incubators, science and technology parks, and business development centres, play a crucial role in the

entire lifecycle of startups. The absence of access to such support mechanisms heightens the likelihood of failure.

## Opportunities for Startups

Despite the numerous obstacles and hurdles experienced by startups, the vast Indian market provides chances to address client issues with appropriate solutions. Presented here is a compilation of several potential opportunities that are deliberated for contemplation by startups:

- 1. India's Large Population:** India possesses a significant advantage due to the fact that over 65% of its population is currently under the age of 35. The working age population is projected to exceed the non-working population. The distinctive demographic advantage will present a significant opportunity to any startup. The startups could benefit greatly from the numerous infrastructure challenges and the untapped market of low-income consumers.
- 2. Huge Investment in Startups:** Foreign institutional investors and Indian investors are making substantial investments in Indian startups. From January to September 2020, a total of \$8.1 billion has been invested in Indian companies through 652 investment deals. Sequoia India, Accel, and Mumbai Angels Network are among the leading investors in Indian businesses. Among the active players in the market are Tiger Global Management, a New York-based investment firm, DST Global, a Russian company, and SoftBank, a Japanese telecommunications behemoth.
- 3. Mind set of Working Class:** The mindset of the working class today is characterized by a willingness to take risks and explore new job opportunities. This is highly effective for startups in attracting skilled individuals and fostering growth. Indian startup space is gradually replacing traditional job trajectories. Startups could attract brilliant individuals by offering challenging responsibilities and competitive remuneration packages. Furthermore, it is seen that some prominent executives are resigning from their positions in order to embark on entrepreneurial ventures with startups.

## Government Schemes and Policies

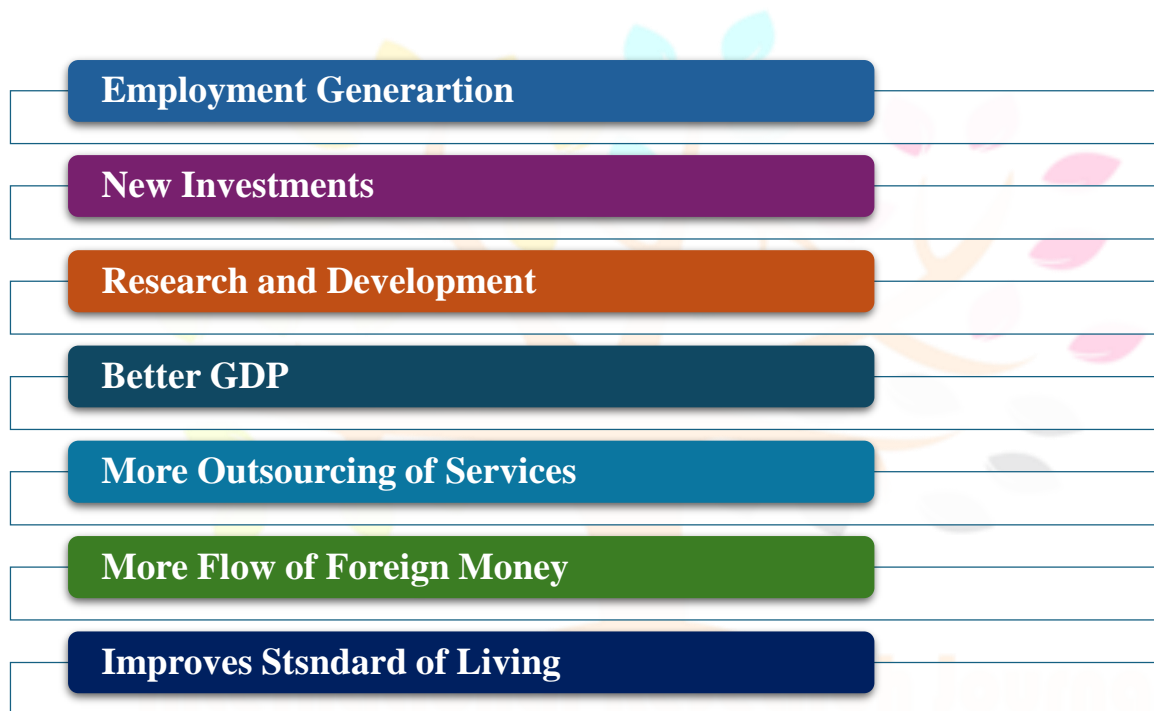
The government acknowledges the significance of startups in stimulating innovation and fostering economic growth. Several ministries and departments have implemented initiatives to offer financial, infrastructural, and regulatory assistance to entrepreneurs. The following are government initiatives designed to provide assistance to startups:

- 1. Startup India Seed Fund Scheme:** The Indian government introduced the Startup India Seed Fund Scheme in January 2021 to offer support to nascent firms. Under this program, selected entrepreneurs will get investments of up to Rs. 5 crores as part of this government startup effort. Additionally, grants of up to Rs. 20 lakhs will be provided for concept development or demonstration, and up to Rs. 50 lakhs will be paid for growing products or services for companies.
- 2. Startup India Initiative:** The Startup India Initiative in India provides tax advantages to entrepreneurs for a period of just over 5 years. As of June 2021, it has acknowledged more than 50,000 firms. Furthermore, it generated 550,000 employment opportunities. The maximum age for most qualified organizations is 7 years, however for biotechnology companies, it is 10 years from the date of establishment.
- 3. MUDRA Banks:** The Micro Units Development Refinance Agency (MUDRA) helps provide credit and supports the growth of small companies in rural areas. The primary goal of this government program is to provide assistance to small businesses in India that seek to expand. The MUDRA banks provided loans of up to Rs. 10 lakhs to small firms that do not fall under the category of corporations, microenterprises, or farms. The MUDRA loan categories are referred to as Kishor, Shishu, and Tarun.
- 4. Atal Innovation Mission (AIM):** The Atal Innovation Mission (AIM) is a government initiative launched in 2016 with the objective of promoting innovation. The scheme focuses on creating new programs and regulations to support the development of startups in various economic sectors. The AIM provides funding of around Rs. 10 crores to finance companies for a duration of 5 years. This plan can be employed by all emerging organizations in sectors such as health, agriculture, education, transportation, and others.
- 5. SETU-Self Employment and Talent Utilisation:** The SETU-Self Employment and Talent Utilisation program was initiated in 2015 under the auspices of NITI Ayog. The SETU scheme provides comprehensive Techno-Financial, Incubation, and Facilitation support to startups and self-employment firms, with a particular focus on tech-driven sectors. The objective is to generate around 100,000 jobs through the establishment of startups.
- 6. Startup Exchanges:** SEBI has introduced a fresh set of listing regulations for companies that intend to raise funds by getting listed on stock exchanges. The new guidelines include provisions for easing

disclosure requirements, takeover regulations, and compliance rules for IT, intellectual property, data analytics, bio-technology, and nano-technology enterprises.

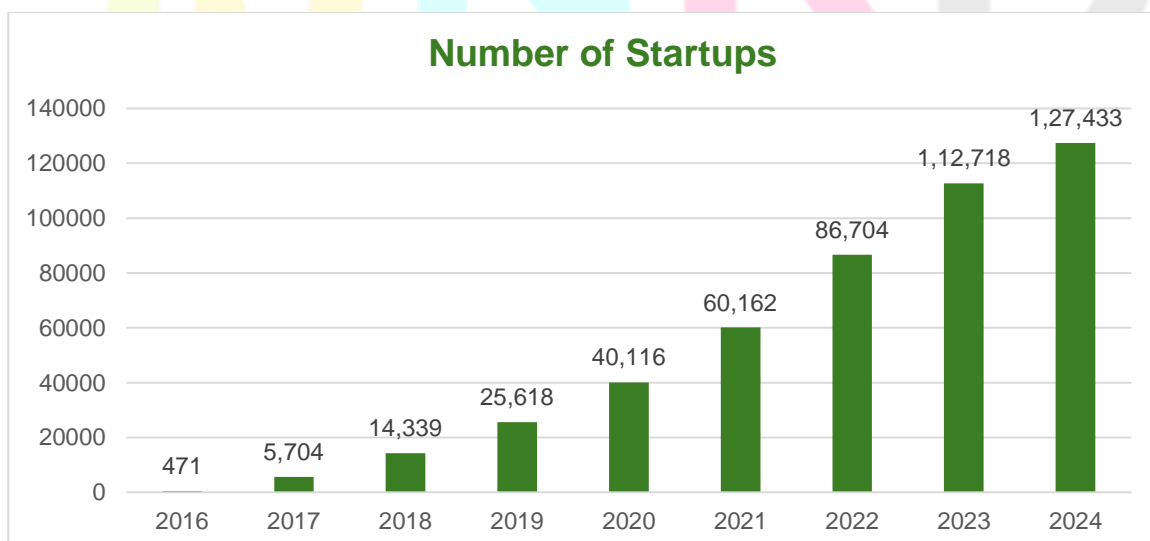
## Role of Startup in the Growth of the Indian Economy

India's startup ecosystem has experienced a significant transition in recent years, establishing itself as the second-largest location for startups globally. This emerging industry not only transforms the technological environment of the country but also plays a vital role in stimulating employment growth. The impact of startups on India's economic landscape is significant and far-reaching.



## Analysis and Interpretation

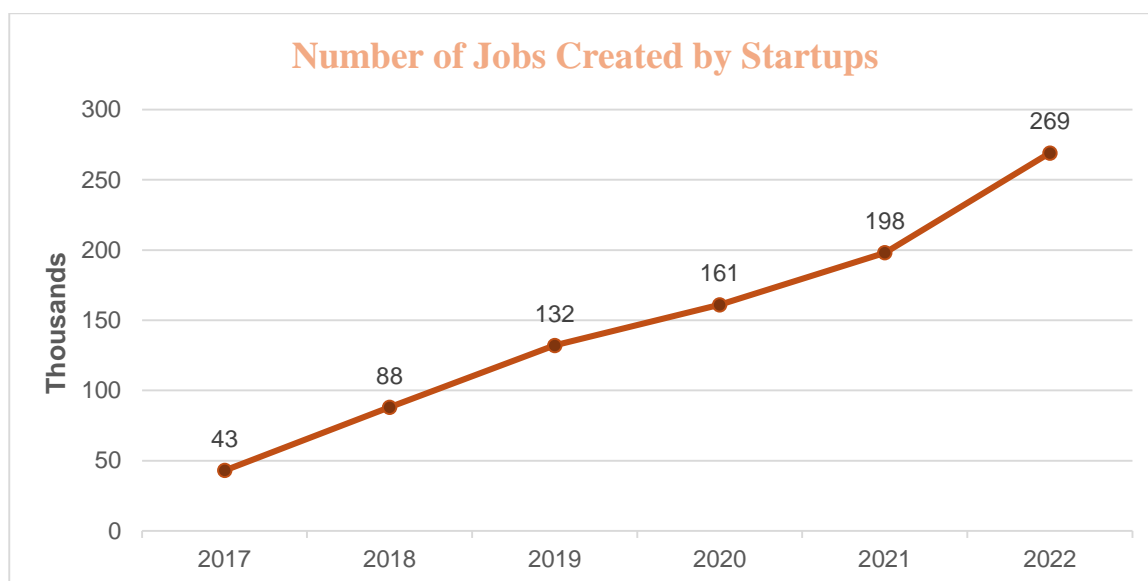
Figure 1: Number of Government Recognised Startups from 2016 to 2024:



Source: Statista.com

Figure 1 displays the count of officially acknowledged start-ups in India from 2016 to 2024. By April 2024, the Department for Promotion of Industry and Internal Trade (DPIIT) had officially recognized more than 127 thousand startups. India's startup ecosystem has experienced significant growth since 2016, with businesses proliferating rapidly throughout the country.

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



Source: Economic Survey Report 2022-23

The figure above provides a concise overview of the upward trajectory of the total number of employment generated by the Department for Promotion of Industry and Internal Trade from 2017 to 2022. Indian startups endorsed by the Department for Promotion of Industry and Internal Trade (DPIIT) have generated more than 900,000 direct employment opportunities since 2017. The poll reported that in 2022, domestic startups created 2.69 lakh jobs in the country, representing a 35.8% increase over the 1.98 lakh jobs created in the previous year, 2021.

## Conclusion

India's current economic situation is seeing growth and progress. The Indian government is displaying a growing eagerness to enhance the GDP growth rate from the very basic levels by implementing progressive policies and programs such as Startup India and MUDRA to support businesses. The startup sector has numerous problems, encompassing areas such as financing, human resources, launching, and maintaining development with determination. The current study discovered that startups have the potential to access a greater number of chances in order to overcome the challenges and issues encountered by Indian entrepreneurs through the implementation of good startup strategies. The report finds that the government seeks to empower entrepreneurs to grow by promoting innovation and design, and to expedite the growth of the startup movement. The Study also indicates that startups significantly contribute to the economic growth and overall strength of a nation. It generates additional job prospects for the unemployed generation.



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