India the world's fastest growing startup ecosystem: A Study

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Abstract

In recent years, the Indian startup ecosystem has really taken off and come into its own driven by factors such as massive funding, consolidation activities, evolving technology and an burgeoning domestic market. The numbers are telling from 3,100 startups in 2014 to a projection of more than 11,500 by 2020, this is certainly not a passing trend. It's a revolution. And it's going to change the way the markets are working today in India.The strategies of the Central Government takes into account the collective aspirations and enterprise of the risk taking Indian. The success of the Silicon Valley startups has many indomitable and resolute Indians in the heart of it. India aspires to contribute to 15-20 percent global GDP. It happens when Startup movement attains critical mass. Startup India looks beyond the argument that it is a better packaging of existing institutional support. The complexities of managing the diversity of thoughts, processes and people of India are very well known. The plan of Startup Indians is to flourish under an ocean of changes in mindset and thinking. It is giving feather to wings of the unstoppable Indian. The world is struggling to avoid another meltdown. Startup India is all about challenging conventions and spurs a revolution of unique and emphatic business models developed by new . It is the precursor to India taking Centre stage in the new world order. The study concluded that making capital more accessible and cheaper, easier patent filing, giving research and development credits, and easier entry for the success of Startup India as a growing economy.

Keywords: Make India Plan ,Startup India, Entrepreneur development, Innovation, Managing Change ,e-commerce.

I. INTRODUCTION

Indian Institutes of Technology (IITs) have been ranked the world's fourth largest producer of billion-dollar startups, according to a study by UK-based accounting company Sage. IIT alumnus accounts for 12 billion-dollar startups including Flipkart, Snapdeal, ShopClues, Zomato and Ola. Stanford University topped the list with 51, followed by Harvard University and The University of California(26 jan 2017).Startup is defined as "an entrepreneurial venture or a new business in the form of a Company, a partnership or temporary organization designed and search of a repeatable and scalable business model."Startup India brings excitement and immense possibilities for the future. India acknowledged the stark reality of modern business and its complexity. The Central government tried to address the problems faced by the young, entrepreneurial Indian, whose risk taking ability is unparalleled across the globe. Policy paralysis and lack of transparency were just few of the bottlenecks faced by the entrepreneur. Technology has a predefined role to play in Startups. The Internet-led industry contributes $30 billion today, which is a fraction of the $250 billion by 2020. USA internet business could grow from $240 trillion today to $3.5 trillion and China from $700 billion to 1.5 trillion during the same period. The sheer size of change that Startups can choose to bring is mammoth and exponential.

Startups have been the flavour of the season over the last few years for the Indian markets. This has resulted into the emergence of a number of home grown unicorns across the country. One of the major contributors leading to this development has been the mega funding that has been ploughed into most of these unicorns between the period 2007 and 2017. This has been in line with the global trend dominating the space. Even the aspiring unicorns have had a decent run during this period, where managing to find investors is usually considered a tough task. The trends of investments suggest that investors want to enter as an early investor, even before the start of the firm. From an overall viewing, India comes across as a thriving under-penetrated consumer driven market with a scope for exponential growth. Internet penetration and its increasing importance will drive most of the businesses. On account of the consumer demographics, with China being out of bounds, India offers the largest pie of investment opportunity that the world is eyeing. This is despite the multitude of operational, regulatory and taxation issues that surround the business running environment in India.

However, 2015 has turned out to be a year offering a bit of a reality check to one and all and redefined the dynamics to a great extent. The year also set the tone for the next stage in the evolution of the startup ecosystem. The maturity in decision making that should ideally come in at this stage would be a step in the right direction taking the startup space in India towards greater heights, as it deserves.

The larger problems plaguing the businesses, such as the unorganised and fragmented Indian market, lack of clear and transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure, complications in doing business, etc. are at least now being identified as issues that need to be addressed. The framework and course of regulations need to be updated and adopted as per the times. The right policy matter announcements by lawmakers can be a push. In times like these, pro-reforms announcements are required to provide the much needed impetus to the general business environment in the country in the startup space.

To create awareness and building an entrepreneurial environment, a lot of emphasis should now be given to creating infrastructure for mentoring startups. Various stakeholders such as the government, corporates, educational institutions and others are and should join hands to build a better ecosystem for young people. We understand that the Commerce Ministry is planning to build an online portal for information sharing among various stakeholders including incubators/accelerators, angel investors, VC funds and government departments. We also understand that other such initiatives are in the pipeline and are expected to be rolled out in due course.Startups do not wish to be chained and caged by existing laws. They like to flourish in an atmosphere of trust and transparency, hope and freedom. What the current dispensation in India has done, is to articulate their thoughts. The Silicon Valley entrepreneurs have made their work speak. The indomitable spirit of the young Indian, full of verve and energy, is seeing an inspiring transformation unfold in their own country. The document rolled out to young entrepreneurs is exhaustive and has an eye for detail.

II. LITERATURE REVIEW

Startup India has been promised an initial capital of 10K crore over a period of four years from the government. This seed capital is capable of attracting tenfold investment by 2022. Credit guarantee for startup lending is another booster. Startup plan unfolded on January 16, 2016 in front of domestic and international entrepreneurs. Internet-based businesses from food to fashion, health to education, and travel to payment platforms- all have taken Centre stage recently. Industry expectation from the Government is reciprocal. Few industry leaders who are championing Startup India want high bandwidth, tax breaks on budget smartphones supporting vernacular languages, simpler KYC norms, and improved access to electricity and credits. They are interacting with policy makers to weed out regulations which act as a brake to investments. Crisp documentation is a pipedream for the young, technology savvy, smart entrepreneur. The developed countries have worked hard to make startup operations simple. It is this backdrop which makes policy making challenging and interesting enough for the government of the day. The Prime Minister unveiled a 19-point agenda to take forward the startup culture. The action plan included tax sops, ease-of-doing business, innovation to help entrepreneurs to startup and grow their business (Forbes India, Startup India, January 18,2016).

International Money entering India

Foreign investor interest in India can be attributed to various factors but the biggest one is the consumer growth backed by the mobile revolution. Also, the India focus of New York based Tiger Global Management (TGM) has given confidence to other global private equity and hedge funds to come to India. Making big bets on Indian innovation has become a global point of interest. The following are a few examples of foreign investors investing in Indian startups:

- TGM is currently the top investor in startups in India during the first four months of 2015. Indian startups have featured in 18 of its 26 funding rounds globally in 2015 so far. It has started to make early-stage investments in India now.
- Tiger was among the top investors in India at $422 million in 2014, despite a lean start. After April, with massive fund infusion into Flipkart, which raised a total of almost $2 billion in 2014.
- It was followed by Russian investor Yuri Milner-led DST Global, which invested $352 million.
- Japanese telecom giant Softbank invested $282 million in Indian startups in 2014.

- During the same period last year, VC firm Nexus Venture Partners was the largest VC player in the country with $73 million in funding, followed by Kalaari Capital with $45 million in six deals.
- VC firm Sequoia Capital has made investment worth $208 million in the first four months of 2015 across 14 deals.
- Accel Partners, one of the early investors in the scene have made multi-stage investments in internet technology companies between $0.5-50 million in its portfolio of companies which include BabyOye, BookMyShow, Myntra, CommonFloor, Zansaar, Probe, and Flipkart.
- Other foreign investors that have shaped the Indian funding landscape since 2009 are 500 Startups (by Dave Mclure and Pankaj Jain), and Inventus Capital Partners among many others.

III. OBJECTIVES OF THE STUDY:

1. To understand the initiative and life cycle of Startup.
2. To study the awareness about Startups in the light of recent changes in Industry.

IV. RESEARCH METHODOLOGY:

1. Tools: Qualitative & quantitative data.
2. Sample Size: 145 respondents
3. Sampling Method: Random Sampling
4. Respondent Profile: Young and educated males and females.
5. Sampling Place: Delhi & NCR (Indian market) .

V. DATA ANALYSIS & Active Investors in the Indian startup landscape:

The data was analyzed from 145 respondent who are in delhi& NCR (Indian market).We collect data from primary and secondary sources based on data published by YourStory, Planning commission, Assochametc in 2014-16. There are many top investorsHelionVenture Partners was top of the investors list going by the total number of deals made, followed by Sequoia Capital, Blume Ventures, Kalaari Capital, and AccelPartners,MatrixPartners,TigerGlobal,IDGventurs and Softbank etc.

So we can discuss the startup financial life cycle:(Figure No-1)

1.Funding by Angel investors/ Seed funds
• Early stage startups rely on angel investors and seed funding
• Invest solely into the entrepreneur with an idea
• Does not encumber the entrepreneur with any

2. Venture capital
• Used to scale the company's business model
• Comes from larger Institutional funds
• Focus is on building the sales force and establishing a global presence

3. Public markets
• Late stage startups can feel the need to expand more aggressively or actively innovate the product
• Private equity funds together with public markets providelarge amounts of liquidity to

Indian startup industry composition (figure no-2) : Total startups 10,000 (approx):

Startups 4300/5700	**% Share in market 43% /57%**	**New startups annually 800/N.A**

Sector concentration:

- **Technology Based Startupsare :**E-commerce-33%, B2B-24%,Consumer internet -12%,Mobile apps-10%,SaaS-8%, Others-13%.
- **Non-Technology Based Startups are:** Engineering-17%,Construction-13%,Agri products-11%
- Textile-8%,Printing& packaging-8%,Transport & Logistics-6%,Outsourcing & support-5% Others-32% .

The market has witnessed a bit of a shakeup with Tiger Global taking the top spot in 2015 with cumulative investments of $269 million (Ventura Intelligence) in 11 deals, followed by Sequoia Capital with $208 million invested in 14 deals, and Steadview Capital with $107 million with two deals.When it comes to the cities where the startups that got funded were based, Bangalore led with $2.43 billion, followed by New Delhi at $1.43 billion, and Mumbai stood in the third position with $610 million.And if we break it down by sectors, e-commerce unsurprisingly took the biggest piece of the pie with $3.23 billion, followed by the closely related sectors of consumer Internet and mobile apps.With the process of investment and exit becoming smoother due to a combination of factors, the scenario looks promising.According to a KPMG Survey Report for 2015, such strategic opportunities provide fertile grounds for increased acquisition momentum in the near future.

Recent M&A Activity in India

Traxcn, a startup tracking deal-making involving startups, provides some perspective here. In 2014, 43 startups were acquired so far this year the number has been 41, with startups themselves being the most acquisitive of the lot. Of the 41, merely two deals were struck by large corporate, with Godrej and Mahindra & Mahindra as the buyers.This frenzied deal-making does not revolve around just money. By such acquisitions, the young startup brigade is proving to be gutsy, and ambitious with Housing.com being recently in the news for acquiring Realty BI, let’s look at some other M&A deals of this year till now.

- Livspace acquired Dwll.in (a curated online network of interior designers) in its second acquisition deal this year
- Asia’s largest doctor search engine, Practo, acquired Fitho (digital fitness solution)

- MakeMyTrip Limited announced the acquisition of the intuitive travel planner Mygola in April
- Snapdeal acquired FreeCharge to build the most impactful digital commerce ecosystem in India

To broaden the timeline, here is an infographic showing M&A activity over the last 3-4 years:

Sudden Rise: Let's look at some strategic opportunities that motivate buyers:

- Acquisitions are opportunistic and buyers plan to act as soon as the right target became available
- To expand their geographical reach
- For expanding their customer base
- To enter into a new line of business
- Sometimes the buyer is looking for profitable operations and/or gain on exit
- For enhanced intellectual property
- To defend against competition
- To invest in another function in the supply chain

A buyer in India has one or a combination of these reasons as their focus when they go ahead and acquire another venture.

International M&A: Real Meaning and Undesstanding:

Like the best way to understand the future is to understand the past. Similarly an acquisition, whether it is for product extension, service offering or patents, can speak volumes about the company's future strategy.In early 2015, Twitter acquired ZipDial–a mobile marketing and analytics firm based out of Bangalore. ZipDial is a "missed call marketing" platform with an impressive client list including Unilever, Disney, Gillette, Amazon, Facebook, and of course, Twitter.

In a country like India where internet penetration is still very low compared to western counterparts, Twitter is planning to deliver content to a large number of non-internet users through SMS.In January 2014, Facebook had acquired Bangalore-based Little Eye Labs–a startup that made a software tool for analyzing the performance of Android apps. The deal was said to be worth somewhere in the range of $10-15 million. This deal was clearly aimed at taking Facebook's mobile development to the next level. Little Eye Lab's ability to improve Facebook's mobile application has an opportunity to make an impact on more than one billion people who use Facebook.In an acquisition deal rumored to be around INR 50 Crores, Yahoo bought Bookpad last year, a Bangalore based startup that has built an end to end document handling technology for the cloud. This makes sense for Yahoo not only because it is thinking of moving into the document collaboration space to better compete with companies like Microsoft, Google, Box and Dropbox, but it also makes for a good acqui-hire, given the skill set of Bookpad's engineers.

Indian Startup Ecosystem Enablers are:

Startups in India have given rise to more startups. Enablers, accelerators, and incubators are firms providing startups with growth advice and decision-making tools. From advising on government policies to act as market catalysts, they grow the maturity of young ventures.Enablers like NASSCOM and iSpirt bring together key stakeholders of the ecosystem including startup incubators, accelerators, angel investors, venture capitalists, support groups, mentors, and technology corporations.Their main aim is simply to provide funding and support for startups. Here are some examples with a brief history of the work that they have been doing:

NASSCOM 10,000 Startups: NASSCOM has come up with an ambitious initiative called "10,000 Startups", aiming to scale up the startup ecosystem in India by 10x. The program is supported by Microsoft, Google, Intel, Verisign, and Kotak.10,000 Startups aims to enable incubation, funding and support for 10,000 startups in India over the next ten years. The program has been able to successfully impact 150+ technology startups, aiding in the raising of funds, acceptance into acceleration programs, found customers, and on-boarded members through the initiative.

iSPIRT: iSpirt is a think tank dedicated to promote existing Indian software product companies. It is different from NASSCOM, which is a trade body and an industry association. They are now looking at replicating the success of Silicon Valley here in India and is being lead by pioneers.

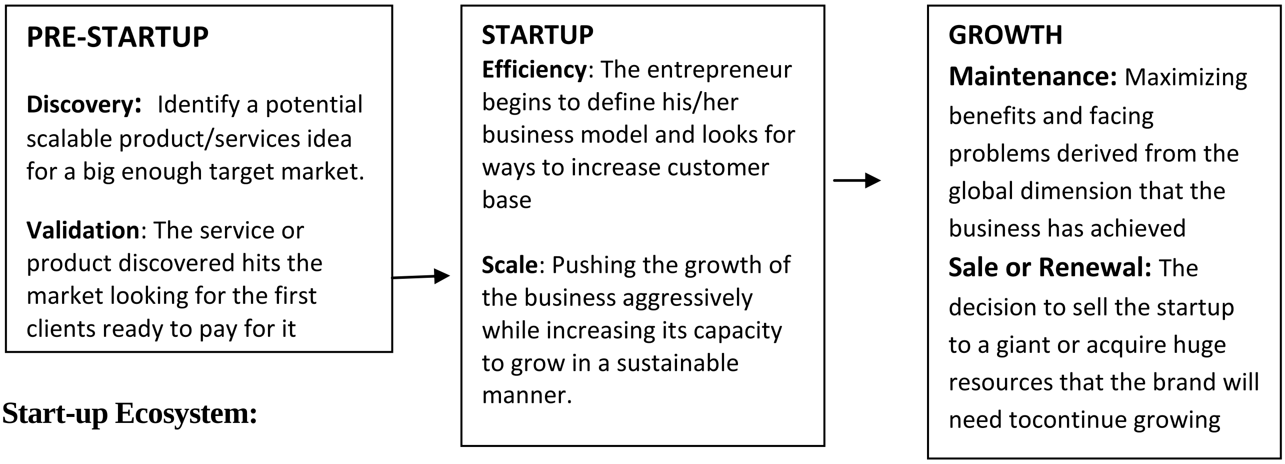
India comparison with other Countries: (Table N0-1)

	India	China	Israel	Singapore	Japan	US
no. ofstartups (~)	**10,000**	**10,000**	**4,750**	**N.A**	**N.A**	**83,000**
Tech-basedstartups	4,300	3,400	4,000	**N.A**	**N.A**	**48,000**
Non-tech basedstartups	5,700	**6,600**	**750**	**N.A**	**N.A**	**34,000**
Set up a newbusiness (Days)	30 – 60	**30**	**13**	**2**	**10**	**4**
Corporate taxrate	**34%**	**25%**	**26%**	17% (100% taxExemption forstartups)	**34%**	**39%**
No. of Taxpayments by businesses (p.a.)	33	9	**TBD**	**TBD**	**TBD**	**11**
Bank lending rate	10.3%	**5.6%**	**3.9%**	**5.4%**	**1.2%**	**3.3%**
R&D spending% of GDP (Est.2014)	0.85%	1.90%	4.20%	n/a	**3.40**	**2.80%**

***Source:WorldBank,Newsarticle’s,Gov sites.**

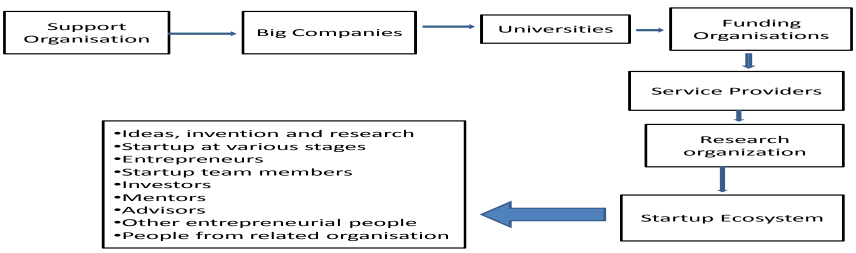
Stages of the Startup lifecycle : (Figure no-3)

There are three stages of startup life cycle pre-startup in that discovery and validation are two important steps after that start-up in that efficiency and scale are two steps then third step is growth in which maintenance and sale or renewal be the important part for development of life cycle of start-up.



Start-up Ecosystem:

Startup ecosystem talk about the a startup business in an organization engages in development, production or distribution of new product, processes or services. They are new and existence for not more than five years and revenue of upto INR 25cr, employing 50 people or less. So these startup grow and develop with support of big companies and universities, and get funds from funding organisation like angel investor, venture capital, public markets. Their main focus areas are service industry so we define all in figure no-4 and Indian startups industry composition in figure no-2, current state of Indian startups in figure no-2.



*Source: Startup India overview(Govt article 2016) Figure No-4

Closing Thoughts

Coming out of their difficult ruts, investors in India as well as abroad are becoming experimental, yet extremely well-informed decision makers. But funding activities still are the biggest driving factors in any startup ecosystem.

- The average valuation of an Indian startup is \$2.3 million as compared to \$4.2 million of an American one.
- 43 percent of product/digital organizations are focusing on the global market and 28 percent continue to be technology hotspots.
- With a 59 percent of B2C, 37 percent of B2B, and 4 percent of B2C/ B2B startups, this ecosystem has a lot of ground to cover in terms of securing funding.

Indian Ecosystem Are best in few points:

- Acqui-Hiring, technology acquisition, market consolidation, and customer acquisition are the main drivers for increase in M&A of Indian startups.
- With increase of momentum in M&A in India, investors are getting more exit opportunities.
- Startups are adopting innovative approaches to attract and retain top talent.

Negative Points in Indian Startup:

- Indian startups are often alleged to be copying foreign startups.
- Often don’t have a proper scaling plan.
- There is a need for directional efforts to help increase supportive government policies (ease of doing business, tax incentives, participation in Government contracts, availability of risk capital, etc.).
- Other Ecosystems Can Learn:
  - Startups consolidating and buying other startups.
  - Successful entrepreneurs coming forward to support other emerging startups by mentoring them through various channels.
  - Young entrepreneurs dominating the startup landscape with over 73 percent of founders in the age bracket of less than 36 years.
  - Women entrepreneurs starting to become more prominent in the innovation economy.

Listing is touted to be the next big frontier. Several companies are preparing for initial share sales, but these will most likely happen overseas and not in India. Predictions made for startups are more in number than the startups themselves. But the interest these few companies are generating cannot be undermined.Majority of the respondents felt that setting up of 10,000 crore startup fund is the best initiative of the government to encourage the flagship program. The respondents felt that an exemption from capital gain tax and a three year tax holiday are the two key responsibilities of the Government.

Respondents felt that tax exemption on incubation and seed funding is critical for Startup India. It is one of the key concerns of entrepreneurs, which the Government is keen to address. Easier exit clause for Startups is critical to the success of the initiative. It provides protection to the risk taking businessperson, who is very concerned about what happens when the business fails.

An overwhelming number of respondents felt that the role of the family and society are of key importance in the new startup regime. There has to be ease of patent filing to encourage those who chose a higher risk path of venturing into startup. Respondents placed high importance of protecting startup ventures. Majority felt the need to get access to bank finance and easy term of credit. It was felt that deprived sections of society and underprivileged should be protected against any possible discrimination. One view emerged that banks and other financial institutions should encourage economically disadvantaged sections to participate in the mainstream.

VI. CONCLUSION

The success of Startup India campaign hinges on initiatives like faster and easier registration of Companies, self-certification for many legal requirements, zero inspection for three years, funding for patents, and speed of patent protection. It is important to add provisions which aid the closure of dead companies within 90 days. Indian lawmakers could do this under the new bankruptcy bill. The central theme is that ease of starting and ending is critical in the context high rate of startup mortality. This research paper found that respondents supported the idea of funding for incubation centers. The Government proposal do so, across Universities, innovation movements, research parks and industry parks is on similar lines. The promise of an initial capital of ten thousand crores over a period of four years from the government is capable of attracting tenfold investment by 2022. Credit guarantee for startup lending is the booster dose required to galvanize Indian industry.

Incentives in the form of tax holiday for three years are a benefit worth considering. It is also apt to considerequating capital gains with the regime in the listed market. Most importantly, foreign exchange regulations are to be in tune with investor needs, so that the best do not register outside India.But in global market lots of challenges on sustainability, technology, regulatory and financial etc.

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