

A Study on Emerging Trends in Startups in India

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ABSTRACT:

Innovation and technology have played a crucial role in developing emerging markets, and strengthening ecosystems worldwide, especially in India. India has a vibrant startup ecosystem with supporting infrastructure, incubators, angel investors, venture capitalists, mentors and a conducive policy environment. The startup India scheme launched in 2016 has completed the 5 year journey in 2021 and remarked India as one of the largest and strongest ecosystem in the world. With over 50,000+ recognized startups by DPIIT (Department for promotion of Industry & Internal trade), India ranks at third-largest startup ecosystem in the world. (Times of India,2022.) The country's startup environment has been expanding quickly. This research paper aims to study the rise of startups in India, that has been fueled by young and talented workforce, government support & funding options provided by the investors. This paper is an attempt to find out the dynamic changes that Startup India campaign has brought to the country. Further, it aims to discover opportunities, gaps & challenges that Startups face during their stages of operation. Since its inception, the journey of startup India campaign has successfully nurtured a large number of startup firms in the country, and has enabled thousands of youth to be employed & fulfill their dreams of building a startup. Focusing on this notion, the paper tries to find out the opportunities and challenges that startups are facing in the present scenario.

Keywords: Startup ecosystem, Startup culture, Entrepreneurship, Innovation & technology, Government support.

I. INTRODUCTION

Startup venture is defined as new businesses that are in their initial stages of operation, striving to grow and are typically financed by individual investors or capitalists. According to DPIIT (Department for promotion of industry and internal trade), 'An entity will be recognised as a startup for up to 10 years of existence and up to Rs 100 crore of turnover. Earlier, the existence period was five years and the turnover limit was Rs 25 crore'.

The Indian startup ecosystem has evolved dynamically over the last few decades. The **Start up India campaign**, which is a flagship initiative of government of India was launched in 2015 by our Prime Minister Shri. Narendra Modi, to catalyze the start up culture and build strong entrepreneurial ecosystem in the country. There have been multiple factors, that urged an entrepreneur to get their startups off the ground and begin their operations. Also, the Indian startups face its own set of challenges and stellar

opportunities. The failure may occur due to cultural diversity, improper mentoring, lack of government policies and many more complexities. Alone in 2021, India has minted 44 Unicorns and Indian startups have raised \$42 billion.(Economic Times 2022). India has one of the largest startup ecosystems in the world with a **rank of three**. India had surpassed a historic milestone of 100 unicorn startups with a combined worth of \$300billion. (Byjus 2022).

India’s startup ecosystem has been on a rapid growth trajectory in recent years with a strong focus on technology and ecommerce. Along with government initiatives, there is a definite movement in startup arena in India due to penetration of IT and internet. Many startups are coming up in service sector including education, legal, retail, insurance and health. With customers becoming aware of the benefits and convenience, the popularity and viability of startups is no more a difficult proposition for an entrepreneur. A number of venture capitalists and angel investors are aggressive and gung-ho on Indian startups as they see lot of potential with few expected to become unicorns (high valued companies) bringing in good returns. The government has launched a number of initiatives to promote startups across the country as a part of Startup India Initiative such as Startup India Action Plan, The Funds of Fund for Startups, regulatory reforms, Income Tax exemption for 3 years, the Startup India seed fund scheme etc. The role of government becomes very important in developing the necessary infrastructure and support to foster the startup ecosystem. India needs to build upon low cost and high-impact solutions, although there has been a rise in angel and venture capital funding, it becomes crucial that the ecosystem is well integrated to connect startups to fund houses and to other stakeholders.

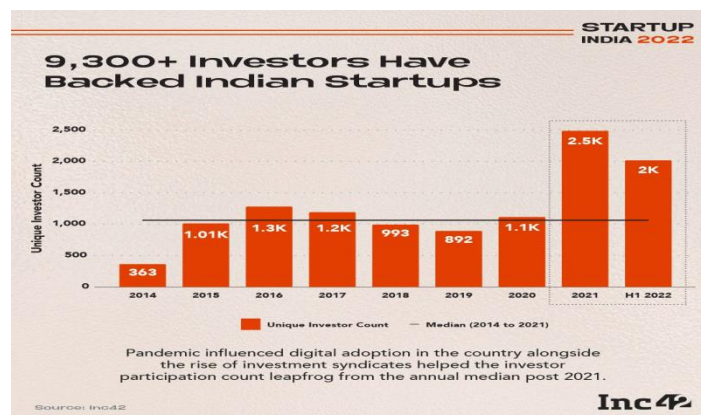


Fig 1. Data showing the rise in the number of Indian startups

II. REVIEW OF LITERATURE

(Baporikar, 2014) in her research paper “youth entrepreneurship in Indian scenario” discusses about the role of youth entrepreneurship with a focus on Indian scenario by integrating it to several other factors such as business models for YE, barriers affecting YE and its impact on reducing unemployment. (Kshetri & Kshetri, 2016) in their research article “Fostering startup ecosystem in India” have mentioned out the factors and consequences responsible for fostering the growth of startup ecosystem in India. The research paper explains the determinants of entrepreneurship factors that affect entrepreneurial performance in terms of a) Regulatory framework, b) Values, culture and skills, c) Access to finance, market, R&D and technology. (Andaleeb & Singh, 2016) in their research report titled as “A study of Financing Sources for Start-up Companies in India” have described the stages of startups and modes of financing available to startups at each stage. The stages through which a startup has to pass consists of 6 phases of investment;

Self Funding or Bootstrapping, Friends and Family, Seed, Growth (also known as the ‘Early Stage’) and Expansion. (Adhana, 2016) in his research paper “ Start-Up India, Stand-Up India: India Turning into a Start-Up Hub by Prospering Entrepreneurial Culture” clearly explains the startup ecosystem in Indian scenario. The entrepreneurial culture, the funding sources, types of investors and reasons of success and failures of startups have also been stated. (Manshani & Dubey, 2017) have conducted the research study on Women entrepreneurs in India and have concluded several factors that promotes & encourages women empowerment in entrepreneurial development. (Jha, 2018) in her research article “Entrepreneurial ecosystem in India- Taking stock and looking ahead” had stated the role of education & training and other socio-cultural issues responsible for building the startup ecosystem in India. (Kalyanasundaram et al., 2021) in their paper titled ‘Tech Startup Failure in India: Do Lifecycle Stages Matter?’ have determined the causal factors and attributes which causes the failure of tech startup , against the successful ones.(Chillakuri et al., 2020) in their research article ‘Linking sustainable development to startup ecosystem in India - a conceptual framework’ have provided the conceptual framework for linking the startup ecosystem to environmental sustainability. They have stated that sustainability is not just about reducing carbon emissions, but is a fundamental principle that guides the organization and society. (Garg & Gupta, 2021) in their research work titled as ‘startups and the growing entrepreneurial ecosystem’ have discussed about the role of startups in enhancing the economic growth, role of incubators in developing these startups and the importance of Intellectual Property(IP) protection and different stages of series funding for startups.

ECONOMIC SURVEY REPORT (2022) remarked India as third-largest startup ecosystem in the world. The survey highlights the record of overall 83 Indian startups to achieve the unicorn status in 2021 alongwith the string of IPOs by the new-age companies. With its enhanced status, India is now a global leader in addressing global challenges and advancing the sustainable development goals.

(*Indian Startup Ecosystem- Challenges and Opportunities - Google Scholar, n.d.*) in their research article ‘**Indian Startup Ecosystem- Challenges and Opportunities**’ had discussed about the various set of problems as well as possibilities that may arise in the future. The article provides a clear picture of various set of difficulties and opportunities that startups go through during their stages of operation.

MYGOV BLOG (2022) A REPORT ON ‘STARTUP INDIA WHAT IT MEANS FOR YOUTH’- have provided that Indians minds are playing a pivotal role in the global landscape of startups and how the young entrepreneurs are working towards the vision of making a self-reliant India. The reports also describes the importance of startup India scheme in nurturing the youth by unleashing their active engagement in making of Aatmanirbhar citizens.

STARTUP INDIA WAY AHEAD (2022) an annual report published by Ministry of commerce & Industry, Department for promotion of Industry & Internal Trade (DPIIT), discusses about the journey of Indian startups since 2016 to present, and how the Startup India Action Plan 2016, has fueled the startup movement in India , making India self reliant and self sufficient.

III. RESEARCH OBJECTIVES

1. To study about the current status of startup ecosystem in India.
2. To understand the government schemes that support startups in India.
3. To identify the issues and challenges relating to success & failures of startups in India.

IV. SIGNIFICANCE OF THE STUDY

The aim of this research is to provide a comprehensive understanding of the growth drivers as well as challenges faced by the Indian Startups in the current scenario. The research study also describes the support from various government schemes that have been primarily focussing on growth and socio-economic development of the nation through innovation and transformation. This research work further investigates the opportunities and challenges associated with success or failure of Indian Startups.

V. RESEARCH METHODOLOGY

This research study is purely based on secondary data. Secondary data sources comprises of data collected from journals, magazines, news articles, authenticated websites, newsletter and annual reports from Ministry of commerce & industry, Department for Promotion of Industry and Internal Trade (DPIIT) and from other sources found suitable. The study is descriptive and conceptual in nature.

5.1 Source of Data

For the present study, secondary data has been collected through different sources. Website www.startupindia.gov.in has been referred for accomplishing the research objective. Annual status reports from the department for promotion of industry and internal trade (DPIIT) has been alluded to describe the journey of startups in India since the startup India campaign have launched. Press release from PIB and several government blog has also been the fundamental part of the research study.

5.2 Theoretical Framework

GROWTH OF STARTUPS IN INDIA

India is growing undeniably, and so is the startup scenario in India. Government of India has declared period from 2010-2020 as the decade of innovation. Over the past few years, lot of new and encouraging startup stories have garnered much deserved attention.

The story of Indian startup ecosystem are everywhere, be it the payment services like Paytm, PhonePe, or educational techs like Unacademy, Byju's, Physics Wallah, or food tech startups like, Zomato, Swiggy or a bit unconventional ones, we come face to face with these startups for our day to day needs.

The key sectors in the Startup Ecosystem are-

- **E-COMMERCE**- shows CAGR of 27% between 2019-2024. Popular startups in this sector are Flipkart, Nykaa, Snapdeal etc.
- **HEALTH-TECH**- growth rate 39 %. Popular startups in this sector are Pharmeasy, CureFit, Mfine etc.
- **FIN-TECH** shows potential to reach \$106billion approx 42% by 2025. Popular startups here are PayTm, PolicyBazaar, PhonePe etc.
- **ED-TECH** potential to reach \$30billion around 34% in next 10 years. Popular startups in this field are Unacademy, Physics Wallah, Byju's, Vedantu etc.
- **LOGISTICS**- having potential to grow by 10.4% from 2020-2024. Startups in this area are Delhivery, Blinkit, Ekart etc.
- **TRAVEL-TECH** potential to reach \$30billion, around 26% in next 10 years. Popular startups in this field are Gilbibo, MakeMyTrip, Yatra, OYO etc.

[source – Inc42]

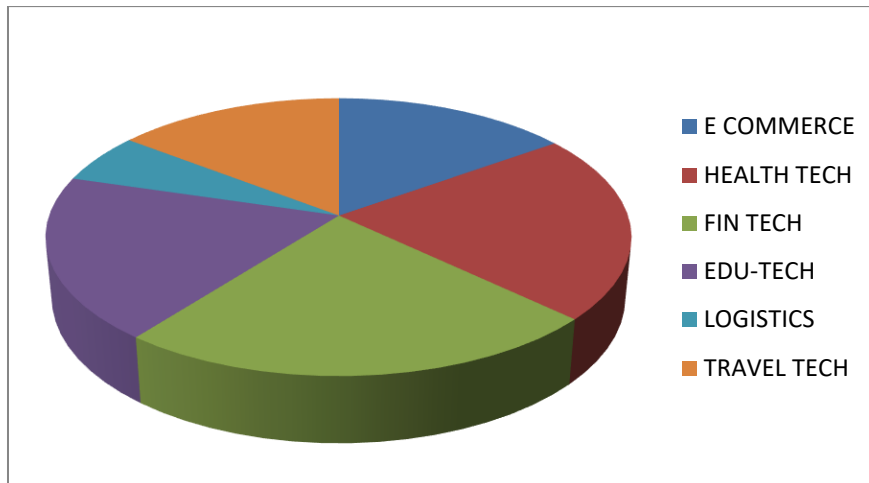


Fig 2- Chart representing the growth of start-ups in potential sectors.

GOVERNMENT SCHEMES SUPPORTING STARTUPS IN INDIA

STARTUP INDIA ACTION PLAN

- Launched in 2016, by Hon’ble PM Shri Narendra Modi for encouraging startups in India.
- Funding support through fund of funds with a corpus of Rs.10,000 crores.
- Entrepreneurs should register their companies in one day, against 15-20days as row.
- No tax on profit inspection for 3 years.
- Capital gain exemption
- No capital gain if the profit is invested in another startup entity.
- Benefit of Credit Guarantee scheme.
- Faster and easy Exit policy.
- Setting up of Startup India Hub for clearance.
- Convenient & easy application for registration.
- Relaxed norms of public procurement for startups.
- Legal support & fast tracking patent examination at lower costs.
- Setting up of research parks & much more.

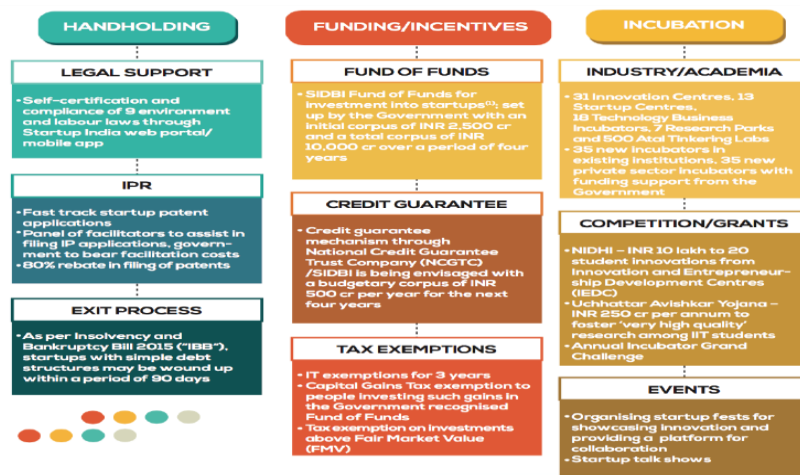


Fig 3- Startup India action plan layout at different stages of operation.

STARTUP INDIA SEED FUND SCHEME

- Aims to build a robust Startup ecosystem in the country for nurturing innovation and providing opportunities to budding entrepreneurs.
- DPIIT created Startup India Seed Fund Scheme (SISFS) with an outlay of Rs. 945 crores to provide financial assistance to Startups.
- Assistance for proof of concept, prototype development, product trials, market entry and commercialization.
- Seed fund is disbursed to eligible Startups through eligible incubators across India.

ATAL INNOVATION MISSION (AIM)

- AIM provides a platform for the promotion of world class innovation Hubs, Grand Challenges, sectoral focus, other Self-employment and talent initiatives.
- Provides for establishment of Atal Tinkering labs, innovation Centers, Incubation Centers and Atal Innovation Community clusters.
- 14,916 schools across the country have been selected for Atal Tinkering Laboratories.
- 4,875 schools have received Rs.12 lakhs grant each and are operational.
- AIM has selected 86 incubators across the country, to provide financial support through grants in aid and that has already been disbursed.

SAMRIDH SCHEME [STARTUP ACCELERATOR OF MeitY FOR PRODUCT INNOVATION, DEVELOPMENT AND GROWTH]

- SAMRIDH scheme helps Startups to access Indian market and scales their products for global market.
- Scheme was launched by Ministry of Electronics & Information Technology to boost independent software vendors.
- SAMRIDH mainly focuses on integrating all the incubators and accelerators and giving them direct assistance.
- Financial assistance upto Rs. 40 lakhs for Startups under this scheme.
- Builds a meet up point for venture capitalists, entrepreneurs and mentors.
- Also provides hand-holding support to product Startups in the form of technical, regulatory, financial and market access mentoring.

eBiz PORTAL

- first online forum for government-to-business collaboration (G2B), which has been launched to modernise the nation and provide a welcoming environment for businesses.
- Launched by Ministry of Commerce and Industry, developed by Infosys, is a public-private partnership model to provide a one-stop shop for investors and business communities in India.

CHALLENGES FACED BY INDIAN STARTUPS

A survey of Indian executives conducted by the IBM Institute for Business Values and Oxford Economics revealed that despite India's flourishing entrepreneurial culture, over 90% of startups do not survive beyond their first five years of operation. The Startups in India encounter a number of challenges, including a shortage of experienced staff, bureaucratic roadblocks, and fierce rivalry from established

companies. Due to unclear regulations, poor infrastructure, and problems scaling up operations, startups confront substantial difficulties. Despite these barriers, India's startup ecosystem is still growing, and various government efforts are designed to promote and assist entrepreneurship in the country.

- **Lack of funding** - Indian startups usually struggle to secure investment due to a lack of access to funds. . It's common for startup ecosystems to experience waves of shutdowns after periods of intense funding activity. Venture capital firms typically target established startups, making it challenging for early-stage companies to get the financing support. **ConnectedH**, a full stack B2B health tech startup founded in 2018 by Shubham Gupta, Rahul Kumar and Suresh Singh shut down in July,2023 due to lack of financing stating that it would return the remaining amount to the investors. Similarly, Qin1 a Noida-based ed-tech startup ceased its operations, owing to a need for more funding In India, it is also difficult for investors to lend money to new firms because of the significant risk associated with doing so and the restrictions brought on by regulations.
- **Knowledge and skill gaps**- lack of knowledge can lead to unavoidable mistakes that could affect the cost of businesses, so requirement of proper skill & knowledge while commencing a startup business is a pre-requisite condition.
- **Ineffective marketing** – The number one reason why most startups fail is due to misinterpreting market demand. 34% of startups fall in this category of not achieving product-market fit.[Startup talky,2023]
- **Time management and productivity**- Mastering the art of time management is crucial for achieving success. Entrepreneurs have to own every part of their business, as good time management will allow them to accomplish bigger results.
- **Regulatory environment**- Startups often face regulatory complexities and bureaucratic red tape in India. Complying with various legal & regulatory requirements, obtaining licenses, dealing with taxation and navigating the complex business environment can be time-consuming and costly.
- **Lack of mentorship & guidance** – many Startups lack access to experienced mentors and industry experts who can provide the adequate guidance and support. The absence of a robust mentorship ecosystem can make it challenging for Startups to survive at early stages.

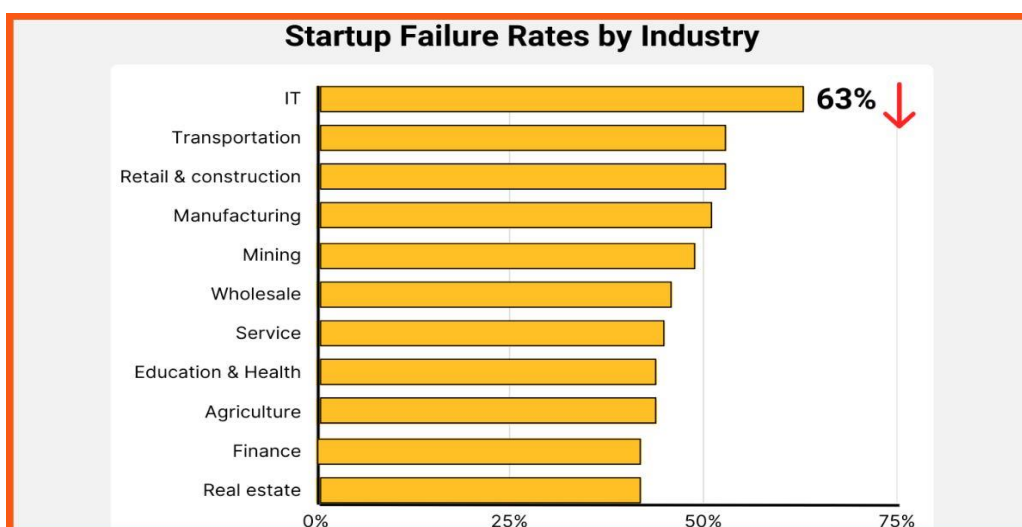


Fig.4 The chart represents the sector-wise failure percentage of startups in India.

- **Infrastructural limitations**- inadequate physical and digital infrastructure can pose several challenges for Indian Startups. Non-Access to reliable internet connectivity, logistics and

transportation systems and other support services can hinder the scalability and operational efficiency of Startups.

The above data shows that IT sector has most failed start-ups in 2023, around 63%. High infrastructure costs, constantly evolving technological costs etc have been the main cause for failure. Despite these challenges, Indian startups have also shown tremendous resilience and innovation. The Indian government and various organizations have taken initiatives to address these challenges and promote the growth of the startup ecosystem in the country.

VI. LIMITATIONS OF THE STUDY

The limitation of this study is that it is a detailed conceptual analysis about startup India ecosystem based on secondary data. More Research can be done about its prospects and benefits of startup to entrepreneurs by using primary data and other statistical tools.

VII. CONCLUSION

Indian Startups are now spread across the length and breadth of the country. It is pertinent that the Startup ecosystem is well integrated to connect startups to fund houses and various stakeholders. Startups in India face a variety of obstacles, including regulatory obstacles, inadequate infrastructure, and a lack of market knowledge. Successful businesses have shown that proactive measures can overcome these challenges, such as performing in-depth research, building strong relationships with stakeholders, utilising technology, and asking for mentorship and advice from seasoned business owners. Due to a growing market and a thriving ecosystem, Indian startups have the opportunity to be highly successful and to aid in the country's economic growth. However, to thrive in this ecosystem, Startups need to focus on key areas such as market research, building a strong team, fostering innovation, leveraging technology, forming strategic partnerships, and adopting a customer centric approach. It is also crucial to stay updated on government support and initiatives that can provide valuable resources and funding.

VIII. AUTHOR'S BIOGRAPHY

I am Pragati Gupta, pursuing PhD program in Faculty of Commerce at Central University of Allahabad, Prayagraj. I have qualified the UGC net exam twice and have been awarded with JUNIOR RESEARCH fellowship(JRF). My awards and achievements also includes CHANCELLOR'S GOLD MEDAL for acquiring the first position in the overall graduation. My research domain lies in financial management, marketing management and allied areas. I look forward to contribute more of my knowledge and skills in good academic writings.

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