

## STARTUPS LEADS TO SUCCESS: GROWTH & TRENDS IN INDIAN STARTUP COMPANIES

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### Abstract

India is a country having a second largest population and youngest people in the world. More number of youth has more potential and innovative ideas to generate income by starting a new business. Startup itself represents synonym of innovativeness where Indian youth create values to the new ideas by using their skills and knowledge. Startup gives opportunities for employment which results into economic growth. India is a nation with large customer base and resources and these can use wisely by promoters but as India is a developing country, there are many difficulties & issues faced by startup companies. Generally, startups have shortage or lack of own funds in different stages of company life cycle. This research paper presents growth and trends of Indian startup companies in last 3 years. The study is purely based on secondary data where data collected from annual startup reports, magazines, journals, websites and articles. The prime objective of the research is to analyze overall funding pattern and growth of startup companies and startup deals done in different stages; these stages are growth stage, late stage, and seed stage. The research includes sector wise analysis where Fintech and Ecommerce industry leads in 2019. This research has found that some of the big cities in India like Bangalore, Pune, Chennai etc have recorded highest growth and share by using upgraded and latest technologies. The paper gives evaluation of startup funds provided by financial institutions and government supports. Findings will help startup companies to see the futuristic approach and development.

**Keywords:** Indian Startups, Growth and Trends, Youth, Innovation, Startup Capital, Financial support

### Introduction

#### What is a Startup?

As per the Department of Promotion of Industry and Internal Trade, an entity is a startup:

1. Till up to 10 years from its incorporation/registration date.
2. If the entity's turnover for any of the financial year since its incorporation has not exceeded Rs.100 crore.

- The Startup should work towards innovation, development and improvement of product or a scalable business model

with a high potential of employment or wealth generation.

- A firm is not a startup if it is created by splitting or reconstructing an existing unit.

Generally, Startup companies start with a small business or partnership by designing a viable business model. Startup companies centralize mainly innovation, development of new product/services or an unusual way for distribution. Nowadays, they use technology in production, communication or any market research. Technology-based companies are mostly

located in urban areas where they can get easy access and demand. India is a nation with natural resources and skilled labour with a large customer base. If startup products/services are accepted by consumers then there is a long way for them to build revenue, provide jobs and ultimately it results in more GDP and economic growth of the nation.

### **Startups in india**

India is the 3rd largest startup ecosystem in the world with 38750 recognized startups by Department for Promotion of Internal Trade and Industry. India has 32 unicorns (startup with more than \$1 bn value). The current median age of founder entrepreneurs is only 31 years and the participation of women is increasing in this decade. These startups are generating 12 jobs on an average that leads to better growth of the economy. Around 36 regulations simplified for the startup ecosystem.

Startup India is a great initiative of the government of India. It launched in 2016 with the objectives of supporting entrepreneurs and the transformation of India from job seekers to job creators. Startup India program where to find how this program helping and guiding entrepreneurs to start something new with an innovative idea and difficulties faced by them during initiation. Along with this the Indian government set up a National Startup Advisory Council to create a powerful ecosystem that promotes innovation and provide awards to encourage them.

From Ola to Zomato, Delhivery to Policybazar and Byju's to paytm, many startups growing their revenue and

privilege in the market with innovative ideas. Apart from this successful startups there are almost 90% startups fail each year due to lack of funds or failure in providing and knowing customer needed products. For instance, Dodhwala, Aditya Birla Idea Payments bank, Doctalk and many others. Around 8% startups get funds for their development in India.

### **Startup funding stages**

- **Pre-seed Funding** - It is also known as bootstrapping. Here startup owners use their resources or take from family and friends for a plan of product launch, to test the market or to check the feasibility of idea into product/service.

- **Seed Funding** - To launch the product, for employee recruitment, or development of the product for market Angel Investors, Micro Venture Capitalist or Crowd Funding used for this stage.

- **Series A** - It includes \$10M to \$30M for further development of product/service and customer base with regular income flow. This stage allows building different segment in the market. It comes from angel investors or venture capital firms.

- **Series B** - Here startups already themselves by generating steady revenue in the earlier period. So this stage enables them to meet new demand, increase market share, and build a strong team to compete in the market. Large venture capitalists give value \$30M to \$60M.

- **Series C and beyond** - Banks, private equity funds and late-stage venture capitalists provide funds from \$100M to \$120M for expansion, increase market share by building new products or even acquire weak startups.

• **IPO** - This is the process to offer a firm share to the general public for the first time. Here the firm can generate more funds by second offering. The firms who have proper and stable financial statements and having positive market sentiments, they are going to this stage because it has some legality as well.

### **Problem statement**

During the emergence of startup phenomena in India, it was a new term but now it brings innovativeness and unique ideas into real worlds to achieve success. The literature review indicated that around 80% of the startups fail due to lack of initial funds and proper guidance. Therefore, this paper aims to study the trends in funding received and growth achieved by Indian startup firms.

### **Objectives of the study**

- To study the growth of the financial condition of Indian startup companies
- To find the challenges faced by Indian Startups

### **Hypothesis**

H<sub>0</sub>: There is no significant relationship between the stages of funding and its level of development in Indian Startup Companies.

H<sub>1</sub>: There is significant relationship between the stages of funding and its level of development in Indian Startup Companies

### **Literature review**

**1. A Study of Financing Sources for Start-up Companies in India (Blessy A. Varghese, 2019)**

The researcher found some of the challenges that are faced by Indian startups. Those issues are a failure in the initial phase, lack of guidance, mentorship and industry knowledge, behavior of consumer varies from one place to other, untrained employees for handling critical customer handling and, lack of proper information and financial and legal issues.

**2. Growth Pattern and Trends in Startup Funding in INDIA (Mahesh Kumar, 2019)**

They found that maximum funding was received in the expansion stage. Bridge funding is becoming more prevalent, almost 10% of all deals. They also write after surviving the first experimental phase, the startup gain courage to find financial support from other funding ways. They have tested the association between the professional qualification of startup promoters and stages of funding, found to be not significant.

**3. Start Ups; Let's Start Them Up – An Inside View in the Indian Start Up Scenario (Dr. C Shekhar Upadhyay & Dr. Priyanka Rawal, 2017)**

Indian startups playing important and more prominent role having a great environment as it stands 3rd in the world. There is a reason to celebrate is, young entrepreneurs have the passion to do innovative. Indian startups are trusted worldwide as they received huge funding globally also. But in contrary, they face issues in funds of government assistance. Still, the government tries to create confidence by creating the culture and helping in improving skills. If efforts of incubation centres and acceleration centres are realized fully then there will be growth.

#### **4. Challenges and Issues Faced by Startup Companies in India (Sarika Sharma, Mrinal Raj & Tanya Gandhi, 2019)**

That research is based on primary data. Government is trying to provide many facilities to enrich startups still there is a lot of work to perform. Startups are facing many issues in marketing like competition, media, branding and persuade customers, where in finance problems of quality products with low cost, pricing, budget allocation, working capital and other funds with payment problem. Technology, infrastructure, skills, regulations and knowledge are other issues faced by companies.

#### **5. Understanding the Financing Challenges Faced By Startups in India (Omid Sharifi & Bentolhoda Karbalaei Hossein, 2015)**

Startups have a dream to succeed and have faith to develop but it takes time, energy and effort. The major entity is funding and in the initial stages, it becomes harder to get funds from banks and convince an investor. Technology-based and innovative endeavors hold more funds in this era.

#### **Research methodology**

**Research Design** – Analytical Research is used for this study.

**Sample of the Study** - All the Indian startups which are registered in the Ministry of Corporate Affairs between 2017 to 2019 and working in India are considered here.

**Method of Data Collection** - The research is based on secondary data which collected through annual reports of startups, articles, websites, government reports, research papers etc.

#### **Challenges faced by indian startups**

**Regional Imbalance** - India is a widely diverse country with its culture, traditions, languages, religions and habits. Due to this, understanding of customers bound in a specific region.

**Lack of Digitalization** - Around 70% of the population lives in rural areas where the mass market does not have digital access and knowledge that discourage startups.

**Funding Issue** - In the initial period, entrepreneurs face the funding difficulty and in a later stage for working capital. Lack of funds on time plays a critical role in the development of startups.

**Skills** - To join in a Startup company as an employee require skills and real market knowledge. There is a gap between technical and interpersonal skills and academic learning.

**Complexity in Regulation** - Indian government is trying to make ease environment but still, the framework of laws are unpredictable and difficult to follow.

#### **Data analysis and interpretation**

It is observed that in these 3 years in 2017 the total number of deals (885) and funds (\$13.5bn) are highest. Whereas due to worldwide economic slowdown in 2018, deals & funds declined. In 2019, 766 deals were struck and \$12.7bn total funding rose with positive growth concerning the previous year.

The p-value = 0 is less than chosen significant level (0.05), the null hypothesis is rejected, therefore, it is concluded that

there is significance between the stages of funding and it's level of development in Indian Startup Companies.

### **Findings**

- Bengaluru, Mumbai and Delhi NCR are included in the "Elite Global Startup Hubs".
- Indian economy after covid-19 pandemic slowly recovering and purchasing power is also increasing so there are chances to the growth of upper or high-income consumers that will bring opportunity to new startups.
- In 2020, Edtech and Healthtech sectors improve significantly as per need of customers and opportunity.
- India having a youth population that is the benefit of the industries to give creative and innovative products or services with more chances to acceptance.
- With the startup India initiative, the government creates favorable circumstances to new entrepreneurs by providing better connectivity, infrastructure, credits and market access.
- Use of Technology can become a competency in rural areas. For example, FIA Global provides banking services using AI in rural areas with 26000 agents. Even in this pandemic many startups provide prescriptions and deliver medicines online.
- There is an issue of cyber security for startups because they are not concerning that much on security and criminals know the loophole, for instance, Big Basket.
- A total number of deals and funds are decreased than 2017 at 885 to 766 deals and \$13.5bn to \$12.7bn.

- In the stage-wise funding, seed-stage has great improvement where growth stage and late-stage are shown around 50% fall.
- Fintech and Ecommerce sectors indicated progress where Enterprisetech, Consumer Service, Deeptech displayed down trend.

### **Conclusion**

Currently, India is noticing a progressive situation in the Indian entrepreneurship environment. However, the Indian government has to play a significant role in placing India as the tech hub in the world. New Education Policy focuses on promoting vocational education in partnership with companies that may bring new enhancement into Indian youth later on it will reflect in economic growth. The government should also try to encourage digital education. As there is Fintech is large sector having startups, but still, there is a requirement to the Agricultural Startups because a majority of the people are directly or indirectly related to this sector.

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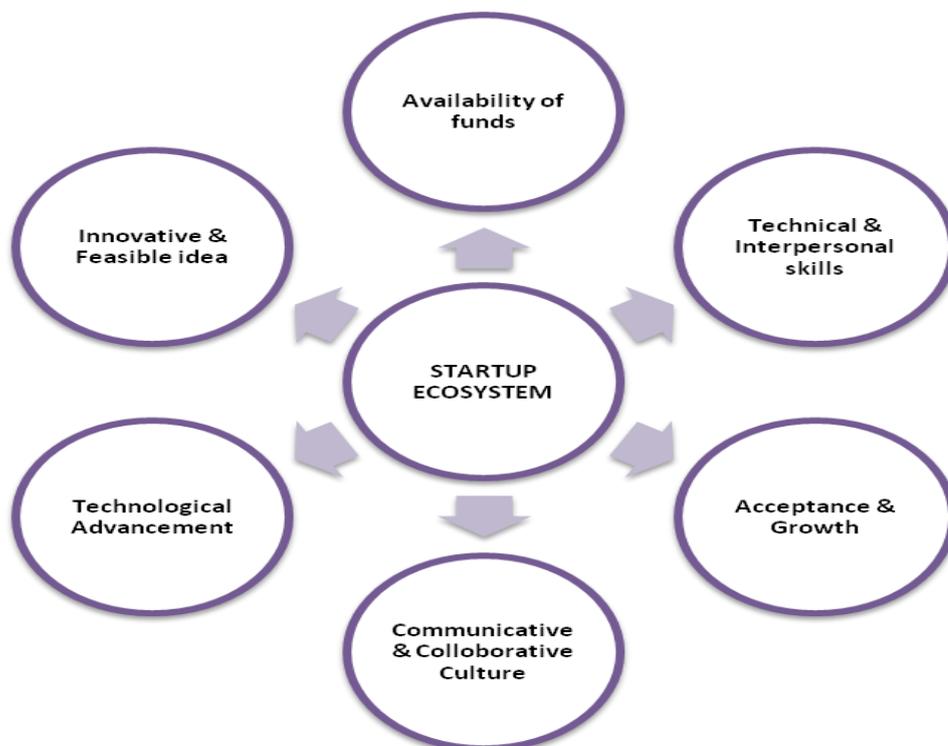
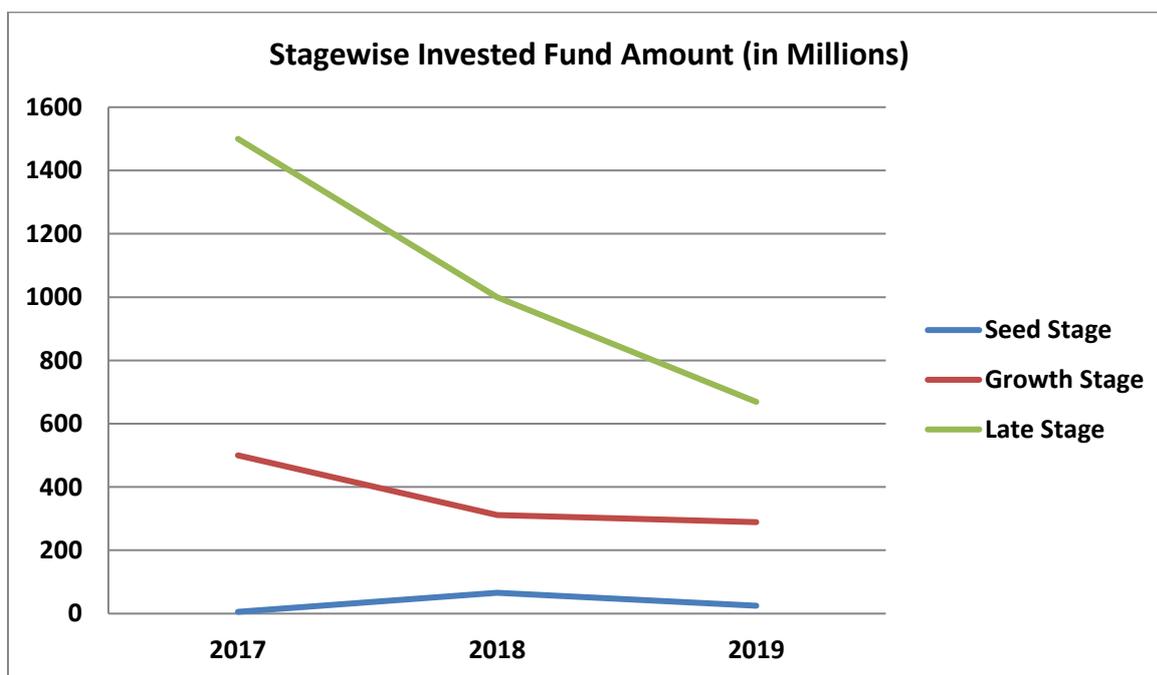


Table 1 – Total Deals and Funds in Last 3 Years

Year	Total Number Of Deals	Total Funding Raised
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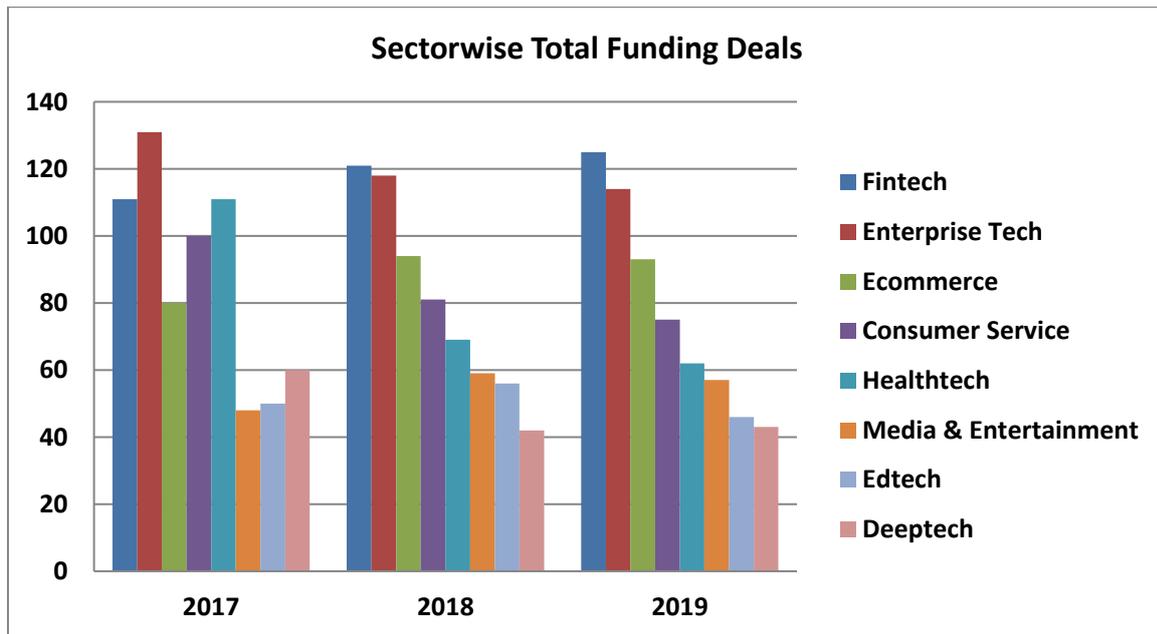
<b>2019</b>	<b>766</b>	<b>\$12.7bn</b>
<b>2018</b>	<b>743</b>	<b>\$11bn</b>
<b>2017</b>	<b>885</b>	<b>\$13.5bn</b>

Chart 1 – Stage wise Investment Amount in Last 3 Years



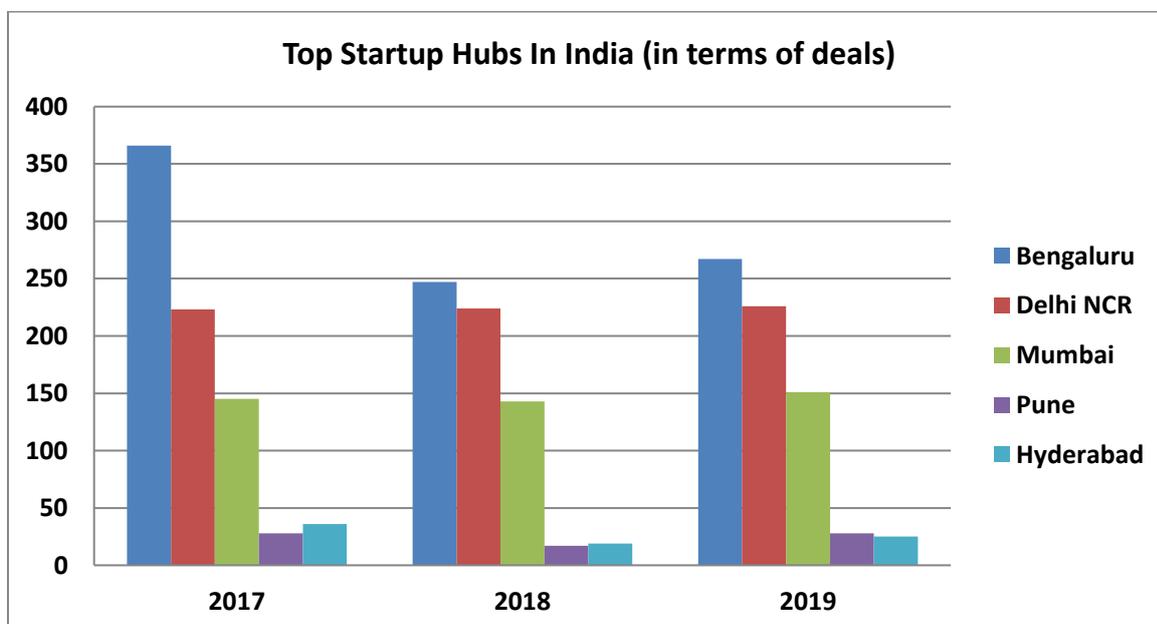
The data presented in the chart indicated that late-stage funding is highest in amount but worsened than 2018 and 2017. Late-stage funding going down 55% between 2017 to 2019, same things goes to growth stage also declined by 44%. Where seed-stage funding have more improvement (around 5 times) than in 2017. If the calculation of total allocation in 2017 is a good year then now.

Chart 2 – Sector wise Funding Deals in Last 3 Years



An insight into the data contained in the chart revealed that Fintech is growing by 12% from 2017 with highest deals 125, whereas the Ecommerce and Media & Entertainment sector growing respectively 16% and 18% with 114 and 57 deals in 2019. Some of the sectors are going down year by year like Enterprise Tech (decreasing 13%), Consumer Service (decreasing 25%), Healthtech (decreasing 45%), Edtech (decreasing 8%) and Deeptech (decreasing 29%).

Chart 3 – Top Startup Hubs In India



From the above chart, Bengaluru is the leading hub for startups in India, but if the comparison of deals between 2017 to 2019 it is going down 28%. Bengaluru has locational advantage because there are many engineering colleges and other institutions that bring talent pool. Delhi NCR is the second-largest hub in India with consistent deals. Mumbai is the business centre in India; in 2019 with 151 deals it contended 4% growth. Then Pune has the same flow as 2017, while Hyderabad has declined its deals by 31%.

### Hypothesis testing

Table 2 – Result of Chi Square test

		Stages of funding
Development	Chi Square	84.84
	Degree of Freedom	4
	Degree of Significance	9.49