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CHALLENGES FACED BY START-UPS IN INDIA

Dr. Neelam Maurya
Assistant Professor, Department of Commerce, Government P.G. College, Uttar Pradesh.

Abstract
This paper is intent to explore the main difficulties faced by start-ups in India, and discuss the financing resources of start-ups in India by utilising a literature-predicated analysis. India is a country in South Asia. Despite the influx of venture capital funds into the commencement up the ecosystem, many companies struggle to survive the competition and may eventually be coerced to cease the operation of operations. This research aims to investigate the challenges of financing start-ups in India. In recent years the self-employment consciousness among college students are incrementing and the students are less liable to rely on parents or schools or wait for opportunities. Sizably voluminous population implicatively insinuates a colossal potential market in India; however, it withal leads to heftily ponderous employment pressure in Indian society. This campaign is particularly based on enhancing the bank financing for the start-ups to encourage the entrepreneurship and job availability. Hence, it is paramount to understand the factors that are averting magnification and sustainability of start-ups in the country. The basic purpose of this article is to put some light on the start-ups and the initiative taken by the Indian government.

Keywords: Start-ups; Financing; SMEs; Venture Capital; Graduates Entrepreneurship.

Introduction
India is a country of many great legends who were famous all over the world because of their works, incisive mind and high adeptness. However, our country is still on the developing track because of the lack of some solid support and ways to work in right direction. Youths in India are very attitudinal, highly adept and full of innovative conceptions. This scheme is the colossal avail to them to go in right direction utilising their incipient and innovative conceptions. A commencement-up company or start-up or start-up is a puerile company that is just beginning to develop. Start-ups are conventionally diminutive and initially financed and operated by a handful of founders or one individual. These companies offer a product or accommodation that is not currently being offered elsewhere in the market, or that the progenitors believe are being offered in an inferior manner. In the early stages, start-up companies' expenses incline to exceed their revenues as they work on developing, testing and marketing their conception. As such, they often require financing. Start-ups may be funded by traditional minute business loans from banks or credit accumulations, by regime-sponsored Diminutive Business Administration loans from local banks, or by grants from non-profit organisations and verbalise regimes. Paul Graham says that "A start up is a company designed to grow fast. Being newly founded does not in itself make a company a start-up. Nor is it necessary for a start up to work on technology, or take venture funding, or have some sort of "exit". The only essential thing is growth. Everything else we associate with start-ups follows from growth."The main objective of the Government is to reduce the load on the start-ups hence allowing them to concentrate fully on their business and keeping the low cost of adherence. Even sometimes the crisis becomes the opportunity and it gives birth to the start-ups. On the other hand other people take that idea as an opportunity and mobilise into reality. Many times we have seen that we have an idea but we do not dare to initiate it or we do not find it worthy. An idea can be converted into a start-up.

Objectives of the Study
This paper is intent to explore the main difficulties facing start-ups in India, and discussing the principle financing resources of start-ups in India. More specifically, this paper tries to analyse challenges of Indian financing start-ups.
1. To study the reasons for starting a business;
2. To study the influence of government cooperation:
3. To study the various policies, programs, and agencies involved in enhancing the start-ups;
4. To analyse the important problems faced by the start-ups.

Research Methodology
The study is based on the secondary data which has been collected through websites, newspapers, magazines, government reports, books, research papers etc.

Start-up India Stand-up India Campaign
An incipient campaign denominated as Start-up India, Stand-up India was promulgated by the Prime Minister Narendra Modi during his verbalization on Independence Day 2015. This is an efficacious scheme launched on 16th of January 2016 by the Modi regime to avail youths of the country. This is an initiative by the Indian PM to give opportunities to the youths to become industrialists and entrepreneurs which need the establishment of a commencement-up network. Start-ups betoken

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youths of the country will be fortified through finance from banks to invigorate those start-ups better so that they can engender more employment in India. This programme is a colossal start to enable start-ups through financial support so that they can utilise their innovative conceptions in a right direction. PM has withal requested to all the banks to fortify at least one dalit and one woman entrepreneur. This scheme will incentivize and promote incipient comes towards business and grow their vocation and economy of the country.

Unemployment Rate in India
A survey by the British Council has shown that 51% of companies hire only from the top 20 Indian institutions, and less than a quarter of these firms hire only from the top 10 in any discipline."(Economic Times). While about 39 percent of the graduates from foreign universities are considered yare for the job, only about 14 per cent students from Indian universities are considered felicitous for jobs." (Published on Deccan Chronicle). Unemployment Rate in India decremented to 4.90 percent in 2013 from 5.20 percent in 2012. Unemployment Rate in India averaged 7.32 percent from 1983 until 2013, reaching an all-time high of 9.40 percent in 2009 and a record low of 4.90 percent in 2013. Unemployment Rate in India is reported by the Ministry of Labour and Employment, India. One out of every three persons in the age group 15 to 29 years who have consummated at least their graduation has been found to be unemployed in the report on „Youth employment-unemployment scenario, 2012-13‟ which is predicated on a survey by the Labour Bureau in Chandigarh. Moreover, the survey found that the unemployment rate among the persons who cannot read and languages or are considered unlettered was the lowest with 3.7 per cent without work in the 15-29 age group. Under such circumstances, some graduates endeavour to find a way out for themselves and opt to commence their own business, thus to reduce the employment pressure. In recent years the self-employment consciousness among college students are incrementing and the students are less liable to rely on parents or schools or wait for opportunities. Instead, they incline to take initiative to probe for incipient chances for themselves.

The Start-up India, Stand-up India Government Plan
Furthermore, the government plans to connect the youth, through IT access, with knowledge base and mentorship available from academic institutional network including IITs, IIMs, and NITs and leading central universities, who will extend help to these potential entrepreneurs across India. Towards this, the government plans to form a secretary level inter-ministerial panel comprising representatives from various ministries like biotechnology, science & technology, information technology etc, which will work in coordination with DIPP to evaluate proposals based on innovation and commercial potential. The international business community accepts India as one of the most attractive destinations for investments and of late, has discovered India’s potential for innovation and creativity. The panel will act as a guide to ensure that the potential entrepreneur is able to set-up his business without too much red tape and is able to access finance on easy terms to launch his business. PM Modi rightly recognises this fact and understands that this is the right time to bring in the government to define a conducive policy framework, backed by necessary financial and tax incentives, and nurture the creative and innovative potential of the youth. The last three years has seen significant scale up in international investments in start-ups and this has led to skyrocketing valuations, exceeding $ 1 billion in some cases, a phenomena that would have been unbelievable just five years ago. That’s an ambitious plan and as of now, driven almost entirely by private sector initiative. And this has been achieved with little or no support from the government. If PM Modi succeeds in establishing a pro-active start-up eco-system as intentioned, then the potential for new job creation will be far greater than NASSCOM’s projections. As per the latest NASSCOM Start-up Report 2015, start-ups created 65,000 new jobs in 2014 and by 2020.

Potential Spoilers to Start-up India; Stand-up India
As with any central government initiative, the success of a programme lies in its ability to percolate its benefits to the intended beneficiaries. In this case, the government will have to address all issues not just at the policy level, but ensure its implementation at the grassroots i.e. the Tier II, Tier III towns and subsequently at the village level.

The Absence of Specific Start-up Laws and Lack of Exit Options
The government needs to bring state governments on board to ensure that bureaucrats are trained to extend full support to young entrepreneurs and ensure they contribute to growing their business rather than act as a hindrance. The government has to identify officials at the Centre and state level, in coordination with state governments and initiate an extensive and ongoing training programme that will prepare these officials to be entrepreneur friendly and actually develop the skills required to provide support, as needed. Lack of government experience at the Centre and state level in supporting tech-based entrepreneurs is yet another problem. This along with mentors and subject matter experts that can assist first-time entrepreneurs to handle the required paperwork for establishing the business and guide the business to the next level of funding is essential. Once a proposal is vetted and approved, easy funding on favourable terms must be made available based on the capital required to initiate the business and expand as per projections. These need to be changed and banks were given the freedom to fund a proposal once it has been approved by an expert panel, either within the bank or by a competent and

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approved outside agency. Start-up funding is based on risk taking and ability to understand the application and commercial potential of the proposed business. The government must factor in failure and ensure that an entrepreneur is not penalised for failing, but is encouraged to try again. Tough compliance laws that were framed keeping in mind traditional businesses have to be done away with in the case of start-ups and new laws have to be framed keeping in mind new-age businesses and its rapidly evolving technology.

Action Plan of Start-up India Stand-up India Scheme

A complete action plan of this scheme was launched on 16th January 2016. This scheme will boost entrepreneurship in the country at grassroots level ensuring youth benefits from the lowest strata of society. Youths have fresh mind, new ways, and new thinking so they are better to support as start-ups. Various IITs, NITs, central universities and IIMs of India were connected through the live connectivity during the successful launch of campaign. The main aim of this scheme is to promote bank financing as well as offer incentives for start-up ventures to boost the entrepreneurship and new job creation techniques among them.

Objectives of the Study

This paper is intent to explore the main difficulties facing start-ups in India, and discussing the principle financing resources of start-ups in India. More specifically, this paper tries to analyse challenges of Indian financing start-ups.

Main Problems Faced by Start-ups in India

Even if young Indian individuals have intention to start their own business, their family usually places a considerable amount of negative pressure on them to forget entrepreneurship and look for a “stable job” instead. The ecosystem usually does not directly provide funding to start-ups; they just serve as platforms that link investors and entrepreneurs so that entrepreneurs can obtain necessary funding to test out their ideas. In many western countries, there are special institutions serve as incubators, start-up accelerators, start-up competitions for entrepreneurs to put their ideas to test and obtain necessary guidance. Even if entrepreneurs are able to find investors, they will face an entirely different set of challenges. The lack of these facilities makes it more difficult for entrepreneurs to find investors. In India, incubators, start-up accelerators, and start-up competitions are slowly making their way into the first tier cities, but there truly are not enough to go around. As a culture of family remains, family remains sceptical to change and prefer options that are able to provide a steady income rather than engaging risk. Indian culture inherently does not promote entrepreneurship. In return, investors are more difficult to find entrepreneurs as well. India lacks enough angel investors to fund start-ups Unlike the West, India does not have an adequate number of angel investors who can fuel the growth of the country’s thriving start-up ecosystem, industry body Nasscom has said. “For a successful start-up ecosystem there is a need for enough angel investors who can support budding entrepreneurs from an early stage. But this is not happening in India and there is a serious lack of it,” Nasscom Vice-President RajatTandon told PTI. “High net-worth individuals and corporate executives, among others, should come forward and participate in this growth story,” he said. A recent report by Nasscom had said India ranks third among global start-up ecosystems, with more than 4,200 new-age companies. Tandon said, “The case is very different in countries like the US. People are just waiting to invest in good companies. We should also have something like that.” “Mainly, investors (in India) are afraid because there is a high risk of failure in these investments and also there is a lack of policy on such investments,” he added. “Why will investors put money in such companies? They need tax benefits and a number of other things to put in their money. We have already written about these things to the Government and I am sure we can expect something by the year-end,” he said. In his Independence Day speech, Prime Minister NarendraModi had announced a new campaign „Start-up India; Stand up India‟ to promote bank financing for start-ups and offer incentives to boost entrepreneurship and job creation in the country. “At Nasscom, we are not only encouraging investors but also asking people to mentor start-ups. Like someone has a design business, they can help start-ups develop UIs and guide them in the process. In return they take some equity,” he said. “And there are people like Ratan Tata and AzimPremji, who are making a slew of investments and helping these young entrepreneurs. They are the inspiration,” he said. Ratan Tata has invested in a number of companies including Ola, Snapdeal, Paytm, Urban Ladder, and Bluestone. Wipro boss AzimPremji has funded companies such as Myntra and Amagi, among others, through his investment arm Premji Invest.

Human Talent

Compared to large mature enterprises, small startups are in an exponentially more difficult dilemma and encountering much severe challenging in recruiting due to the reason that it cannot pay high salary to its employees or offer any career development opportunities aside from building their business from the ground up. What is worse is that working for a start up in China is far less glamorous than working for a start-upin the west due to culture differences. It is a disaster for a company who needs to execute on their business plan with minimal errors to just survive the month.

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Main Financing Resources of Start-ups in India

Venture Capital Venture Capital is money provided by professionals who invest and manage young rapidly growing companies that have the potential to develop into significant economic contributors. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for investment in potentially highly profitable enterprises at a high risk of loss. A Venture Capitalist is an individual or a company who provides. Investment Capital, Management Expertise, Networking & marketing support while funding and running highly innovative & prospective areas of products as well as services. In India, the Venture Capital Funds can be categorized into the following groups:

- **Promoted by Public Banks:** These type of Venture Capitalist funds are promoted by Public Banks. SBI Capital Markets Ltd and Canbank Venture Capital Fund are some examples of these kinds of VC funds. Promoted by the Central Government controlled development finance institutions: This group contains Venture Capital Funds that are promoted by development finance institutions that are controlled by the Central Government of the country. The examples are IFCI Venture Capital Funds Ltd. (IFCI Venture) and SIDBI Venture Capital Limited (SVCL).
- **Promoted by State Government Controlled Development Finance Institutions:** This group includes Venture Capital Funds which are promoted by development finance institutions controlled by state government. Some of the famous examples are: Hyderabad Information Technology Venture Enterprises Limited (HITVEL), Kerala Venture Capital Fund Private Limited, Gujarat Venture Finance Limited (GVFL), and Punjab InfoTech Venture Fund.
- **Overseas Venture Capital Funds:** This group comprises of Venture Capital funds from outside India. Like: BTS India Private Equity Fund Ltd., Walden International Investment Group, SEAF India Investment and Growth Fund. Promoted by Private Sector Companies: This category consists of Venture Capital funds promoted by private Sector Companies. Like: Infinity Venture India Fund, IL&FS Trust Company Limited (ITCL),

Market Problems

A major reason why companies fail is that they run into the problem of there being little or no market for the product that they have built. There is not a compelling enough value proposition, or compelling event, to cause the buyer to actually commit to purchasing. Good sales reps will tell you that to get an order in today's tough conditions, you have to find buyers that have their "hair on fire", or are "in extreme pain". You also hear people talking about whether a product is a Vitamin (nice to have), or an Aspirin (must have).

Business Model Failure

A very large number of the business plans that I see as a venture capitalist have no thought given to this critical number, and as I work through the topic with the entrepreneur, they often begin to realize that their business model may not work because CAC will be greater than LTV. That may happen with the first few customers, but after that, it rapidly becomes an expensive task to attract and win customers, and in many cases the cost of acquiring the customer (CAC) is actually higher than the lifetime value of that customer (LTV. As outlined in the introduction to Business Models section, after spending time with hundreds of start-ups, I realized that one of the most common causes of failure in the start-up world is that entrepreneurs are too optimistic about how easy it will be to acquire customers. The observation that you have to be able to acquire your customers for less money than they will generate in value of the lifetime of your relationship with them is stunningly obvious. They assume that because they will build an interesting web site, product, or service, that customers will beat a path to their door. Yet despite that, I see the vast majority of entrepreneurs failing to pay adequate attention to figuring out a realistic cost of customer acquisition.

The Essence of a Business Model

To compute CAC, you should take the entire cost of your sales and marketing functions, (including salaries, marketing programs, lead generation, travel, etc.) and divide it by the number of customers that you closed during that period of time. So for example, if your total sales and marketing spend in Q1 was $1m, and you closed 1000 customers, then your average cost to acquire a customer (CAC) is $1,000.To compute LTV, you will want to look at the gross margin associated with the customer (net of all installation, support, and operational expenses) over their lifetime. For businesses with one time fees, this is pretty simple. For businesses that have recurring subscription revenue, this is computed by taking the monthly recurring revenue, and dividing that by the monthly churn rate. Because most businesses have a series of other functions such as G&A, and Product Development that are additional expenses beyond sales and marketing, and delivering the product, for a profitable business, you will want CAC to be less than LTV by some significant multiple. For SaaS businesses, it seems that to break even, that multiple is around three, and that to be really profitable and generate the cash needed to grow, the number may need to be closer to five. But here I am interested in getting feedback from the community on their experiences to test these numbers.

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The Capital Efficiency "Rule"

If you would like to have a capital efficient business, I believe it is also important to recover the cost of acquiring your customers in under 12 months. Wireless carriers and banks break this rule, but they have the luxury of access to cheap capital.

Poor Management Team

An incredibly common problem that causes start-ups to fail is a weak management team. A good management team will be smart enough to avoid Reasons 2, 4, and 5. Weak management teams make mistakes in multiple areas in start-ups. They are often weak on strategy, building a product that no-one wants to buy as they failed to do enough work to validate the ideas before and during development. This can carry through to poorly think through go-to-market strategies. They are usually poor at execution, which leads to issues with the product not getting built correctly or on time, and the go-to market execution will be poorly implemented. They will build weak teams below them. There is the well proven saying, a players hire A players, and B players only get to hire C players (because B players don't want to work for other B players). So the rest of the company will end up as weak, and poor execution will be rampant etc.

Running out of Cash

A fourth major reason that start-ups fail is because they ran out of cash. A key job of the CEO is to understand how much cash is left and whether that will carry the company to a milestone that can lead to a successful financing, or to cash flow positive.

Milestones for Raising Cash

The valuations of a start-up don't change in a linear fashion over time. Product is shipping, and some early customers have paid for it, and are using it in production, and reporting positive feedback. Note that if the product is finished, but there is not yet any customer validation, valuation will not likely increase much. What frequently goes wrong, and leads to a company running out of cash, and unable to raise more, is that management failed to achieve the next milestone before cash ran out. The cost of acquiring customers is acceptably low, and it is clear that the business can be profitable, as monetization from each customer exceeds this cost. Product in Beta test, and have customer validation. Product/Market fit issues that are normal with a first release (some features are missing that prove to be required in most sales situations, etc. It is now known how to acquire customers, and it has been proven that this process can be scaled. Business has scaled well, but needs additional funding to further accelerate expansion. This capital might be to expand internationally, or to accelerate expansion in a land grab market situation, or could be to fund working capital needs as the business grows. Many times it is still possible to raise cash, but the valuation will be significantly lower.

When to hit Accelerator Pedal

There is no point hiring lots of sales and marketing people if the company is still in the process of finishing the product to the point where it really meets the market need. Most of the time the first product that a start-up brings to market won't meet the market need. By "business model has been proven", I mean that the data is available that conclusively shows the cost to acquire a customer, (and that this cost can be maintained as you scale), and that you are able to monetize those customers at a rate which is significantly higher than CAC (as a rough starting point, three times higher. Another reason that companies fail is because they fail to develop a product that meets the market need. In the early stages of a business, while the product is being developed, and the business model refined, the pedal needs to be set very lightly to conserve cash. However, on the flip side of this coin, there comes a time when it finally becomes apparent that the business model has been proven, and that is the time when the accelerator pedal should be pressed down hard. Or it can be a far more strategic problem, which is a failure to achieve Product/Market fit. For first time CEOs, knowing how to react when they reach this point can be tough. As hard as the capital resources available to the company permit. In the best cases, it will take a few revisions to get the product/market fit right.

Conclusion

Many businesses start with a dream, but it takes more than just a dream for them to grow into successful businesses including the tenacity to overcome the many challenges facing start-ups today. This new initiative of start-ups pledge rapid approvals for starting the business, easier exits, tax rebates and faster registration for the patents. The most important point about this campaign is that it involves youths of the country as start-ups as they have fresh mind, innovative ideas, required strength, energy, skill, and new thinking to lead business. When the economy tanked, it made it harder to convince investors and banks alike to part with the cash that is essential for growth in the early days of a business. They have the determination to setup and divert their energy to plan, support and execute their dreams and contributing to the growth of the economy. Intensifying the challenge of raising funds, major leaps in technology have led investors to raise the bar in terms of how much legwork entrepreneurs are expected to do before even pitching their companies. This initiative is the necessity to lead India in right

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direction. Start-up is an opportunity for an entrepreneur to educate and inspire others while some are thinking of how to do and what to do. Plus, there is a growing trend of smaller initial investments in early stage start-ups. Start-ups take time, effort, and energy.

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