

The Evolution of the Indian Startup Ecosystem

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Abstract

India, the world's third-largest startup hub is home to over 90,000 startups and 107 unicorn companies worth 30 billion dollars, according to the article by The Economic Times. A survey reveals that the government has recognized over 14,000 new startups in the year 2021-2022, it was 733 in the year 2016-2017 and is expected to grow in the coming years.

It was seen that 44 Indian startups have turned into unicorns in 2021, with over a 1 billion dollar valuation. According to a report by StrideOne, a tech-enabled non-banking financial company, The startup ecosystem of India has the potential to contribute 4-5% to the country's Gross Domestic Product (GDP) over the next five years. Thus, the growth and contribution of startups to the country's economy are significant.

This paper aims to study the various challenges and opportunities for startups in India today and how the dynamics of the startup - economy in India have changed over the years after independence. This study helps to understand the present state of the startup ecosystem and its history, with which better decisions can be made towards the development of the country.

Key terms: start-up, start-up ecosystem, unicorn companies, development

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I. Introduction

India has emerged as a pioneer in entrepreneurship in recent years, with a growing number of startups and entrepreneurs making their mark in various sectors. The country's large and diverse population, along with its increasing internet penetration, has created a fertile ground for innovation and entrepreneurship.

Small business was one of the earliest forms of a start-up. Small businesses are important to the economy of a country as they provide some services and goods that larger companies could not. A small business is a privately held company with less than 1,500 employees. The point to note here is that small businesses are not looking to dominate their market, they are the companies that try to maintain a stable income and sell to the local town. There is less risk of failure. A startup, on the other hand, is a new company that wants to quickly expand, and build rapidly in a short duration of time.

There are a few criteria that need to be satisfied to be recognised as a startup by the Indian government. The criteria are set by the DIPP (Department of Industrial Policy and Promotion) Ministry of commerce and industries. According to this, a start-up is an entity that is established not prior to 7 years (10 years for Biotechnology startups) with an annual turnover of less than INR 25 crore in any preceding financial year and is working towards innovation and development and has high potential to generate employment or wealth creation.

Startups have seen extensive growth in the country since 2016. Today, India is the Third largest startup ecosystem in the world. There were about 50,000 start-ups in the country in 2018, 8,900-9,300 are technology-led, and around 1300 new tech startups were born in 2019 alone. With these statistics, we can say that 2-3 tech startups are born every day.

A startup ecosystem is the network of people, resources, and institutions that support the creation and growth of new businesses. It includes support organizations, big well established companies, universities, funding agencies, service providers and research organisations. Ideas, inventions, research, entrepreneurs, investors, mentors, advisors and people from related organizations play a key role in the system. The goal of a startup ecosystem is to create an environment that enables startups to grow and thrive. A healthy ecosystem attracts investment, creates jobs and contributes to economic growth.

The population and diversity of the public in India have been a huge advantage in a way that every product and every service has a market scope. Startups have made a significant contribution to the Indian economy:

1. Job creation: According to a report by NASSCOM, the Indian startup ecosystem created over 600,000 jobs in 2019 alone. As of 2021, it is estimated to have created more than 4 million jobs, both direct and indirect.

2. Innovation: Startups in India have been at the forefront of innovation, developing new products and services that are changing people's lifestyles. Many of these startups are using emerging technologies such as artificial intelligence, blockchain, and the internet of things to create disruptive solutions.
3. Foreign investment: According to a report by PwC, the total investment in Indian startups reached \$10.14 billion in 2020.
4. Export earnings: Many Indian startups have been successful in the global market, earning significant export revenue for the country.
5. Entrepreneurship: startups have inspired people to start their own businesses and helped in fostering a culture of innovation and risk-taking.

Hence, it is important to support them. There are many challenges for a startup to kick off, the government started policies to support them. The growth and development of the startup ecosystem are noteworthy.

Objectives of research

1. To study the growth of the Indian startup ecosystem over the years and analyse the growth patterns.
2. To understand the contribution of Indian startups to the Indian economy.
3. To study the support offered to startups by the Indian government.

Hypothesis

Early days (the 1990s - early 2000s): During this period, India saw the emergence of a few successful IT companies such as Infosys, Wipro, and TCS. These companies paved the way for the growth of the IT industry in India and created a pool of experienced entrepreneurs and executives who would later become instrumental in building the startup ecosystem. The emergence of angel investors and accelerators (the mid-2000s - early 2010s): With the success of the IT industry, India saw the emergence of angel investors and accelerators, which provided seed funding and mentorship to startups. This period saw the rise of companies like Flipkart, Ola, and Paytm, which attracted significant funding from investors.

Government support and policy initiatives (2014 - present): In 2014, the Indian government launched the Startup India initiative, which aimed to promote entrepreneurship and create a supportive ecosystem for startups. The government has since launched several policy initiatives to support startups, such as the Make in India initiative, the Digital India campaign, and the Atmanirbhar Bharat Abhiyaan. These initiatives have helped to attract investment and talent to the startup ecosystem.

Diversification of startup sectors (the 2010s - present): In recent years, the Indian startup ecosystem has seen the emergence of startups in a variety of sectors, such as healthcare, fintech, edtech, agritech, and cleantech. This diversification has helped to create new opportunities for startups and has attracted a wider range of investors and talent to the ecosystem.

Overall, the evolution of the Indian startup ecosystem has been driven by a combination of factors, including the success of the IT industry, the emergence of angel investors and accelerators, government support and policy initiatives, and the diversification of startup sectors.

II. Research Methodology

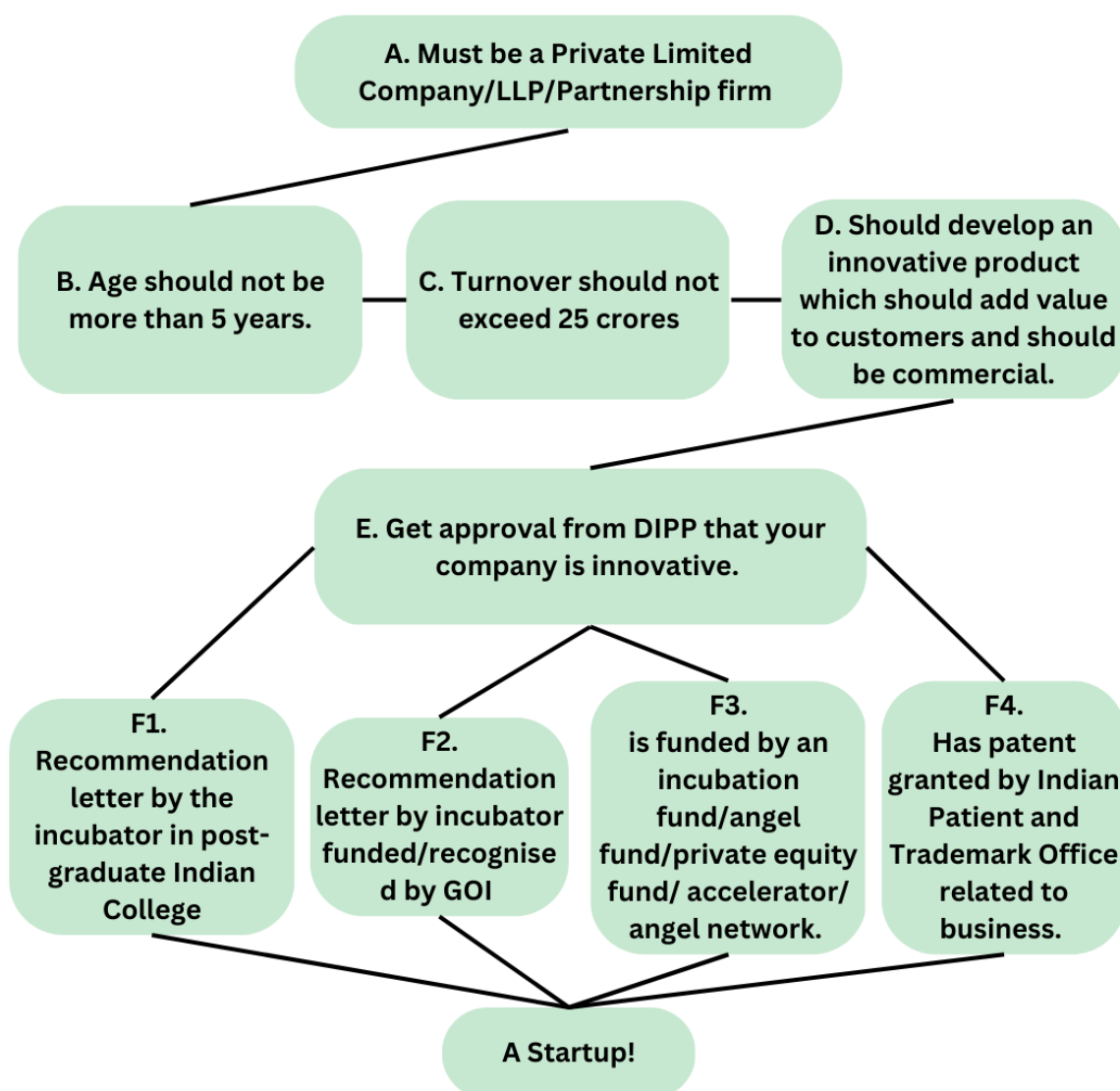
This paper is based on descriptive research and undertakes secondary data into account. The information and inputs are gathered from various secondary sources to form arguments and counterarguments about startups in India. The first step is to define a startup and startup ecosystem. The definition is established based on the various criteria set by the government to be recognised by DPIIT (Department for Promotion of Industry and Internal Trade) as a startup, mentioned on the official website of StartupIndia.

Sources of information for the study:

1. Reports of various government departments.
2. Research work done on similar and related fields.
3. newspapers/magazine published articles
4. Relevant online and offline information.

Research analysis and interpretation

Definition of a startup: There are certain criteria for a company to be recognised as a startup. It is set by the DIPP(Department of Industrial Policy and Promotion) Ministry of commerce and industries. It is summarized as a flowchart below:



To get recognised as a startup and be eligible for the benefits under the startup India scheme, the entity creates an account on the startup India website and then applies for DPIIT recognition, the application gets reviewed and the certificate is issued within 48-72 working hours.

Growth of startups over the years: Startups have been around since the 70s in India, some key notable events in history are tabulated below:

Date	Event
1968	Tata Consultancy Services (TCS) started
1975	CMC Limited started, started to digitalize the stock markets in the 1980s.
1981	Start of Infosys
1985	Start of Karvy Fintech (K-Fin Tech) for pension software services and mutual funds.
1986	Tally Solutions started
1988	Founding of NASSCOM trade association, and first venture capital investment in India by TDICI

1995	VSNL provides public internet access.
1996	Founding of Zoho corporation
1998	Founding of MakeMyTrip, India's first online travel agency.
2007	Launch of Flipkart, India's largest e-commerce platform
2008	Funding exceeds one Billion in one year
2010	Launch of Ola, India's first ride-hailing service.
2011	Founding of Zomato, a popular food delivery platform.
2014	Launch of Paytm, India's leading digital wallet and payment gateway.
2013	Acquisition of Redbus.in, NASSCOM 10000 startups
2015	Founding of OYO rooms, India's largest hospitality company.
2016	Launch of Jio, a telecom company that disrupted the market with affordable data plans.
2017	The largest ever acquisition in the Indian startup ecosystem - the acquisition of Flipkart by Walmart for \$16 billion.
2018	Founding of Byju's an ed-tech startup company
2019	7 start-ups became Unicorn
2020	The IPO (Initial Public Offering) of online food delivery platform Zomato, the first of its kind in the Indian startup ecosystem. 38 startups became Unicorn
2021	India became the 3rd largest startup ecosystem in the world
2022	India had a total of 90 unicorn startups.

Source: Timeline of Indian startup ecosystem. (2023, March 13). In *Wikipedia*.
https://en.wikipedia.org/wiki/Timeline_of_Indian_startup_ecosystem

Funding is a crucial step in launching a startup. Different stages require different amounts of capital. The various phases during the development include the seed stage, early growth stage and late growth stage.

A common form of obtaining funding is through owner's private funds, also known as self-financing. Other ways can be loans through commercial banks and crowdfunding. They can also obtain funding from angel investors, who offer funding in exchange for business equity or royalties in the company.

Financing can also be availed from government loan schemes. Non-banking financial companies (NBFCs) and Micro Finance Institutions(MFIs) provide loans for startups without considering the financial history, Credit cards for business purposes have also helped startups which do not require high initial funding, but need money at later stages.

Different initiatives that have helped startups boom in India are

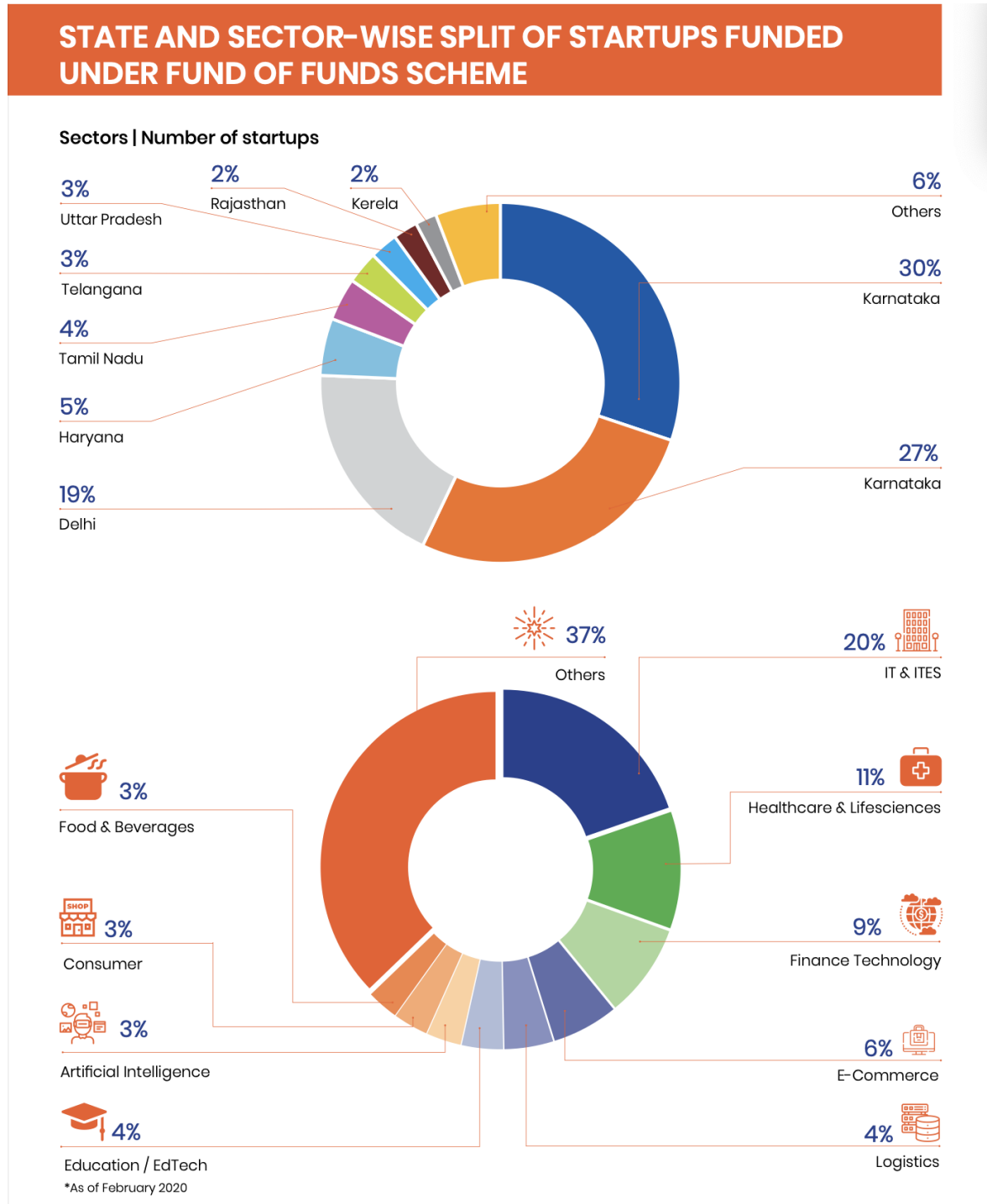
MUDRA Yojana: MUDRA(Micro Units Development Refinance Agency) Bank and credit guarantee fund with a refinance capital of INR 20,000cr and INR 3,000 cr. This scheme helps startups to get loans from banks to set up the business, and grow and stabilize their business. The scheme is expected to benefit 1.73 crore individuals according to the finance minister.

SETU fund: The government has allocated INR 1000 cr through SETU(Self Employment and Talent Utilization) fund to create opportunities for self-employment and new jobs.

Launch of E-Biz portal: The launched this portal integrates 14 regulatory permissions and licenses at one source to enable faster clearances and ease business.

Start-up India: This initiative provides various benefits, that include 3-year tax and compliance breaks intended for cutting government regulations.

The analysis of startups that benefited from one of their scheme- fund of funds, is given below:



Source: <https://www.startupindia.gov.in/>

III. Findings

An increasing number of startups: The Indian startup ecosystem has witnessed exponential growth in recent years, with the number of startups increasing rapidly. According to a report by NASSCOM, India had over 50,000 startups as of 2021, making it the third-largest startup ecosystem globally.

Growth in funding: The funding landscape for startups in India has also undergone significant changes. Venture capital investments in Indian startups have grown at a compound annual growth rate of over 30% between 2016 and 2021, with a total of \$10 billion being invested in 2021 alone.

Rise of unicorns: India has produced several unicorns (startups with a valuation of \$1 billion or more), indicating the potential of the ecosystem. As of 2021, India had over 50 unicorns, including companies like Flipkart, Paytm, Ola, and Byju's.

Diversification of sectors: The Indian startup ecosystem has diversified significantly, with startups emerging in various sectors, including e-commerce, fintech, healthcare, edtech, agritech, and more. This diversification has led to the creation of more employment opportunities and has contributed to the country's economic growth.

Government support: The Indian government has launched various initiatives, such as Startup India and Digital India, to promote entrepreneurship and support startups. Additionally, the government has eased regulations and introduced tax incentives to encourage entrepreneurship and investment in startups.

Challenges remain: While the Indian startup ecosystem has come a long way, it still faces several challenges, such as access to funding, talent, and infrastructure. The COVID-19 pandemic has also brought its own set of challenges for startups, but it has also highlighted the need for innovation and adaptation in the ecosystem.

Overall, the findings of the evolution of the Indian startup ecosystem indicate that it has tremendous potential for growth and success in the future, but there is still work to be done to overcome the challenges and support the ecosystem's continued development.

Limitations and the way forward for the research:

This paper can further be extended to analyse the growth patterns of the startups in the country, and how the government schemes have helped in the development. It can also include the contribution of startups to the economy over the years in numbers and case studies can also be included to support the arguments.

IV. Conclusion:

The startup ecosystem in India has come a long way in the last decade, and the future looks promising. In the early days, startups faced significant challenges such as lack of funding, inadequate infrastructure, and limited support from the government. However, with the rise of successful startups like Flipkart, Paytm, and Ola, the ecosystem has gained momentum. According to economist T.N. Srinivasan, India has always been a flourishing entrepreneurial society with suppressed entrepreneurial skills.

The Indian government has also taken several initiatives to promote entrepreneurship and innovation, such as Startup India and Digital India. These initiatives have led to the establishment of more than 50,000 startups in the country, creating employment opportunities and contributing to the GDP.

Moreover, the country has witnessed a significant increase in venture capital funding, with investors from around the world showing interest in the Indian startup ecosystem. The number of unicorns (startups with a valuation of \$1 billion or more) in India has also increased, indicating the growth potential of the ecosystem.

However, there are still challenges that need to be addressed, such as improving infrastructure, providing easier access to capital, and reducing regulatory hurdles.

Overall, the evolution of the startup ecosystem in India has been remarkable, and with continued support from the government and investors, it is poised for further growth and success in the future.

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