



## The Growth Story of Startups

*This editorial is based on “[How India’s Early-Stage Startup Ecosystem Became an Investment Hotspot](#)” which was published in Livemint on 11/04/2022. It talks about the factors that led to the success of startups in India.*

**For Prelims:** India’s Startup Ecosystem, Startup India Seed Fund Scheme, Startup India Initiative, Industry 4.0, Digital India Initiative.

**For Mains:** Startups - growth in India, challenges, schemes launched.

The last decade-and-a-half has witnessed a significant change in India’s entrepreneurial landscape — from the **founding of new [Startups](#)** to **global investor interest**, to the advances made in **infrastructure and policies**.

The Indian startup ecosystem did exceptionally well in 2021 - the growing investor confidence in Indian startups is overwhelming and is seen gaining momentum across different stages of growth in a startup journey, including [seed-stage funding](#).

### What is the Startup Growth Scenario in India?

- **India is a hotspot for startups.** In 2021 alone, Indian startups have raised more than \$23 billion, spread over 1,000+ deals, with 33 startups entering the coveted unicorn club. So far, the year 2022 has added 13 more startups to the unicorn club.
  - After the United States (US) and China, India has emerged as the world’s third-largest startup ecosystem
    - Currently, India is witnessing rapid growth in the number of startups. According to the **India Venture Capital Report 2021** published by Bain and Company, the number of cumulative start-ups has grown at a [CAGR](#) of 17% since 2012 and crossed 1,12,000.

### What has led to the Booming of India’s Startup Ecosystem?

- **Recognition of Significance of Startups:** India has recognized the need to develop innovation and incubation centers for its large student community to foster innovation and entrepreneurial mindset through academic institutions.
  - A rising number of incubators and a steady inclination of young executives towards starting their own ventures is also propelling the entrepreneurship and early-stage startup ecosystem in India.
- **Availability of Potential:** A study on tech startups of 2021 revealed that a sizable number of edtech founders are young graduates from IITs and premier engineering colleges or those who worked for global consulting firms.

- This availability of young talent with the right blend of passion, expertise, and mindset of Indian entrepreneurs puts India's early-stage startup ecosystem at an advantage in cashing on the opportunities of a booming market.
- **Startup Specific Initiatives:** The Government of India has been playing a crucial role in facilitating the growth of early-stage startups through the implementation of progressive policies and creating of relevant infrastructure.
  - Under the [Startup India Initiative](#) launched in 2016, the government has endeavored to simplify complex legal, financial and knowledge requirements in an effort to encourage the participation of early-stage potential startups.
    - Reforms such as opening up sectors like [space-tech for private participation](#), tax holidays for startups fulfilling certain eligibility criteria and creation of state-run incubators are lowering the odds of establishing successful startups and helping them grow.
- **Startup-Corporate Collaborations:** Established corporates who lack innovation capacity and agility, and nimble early-stage startups who lack cash for growth and networks for market access, provide a unique and scalable platform for such collaborations and multiplied wealth creation.
  - Various corporate-startup partnership programmes have been driving innovation and accelerating the growth of early startups in India - Microsoft India has accelerated more than 4,000 startups, while Tata Motors is engaged with half a dozen startups and exploring partnerships with 20 more.
- **Risk-Taking Capabilities:** There has been an extremely encouraging shift towards engineering and product start-ups. The strength of the Indian start-up ecosystem reflects the most in the increasing risk-taking ability and ambitions of young Indians.
  - This ability of the young generation to take risks and move faster without fear has become **India's biggest asset today**.
    - The fact that Indian startups are becoming global entities by creating products and solutions for world markets is a testament to this approach. Which Areas require Food for Thought?
- **Lack of Domestic Funding:** The **funded start-ups are about 8%** of the total start-ups and India's share in the number of unicorns globally stands at 4%, in comparison to the US's share of 65% and China's share of 14%.
  - The US invests more than \$135 billion annually in venture capital and start-ups, while China invests more than \$65 billion, with over 60% being local capital. In stark contrast, India invests only \$10 billion a year, with 90% being overseas capital.
- **Fear of Funding Bubble:** There is fear of a funding bubble or the high valuations that venture capital investors appear to pay on a few occasions.
  - This fear emanates from an inadequate understanding of the investment strategies and risk management frameworks that successful venture capital firms deploy.
- **Foreign Domiciliation:** Currently, nearly **30 of India's unicorns are domiciled outside the country**, driven outside by outdated forex regulations, non-implementation of relevant federal regulations, tax terrorism, and lack of local capital incentives.
  - DeepTech and healthcare start-ups still do not get adequate early capital to grow in this country and are forced to domicile outside.
- **Education and Upskilling:** In order to transition beyond the current capabilities and achieve the demographic dividend, education, reskilling, and upskilling of India's workforce is crucial.
  - It needs to be acknowledged that apart from the domestic policy environment, the global environment and technological advances are also changing, and it is imperative that India is prepared for this revolution.

## What can be the Way Forward?

- **Role of Investors:** The accelerated development of the start-up ecosystem needs significant funding and therefore the role of venture capital and angel investors are critical.
  - Investors also need to understand that start-ups inherently have a comparatively lower success rate, and should build their investment strategies upon this premise.
    - The venture capital investors need to have adequate risk management frameworks at the portfolio level, as it is a critical part of all successful venture capital operations.
- **Role of Corporate Sector:** Apart from policy-level decisions that **promote entrepreneurship**,

the onus is also on India's corporate sector to foster entrepreneurialism, and create synergies to build impactful technology solutions, and sustainable and resource-efficient growth.

- India stands at the cusp of unprecedented economic growth, and the opportunity to be a global game-changer - speed, inclusion, and sustainability are key elements in this mission along with the youth of the country.

▪ **Physical and Digital Connectivity:** Coupled with the nation's focus on strengthening digital infrastructure in healthcare and education, and boosting employment in manufacturing, [\[email protected\]](#) will be a powerhouse of the global economy.

- The collective future efforts of the public and private sectors to improve physical and digital connectivity will help unlock the untapped potential of rural and semi-urban India to truly lead Industry 4.0 and beyond.

- The Indian startup ecosystem must focus on developing solutions that allow businesses in key sectors to meet goals of national importance.

▪ **Opportunities amid Changing World Order:** With the recent events creating capital distrust in China, the world's attention is sharpening on the lucrative tech opportunities in India and the value that could be created. For this, India requires decisive policy measures in addition to the Digital India initiative.

- India needs stronger regulations for both global and domestic **investments in start-ups**.
  - Global investors must be ensured that they can invest freely in India and get their returns when they sell as well.  
We need to create a repository of investor-KYC, ensuring traceability and seamless governance.

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***Drishti Mains Question:***

Recognizing the criticality of Startups in the growth of the Indian economy, combined efforts of entrepreneurs, investors, and the government are required to make this decade the best one for start-ups. Comment.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

**Q. What does venture capital mean?**

- (a) A short-term capital provided to industries
- (b) A long-term start-up capital provided to new entrepreneurs
- (c) Funds provided to industries at times of incurring losses
- (d) Funds provided for replacement and renovation of industries

**Ans: (b)**