



India's Startup Ecosystem

This article is based on [“The Promise and Pitfalls of India's Startup Boom”](#) which was published in the Livemint on 30/11/2021. It talks about the growth of the startup sector of India and the key issues faced by the sector.

It is an era of unprecedented innovation and disruption — benefitting from the surge of [start-ups](#), armed with transformative products, business models, and capital to take on the world.

Today, India is the third largest start-up ecosystem globally (by number of start-ups) with more than 15,000 start-ups established in 2020, up from 5000 in 2010. The underlying enablers of this startup ecosystem include smartphone and internet penetration, [cloud computing](#), [application programming interfaces \(APIs\)](#), and a national payments stack in place.

Additionally, amid the Covid-19 pandemic, India has witnessed more number of [Unicorn startups](#) (startups having valuation of over \$1 billion) in just 2021 than it did in the period 2011-20.

However, still there are many challenges that act as a hindrance in realising the true potential of startups in India.

Startup Sector in India

- **Increasing Investments in Startup Sector:** A private organisation (VCCircle) based weekly startup activity in its latest round has shown **robust inflows in the startup sector**.
 - The total value of private equity and venture capital deals involving new ventures jumped over threefold; nearly \$1.7 billion was raised, with as many as 42 deals notched up.
 - **Slice** (Bengaluru based fintech) was **India's 41st (and the latest) unicorn** in the year 2021, and the 11th fintech firm to achieve the status, after raising \$220 million from investors.
- **Unicorns in India:** India currently stands **third in the global list** of the number of companies that have attained unicorn status (well **behind the US and China**, but **ahead of the UK and Germany**).
 - While [fintech](#) and [e-commerce](#) companies have led this phenomenon and **remained at the forefront** of establishing the unicorn ecosystem, other sectors such as [edtech](#), **food delivery and mobility have also made significant contributions**.
 - Against a cumulative number of 33 unicorns, from 2011 to 2020, the year 2021 alone has seen the **emergence of 41 startup unicorns**.
- **Role of Government Policies & Forex Inflow:** India's [changing reforms and policies towards start-ups](#) and various government initiatives have helped the Indian start-ups scale.
 - The **inflow of forex especially from leading tech companies** such as Facebook, Google, and Microsoft into the Indian start-up ecosystem signals the immense potential of the domestic market.
- **Role of Technology:** Technology has played a key role in the making of pioneer business models.
 - Most of the unicorns have **leveraged technology in all possible ways**, from refining internal organizational processes to enhancing the value proposition for their customers.

- The lockdown and social distancing pushed several businesses to **shift from conventional methods to entirely digitally-driven operations**, thereby creating better avenues for market forces.
- Leveraging new-age technologies such as **artificial intelligence, internet of things, data analytics, big data, robotics**, etc. several startups worked towards **bridging wide-ranging gaps** that were introduced in the market.
- **Unicorns, Employment and Women Entrepreneurs:** The Indian start-up ecosystem is nothing short of a revolution with \$106-billion worth of value-creation by 44 unicorns, in turn **creating 1.4 million direct and indirect jobs**.
 - Moreover, women **entrepreneurs have also contributed immensely** to the start-up ecosystem (Swati Bhargava of CashKaro and Falguni Nair of Nykaa to name a few).

Challenge Associated

- **Increasing Investments Do Not Ensure Success of a Startup:** Amid the Covid-19 crisis, when the central banks have released a global glut of liquidity, money is no more a difficult task to raise.
 - The billions of dollars being invested in startups **represent the large bets on distant outcomes, and not value generation** by way of revenues.
 - Plus, one **cannot assume the high rate of survival of these startups with such investments**, as it can be assured by profits.
- **India, Still a Marginal Player in the Space Sector:** While India's startups in the fintech and e-commerce sector are doing exceptionally well, the space startup sector remains an outlier
 - Currently, the global space economy is worth \$440 billion, with **India having less than 2% share in the sector**.
 - This is despite the fact that India is a leading space-faring country with end-to-end capabilities to make satellites, develop augmented launch vehicles and deploy interplanetary missions.
 - The reason for the lack of independent private participation in space includes the **absence of a framework to provide transparency and clarity in laws**.
- **Indian Investors Unwilling to Take Risks:** The big investors in India's startup sector are from overseas; Japan's SoftBank, China's Alibaba, and Sequoia from the US.
 - That's because **India does not have a serious venture capital industry** with an appetite for risk.
 - The country's established **conglomerates have mostly stuck to traditional businesses**.

Way Forward

- **More Investments are Important:** One cannot expect an entire herd of unicorns to gallop its way to glory. Such quibbles, however, should not dampen risk-taking.
 - Whether the wagers of investors work out well, all these **investments are crucial for the incubation of value-generators** that could help rewire India's economy for faster expansion over the decades ahead.
- **Policy Interventions:** Policy favour has helped the startup sector significantly, such as by **exempting the tax on startup earnings for some years**.
 - However, the taxation of stock options issued to workers is rather too complex.
 - **Levies on investments** and capital gains made by early-stage investors **can also be eased with a little more clarity**.
 - Liability overlaps in complicated tax rules often let officials abuse their discretionary authority.
 - The scope of this investor put-off needs reduction and the **ambiguity shall be ended by introducing tax reforms**. Top-level intervention would help.
- **Legislative Framework for Space Startups:** A stringent framework to provide transparency and clarity in laws with respect to the startup ecosystem in the space sector is required.
 - The laws need to be broken down into multiple sections, each to address specific parts of the value chain and in accordance with the **Outer Space Treaty**.
- **Ensuring Availability of Capital:** The nation's policymakers, risk-taking corporates and funding agencies need to **foster a conducive climate for ensuring easier availability of domestic capital**.

- The **regulators have to play a more proactive role** in formulating appropriate regulations that **encourage innovation and support emerging business models.**
- Besides promoting local funding, the government and corporate entities may need to invest in a big way through leading academic institutions to de-risk start-up investments in the long run.

Drishti Mains Question

Discuss the challenges that act as a hindrance in realising the true potential of startups in India.

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