



Indian Startup Ecosystem

For Prelims: [Indian Startup Ecosystem](#), **Unicorns, Gazelles, Cheetahs** .

For Mains: Indian Startup Ecosystem.

Why in News?

According to "slowdown in [India's startup ecosystem](#)" report, new additions in the coveted **unicorn list declined sharply in 2023**, indicating a slowdown in the Indian startup ecosystem.

- India added only three unicorns' startups having a valuation of over USD 1 billion in 2023 against 24 in the year-ago period, as per the ASK Private Wealth Hurun **Indian Future Unicorn Index 2023**.

What is the Scenario of the Startup Ecosystem in India?

- India has emerged as the **3rd largest ecosystem** for startups globally as of 31st May 2023. India ranks **2nd in innovation quality** with top positions in the quality of scientific publications and the quality of its universities among middle-income economies.
- Indian Startup Ecosystem has seen exponential growth in past few years (2015-2022):
 - 15X increase in the total funding of startups
 - 9X increase in the number of investors
 - 7X increase in the number of incubators
- As of May 2023, India is home to **108 Unicorns with a total valuation of USD 340.80 Bn.**
 - Out of the total number of unicorns, 44 unicorns were born in 2021 and 21 unicorns were born in 2022.

What are the Terms Related to Startups?

- **Decacorn:** a current valuation of over USD 10 billion.
- **Unicorns:** Start-ups founded after the year 2000 with a valuation of USD 1 billion.
- **Gazelles:** Start-ups that are most likely to go Unicorn in the next three years.
- **Cheetahs:** Start-ups that could go Unicorn in the next five years.

What are the Challenges Faced by Indian Startups?

- **Funding Challenges:**
 - Indian startups encounter **difficulties in securing adequate funding** for their ventures. Limited access to capital inhibits **their growth potential and hampers innovation**. Startups face challenges in attracting investors and obtaining venture capital due to various factors such as risk aversion, uncertain market conditions, and lack of investor

confidence.

- **Revenue Generation Struggles:**
 - Many startups face challenges in **generating sustainable revenues**. They often struggle to **find viable business models**, monetize their products or services, and achieve profitability. Limited market reach, competition from established players, and insufficient customer acquisition pose additional hurdles.
- **Lack of Supportive Infrastructure:**
 - The absence of a **robust infrastructure ecosystem can impede** the growth of startups.
 - Challenges include inadequate physical infrastructure, limited access to technological resources, and a dearth of incubation centers, mentorship programs, and networking opportunities. **Startups require supportive environments to thrive** and access necessary resources, expertise, and guidance.
- **Regulatory Environment and Tax Structures:**
 - Startups in India face **regulatory hurdles and complex tax structures**.
 - Cumbersome compliance processes, **bureaucratic red tape**, and ambiguous regulations create obstacles for startups. Taxation complexities can add to the administrative burden and impact profitability.

What are Indian Government's Initiatives for Startups?

- [National Initiative for Developing and Harnessing Innovations \(NIDHI\)](#)
- [Startup India Action Plan \(SIAP\)](#)
- [Ranking of States on Support to Startup Ecosystems \(RSSSE\)](#)
- **Startup India Seed Fund Scheme (SISFS):** It aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialization.
- **National Startup Awards:** It seeks to recognize and reward outstanding startups and ecosystem enablers that are contributing to economic dynamism by spurring innovation and injecting competition.
- **SCO Startup Forum:** The first-ever [Shanghai Cooperation Organisation \(SCO\)](#) Startup Forum was launched in October 2020 to develop and improve startup ecosystems collectively.
- **Prarambh:** The 'Prarambh' Summit aims to provide a platform to startups and young minds from around the world to come up with new ideas, innovation and invention.

Way Forward

- To circumvent the challenges faced by the Indian Startups, they **set up bases overseas, especially in countries** with favourable legal environments and taxation policies.
 - The process of transferring the entire ownership of an Indian company to an overseas entity, including the transfer of all Intellectual Property and data owned by the Indian **company, is called 'flipping'**.
- Typically, flipping happens at the early stage of the startup. However, this **trend can be reversed with active collaboration with the government-related regulatory bodies** and other stakeholders.

[Source: IE](#)