A Critical Analysis on Small Industries Bank of India in Promotion of Startups

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Abstract

Every company or firm which is not a subsidiary of any other major company is starts its journey as a startup in a small and medium level. It is indeed those companies which become successful or loses all its money or say investment though time. The major goal for an average firm with partners or one person company is to get an initial investment which is a great deal for startups. In India on an average basis startup companies seek initial investment from family relatives, friends and rarely from some angel investors. The government really doesn’t play any role in giving hand to those startup companies. Small Industries Development Bank of India (hereinafter referred as SIDBI) is a establishment of Industrial Development Bank of India. In the following paper the struggles by the startup to gain investment they need in order to achieve success are analysed as well as the policies made by the government for the startup companies. As well as the position of these policies whether startup companies grab the opportunities given to them.

Key Words: Startup, SIDBI, investment, companies, investors.
1. Introduction

Startup is characterized as "an entrepreneurial wander or another business as a Company, an association or impermanent association outlined and hunt of a repeatable and adaptable business model." Start-up is one of the burning occasion this time which everybody is discussing. Start-up India Campaign which was begun on 15th August, 2015 is especially in light of upgrading the new companies to empower the enterprise and occupation accessibility. The new companies are the sort of organizations which are creative in their course of advancement, investigation, assessment, inquire about for the objective section. The reason for this article is to put some light on setting up a start-up and dealing with the new companies and the activities taken by administration of India with the assistance of a portion of the start-up contextual analyses in India. SIDBI as a bank is a major league among the micro, mini, small and medium enterprises, yet it didn’t have extended its full fledged support towards startup companies. SIDBI have proposed various schemes for the benefit of various firms as well as the companies. Startup companies need to be motivated in order to get the best out of them. Startups usually rely upon their previous savings, or investments from friends and family which sometimes can be burdensome and the thought of it can be keep nagging. An aid from formal source such as a well established bank for a loan can bring some relief to the company and all they need to do is earn profit. If the bank is a government bank which is based on the motto to encourage weaker business firms which lack in investment it could also help the economy to grow stronger in the mere future. The main objective of the paper is to find the financial challenges faced by the startup companies and to know the scope and objectives of SIDBI.

2. Hypothesis

H0 - Startup SMEs fails on the grounds of poor financial aids.

Ha - Startup SME gain financial aids from fund of funds and run the company.

3. Research Methodology

The study is doctrinal in nature and it deals with the secondary data from various books, journals, online journals, articles, etc. The data are collected in respect with the startup enterprises and the role of SIDBI are carefully analysed. The major object of the study has been fulfilled by referring to various articles and other secondary resources.

4. Review of Literature

India at the verge of becoming the next destination for startup. Funding for a startup takes time and can be a major concern too and credit is very scarce especially after the declaration of the demonetisation. Credits are not readily available and majority of the startups tend to take up smaller investments rather
than bigger investments in bigger startups. And the author ends his paper stating that in order to startup companies to achieve something they need to be encouraged (Harminder Singh, Manpreet kaur, 2017). Startup companies trusts more informal sources because of the pressure being reduced in case of repayment(Charan singh and Kishinchand Poornima Wasadani, 2016). Seed funding, private equity have a huge impact on funding of a startup. Also among the major cities in India Banglore has the best ecosystem among the other cities such as Mumbai, Delhi, Calcutta, Chennai etc. The least impact on the funding based on the founder’s education is in Chennai. However, from the study it is proved the least impact is made due to the gender, institute and education of the founder respectively on the initial funding of a startup (Pandey 2018).

5. **Startup India Stand up India**

launched in January 2016 to help the youth in India to get through their innovative ideas and turn them into some business. This study focuses on the startup scheme in India and about the opportunities available (Rani 2017). Economy is not only based on the big and large corporation, small and medium sized enterprises are also a major part in growing of economy as well as creating job opportunities and is also low investment rate encourages investors. The lack of infrastructure and banking facilities is the major drawback of the micro small and medium enterprises. The initiative addressing by SIDBI towards these industries also generate employment(Rao and Sankara Rao 2013). For a economical growth the increase in success rate of projects in very important. In particular risk management for a startup must be identified and controlled before it fall all over the business. Risk management is a part of decision making and overcoming possibilities of failures is very important for a startup.(Kelkar, Pundir, and Ganapathy 2018). For any new idea to become successful venture it requires appropriate support and mentoring. At present day, start ups are growing like a grapevine. Indian start-ups attempt to build the start up environment with important education, talent, innovation and incubators with correspondence to funding agencies. Now the govt is also supporting the Start-ups. According to Nasscom, India ranks third in global start-up ecosystem. More than 68% growth is seen in the year 2016. 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. Although, entrepreneurs are facing problems but still they are rising like a sun. 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. This new initiative of start-ups pledge rapid approvals for starting the business, easier exits, tax rebates and faster registration for the patents made easy for startups.(K.Sunanda, 2017).

**Startup in India**

A startup is an entrepreneurial venture which is established for less than three years also in other terms it can be said that it is newly incorporated business, firm or an organisation which have the perfect idea to hit the market with
potential. On 1st April 2015 Ministry of Commerce and Industry define startup and according to which an entity will be identified as startup

- Till five years from the date of incorporation
- If the turnover doesn’t exceed 25 crores in the past five years
- It is working for the innovation, development, deployment, commercialization of new products, processes or services driven by technology or intellectual property.

Paul Graham says, “A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup 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 startups follows from growth.” A new business or start-up is a youthful organization that is simply starting to create. New companies are normally little and at first financed and worked by a modest bunch of originators or one person. These organizations offer an item or administration that isn’t right now being advertised somewhere else in the market, or that the authors accept is being offered in a sub-par way¹

As of late, the Indian startup industry has extremely taken off and made its mark driven by components, for example, monstrous subsidizing, solidification exercises, advancing innovation and a prospering household showcase. The numbers are telling from 3,100 new companies a projection of more than 11,500 by 2020, this is absolutely not a passing pattern. It's an upset. Also, it will change the way the business sectors are working today in India. In the vicinity of 2010 and 2014, the mixture of VC and PE expanded from $13 million to $1,818 million. Holy messenger speculation too has duplicated very nearly 8 times from $4.2 million to $32.2 million. In light of information distributed by YourStory, in 2014, Helion Venture Partners was best of the speculators list passing by the aggregate number of arrangements made, trailed by Sequoia Capital, Blume Ventures, Kalaari Capital, and Accel Partners. In 2014, 43 new businesses were gained; so far this year the number has been 41, with new companies themselves being the most avaricious of the part. Of the 41, simply two arrangements were struck by expansive corporates, with Godrej and Mahindra and Mahindra as the purchasers. In January 2014, Facebook had obtained Bangalore-based little eye labs a startup that influenced a product to instrument for investigating the execution of Android applications. Zip Dial is a missed call marketing stage with a noteworthy customer list including Unilever, Disney, Gillette, Amazon, Facebook. New companies in India have offered ascend to more new businesses.

New company challenges

Culture and mindfulness The Indian culture has adapted individuals to look downward on disappointment. For disappointments, sentiments do stop by yet consolation once in a while so. Business is regularly about falling flat and gaining from those disappointments and starting from the very beginning once more. Individuals need to begin tolerating disappointments and permit renewed opportunities. Most basic inquiries for anybody to end up a business visionary. Issue identified with making a business thought, discovering business opportunity or having a dream, issues identified with compensate/impetus investigation, hazard assessment or some other advantages, issues identified with legalities and prerequisites, for example, clearances, licenses, endorsements required. Issues identified with asset accessibility including accounts, innovation and labor supply. People everywhere are ignorant about how might they add to financial development, produce business, add to social advancement.

Social issues

Mentorship/Guidance: Most authors of fizzled new businesses feel that the absence of appropriate direction and mentorship is a noteworthy purpose for their disappointment. A critical factor behind disappointments and moderate development of a few associations is the absence of value mentorship, particularly as far as industry learning/bolster.

Market structure: Indian markets are to a great extent sloppy and divided that make a detour for a startup to succeed.

Consumer Behavior: Behavior of Indian buyer changes in each 30-50km that makes it extremely troublesome for a startup to make business or market system for their items or administrations. Most new businesses by and large stall out in dormancy and slowly close down.

Location: A critical issue looked by new businesses is identified with area of their business. India is a position of differed culture and taste and in this way every item won’t not be invited similarly in each area.

Most new businesses are self/family supported with restricted workforce which makes it hard to keep up records both monetary and operational. Flawed plans of action and absence of creative income systems have prompted the disappointment of numerous new businesses and they are compelled to close down tasks. Overcoming pointless business ventures to oversee business tasks. Capital and access to capital has been a lasting issue for new companies Government and private area financial specialists have put aside finances through speculation channels however they are not accessible for all types of business. The most serious issue for such associations has been to pull in financial specialists and pick up their trust with respect to their method of tasks.
In the underlying period of tasks, new companies don't get financing from banks given no record as a consumer of the firm. Moreover, there is predetermined number of FICO score firms for little and medium estimated venture. Despite having raised great ventures, new businesses battle to survive the opposition. New businesses can't moderate the hole between consume rate and income. Effective money administration is a critical factor to accomplish destinations both here and now and long haul. Money is as yet a favored alternative for installments inferable from the way that electronic installment has not accomplished finish entrance to Tier 2 and Tier 3 urban communities Gap between consume rate and income: Given rising rivalry from peers both from large and in addition little, it winds up basic for new businesses to scale up the business and require outer financing for the maintainability/development in the market. Evolution based on subsidizing: Mega financing and super declarations have turned into a relic of days gone by, post solidification on a vast scale over the division throughout the most recent couple of years. Both the financial specialist and the business visionairy are presently more deliberately concentrating on development, capital proficiency and customer/consumer loyalty, a view which will undoubtedly affect the subsidizing situation subsequently forward.

Numerous organizations begin with a fantasy, however it takes something beyond a fantasy for them to develop into fruitful organizations—including the relentless and the impediments talked about above to defeat the numerous difficulties confronting new companies today. New businesses require some investment, exertion, and vitality to develop into beneficial and practical organizations. Subsidizing is a noteworthy worry for new companies and independent ventures as accessibility of back is an exceptionally urgent factor. At the point when the economy failed, it made it harder to persuade speculators and banks alike to part with the money that is basic for development in the beginning of a business. Credit today is tight, in actuality tight in the light of demonetization and it isn't clear decisively when it will turn out to be all the more promptly accessible. In addition, there is a developing pattern of littler beginning interests in beginning period new businesses as opposed to huge interests in greater new companies. Anyway a portion of the unmistakable worldwide Startups, for example, Uber, Cisco, GramPower and driving private value firms including Bessemer Venture Accomplices, Seedfund and IvyCap Ventures have affirmed their cooperation. This is an unmistakable sign that India is very nearly getting to be next huge startup goal. By and by, the way of life of enterprise must be spread over every one of the states and urban communities. Each medium and expansive city of India must flourish as a startup scene as do a portion of our driving metros. With a specific end goal to make genuine progress, new companies in every aspect of business, not simply in innovation must be energized.
Angel Investors

Angel investors are the first source of financing to any startup from founders, friends and family. Shane (2009) defines that an angel investor is a person who invests in the company which neither belongs to his family or friends who is an total anonymous person. Whereas, an informal investor means one who invests in a company which could belongs to his or her friends and family. For a person who have just incorporated his company needs investment to expand his business and at such a circumstances angel investors invest in the person’s company. But the investor may does or doesn’t have any knowledge about the business, marketing etc., unlike the venture capitalists who is almost like a natural member in any other company. An angel investor who just wanted his money to buy some profits will not take interest in the other overall economical balance.

Venture Capital

Venture capital is the money invested by professionals in young and budding business in partnership or etc. Venture capital firms invests in any business with potential. 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. However the risk of the company in which the investment is made of failing always remain. Venture capitalists choose the company which is about to give better returns in order to compensate the risk the capitalist went through. The venture capitalists who are investing can make decisions towards the use of the capital as well as the person become a member in the Board. Venture capital is a long term investment in the company, the investors are major stakeholders since the better returns rely upon the performance of the startup company. Helion ventures partners, Accel partners, Blume ventures, sequoia India, Inventus capital partners, Nesper are some venture capital firm in India which have invested in many successful companies such as Flipkart, OLX, Justdial, Yatra.com, Myntra, Makemytrip, firstcry, Bookmyshow, etc.

Venture capital plays a significant role in increasing enterprises and also for their success. Many companies which benefited through venture capitals are today ready to compete with many global companies. Unlike a angel investor and informal investor venture capitalist work on certain industry in order to its development and also some economical betterment. Including to that venture capitalist are also a well knowledgeable person in that particular Industry.

Fund of Funds (SIDBI)

Startup India Action Plan on 16 january 2016 the cabinet approved the fund of funds under the Small Industries Bank of India for investment under various Alternative Investment Funds (AIF) along with the corpus of INR 10,000 Crore.

Introduced with a focussed objective of supporting development and growth of innovation driven enterprises, the Fund of Funds (FFS) facilitates funding needs for Start-ups through participation in capital of SEBI registered Venture Funds. To give subsidizing backing to advancement and development of development driven undertakings. One of key difficulties looked by Startups in India has been access to fund. Regularly Startups, because of absence of insurances or existing money streams, can't get the credits/value bolster. Moreover, the high hazard nature of Startups wherein a huge rate neglect to take-off, hampers their speculation engaging quality. The target of the Fund, accordingly, is to give financing backing to Startups. The Reserve will be in the idea of Fund of Funds, which implies that it won't put specifically into Startups, however should take an interest in the capital of SEBI enlisted Venture Funds. FFS would not directly invest in companies whereas it participate through the AIFs in the Securities and Exchange Board of India. Registration of the fund within SEBI is necessary before approaching the SIDBI.

6. Conclusion and Suggestion

In present day scenario, startup companies are running towards unauthorised financial aids. But the government has instituted various funds through various policies and schemes, etc. Instead of accessing aid from friends, families and other informal sources aspirants must take necessary steps to get the attention of venture capitalists and also from the other schemes which is exclusively made for developing business under SIDBI. And to achieve something great hard work needs to be put in order to find the climax. The Indian entrepreneurs need to game up their work because globally India need to achieve those standards. Angel investors and other informal investors cannot be taken into account while the pace is larger than actually what it seems to be. Indeed we are discussing about the startups which are budding company beyond which is the Indian economy. A country needs to be economically sound in order to enjoy superiority over other countries. Startup creates job opportunities, innovation etc among the youth. Talents are appreciated through giving opportunities and grabbing those opportunities is also an act of an intellectual person. To become successful a person have to calculative in order to broaden his scope of business.

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