



STARTUPS – GROWTH TRENDS AND POLICY DIMENSIONS – GOVERNMENT OF INDIA AND KARNATAKA

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Abstract

Startup is an entity incorporated or registered in India not prior to five years with annual turnover of Rs. 25 crore in the preceding financial year towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. To fall under the category of startup the firm cannot be formed by splitting up or reconstruction of a business already in existence. India has been experiencing startup boon in recent years and India ranks third among the global startup ecosystems behind only US (48000 firms) and UK (5000). Growth trends are positive attracting huge amount of funding. Government of India has initiated a slew of schemes to give boost to startups. It has set up a fund of funds for startups. Karnataka startup policy has a vision to create a world class startup ecosystem in the state through strategic investment and policy interventions leveraging the robust innovation climate. It has a set of goals for startup policy in Karnataka. A startup cell and startup council have been setup. Government of Karnataka has made some stipulations for startup in the state. It is expected that the slew of schemes, incentives and assistances announced by the Government of India and the Karnataka State Government would give a huge boost to the startups including their investors. The startup policy is considered as extremely well rounded whether one looks at it from an investment point of view, financial implementation point of view or even a knowledge protection point of view.

Introduction

Startups as new business formations are vital for growth of an economy. Startups in India have received much acclaim from various analysts. Startup is considered as a revolution something similar to the ushering of economic liberalization of the early 1990s. In US it is estimated that new businesses defined as firms in existence for five years or under account for over 20 percent of gross employment and almost the entire “net” annual job creation. All new business units are not popularly termed as startups. Businesses which can grow or scale up rapidly are defined as startups.

In India the Government Action Plan defines a startup thus, “Startup is an entity which was incorporated or registered in India not prior to five years with annual turnover not exceeding Rs. 25 crore in any preceding financial year and which is working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. To fall under the category of a startup the firm cannot be formed by splitting up or reconstruction of a business already in existence”

– Government Action Plan

Startups in India – Growth Trends

India has been experiencing a startup boom in recent years. The following growth trends of startups are observed during the recent years.

1. India with more than 4200 new-age companies ranks third among the global startup ecosystems behind only US (48000 firms) and the UK (5000). However, India is ahead of Israel (4100) and China (3500).
2. Growth trends indicate that more startups are expected from Chennai, Pune, Hyderabad, Ahmedabad and Jaipur.
3. Bangalore, Mumbai and NCR (in and around Delhi) account for 65% of startups.
4. It is found that the number of active investors grew from 220 in 2014 to 490 in 2015. The number of incubators or accelerators grew to 110 a 40% increase.
5. Startups attracted \$ 5b to 6.5b in funding in 2015.
6. India is considered as the youngest startup nation with 72% of the founders being less than 35 years of age. It is estimated that India shall have maximum number of youths by 2020.



7. It is estimated that 28% of those who are employable in the world to be in India. Their number to increase from 70.6 crore (2011) to 80.69 crore (2020).

Government Measures for Startups

Government of India has announced a slew of schemes to give a boost to the startups, viz.

1. Setting up of fund with a corpus of Rs. 10,000 crore over four years.
2. Credit Guarantee Fund for startups with Rs. 500 crore for four years.
3. Exemption from capital gains tax on investment.
4. Income Tax exemption on profit for three years.
5. Startup intellectual property protection to facilitate for filing of patents.
6. Tax exemption above fair market value for incubators in startups.
7. Public-Private-Partnership for setting up 70 incubators across the country.
8. Fastest exit norms for exit in 90 days.
9. Mobile app for registering as company and other interactions with government.
10. Startup India hub for all kinds of activity in startup ecosystem.
11. Self-certification for nine environment and labour laws for three years.

Government of India's scheme of setting up Rs. 10,000 crore 'Fund of Funds for Startups' is commendable. It is catalyst that could generate millions of jobs and add to the country's economic growth. A corpus of Rs. 10,000 crore at the Small Industries Development Bank of India could be catalyzing Rs. 60,000 crore of equity and twice as much debt.

Karnataka Startup Policy 2015-2020

Karnataka Startup Policy has a vision to create a world class startup ecosystem in the state through strategic investment and policy interventions leveraging the robust innovation climate in Bangalore.

Goals of Startup Policy in Karnataka

The following goals have been set forth for the startup policy in Karnataka.

- (i) Stimulate the growth of 20,000 technology based on startups including 6000 product startups by 2020 in Karnataka.
- (ii) Achieve creation of 6 lakh direct and 12 lakh indirect new employments in the sector.
- (iii) Mobilize Rs. 2000 crore funding for investment in startups through Government intervention alone by leveraging the Fund of Funds proposed to be up in place by the State Government.
- (iv) Facilitate generation of at least 25 Innovative Technology Solutions with a social impact in sectors like Healthcare, Food Security, Clean Environment and Education for all, etc.

Enabling the Startup Ventures

Startup Cell

There are many informational and awareness needs of startups that should be addressed in a business friendly environment. To facilitate such handholding Startup Cell was to be established in KBITS to act as one stop shop that enables easy flow of information and assistance to needy startups. The cell shall also act as a single connect with Government departments.

Startup Cell shall network with industry bodies, TBIs academic institutions, etc. and thus provide a common interface whereas symbiotic components of the startup ecosystem could interact more closely and effectively. The Cell shall manage a common startup portal and hotline which could provide information on service providers, organizations, programs/events, incubators, investors incoming trade delegations, policies, regulatory environment, etc.

The Startup Cell shall promote Bangalore and Karnataka as a startup destination through participation in national and international events and sponsoring the participation of local startups in such events.



Startup Council

Startup Council under the chairmanship of the Chief Minister was expected to review the implementation of the startup policy. The council consists of Government officials and industry experts.

The policy shall be valid for a period of 5 years till a new policy is formulated.

Startups Stipulations in Karnataka

1. Startups under this policy in Karnataka shall be only technology based.
2. The startups must have not been registered/incorporated for more than 4 years from the date of such application for any incentive applied under this policy. The same shall be 7 years for BT companies.
3. The company as a startup should be registered in Karnataka under Karnataka Shops and Commercial Establishment Act, 1961.
4. The company employs at least 50 percent of its total qualified workforce in Karnataka which shall not include contract employees.
5. A startup will cease to receive benefits under this policy upon the company reaching a revenue of Rs. 50 crores.

Startups shall be eligible for various incentives and concessions as per existing policies in addition to incentives available under various State and Central Government policies. They relate to reimbursement of Service Tax, VAT/CST and GST.

Startups are eligible for financial assistance and marketing incentives. There are provisions for promoting entrepreneurship among women in all Government supported startups.

Conclusion

India is experiencing a startup boom. Startup revolution is considered similar to ushering of economic liberalization of the early 1990s. However it is too early to say if this revolution will take over economy to new level. However the slew of schemes, incentives and assistances announced by the Central and the Karnataka State Governments should give a huge boost to the startups.

References

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