

Causes of setting and financing challenges faced by startups in India

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ABSTRACT

Since last few months everybody is talking about the start-ups. Even many events has been organized regarding the same. Basically Start-up is a refined and renewed form of an entrepreneur Mega funding and mega announcements have become a thing of the past, post consolidation on a large scale across the sector over the last few years. Both the investor and the entrepreneur are now more consciously focusing on innovation, capital efficiency and client/customer satisfaction, a view which is bound to impact the funding scenario hence-forth. As it is a known fact that when someone starts a new enterprise or tries to get into entrepreneurship they face many problems like finance, land permissions, environmental clearance, foreign investment proposals, family support etc. This paper is intent to explore the main causes behind setting up startups in India, and discuss the financing resources of startups in India.

KEYWORDS

Startups, challenges, financing resources, entrepreneurship

INTRODUCTION

The world has dispelled the gloom of recession of 2008 and marched forward. Indian business community needs to participate in the environment of exploration and innovation not only in technology and products, but in every principle of business. An idea can be converted into a start-up. Even sometimes the crisis becomes the opportunity and it gives birth to the start-ups. Moreover, startups essentially go from one failure to another failure in an effort to learn from each failure and discover what works and what does not work in the process of searching for a repeatable, high growth business model The next leg of growth would not come out of incremental capital, but from using intellectual capital to its fullest. On 15th August 2015, PM Narendra Modi announced this initiative at the Red Fort as Start-up India and on 16th January 2016 In this campaign the main aim of the govt is to provide maximum help and support for the new emerging businesses and ideas. The support will be in the form of finance, technology, economic, social as well as environment.

OBJECTIVE OF THE STUDY

1. To know the causes behind setting up startups in India.
2. To study the financial challenges faced by the startups.

METHODOLOGY

The study was based on secondary sources of data such as from journals, research scholarly published papers, articles, websites, published books, etc.

CAUSES BEHIND SETTING UP STARTUPS

- **Monetary gains**-Everyone wants more and more money. And the best way to get it by having your own business. In the job one gets the fixed amount of salary but in own business one can get monetary gains as per his choice.
- **Secured job**-Job security is one of the basic need of human beings and it is also referred in the Maslow need hierarchy theory. If job is not secured one cannot work with full zeal. And on the other hand when one works in the business with the tag of a owner the zeal and enthusiasm comes automatically and the job is secured.
- **Job creation**-When any entrepreneurship is started people tend to create jobs for others also. An individual can start a business but cannot run it alone. So the opportunity of jobs being created.
- **Own brand**-It always feel good when one tells the other person that the particular brand belongs to him or he is the owner of that developing brand. It gives immense pleasure to introduce yourself as an entrepreneur.
- **Quality of life**-Due to the impact of globalisation and e-commerce everyone wants to be at ease and desires to the best quality of life. Being as an owner one has the freedom to choose the life accordingly.
- **Be your boss**-Its good not to have a boss. In the business you are not answerable to anyone accept yourself.
- **Converting vision into reality**-Everyone has a vision but very less people turn it into reality. While owing an entrepreneur you can convert your vision into reality.
- **Pride**-It is a thing of pride when you introduce yourself as the owner of the start-up or an entrepreneurship.
- **Recognition**-It is also a need which comes under the need hierarchy theory. Every single person wants fame and recognition. And business provides the same.
- **Economic independence**-Having more money its ones decision where to put that money. One has the more economic independence.
- **Changing the world**-Every time we talk about changing the world with lots of ideas but we

never take the initiative to do so. People who take the initiative can change the world according to them,

FINANCING CHALLENGES IN STARTUPS

- The small and medium sized enterprise has weak credit concept and low credit performance. Generally small and medium sized enterprise credit rating is not high in India. Data shows that, in India, more than half of small and medium sized enterprise financial is of poor management
- Banks are difficult to get the real situation of the corporate finance, which affects the bank loans and decision making. A case in point is that some small and medium enterprises have tax evasion, which resulting in the loss of credit funds, and further damage to the credit level.
- Poor ability to resist risk and slow development. Compared with large enterprises, the ability to resist risk of small and medium sized enterprises is significantly weaker. The main reason for small and medium sized enterprises have slow development pace is their financing difficulties. This means that they tend to lack of enough funding for enterprises to further expand production, improve research and development ability, product quality and competitiveness.
- Furthermore, according to, the current situation of financing difficulties are caused by the variability of small and medium sized enterprises and large business risk, in the money supply tension, under the condition of asymmetric information, and in a vicious circle.
- Limited guarantee agencies cause mortgage difficulty. In terms of guarantee, many guarantee agencies adopt membership system, where small and medium sized enterprises need to pay some deposit to become the member. However, the warranty procedures are quite tedious, and guarantee fee, valuation fee, asset registration fee are very high, which increase the financial burden and lead to inability to get guarantee for small and medium sized enterprises.
- In terms of the mortgage, if the enterprise intent to apply for property mortgage, they generally need to process the multi-channel procedures, including property evaluation, registration, insurance and notary procedures. This required small and medium enterprises to manage with many departments, provide a great amount of materials, which is time consuming particularly in today's information society with opportunity fleeting..
- Limited profits make banks reluctant to lend to small and medium-sized enterprises. The first principle of commercial bank management is profitability. The character of Small and medium-sized enterprise loan from the bank is small amount, but high frequency.

- In a short period of time, the management costs are relatively high for banks to loan to small and medium enterprises. At the same time, some small and medium sized enterprise have internal problems, which makes the bank loan to them have difficulties in tracking supervision and mortgage security maintenance. High risk, high cost and limited profits, makes it is difficult for small and medium enterprises to apply for a loan from the bank.
- The capital market and private financial institutions develop slowly. The financing channel of China's small and medium sized enterprise is narrow. At present the main source of funds is its own accumulation. Since the formal financial system unable to meet the financing needs of small and medium-sized enterprises, some of them turn to private lending market financing, and become the main participants in the private lending market.

CONCLUSION

Indian start-ups attempt to build the startup environment with important education, talent, innovation and incubators with correspondence to funding agencies. Startups take time, effort, and energy. Funding is a major concern for startups and small business. Credit today is tight, and it's not clear precisely when it will become more readily available. Plus, there's a growing trend of smaller initial investments in early stage startups. Now the government is also supporting the Start-ups. Credit guarantee for startup lending is the booster dose required to galvanize Indian industry. Incentives in the form of tax holiday for three years are a benefit worth considering. It is also apt to consider equating capital gains with the regime in the listed market.

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